

BULGARIA BUSINESS GUIDE

LEGAL, TAX AND ACCOUNTING ASPECTS

August 2003

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About the Bulgarian Foreign Investment Agency (BFIA)

The **Bulgarian Foreign Investment Agency** was established in April 1995 as a one-stop shop institution for foreign investors. It is a governmental body with the Council of Ministers for co-ordination of the activities of the state institutions in the field of foreign investments and for promotion of foreign investments in the country.

A key function of the Agency is to assist companies in the investment process. It provides prospective investors with up-to-date information on the investment process in the country, legal advice, identification of suitable Bulgarian partners, co-ordination of the investment policy with other institutions, etc.

Core services:

- One-stop shop;
- Pre- and after-investment care;
- Macroeconomic data on Bulgaria (daily business news, sector analyses, etc.), including the country's comparative advantages;
- Up-to-date information on all existing FDIs in Bulgaria;
- Full details of companies offered for privatisation;
- Detailed information on infrastructure investment projects;
- Assistance when choosing the most appropriate form of investment;
- Legal advice;
- Investment projects databank;
- Support for priority investment projects.

BFIA has close business relations with central and local government, state institutions, and non-government and business organizations which place it in an ideal position to liaise and offer support to foreign and local investors alike - both first-timers and those already benefiting from doing business in Bulgaria.

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About the Bulgarian International Business Association (BIBA)

The Bulgarian International Business Association (BIBA) was established in April 1992 as a non-profit organization representing many of the largest foreign investors in Bulgaria.

BIBA represents the interests of the international business community vis-à-vis the Bulgarian authorities and by drawing on the expertise and know-how of its members acts as a catalyst for the creation of a better investment climate and business infrastructure.

BIBA is one of the most influential non-government organizations in Bulgaria promoting foreign investment in the region and maintaining an ongoing dialogue with the Bulgarian authorities.

Currently BIBA has more than one hundred and fifty members from over twenty countries.

Incorporating a large number of foreign businesses in the country BIBA aims at becoming a model, self-supporting organization offering first class service to its members, standing for professionalism, expertise, high standards and outstanding performance.

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ABN Amro	Colliers Continental	IBM Bulgaria	POVVIK- OOS Ltd.
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Table of Contents

WHY BULGARIA? The competitive edge	6	5. Privatisation	28
1. Country Profile	7	5.1. Historical Overview	28
1.1. Location, Climate, Demography	7	5.2. Regulatory Framework	29
1.2. History	7	5.3. Current and Forthcoming Privatisation Deals	30
1.3. Government	7	5.4. Privatisation with non-cash payment instruments	30
1.4. Administrative Territorial Division	7	6. Company Law and Business Organizations in Bulgaria	31
1.5. Currency and Exchange Control	7	6.1. Forms of Business Organizations	31
1.6. Economy	8	6.2. Formation and Registration of a Company	32
1.7. Sector Overview	10	6.3. Other Forms of Business	32
2. Foreign Trade	13	7. Taxation	34
2.1. Volume, Trade Partners, Structure	13	7.1. Direct Taxation: Individuals	34
2.2. Major Trade Agreements	14	7.2. Direct Taxation: Corporations	37
2.3. Foreign Trade Regulations	14	7.2.1. Tax Exemptions	39
2.4. Import and Export Regulations	15	7.3. Withholding Taxes	40
2.5. Customs Law and Tariff System	15	7.4. Indirect Taxation: VAT	41
2.6. Trade Licence	16	7.5. Indirect Taxation: Excise Duties	43
2.7. Duty Free Zones	16	8. Labour Force and Employment Regulations	44
2.8. Protection of Competition	17	8.1. Labour Supply	44
3. Foreign Investment Statistics	19	8.2. Employment of Foreign Persons	48
4. Foreign Investment Legislation	23	8.3. Work Regulations for Foreigners	49
4.1. Institutional Framework	23	Appendices	51
4.2. Foreign Investors	23	A 1. Bulgaria Fact Sheet	51
4.3. Definitions and Forms of Investment	23	A 2. Operational cost in Bulgaria	52
4.4. Legal and International Guarantees for Foreign Investment	23	A 3. List of countries, which have concluded agreements with the Bulgarian Government on mutual protection and promotion of foreign investment	53
4.5. Establishment of Enterprises with Foreign Investment	24	A 4. List of countries, which have concluded double taxation treaties with the Bulgarian Government	53
4.6. Profit and Capital Repatriation	24	A 5. Bulgarian Banks	54
4.7. Ownership of Real Estate	25	A 6. Key government and nongovernmental contacts	61
4.8. Interministerial Groups for Institutional Support of Priority Investment Projects	25	A 7. Bulgaria on the Internet	63
4.9. Concessions Regime	25		
4.10. Licensing of the Telecommunication Activity	26		
4.11. Licensing of the Activities in the Energy Sector	27		

WHY BULGARIA?

The competitive edge

- ☐ **Political and economic stability**
- ☐ **A functioning market economy (acknowledged by the European Commission)**
- ☐ **GDP growth prospects of about 5% per year**
- ☐ **Low inflation rates**
- ☐ **NATO (invitation issued in 2002) and EU membership (road map for 2006-2007) on track**
- ☐ **Strategic geographic location – natural gateway to the large markets of CIS, Asia and North Africa. Attractive infrastructure projects in transport, telecommunications and energy**
- ☐ **Duty free movement of goods and services within a market of 550 m consumers – EU, EFTA, CEFTA, Turkey, Macedonia, Israel Estonia Lithuania and Latvia**
- ☐ **The regional dimension – centre of economic and political stability in Southeast Europe**
- ☐ **Significantly lower labour cost than the Europe average**
- ☐ **Competitive tax regime – corporate profit tax and VAT among the lowest in Central and Eastern Europe**
- ☐ **Significant potential for Hi-tech and R&D related ventures**
- ☐ **55 agreements on mutual protection and promotion of foreign investment**
- ☐ **51 double taxation treaties**
- ☐ **Full national treatment of foreign investment**
- ☐ **Institutional support for priority investment projects**

1. Country Profile

1.1. Location, Climate, Demography

Bulgaria is situated in the Southeastern part of the Balkan Peninsula. The country has a population of 7.85 million and a territory of 110,994 sq. km. It borders Greece and Turkey to the South, Republic of Macedonia and FR Yugoslavia to the West. The Danube River separates Bulgaria from Romania to the North. Its natural eastern border is the Black Sea. Bulgaria ranks fifteenth in size among the European countries. Its climate is moderate continental.

Bulgaria is situated in the centre of a region, which is undergoing dynamic transition. Within 500 km of its capital Sofia (1.2 million people) a population of over 60 million is concentrated throughout 10 countries, most of which have only recently embarked on their way to a market economy. This is a large market with one of the most rapidly increasing market demands in Europe. All these regions are only a few hours' drive or a short flight from Sofia. A network of international motorways crosses the country and makes vital connections to Western Europe, Russia, Minor Asia, and to the Adriatic, the Aegean and the Black Sea. Both sea and river transport (the Black Sea and the Danube River) offer convenient communications and transportation to and from the region.

1.2. History

The history of Bulgaria dates back more than 3,000 years. A succession of various civilizations (Thracian, Roman, and Byzantine) the Bulgarian state has existed for 13 centuries now on the Balkan Peninsula, which has long been a meeting place and a melting-pot for tribes and nations. The Bulgarian state was founded in 681 AD, when Slavs and Proto-Bulgarians were brought together under the sceptre of the khan. After the conversion of Bulgaria to Christianity in 865 AD the country joined the Christian civilization. The invention of the Cyrillic script in the latter half of the ninth century, during an age when previously only Latin and Greek had been used to write, gave a powerful impetus to the country's cultural development. The War of Liberation (the Russian-Turkish War) regained Bulgaria's freedom in 1878. In 1879 the Constituent Assembly adopted the first constitution of Bulgaria, which was one of the most democratic constitutions of the day. The first decades of the 20th century were years of economic success and prosperity. Bulgarian goods and Bulgarian currency, called the 'Golden Lev', acquired a high value on the European markets. Trade relations with Austria, Germany, France and Great Britain strengthened. The peaceful end of Todor Zhivkov's regime in 1989 falls into the pattern of changes in Eastern Europe. Bulgaria took the road of a new democratic development, towards a free market economy.

1.3. Government

Bulgaria is a parliamentary republic that abides by the Constitution of the Republic passed by the Grand National Assembly in July 1991. The Constitution of the Republic of

Bulgaria is the supreme law of the country and no other law may contravene it. All international treaties, which are ratified pursuant to the constitutional procedure, are considered part of the domestic legislation.

The National Assembly is a one-chamber parliament. It consists of 240 Members of Parliament who are directly elected every four years. The National Assembly is a permanent acting body, directed by a board of Chairmen including a Chairman of the National Assembly.

The head of the state is the President, who embodies the unity of the nation and represents the Republic of Bulgaria in its international relations.

The Council of Ministers is the executive state body that directs the domestic and foreign policy of the country. The government manages the implementation of the state budget, organizes the management of state property and approves or rescinds certain categories of international treaties pointed out in the Constitution.

During the democratic process, there has been a smooth transfer of power, a strengthening of state institutions and a consensus amongst all political parties towards promoting the market economy and respecting human rights.

1.4. Administrative Territorial Division

The territory of the Republic of Bulgaria is divided into 278 municipalities and 28 regions. Municipalities are legal entities and have the right of ownership and independent municipal budgets. The municipal council is the local government authority, which determines the policies for development of the municipality.

The regions are administrative-territorial units, which implement the regional policy of the central government. The regions' management is carried out by a regional governor and regional administration at the cost of the state budget. Regional governors are appointed by the Council of Ministers.

1.5. Currency and Exchange Control

The new Law on the Bulgarian National Bank voted by the Parliament in June 1997, and the new Law on Banks adopted in July 1997, introduced a currency board in the country effective as of 1 July 1997. After the introduction of a currency board, all constraints on trading with hard currency within the country were removed. Local banks can sell hard currency to physical and legal entities without any limitations. The local currency is internally convertible.

The currency unit in Bulgaria is the Bulgarian Lev. Before 5 July 1999 it was denoted as BGL. Afterwards, the Bulgarian Lev has been denominated in a ratio BGL 1,000 to BGN 1. At present the BGN is pegged to the Euro at the rate of BGN 1 per EUR 0.51129. Central exchange rates are quoted daily by the Bulgarian National Bank (BNB) for statistical and accounting purposes only. The Bulgarian currency denominations are: Notes BGN 1, BGN 2,

BGN 5, BGN 10, BGN 20, and BGN 50; Coins BGN 0.01, BGN 0.02, BGN 0.05, BGN 0.1, BGN 0.2, BGN 0.5 and BGN 1. The Lev denomination has facilitated payments, accounting and exchange operations.

Every local or foreign person may own an unlimited number of accounts in any currency, in any bank in Bulgaria. There are no restrictions on the repatriation of earnings, capital, royalties or interest with regard to the foreign investments and repatriation payments can be made freely.

The foreign exchange regime is based on the principle of freedom of concluding transactions, actions and payments. Transfers are governed by the Foreign Currency Act (effective as of 1 January 2000); the regulation on export and import of Bulgarian Levs and foreign currency in cash, precious metals and stones (1999); the regulation on trans-border transfers and payments (1999); and the regulation on registration by the Bulgarian National Bank of transactions between residents and non-residents (1999).

Bulgarian citizens, as well as foreigners, may take Bulgarian Levs and foreign currency of up to BGN 20,000 or its foreign exchange equivalent out of the country without documentation. However, the export of Levs and foreign currency above BGN 5,001 (or its foreign exchange equivalent) should be declared at the customs. Foreigners can export currency above the equivalent of BGN 20,000 without prior approval of the BNB if the total amount of the exported currency does not exceed the amount of the currency already imported and declared.

Payments abroad made by businesses (or self-employed business people) can be executed only through bank transfers. Transfers over BGN 20,000 for current international payments (imports of goods and services, transportation, interest and principal payments, insurance, training, medical treatment and other purposes defined by the Bulgarian regulations) must be supported by documentation showing the need and purpose of such payments.

1.6. Economy

Background

In 1991, Bulgaria chose the road to a rapid and radical economic reform, beginning with the signing of Bulgaria's first program with the International Monetary Fund (IMF). The major objectives of this program were to curb inflation, slow down the decline of economy, achieve a relative stability of the national currency and encourage a rapid annual growth of the private sector until 1995. Within these four years, the cornerstones of legal and institutional framework of the market economy were put in place.

After two years of growth, the GDP dropped down again in 1996 and 1997. The main reasons for the decline include structural reform delays, a slow-down of the privatisation process and a loss of the international market position of Bulgarian companies after the disintegration of the Common Market Economic Area (CMEA). The embargo

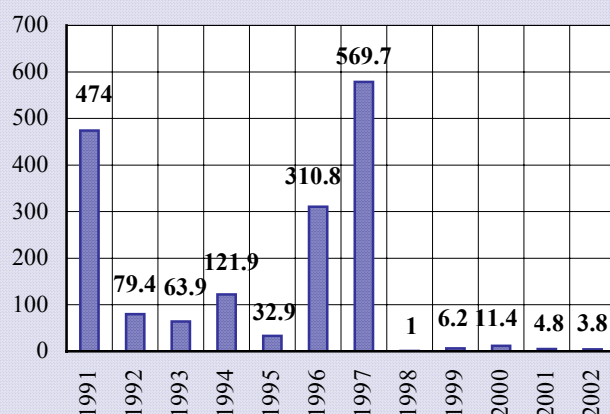
on ex-Yugoslavia and debts of over USD 2.5 billion owed to Bulgaria by third-world countries further aggravated the Bulgarian economy. The government supported unprofitable public sector enterprises at the expense of banking sector decapitalisation thus causing severe macro-economic imbalances.

The severe depreciation of the national currency in early 1997 was the main factor for the high inflation during the whole year. The increasing net prices of fuel and electricity surpassed international levels, which added to a high end-year inflation level.

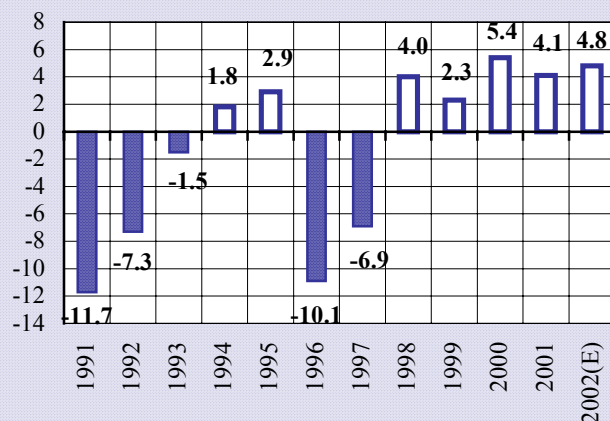
In the first quarter of 1997, a new agreement reached with the IMF marked the introduction of a currency board (July 1997) and a set of austere and radical new measures for policy reforms.

The Bulgarian Lev was pegged to the German mark, chosen as reserve currency because of the leading share of EU trade and investment in the country and the prospect of Bulgaria joining the EMU. The policies introduced by the currency board arrangement resulted in considerable decrease of inflation, increased credibility of the national currency and reduced interest rates. The sharp decrease in lending interest rates reduced government debt interest payments, as well as the share of short-term debt issued to finance the budget deficit.

Inflation rate (CPI), eoy %



GDP (% real growth)



The economy started to recover in **1998** as the year was marked by events with favourable impact on market reforms, such as the three-year IMF agreement and the accession to CEFTA. In 1998 all prices except for household power consumption and industrial central heating utilities were liberalised. Bulgaria achieved financial stabilisation, 4% real GDP growth and 1% end-year inflation. Important steps were taken in the areas of privatisation, banking sector reforms, and agricultural liberalisation. Fiscal policy was prudent as the general government budget deficit was limited to 0.9% of GDP, and income policy for state-owned enterprises was implemented strictly. Privatisation was accelerated, recording the highest level of sale of state assets in Bulgaria's history. Liberalisation of the agricultural sector continued consistently with the Government program for structural reform. Significant trade and price liberalisation was achieved and state control on prices of agricultural and food products was eliminated. A system of licensed warehouse receipts was introduced to provide options for further development of the grain market.

The greatest challenge for Bulgaria in **1999** - the Kosovo crisis - heavily affected all direct transport corridors from Bulgaria to the EU countries passing through Yugoslavia. Traffic along the Danube River, used for transporting a significant portion of Bulgarian exports to European countries, was blocked. The total direct losses for Bulgaria amounted to USD 95 million.

Bulgaria successfully dealt with the economic pressure arising from regional conflicts and the lasting negative effects of the global financial crises in 1999. Real GDP growth reached 2.3%, whereas the level of inflation remained moderate at 6.2%. Current account deficit was contained to 5% of GDP for the full year as exports recovered after midyear. Confidence in the Bulgarian national currency remained strong, with gross official reserves at USD 3.2 billion and the fiscal reserve account at USD 1.4 billion at end-1999.

A broad international acknowledgement of the political and economic changes in Bulgaria was the invitation to start accession negotiations with the EU in December 1999 and their initiation in March 2000.

The macroeconomic results in **2000 and 2001** of 5.4% and 4.1% real GDP growth respectively and inflation of 11.4% and 4.8% respectively allowed for medium- and long-term business planning. Despite the world economic slowdown in **2002** Bulgaria also performed well with real GDP growth of 4.8% and end-of-year inflation estimated at 3.8%.

By the end of **2002**, about 53.5% of the long-term assets of the state owned enterprises were transferred into private hands with a financial effect of USD 7,546 million. If assets not subject to privatisation in the long run are excluded, this ratio reaches 81%. Banking sector privatisation is close to completion with just one state bank operating on the market. About 99% of the agricultural lands and 92% of forest areas have been returned to their former owners.

The performance of the Bulgarian economy was adversely affected in **2001** by the political and economic crisis in

neighbouring Macedonia, as well as the terrorist attacks in the United States. As a result, foreign investment inflow could not reach the prognosticated high level for the year. The low foreign direct investment in **2002** was mainly connected with the negative net amount of intercompany loans, explained with the impact of the world economy slowdown on foreign companies' investment decisions.

As of January **2003** foreign direct investment (FDI) stock in Bulgaria reached USD 5.2 billion with about 85% generated since the new start of the economic reforms in 1997. For a fifth consecutive year FDIs through greenfield, joint ventures, reinvestments and additional investments in already acquired enterprises exceeded FDIs through privatisation.

The top investor in Bulgaria is Greece, followed by Germany, Italy, Belgium and Austria. Other major investors include the USA, the Netherlands, the UK and Russia. The European Union is the major source of FDI for Bulgaria with about 70% of the FDI stock. FDI distribution by sectors shows the major role of industry (43.6% of the total), followed by finance (18.7%) and trade (16%).

Over the last two years, the investment climate has been improved by positive changes in the tax legislation. In terms of income and corporate tax rates Bulgaria has become the most competitive location in CEE. Since 1 January **2002** the highest bracket for the personal income tax has been dropped to 29% and since January 2003 all the other brackets have been reduced to 15%, 22% and 26%.

Since 1 January **2003** the corporate tax rate is set at 23.5% and the municipality tax has been repealed. A constant reduction of the corporate tax rate to 15% and 10% in 2004 and 2005 respectively is planned. Since 1 January 2003 manufacturing companies located in regions of high unemployment enjoy corporate tax exemption for 5 years. In line with the government policy to decrease the tax burden, a significant acceleration of the depreciation norms for most assets has been enforced since 1 January **2003**.

Since 1 January **2002** VAT refund period has been reduced from 4 to 3 months. For exporters the VAT refund period is 45 days. Since 1 January **2003** companies, realizing within a two-year period investment projects over BGN 10 million that create over 50 new jobs, are exempt from VAT on their imports.

1.7. Sector Overview

Structure of Gross Value Added, 2001

Economic sectors	%
Agriculture and forestry	13.6
Industry	28.5
Services	57.9
Total:	100.0

Source: National Statistics Institute

Structure of Output by Industrial Sub-sectors, 2001

Industrial sub-sectors	%
Mining	4.7
Foods, beverages and tobacco	17.6
Textile, leather and clothing	6.9
Wood and wood products	1.4
Pulp, paper products; publishing & printing	3.2
Chemicals, chemical products, fibres, rubber and plastic products	9.9
Basic metals and fabricated metal products except machinery	10.5
Machinery and equipment n.e.c.	5.5
Electrical and optical equipment	3.4
Transport equipment	1.0
Electricity, gas and water supply	15.4
Non-metal mineral products	3.6
Others	16.9
Total:	100.0

Source: National Statistics Institute

Priority Branches

Tourism

Bulgaria is a well-positioned successful international tourism destination.

Tourism is one of the key sectors in Bulgaria due to the excellent geographical location, remarkably rich nature, diverse relief and moderate continental climate.

The Black Sea Coast offers attractive **seaside resorts**. The sunshine record is exceptional with a yearly average of nearly 300 days of sunshine. Tourists enjoy various opportunities for climate-treatment and balneologic treatment, yachting, surfing, water skiing, diving, underwater fishing, other aquatic sports and diverse entertainment opportunities. There are special itineraries combining sea tourism with active tourism and providing opportunities for hiking, cycling, riding, photo-tourism, and eco-tourism, as well as visits to natural, archaeological and cultural places of interest.

Rila, Pirin, Vitosha, the Rodopes, and the Balkan Mountains offer good possibilities for **ski and mountain tourism**. In the international resorts of Pamporovo, Borovets and Bansko one can enjoy some of the best skiing in Europe with snow covers lasting from Christmas until Easter and ski tracks for beginners and professionals at all levels. There are many ski schools providing individual and group lessons.

Bulgaria has more than 600 hot, warm and cold mineral springs of varied physical and chemical contents, mineralization, curative gases, biologically active trace elements, temperature and curative properties that create excellent conditions for development of **balneology tourism**. A number of hotels with state-of-the-art equipment and skilled staff offer talasso-therapy, pearl baths, underwater massage, phyto-therapy, curative mud, inhalations, manual therapy, paraffin treatment, acupuncture, helio-prophylaxis, ozone and oxygen therapy, slimming procedures, and balneo-cosmetics.

Bulgaria has over 30,000 historical monuments from different historical epochs, 36 culture reserves, 330 museums and galleries that form an impressive base for the development of **cultural tourism**.

A network of three national and nine nature parks, a number of reserves and natural places represent a significant potential for the development of **ecological tourism**. Ecological routes are special itineraries across exceptionally beautiful landscapes, including a system of facilities for reaching the most inaccessible beauty spots: gorges, steep rocks, and waterfalls.

Many Bulgarian villages, located in environmentally clean regions, have preserved their traditional outlook and genuine atmosphere for developing **rural tourism**. They are ready to open their hospitable doors to those willing to share the rich traditions and folklore, agricultural activities, preserved old crafts, and delicious and varied local cuisine.

The **hunting tourism** in Bulgaria relies on a large variety of game: red deer, fallow deer, roe deer, wild goat, bear, boar, grouse, hare, partridge, pheasant and many others. Bulgaria ranks second in the world in terms of the quality of shot trophies.

In the last three years Bulgarian tourism has been advancing progressively. The number of foreign tourists (excluding children up to 16) that visited Bulgaria in 2002 is about 3 million – **8.6% increase** in comparison to 2001. Visitors increased from most of the customer countries but mainly from **Germany, the UK, Central European and CIS countries**. Revenues from international tourism in 2002 **grew by 11%** compared to 2001.

Agriculture and Food Industry

Bulgaria enjoys excellent natural conditions for developing the agriculture and forestry sector. Cultivated agricultural land occupies about 4.9 million hectares or 44% of the total territory of the country. The favourable climate for crop production and the availability of agricultural land and long traditions have resulted in a well-developed plant-growing and animal-breeding. Other pros are the low labour costs and the high schools and the colleges available for training in modern farming and animal breeding. Foreigners cannot own land, but this restriction does not apply in case of acquiring land by locally registered companies with foreign participation.

Among the main crops produced are tomatoes, pepper, tobacco, grapes, wheat, maize, beans, potato, sunflower,

peaches, apricots, apples, melons, nuts, etc. There are traditions in the sheep, pig and cattle breeding, poultry farming, and bee-keeping.

It is worth mentioning that Bulgaria traditionally has had a leading position in exports of grapes, oriental tobacco, tomatoes, apricots and other agricultural products to the large markets of East and West Europe.

Main crop production in 2001

(‘000 t)

Wheat	4077
Maize (corn)	873
Barley	973
Sunflower seeds	405
Tomatoes	393
Pepper	197
Apples	83

Main livestock numbers by the end of 2001

(‘000)

Cattle	634
Pigs	1014
Sheep	2418
Poultry	18006

Source: National Statistical Institute

Good opportunities in the sector exist for the creation of total production chains through a combination of selected companies in clusters covering primary sector, processing, sales and distribution. An important advantage of the sector is the presence of well-established food research and development institutions.

Bulgaria has a strong tradition in production and processing of **vegetable and fruit**. Investment based on the introduction of modern marketing, growing, processing and distribution methods offers good opportunities for investors with experience in this branch. Altogether, in this sub-sector there are more than processing plants of which 147 ones are newly established. Major products are: canned vegetables, peppers, fruit products, juices, fresh and dried mushrooms, herbs.

Bulgaria is well-known producer of **dairy products** from sheep, cow and goat milk. There are 495 operating dairy factories of which 450 newly established. Famous types of cheese produced in Bulgaria are Kashkaval and Feta (produced through ultra-filtration).

Investment opportunities exist in relation to **meat production** (pork, broilers and ducks), establishing fattening farms for hogs, calves and broilers, construction of slaughterhouses, production of animal feed, etc.

Bulgaria has been a major **wine producer** for many years and currently a number of modern wineries export their products all over the world. There are 56 companies operating in this sub-sector and 12 of them newly established.

Within Bulgaria a special EU support program (SAPARD), provides for a 50% investment subsidy for investment projects in agriculture.

Textile and clothing industry

Textile and clothing industry is one of the oldest branches of the Bulgarian economy. Bulgaria has a strategic position to source garments to the European market – it is geographically close to West Europe and to fabric producing countries such as Turkey or Egypt. Bulgaria has traditionally had availability of quota to the USA and Canada for a variety of textile, knitting and garment products.

Due to the long traditions in the sector and availability of qualified, cheap labor force, Bulgaria is an established investment destination for many European textile and apparel industry leaders, such as Miroglio and Safil from Italy, Marland International from Ireland and Rollmann from Germany.

Large productivity gains are possible by taking advantage of the local skilled labour-force while reinvesting in modern equipment.

Transportation

Based on its geographical disposition, transport system, infrastructure, warehouses, customs system, experience and labour force, Bulgaria has a good potential for future logistics development.

The **road infrastructure** of Bulgaria comprises of more than 37,000 km roads, 416 km of which are highways.

There are 6,400 km of developed **railways**, more than 65% of which are electrified. The main Bulgarian sea **ports** are Bourgas and Varna. The Danube River is the international **water road** of the country. There are 5 international **airports** in Bulgaria: Sofia, Varna, Bourgas, Plovdiv and Gorna Oriahovitsa (the latter is used mainly as a cargo airport).

Some of the major investment projects for infrastructure development include:

Pan-European Transport Corridor IV:

- Construction of a second Danube bridge between Bulgaria and Romania in the vicinity of Vidin-Calafat;
- Reconstruction and electrification of the Plovdiv-Svilengrad-Greek/Turkish border railway line;
- Construction of Maritsa Motorway, section Orizovo-Kapitan Andreevo (the border with Turkey);

Pan-European Transport Corridor VIII:

- Construction of TRAKIA Motorway, section Orizovo (Plovdiv) – Karnobat (Bourgas) with total length of 190 km;
- Construction of the railway line (2,5 km) between Gueshevo station and the Macedonian border;
- Extension, reconstruction and modernization of the Port of Bourgas;
- Extension, reconstruction and modernization of the Port of Varna

Pan-European Transport Corridor VII:

- Reconstruction and modernization of the Danube Port of Lom;

Sofia Airport

- Projects launched for reconstruction, development and extension of Sofia Airport are under realization. They include new terminal and runway construction. In February 2003, started construction of a new passenger terminal that should be ready within 22 months.

Energy Sector

Bulgaria needs large-scale investments in the energy sector for reconstruction, replacement, upgrading and expansion of the existing capacities and the construction of new ones.

Electricity

The investments needed are mainly for:

- rehabilitation of the existing power plants as the most cost-efficient alternative;
- rehabilitation and extension of the power transmission network so as to meet the requirements of and join UCTE as well as to expand the technical capacity for transit and trading purposes;
- rehabilitation of the power distribution network through which to achieve a reduction in energy distribution costs;
- construction of new capacities.

Gas Supply

Bulgaria faces the challenge to develop a low pressure gas distribution network throughout the territory of the country in order to create an economic and environmentally sound alternative for household heating and improve the efficiency in using primary energy resources.

The investment priorities of Bulgargas Company will continue to be directed towards extension of the gas transmission capacity to Turkey, Greece and Macedonia.

Heat Supply

In view of the fact that district heating represents the most cost-effective existing alternative for heating, attracting investments for the sector is a priority task. First priority is given to investments in the transmission and distribution by means of which a reduction in costs and, respectively, in end-user prices could be achieved. Other possibilities are rehabilitation of existing capacities and construction of new ones.

Privatization

Privatization is another powerful instrument for attracting investments in the energy sector. A precondition to achieve that positive effect is finding maximum balance in the privatization scheme of the energy companies.

Information and Communication Technologies

The communication sector in Bulgaria has developed rapidly in the recent years. In 2002 the number of the mobile network subscribers exceeds 2 million (there are two GSM operators and one NMT450).

In 2000, 126 operators of VHF-FM radio stations were licensed, and in 2001 - another 100 ones as part of the **radio broadcasting networks**.

In the area of the **mobile telecommunications**, an auction will determine the operators of a third generation UMTS mobile cellular network. The operation of this network is planned to commence in 2005.

In 2002, the **Internet users** reached about 600,000. The e-commerce development is encouraged by the self-regulation and practical implementation of the electronic signature. The Internet-accessible virtual shops have been recently established in country. The opportunity to make business transactions on the Internet is already also available through different environment systems.

There are nearly 1,100 companies operating in the sphere of **IT**. More than half of them are small size companies. The advanced level of education ensured by the science and technology faculties in the Bulgarian universities has created scientists with leading position worldwide who work successfully for the development of science-based technologies in communications and high technologies. Favourable factor for IT development is tradition in such important sectors like electrical engineering and electronics.

The IT companies in Bulgaria cover almost the whole spectrum of IT activities and services; the major areas are:

- software: computer system software, networking software and Web design, CAD/CAM/CAE software, telecommunications and wireless development software, application software, firmware;
- hardware: computer and systems assembling, digital and analogue printed circuit design, PCB manufacture, analogue mixed engineering;
- microelectronics: ASIC design, front-end and back-end microelectronic activities;
- automation: systems for industrial automation.

The number of IT companies working exclusively on assignment for foreign partners is growing.

2. Foreign Trade

2.1. Volume, Trade Partners, Structure

Preliminary data for the 2002 indicates that the Bulgarian foreign trade turnover amounted to USD 13.4 billion, which is 8.2% more than the same period of 2001. Export and import volumes for the 2002 amounted to USD 5,688 million and USD 7,897 million respectively.

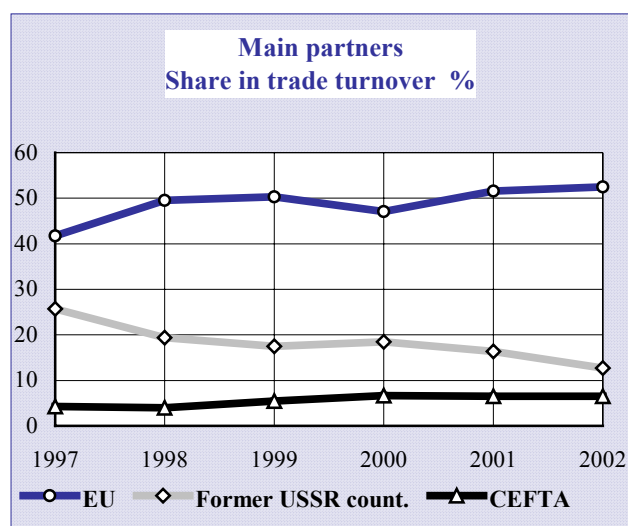
Export and import volumes by year

USD million	1998	1999	2000	2001	2002*
Total turnover	9,150	9,521	11,332	12,374	13,585
Exports (FOB)	4,193	4,006	4,825	5,113	5,688
Imports (CIF)	4,957	5,515	6,507	7,261	7,897
Imports (FOB)	4,574	5,087	6,000	6,693	7,281

*2002: preliminary data

Source: Bulgarian National Bank and National Statistical Institute

During 2002 foreign trade with the **Organization for Economic Co-operation and Development (OECD)** member countries amounts to USD 8,671 million, which is 63.8% of the total turnover. Within the OECD countries, the **European Union** member countries are the Bulgaria's largest trade partner, accounting to USD 7,129 million, which is 52.5% of the total turnover. The largest trade partner within the EU is Italy, followed by Germany, Greece, France, Belgium and the UK. From the non-European countries, the largest trade partner is the USA.



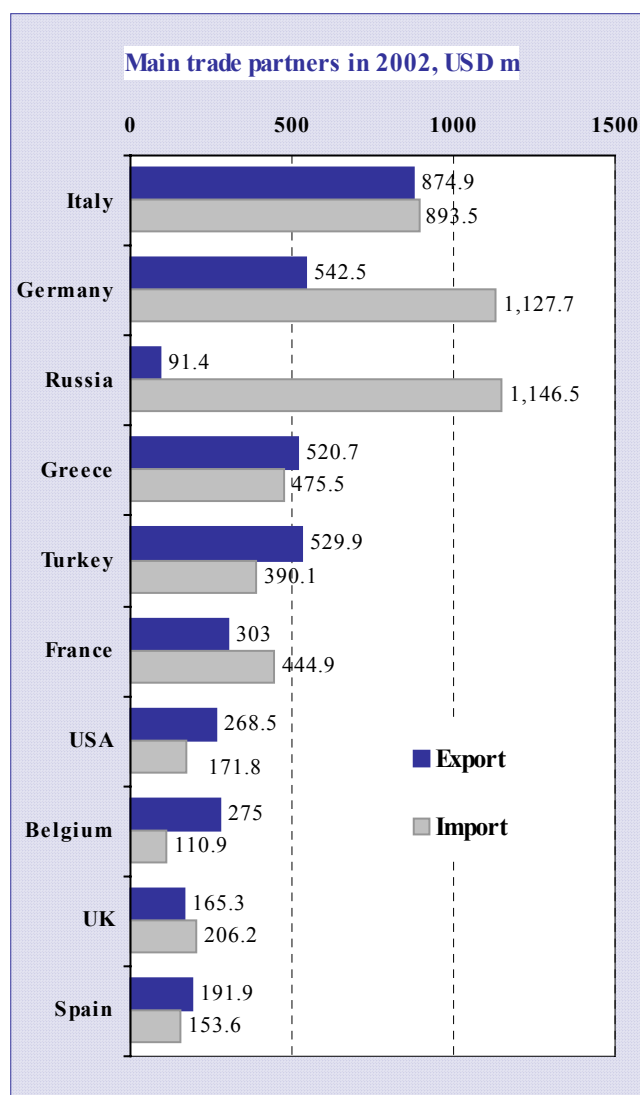
The **CIS and Baltic countries (former USSR countries)** present the second major market for Bulgarian trade, accounting for 12.6% of the total turnover. The main trading partners from this group are the Russia and Ukraine. The share of the **CEFTA** countries (Poland, Czech Republic, Slovak Republic, Hungary, Romania and Slovenia) accounted to 6.5% of total turnover.

Territorial structure of exports and imports

Region	Export, 2002		Import, 2002		Turnover 2002	
	USD mln	%	USD mln	%	USD mln	%
EU	3,165	55.6	3,964	50.2	7,129	52.5
EFTA	103	1.8	108	1.4	211	1.6
Other OECD countries ¹	839	14.7	704	8.9	1,542	11.4
Balkan countries ²	364	6.4	57	0.7	421	3.1
CEFTA countries	308	5.4	575	7.3	883	6.5
CIS and Baltic countries	256	4.5	1,458	18.5	1,714	12.6
Other countries	654	11.6	1,031	13.2	1,685	12.3
TOTAL	5,688	100	7,897	100	13,585	100

1) Incl. Australia, Canada, New Zealand, USA, Turkey, Japan

2) Incl. Macedonia, Croatia, Albania, Yugoslavia, Bosnia and Herzegovina



Commodity structure of exports and imports

Commodity structure	Exports, 2002		Imports, 2002	
	USD m	%	USD m	%
Consumer goods:	2,001.9	35.2	1,502.4	19.0
Clothing and footwear	1,179.0		345.5	
Food, beverages and tobacco	317.6		236.6	
Medicines and cosmetics	157.6		278.6	
Furniture and household appliances	198.0		242.3	
Automobiles			191.8	
Others	149.7		207.5	
Raw materials:	2,375.7	41.8	2,738.8	34.7
Other metals	442.1		77.9	
Iron and steel	367.1		155.7	
Raw materials for the food industry	304.7		162.1	
Textiles	223.8		815.9	
Chemicals	201.1		197.7	
Wood products, paper and paperboard	148.0		185.6	
Plastics and rubber	142.5		340.7	
Fertilizers	58.4			
Raw tobacco	47.5		28.6	
Cement	26.7			
Ores			200.7	
Raw skins			80.8	
Others	413.9		493.0	
Investment goods:	753.3	13.2	1,979.9	25.1
Machinery and mechanical appliance	278.4		760.0	
Spare parts and equipment	160.3		290.3	
Vehicles	64.1		412.5	
Electrical machinery	62.8		262.0	
Others	187.6		255.1	
Energy resources: fuels, oils, coal, etc.	557.0	9.8	1,574.9	19.9
Other	220.0	3.9	100.9	1.3
Total	5,687.8	100.0	7,897.0	100.0

Source: Bulgarian National Bank

2.2. Major Trade Agreements

WTO: Bulgaria is a member of the World Trade Organization since 1 December 1996.

EUROPEAN UNION: In March 1993 Bulgaria signed two agreements together with the European Communities and their member states. The European Agreement of Association entered into force on 1 February 1995. The other agreement, the Interim Agreement on Trade and Trade Related Matters covering trade components came into effect on 31 December 1993. In accordance with the Agreement of Association, customs duties between Bulgaria and the EU countries on industrial goods have been gradually reduced and eliminated since 1 January 1998 for Bulgarian exports and since 1 January 2002 for EU

exports (i.e. zero rates of customs duties on industrial goods).

Significant relief in trade with agricultural goods was also introduced. Arrangements negotiated with the EU in 2000 provide for liberalisation of trade in certain agricultural products which are not sensitive and for exchange of concessions in the form of tariff quotas, covering specific requests and including pork, poultry, cheeses, apples, tomatoes and other products. New arrangements were also concluded for processed products in September 2001. Trade in non-sensitive products was completely liberalised. For certain products with tariff quotas the duties were abolished within the quotas and for the quantities above the quotas duties were reduced.

EFTA: According to the Agreement between Bulgaria and the European Free Trade Association (in force since 1993), preferences on trade with EFTA countries (Switzerland, Norway, Island and Liechtenstein) are granted under almost the same terms and conditions as those pursuant to the Europe Agreement of Association.

CEFTA: Bulgaria became a member of the Central European Free Trade Agreement in July 1998; the trade component of this agreement came into force on 1 January 1999. In accordance with the above agreement, Bulgaria has begun a process of liberalization of trade with industrial and agricultural goods with CEFTA countries (Poland, Czech Republic, Slovakia, Hungary, Romania, Slovenia and Croatia (that joined CEFTA as of 1 March 2003)). This process of trade liberalisation was completed by 1 January 2002 in respect to industrial goods.

Free Trade Agreement with Turkey entered into force on 1 January 1999. Customs duties on industrial goods have been eliminated since 1 January 2002.

Free Trade Agreement with Macedonia entered into force on 1 January 2000. Customs duties will be reduced gradually until 2005.

Free Trade Agreements with Estonia and Israel entered into force on 1 January 2002.

Free Trade Agreement with Lithuania entered into force on 1 March 2002.

Free Trade Agreement with Latvia entered into force on 1 April 2003.

All free trade agreements provide also liberalization in respect on agriculture goods, including exchange of concessions in the form of tariff quotas with reduced or 0% customs duties.

2.3. Foreign Trade Regulations

Bulgaria applies a liberal foreign trade regime that meets the WTO requirements. A limited number of goods are subject to administrative control. In accordance with the trade liberalization policy, the number of goods subject to registration and permits has been reduced once again. The

Council of Ministers Decree No. 233 of 8 November 2000 and its latest alteration and amendment, published in State Gazette No 110 of 22 November 2002, establish the foreign trade regime for 2003.

Registration (automatic licensing) means registration of export and import transactions of goods.

The permit (non-automatic licensing) is a license for transactions of goods.

The requirement for registration and permits originates from Bulgaria's compliance with international agreements and respective domestic legislation. Registration and permits are required for a limited number of goods.

In order to apply for a registration, the company has to submit to the relevant competent Ministry a filled-in certificate form together with other documents such as court registration and tax registration certificate, identification code of the Bulstat register, contract or pro-forma invoice, order.

In order to obtaining a permit, the company has to submit to the relevant Ministry a filled-in certificate form together with other documents like court and tax registration certificate, identification code of the BULSTAT register, as well as the relevant documents which verify the data, contained in the filled-in certificate form, such as contract or pro-forma invoice, order, quality certificate, veterinary certificate, certificate of origin. In some cases additional documents, such as license for trade or production, might be required.

The entry*, direct transit, export and re-export of military and special production as well as goods and technologies with possible dual use (civil and military) are subject to particular rules (Bulgaria is a party to the Waassenar Agreement).

2.4. Import and Export Regulations

Transactions of only few goods are subject to **registration** in 2003 and they include some kinds of wood in the rough in case of export; registration is performed by the Ministry of Agriculture and Forestry.

During 2002 **permits** (licensing) are required for transactions with several commodity groups. Some of these more significant groups include:

- entry, export and re-export of nuclear material, radioactive substances and other sources of radiation, always in compliance with the requirements of the Safe Use of Nuclear Energy Act. Authority responsible for registration is the Nuclear Regulatory Agency.
- entry, export and re-export of gunpowder, explosives and pyrotechnic material and products made from them for civil uses; trinitrotoluene (TNT); smoothbore guns, pneumatic hunting and sporting arms, etc., and in case of entry: of sights, laser beam sights and gas sprays, always in compliance with the requirements of the Law on the Control of Foreign Trade Activity in Arms and in Dual - Use Goods and Technologies. Responsible authority: Ministry of Economy;

- import of pharmaceuticals for human medicine, always in compliance with the Human Medicine Pharmaceuticals and Pharmacies Act; Responsible authority: Ministry of Health;
- in case of entry, direct transit, export and re-export of military products or special-purpose products, and of goods and technologies with possible dual use (civil and military) – always in compliance with the Law on the Control of Foreign Trade Activity in Arms and in Dual-Use Goods and Technologies, the Decree for Adoption of Regulation on Implementation of the Law on Control of the Foreign Trade Activity in Arms and Dual-Use Goods and Technologies and the List of Arms and Goods with Possible Dual Use as determined in Decree of the Council of Ministers No. 205/1998;
- in case of entry, export and re-export of controlled chemical substances used in the production of general anaesthetic and psychotropic substances, always in compliance with the Law on Control of Narcotic Substances and Precursors and Decrees, connected with this Law.

Bulgaria applies export quotas only for those goods, which are subject to international agreements. Quotas are applied for the export and re-export of textile and clothes to the USA and Canada.

No customs duties are charged for exported goods. There is also a zero rate VAT applicable to exports.

For 2003 export of most kinds of burned wood is prohibited. The export and import of some commodities, such as substances with ozone-destructive potential (freon gases), and other dangerous for environment materials, is also prohibited.

2.5. Customs Law and Tariff System

The new Customs Law that entered into force on 1 January 1999 is based on the EU Customs Code. The same procedure and regimes as those of the EU are applied: release for import; transit; customs warehousing; inward processing; processing under customs control; temporary admission; outward processing; export; temporary export, etc.

The Customs Tariff of the Republic of Bulgaria, the latest version of which, following the Council of Ministers Decree No. 289 of 20 December 2001 and its amendment Decree No 285 of 9 December 2002, entered into force on 1 January 2003. The Customs Tariff consists of the Combined Nomenclature of the Republic of Bulgaria and the appropriate rates of customs duties. The Combined Nomenclature of the Republic of Bulgaria is based on the Convention on Harmonized Commodity Description and Coding System and on the EU Combined Nomenclature. The adoption of both the new Customs Law and modification for another time of the Customs Tariff is a part of the National Strategy for both joining the European Union and the commitment to the WTO/GATT.

Since 2002 Bulgaria has introduced the Integrated Customs Tariff, which is based on the Combined Nomenclature of the Republic of Bulgaria and which includes subdivisions

of codes on national level, tariff suspensions, preferences, etc.

In the Customs Tariff for 2003 the average rate of duties is 11.31% with respect to the import from countries treated with the Most Favoured Nation status, including 8.62% for industrial goods. A large number of industrial commodity groups, such as energy sources, raw materials, medicines and others, are treated with zero rates of customs duties.

The applied rates of the duties in the Customs tariff of the Republic of Bulgaria are defined as a percentage of the customs value if at the relevant level of determination other is not prescribed. When for a tariff number is envisaged ad valorem rate of duty and minimum specific duty, the specific duty is applicable only if the calculated ad valorem value of the duty is less than the specific one.

The Customs Tariff and its annexes provides for the following basic types of rates:

- Conventional, applied to commodities coming from countries to which Bulgaria granted the Most Favoured Nation clause (WTO as well as other countries). In this case shall apply the Autonomous rate if the conventional rate is higher than autonomous one for the commodity in question.
- Reduced, applied to commodities originated from the EU, EFTA and CEFTA countries, Turkey, Macedonia, Estonia, Croatia, Israel and Lithuania.
- Preferential, applied under the General System of Preferences for commodities listed in separate annex, coming from the developing countries (70% of the conventional or autonomous rates) and from the least developed countries (suspension of rates).

2.6. Trade Licence

Some trade activities in the country, which have particular meaning in respect to the national security, life and healthy of people, animals and plants, environment and protection of culture values, are subject to licensing (permission) by the appropriate authorities. Licence is required for production and trade of spirits and alcoholic drinks; trade in plant protection chemicals, trade in arms, trade in precious metals, production and trade in medicines, processing in tobacco and tobacco products, etc.

2.7. Duty Free Zones

The free zones were established in Bulgaria in 1987 under Decree No. 2242 on the Duty-Free Zones and its Regulations for Application. The new economic agenda of the country raised the profile of the free zones.

There are six duty-free zones in Bulgaria. All of them are initiated and provided with land and infrastructure by the state. A purpose-set joint stock company manages each zone or a state owned company.

The duty-free zones are located on strategic transport routes leading to the main international markets: the EC, the Central European and ex-Soviet countries, the Middle East and Northern Africa. Two of them are along the Danube River at the ports of Vidin and Rousse with an access to

Central and Western Europe via the waterway Rhine-Maine-Danube, and with the ex-Soviet countries via the Ro-Ro line between the Port of Rousse in Bulgaria and the Port of Reni - in Ukraine.

Two other zones are located at the cross points of the Trans-European motorways, connecting Western and Northern Europe with the Middle East and Greece - one near the Bulgarian-Serbian border in the town of Dragoman and the other in the city of Svilengrad near to the Bulgarian-Turkish border.

Another duty-free zone is in Plovdiv, the second largest city, situated in the heart of Bulgaria. It encompasses the territory of the Plovdiv International Fair and the industrial zone of the town having a very well developed infrastructure. The Plovdiv International Airport has air connections throughout Europe, the Middle East and Northern Africa.

The Bourgas duty-free zone is positioned next to the largest Bulgarian Black Sea port with convenient maritime connections to all Black Sea and Aegean countries. The zone includes a cargo terminal at the Bourgas International Port.

The Law on Customs, which has entered into force in January 1999, has renamed the duty-free zones to "free zones". This law governs the regime of the free zones in detail and brings it in compliance with the new customs legislation. Under the Law on Customs, the free zones are to be established as separate parts with check-in control at fixed entrance and exit points.

A new construction on the territory of the free zones is to be undertaken in conformity with the customs authorities. All kinds of production, trade activities and services are allowed on the free zones territory, according to the Law.

Foreign goods may be kept in the free zones:

- under customs regime "import" according to the Law;
- without a special permission, as subject to operations designated to storage thereof, to improve their trade image and quality or processing for new delivery or sale;
- under customs regime "active improvement" according to the provisions of the Law;
- under customs regime "processing under customs control" according to the provisions of the Law;
- under customs regime "temporary import" according to the provisions of the Law.

Local goods, kept in free zones, may be subjects only to operations aimed at their storage. Permission by the customs authorities is required for such operations. The local goods may be subject to other operations beyond storage, in case they have to be exported.

Standard features of the Bulgarian free-trade zones are as follows:

- convertible foreign currency is in use;
- revenues can be transferred abroad without any restrictions;

- administrative structures relieve the investor's need to directly contact the local authorities;
- well-developed and convenient railway links;
- production and labour cost are low and highly qualified labour is available.

2.8. Protection of Competition

The new Law on Protection of Competition came into force on 12 May 1998 repealing the Law on Protection of Competition from 1991. The main objective of the Law is to secure protection and good conditions for the expansion of competition and free initiative in the economic activities, in order to make them main regulators of the market economy in Bulgaria.

The Law provides protection against:

- agreements, decisions and coordinated practices;
- misuse of a monopolistic and dominating position on the market;
- concentration of economic activities and unfair competition;
- other actions which may result in prevention, restriction or breach of competition.

The Law applies to all enterprises that carry out activities in Bulgaria, including the enterprises with foreign investment.

Pursuant to the Law on Protection of Competition "enterprise" means any natural person, legal person or entity pursuing activities on the relevant market, regardless of the particular legal form.

Commission for the Protection of Competition

The Commission is the state authority that is responsible for the effective application of the Law.

The Commission:

- observes violations and imposes sanctions in conjunction with the law;
- issues permissions according to the law;
- suggests to the competent bodies of the executive and the local government to repeal regulative acts, issued in violation of this Law, and files claims with the Court for the revocation of individual administrative acts which contradict the law;

In the course of its operation the Commission:

- conducts surveys and evaluates the position of enterprises on the relevant market, pursuant to methods adopted by the Commission;
- offers opinions on projects for the transformation and privatisation of enterprises or parts thereof, when requested by the relevant Government and local bodies, in the event of circumstances which may eventually violate the Law.

The Commission may permit:

- preliminary equalization of the general terms for enterprises which offer contract's conclusion by applying general terms as provided for in the law;
- state aids designated to:
 1. accelerate the economic development in regions with low living standard or unemployment above the average for the country;
 2. promote the economic growth in particular economic activities or regions as provided for in the law;
 3. support the implementation of projects that are of significant importance for the country or to surmount considerable difficulties in Bulgaria's economy;
 4. state aids monitoring of the countries, with which Bulgaria has established monitoring for state aids.
- concentration of economic activity as provided for in the Law;
- exemption of the prohibited acts as set forth in the Law.

Restriction of Competition

Certain acts are prohibited by the Law in case they aim at or lead to the restriction of competition. These include agreements, decisions and coordinated practices, misuse of monopolistic and dominating position on the market, concentration of economic activities, unfair competition and other actions, which may result in prevention, restriction, or breach of competition.

If these acts are accomplished in contradiction to the Law on Protection of Competition they are considered to be null and void. The Commission proclaims the invalidity although any person may rely on it.

On the other hand, the Commission may exempt from the above-mentioned prohibition an act that fosters the growth and enhancement of production of goods and provision of services, the technical and economic development or the improvement of competitiveness on foreign markets and does not result in restriction or elimination of competition.

Monopolistic and Dominating Position

Under the Law monopolistic position of an enterprise is one that has the exclusive right by law to pursue a certain type of economic activity. Monopolistic position may be granted only by the law in cases it has been provided to the State pursuant to Article 18, paragraph 4 of the Constitution of the Republic of Bulgaria. Any other granting of monopolistic position shall be considered null and void.

According to the Law an enterprise has a dominating position when in view of its market share, financial resources, opportunities for access to the market, technological level and business relations with other enterprises it may prevent competition on the relevant market since it is not dependent on its competitors, suppliers or buyers. There is an assumption that an enterprise has a dominating position if it has a market share exceeding 35% of the relevant market.

Concentration of Economic Activity

The Law regulates the consequences in case a concentration of economic activity occurs, namely merger or acquisition of two or more independent enterprises, direct or indirect control over one or more enterprises or parts of them.

In case the total market share of the goods or services involved in the concentration exceeds 20% or the total turnover of the participants in the concentration for the preceding year exceeds BGN 15 million, the enterprises are bound to notify in advance the Commission of their intention to pursue concentration.

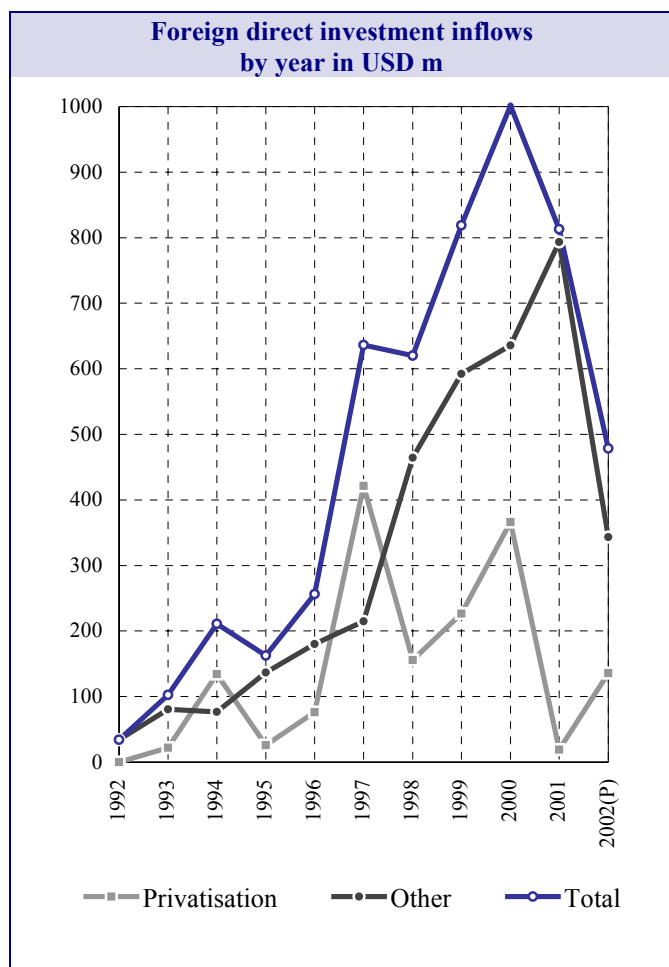
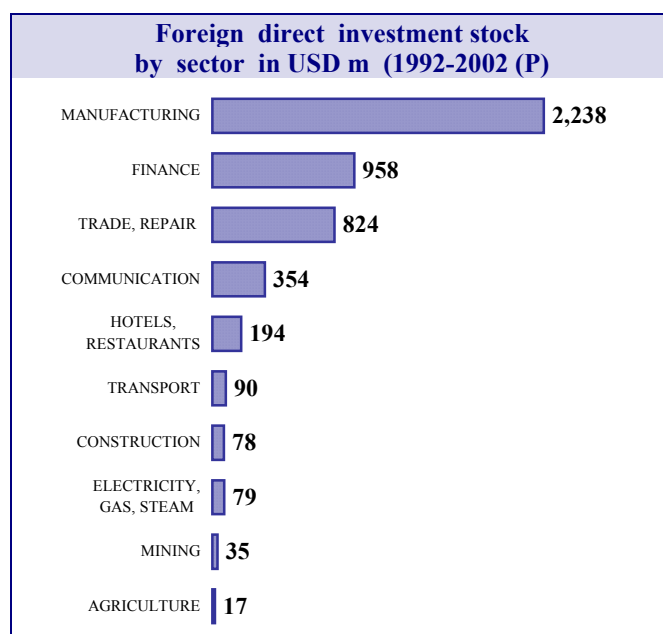
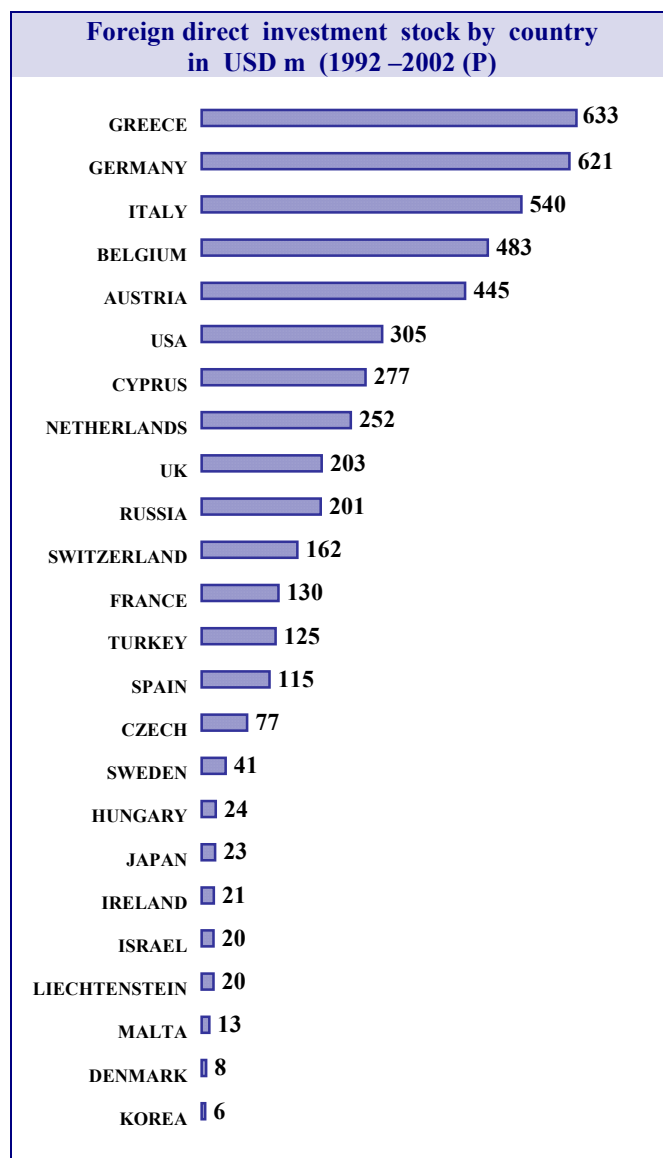
The Commission may take the following decisions: to declare the concentration as being beyond the above mentioned criteria; to permit the concentration; to begin investigation if there are serious doubts that it might result in the establishment or strengthening of the existing dominating position and that the efficient competition on the relevant market could be prevented, restricted or breached.

The court shall enter the merger or acquisition in the commercial register after an issued permission by the Commission has been presented.

3. Foreign Investment Statistics

Foreign direct investment inflows by year			
YEAR	VOLUME IN USD m		
	Privatisation	Other	Total by years
1992		34.4	34.4
1993	22.0	80.4	102.4
1994	134.2	76.7	210.9
1995	26.0	136.6	162.6
1996	76.4	180.0	256.4
1997	421.4	214.8	636.2
1998	155.8	464.2	620.0
1999	226.7	592.1	818.8
2000	366.0	635.5	1,001.5
2001	19.2	793.7	812.9
2002 (P)	135.6	343.1	478.7
Total	1,583.3	3,551.5	5,134.8

“Other”: Greenfield investment + additional investment in companies with foreign participation + reinvestment + joint ventures



Foreign direct investment inflow by country and by year in USD m

No	Country	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002 (P)	Total by country
1	GREECE	0.2	5.1	3.0	29.8	14.6	16.1	3.3	14.9	241.1	240.2	64.5	632.8
2	GERMANY	0.1	56.6	111.0	16.2	53.1	31.4	55.7	101.0	72.3	67.4	56.1	620.9
3	ITALY	0.0	0.2	5.2	2.3	1.2	0.4	2.1	23.0	339.7	146.5	19.6	540.2
4	BELGIUM	0.0	0.1	0.3	10.0	0.8	264.0	31.2	66.2	39.8	60.8	9.9	483.1
5	AUSTRIA	13.0	1.0	14.7	1.4	12.1	12.5	46.9	23.4	88.8	93.6	137.7	445.1
6	USA	0.0	10.5	16.2	16.1	20.7	46.6	38.6	49.8	37.1	44.5	25.2	305.3
7	CYPRUS	0.3	1.2	0.4	1.4	7.5	20.6	109.0	109.0	-11.3	17.8	20.7	276.6
8	NETHERLANDS	0.1	0.5	37.9	0.9	46.3	10.8	41.3	28.0	17.4	80.3	-11.9	251.6
9	UK	6.2	5.6	2.4	13.7	7.3	15.8	58.9	48.0	22.6	20.1	2.4	203.0
10	RUSSIA	0.3	1.4	2.3	15.1	14.4	2.0	14.8	104.0	50.8	-4.4	0.4	201.1
11	SWITZERLAND	0.4	6.7	0.2	7.9	23.1	31.4	6.6	13.1	15.0	33.5	24.3	162.2
12	FRANCE	0.0	0.2	4.2	5.0	6.5	0.8	3.4	62.7	28.9	15.1	3.6	130.4
13	TURKEY	0.0	9.8	1.3	13.7	7.3	9.9	23.8	39.4	19.5	-9.7	10.3	125.3
14	SPAIN	0.0	0.1	0.0	0.0	0.0	49.6	56.8	3.2	0.7	5.1	-0.5	115.0
15	CZECH	0.0	0.0	0.1	2.3	2.3	4.7	0.6	0.1	0.0	2.6	64.4	77.1
16	SWEDEN	0.0	0.0	0.0	0.0	1.4	2.4	0.9	1.6	0.3	5.7	28.5	40.8
17	HUNGARY	12.3	0.1	0.0	0.0	0.1	0.0	0.7	1.7	2.0	1.0	5.9	23.8
18	JAPAN	0.0	0.0	0.1	0.5	0.6	1.9	1.9	0.0	1.3	3.1	13.6	23.0
19	IRELAND	0.0	0.0	0.0	17.4	0.2	5.2	1.0	3.7	1.0	-5.8	-2.2	20.5
20	ISRAEL	0.0	0.0	0.9	0.0	1.5	0.0	0.0	13.8	1.9	0.1	1.5	19.7
21	LIECHTENSTEIN	0.0	1.1	0.1	0.0	0.0	2.5	0.8	1.3	3.0	6.8	3.9	19.5
22	MALTA	0.0	0.0	0.0	0.1	0.1	0.1	8.9	0.0	0.5	2.7	1.0	13.4
23	DENMARK	0.0	0.0	1.1	0.0	0.0	1.1	1.6	0.3	1.3	-0.5	2.8	7.7
24	KOREA	0.0	0.0	0.3	0.2	22.3	22.9	1.8	2.8	6.6	-9.2	-41.3	6.4
	Total	34.4	102.4	210.9	162.6	256.4	636.2	620.0	818.8	1,001.5	812.9	478.7	5,134.8

Foreign direct investment inflow by sector and by year in USD m

No	Sector	1998	1999	2000	2001	2002 (P)	Total by sector
1.	Financial activities	63.8	119.1	443.2	114.6	135.7	876.4
2.	Trade and repairs	177.4	124.0	89.5	117.8	19.7	528.4
3.	Telecommunications	23.2	14.1	14.9	248.8	39.5	340.5
4.	Petroleum, chemical, rubber and plastic products	41.0	165.2	72.1	-9.5	2.2	271
5.	Mineral products (cement, glass,...)	150.6	71.8	7.4	27.7	-2.2	255.3
6.	Metallurgy	13.2	72.2	17.1	81	-20.5	163
7.	Mechanical products	21.3	18.0	64.7	13.2	31.5	148.7
8.	Food products	31.5	32.7	11.7	37.4	23.7	137
9.	Textile and clothing	4.4	25.1	27.3	57.7	5.7	120.2
10.	Wood products, paper	37.3	24.9	38.1	2.9	15.7	118.9
11.	Hotels and restaurants	26.8	40.5	20.8	17.9	5.4	111.4
12.	Electrical eng., electronics, computers and communication equipment	11.5	5.9	28.6	28.2	14.3	88.5
13.	Real estate and business activities	0.1	14.7	2.8	22.6	40.0	80.2
14.	Electricity, gas and water	0.0	0.0	18.7	2.4	58.1	79.2
15.	Construction	6.3	6.5	12.7	17.4	20.2	63.1
16.	Publishing	0.0	0.2	0.3	11.8	10.5	22.8
17.	Leather and leather products	0.7	0.0	21.2	0.1	0.1	22.1
18.	Mining	0.0	2.7	0.0	4.9	9.9	17.5
19.	Transport	6.2	-11.7	10.1	5.9	4.3	14.8
20.	Agriculture, forestry and fishing	0.1	2.4	7.1	0.5	0.3	10.4
21.	Vehicles and other transport equipment	-0.9	1.7	0.0	5.1	1.0	6.9
22.	Other	5.5	88.8	93.2	56.3	63.7	307.5

Some of the large foreign investors in Bulgaria**Banking and Financing**

ALPHA BANK AE (Greece)
 BANK AUSTRIA KREDITANSTALT (Austria)
 BANQUE NATIONALE DE PARIS (France)
 BULGARIAN AMERICAN INVESTMENT FUND (USA)
 CARESBACK (USA)
 CITIBANK N.A. (USA)
 COMMERZBANK AG (Germany)
 COMMERCIAL BANK OF GREECE (Greece)
 CS FIRST BOSTON LTD (UK)
 DEMIRBANK (Turkey)
 EBRD (International)
 ING GROUP N.V. (The Netherlands)
 IONION BANK (Greece)
 NATIONAL BANK OF GREECE (Greece)
 RAIFFEISEN BANK (Austria)
 SOCIETE GENERALE (France)
 T.C. ZIRAAT BANK (Turkey)
 INTERNATIONAL HOSPITAL SERVICES CO. (Japan)
 UNICREDITO ITALIANO S.A. (Italy)
 PIRAEUS BANK (Greece)

Beverages

BREWINVEST (Greece)
 CARLSBERG (Denmark)
 INTERBREW (Belgium)

Building Materials

BRAMACK DACHSYSTEME (Austria)
 HEIDELBERGER ZEMENT (Germany)
 HOLDERBANK/HOLCIM (Switzerland)
 ITALCEMENTI GROUP (Italy)
 KNAUF (Austria)
 YTONG HOLDING (Germany)

Chemicals

SOLVAY GROUP (Belgium)

China, Glass & Earthenware

ROCA (Spain)
 YIOULA GLASSWORKS (Greece)

Clothing

PANGAEA (Greece)
 ROLLMANN & PARTNERS (Germany)
 STAMBOULI ENTERPRISES (Cyprus)

Computers & Electronics

CISCO SYSTEMS (USA)
 EPIQ (Belgium)
 HEWLETT PACKARD
 IBM
 MICROSOFT (USA)

Construction & Real Estate

LINDNER GROUP (Germany)
 SORAVIA GROUP (Austria)
 WIENER STAEDTISCHE (Austria)

Consulting

DELOITTE & TOUCHE
 EPIC
 ERNST & YOUNG
 KPMG
 PRICE WATERHOUSE & COOPERS

Electrical Engineering

ABB (Switzerland, Sweden)
 FESTO (Germany)
 HYUNDAI (Korea)
 LIEBHERR GERAETE GmbH (Germany)
 SCHNEIDER ELECTRIC (France)
 SIEMENS (Germany)
 SPARKY TRADING (Germany)

Energy

ACCESS INTERNATIONAL (USA)
 ENERGOPRO (Czech Republic)
 ENTERGY (USA)
 MECAMIDI (France)

Food processing

MYLUM (International)
 CHIPITA INTERNATIONAL (Greece)
 DANONE (France)
 DELTA (Greece)
 KLARINA Holding (Luxemburg)
 KRAFT FOODS INTERNATIONAL (USA)
 MEGGLE (Germany)
 NESTLE (Switzerland)

Insurance

ALLIANZ (Germany)
 AIG LIFE (USA)

Mass media & Printing

ANTENA (Greece)
 NEWS CORPORATION (USA)
 WESTDEUTSCHE
 ZEITUNG (Germany) ALLGEMEINE

Mechanical Engineering & Metal Processing

ATUSA (Spain)
 LIFTON INDUSTRIES (UK)
 PALFINGER (Austria)

Metallurgy

UMICORE (Belgium)
 VIOHALCO GROUP (Greece)

Mining

BRITISH GAZ EXPLORATION AND PRODUCTION (UK)

Oil Processing & Fuels

HELLENIC PETROLEUM (Greece)
LUKOIL (Russia)
OMV (Austria)
RAO GAZPROM (Russia)
SHELL OVERSEAS HOLDINGS (UK)

Pharmacy and etheric oils

BIOLAND (France)
PHARMACO (Iceland)

Plumbing

AMERICAN STANDARD (USA)

Restaurants

GOODY'S (Greece)
McDONALDS (USA)

Telecommunications

CABLE AND WIRELESS (UK)
INTRACOM (Greece)
MOBILTEL HOLDING (Austria)
OTE (Greece)

Textile & Knitwear

COATS (UK)
MASER HOLDING (Turkey)
MIROGLIO (Italy)
SAFIL (Italy)
STAMBOULI ENTERPRISES (Cyprus)

Timber & Wood Processing

KAINDL CRONOSPAN
SWEDISH MATCH (Sweden)

Tourism

C&N TOURISTIC/NECKERMAN (Germany)
HILTON GROUP (USA)
PRINCESS HOLDING GROUP (Turkey)
RADISSON SAS
SHERATON INTERNATIONAL
TUI (Germany)

Trade & Distribution

ENA (Greece)
EUROBILLA (Austria)
HUGO BOSS (Germany)
METRO GROUP (Germany)
KAVEN IRADIS/PROCTER&GAMBLE (USA)
KOC GROUP (Turkey)
REGENT GROUP (UK)
UNILEVER

Transportation & Logistics

DHL Worldwide Express
SCHENKER (Germany)
TNT Express Worldwide
WILLI BETZ (Germany)

Wine Production

BOYAR INTERNATIONAL (UK)
SUBERCOR (Portugal)

4. Foreign Investment Legislation

On 24 October 1997, the Parliament of Bulgaria adopted a new Law on Foreign Investment (promulgated in the State Gazette, Issue Nr. 97 of 1997; supplemented in State Gazette, Issue Nr. 29 of 1998; amended and supplemented in State Gazette, Issue Nr. 153 of 1998, **Issue No. 110 of 1999**). The Law brings the legal framework on foreign investment in full compliance with the accepted international standards and provides for even more attractive investment regime.

4.1. Institutional framework

Foreign Investment Agency

In April 1995, the Foreign Investment Agency was established as a one-stop shop institution for foreign investors.

The Foreign Investment Agency is a governmental body within the Council of Ministers for coordination of the activities of State institutions in the field of foreign investments and for promotion of foreign investments in the country.

A key function of the Agency is to assist companies in the investment process. It provides to prospective investors updated information on the investment process in the country, legal advice, searching for suitable Bulgarian partners, co-ordination of the investment policy with other institutions, etc.

Advisory Council on Foreign Investment and Financing

An Advisory Council on Foreign Investment and Financing was established as a consultative body to the Prime Minister with the purpose of further improving the investment climate in the country. Members of the Council are representatives of the largest foreign investors, consulting companies, banks and international organizations. The Advisory Council discusses the policy for promotion and attraction of foreign investment and adopts measures for improving the investment environment in the country.

4.2. Foreign Investors

Under the Law on Foreign Investments, foreign investors are:

- **legal persons** which are not registered in Bulgaria;
- **partnerships** which are not legal persons and are registered abroad;
- **individuals** who are foreign citizens and have permanent residence abroad.

A Bulgarian national, who is a national of another country as well, should choose whether to avail himself of the status of a Bulgarian or foreign national under the Law.

4.3. Definitions and Forms of Investment

Foreign investment is any investment, which is made by a foreign person, in any of the following:

- shares and stakes in commercial companies;
- ownership title over buildings and limited ownership title over property;
- ownership title and limited ownership title over movable property when considered long-term tangible assets;
- ownership title over enterprise, or detached parts thereof, in accordance with the stipulations of the Law on Restructuring and Privatisation of State-Owned and Municipal Enterprises;
- securities, including debentures and Treasury bonds, as well as their derivative instruments issued by the State, by the municipalities or by other Bulgarian legal persons, with a remaining term until maturity not shorter than 6 months;
- loans, also in the form of financial leasing, for a term not shorter than 12 months;
- intellectual property rights - articles of copyright and neighbouring rights, patented inventions, utility models, trade marks, service marks and industrial designs;
- rights stemming from concession contracts and contracts for the assigning of management.

A foreign investment shall, furthermore, include the accretion in value of the investment initially made.

Bilateral treaties on promotion and mutual protection of foreign investment to which Bulgaria is a party may provide for a wider definition of foreign investment.

4.4. Legal and International Guarantees for Foreign Investment

National Treatment

The Bulgarian Constitution and the Law on Foreign Investments provide national treatment to foreign investors which means that foreign investors are entitled to perform economic activity in the country under the same provisions applicable to Bulgarian investors except where otherwise is provided by law. In particular this principle covers the whole range of economic and legal forms of activities for accomplishing entrepreneurial businesses. The national treatment to foreign investors includes the participation in the process of Privatisation and acquisition of shares, debentures, treasury bonds and other kinds of securities.

Most Favoured Nation Status

Bulgaria is signatory to a system of bilateral treaties on promotion and mutual protection of foreign investment which provide, further to the national treatment regime, for the most favoured nation status of the investment made by entities and individuals from one of the contracting countries on the territory of the other contracting country.

Priority of International Treaties

When international treaties to which Bulgaria is a party provide for more favourable terms and conditions for foreign investment, these terms have precedence over the local rules. This guiding principle finds expression in the treaties for protection of foreign investments and especially in the agreements for abstaining of double taxation regulations. The international treaties on mutual protection

of foreign investment always include an extended concept of a foreign direct investment, and the application of this concept shall be prior to the Bulgarian legislation.

Legal Guarantees Against Adverse Changes in the Law

The Law on Foreign Investments stipulates the principle that foreign investment made prior to the adoption of amendments in law imposing statutory restrictions only with regards to foreign investments, shall not be affected by these restrictions.

The sense of the law provides for that foreign investments shall be guaranteed against subsequent legislative changes.

Protection against Expropriation

The Bulgarian Constitution allows forcible expropriation of property in the name of the state or for municipal needs only if effected by virtue of a law provided that these needs cannot otherwise be met, and after a fair compensation has been ensured in advance.

Expropriation under Bulgarian Law is governed by the Law on State Property and Law on Municipal Property.

The Law on Foreign Investments provides additional protection to foreign investors. The first added protection granted to foreign investors is that the expropriation may only occur for exceptionally important state needs, which cannot be otherwise met. Immovable property owned by foreign persons may not be expropriated for municipal needs.

As another protection for foreign investors the Law requires compensation in the form of another immovable property in the same location, and only given the foreign investor's consent, in another location, or by cash if the foreign investor prefers so. Compensation equals the immovable property's market price on the day of expropriation.

4.5. Establishment of Enterprises with Foreign Investment

Bulgarian legislation provides for establishment of enterprises with foreign investment. These must take the form of any of the business organizations stipulated in the Commercial Code. There are no limitations as far as the share participation of foreign persons is concerned and so is the extent of their investments.

Under the Commercial Code, the following forms of business organizations are open to foreign investors:

- private limited company
- single-owner private limited liability company
- public limited company
- general partnership (unlimited partnership)
- limited partnership
- public limited partnership
- sole trader

Foreign legal entities registered abroad, as well as foreign natural persons and entities, which are not legal persons, may register *branches* if they have already been registered

as merchants in accordance with the legislation of their countries. A branch is a part of the main company, but with a different seat. It is entered into the commercial register of the court at its location. A branch keeps account books as an independent company. A branch of a foreign company prepares a balance sheet. No authorized capital is needed for its opening. Foreign nationals and companies can register a branch provided they are registered abroad and are entitled to engage in business activities under the national law.

Representative office is regulated by the Law on Foreign Investments. Foreign persons entitled to engage in business activities under their national legislation may set up representative offices, which are registered at the Bulgarian Chamber of Commerce and Industry. The representative offices are not legal persons and may not engage in economic activities. They may only engage in activities related to marketing, finding clients, establishing contacts within the country, as well as any other activities, which are not considered as economic or commercial by virtue of the Law.

Joint venture is a company formed jointly by a Bulgarian and a foreign partner. The size of foreign participation in a joint venture is not limited. Joint ventures must take one of the forms of business entities pursuant to the Bulgarian Commercial Code.

A foreign national must obtain a permit for permanent residence in Bulgaria when applying for registration as a sole trader or when participating in an unlimited partnership or a co-operative or participates as an unlimited partner in a limited partnership or in a public limited partnership.

As a rule, no prior permits from governmental institutions are required.

Like the Bulgarian entrepreneurs, foreign investors have to register their activities with:

- local Tax Administration Offices for taxation purposes;
- local Social Security Offices, if foreign investors have employees on their pay-roll;
- the National Institute on Statistics under the registration system BULSTAT for statistical purposes;
- customs authorities when foreign trade operations are performed.

4.6. Profit and Capital Repatriation

Bulgaria has established a liberal regime for repatriation of after-tax profit and capital.

Foreign investors can freely purchase foreign currency and transfer it abroad upon presentation of receipt for paid taxes in the following instances:

- income generated through an investment;
- property alienation driven indemnification proceeds, when used for state needs;
- liquidation quota resulting from the termination of the investment;
- proceeds from the sale of the investment good;

- a sum received after the enforcement of a writ of execution.

This right may also be exercised by foreign nationals working in the country, with respect to the remuneration received by them, and by foreign nationals who have obtained a permit for permanent residence and are registered as sole traders or participate in a co-operative or as an unlimited partner in a partnership, after a certificate for paid taxes is submitted.

4.7. Ownership of Real Estate

According to the Bulgarian Constitution foreign nationals and foreign legal entities may not directly acquire ownership rights on land. If foreigners inherit land in the country, they are obliged to transfer the ownership of the land to local natural or legal persons within three years after the inheritance becomes effective.

The above restrictions, however, do not concern Bulgarian companies with foreign participation, irrespective of the percentage of the foreign participation in the company. Thus foreign persons can acquire full land ownership rights, including ownership rights on agricultural land by setting up or joining a company incorporated under the Bulgarian legislation.

At the request of an investor the Foreign Investment Agency may trigger a special mechanism for institutional support and propose to the competent authorities (regional governors or municipal councils) to transfer, further to the Law on State Property and Law on Municipal Property, limited property rights (right to build and right to use) on real estate, state private or municipal property, with the view to implement a priority investment project.

Foreign persons and companies with foreign participation need an advance authorization from the Council of Ministers to acquire ownership rights over real estate in border zones and in areas of national security importance as determined by the Council of Ministers.

4.8. Interministerial Groups for Institutional Support of Priority Investment Projects

The Law on Foreign Investments allows special institutional help for the investors accomplishing an investment project acknowledged by the Council of Ministers as priority one.

At the request of the investor the Foreign Investment Agency may propose to the Council of Ministers to form an interministerial group, comprising representatives of ministries and agencies concerned, in order to provide institutional support for appointed investment projects acknowledged by the Council of Ministers as priority investment projects.

Based on the institutional support mechanism the Council of Ministers recently set an interministerial group in order

to co-ordinate the institutional help to the “green-field” investment project of Metro Group in Bulgaria.

4.9. Concession Regime

The Bulgarian Constitution from 1991 proclaims that concessions can be granted for objects which are exclusive state property or over which the state exercises its sovereign right or has established monopoly, under the conditions and by the procedure set forth in the Law on Concessions from 1995. The Constitution guarantees municipalities’ ownership and its exercise to the benefit of the relevant municipality, by virtue of the local self-government principle. It is the Law on Municipal Ownership, which regulates the granting of concessions over objects - public municipal property.

4.9.1. Concessions over objects, which are public state property, and over activities for which state monopoly has been established (regulated by the Law on Concessions).

The Law on Concessions establishes the objects that are public state property over which concessions may be granted:

- ores and minerals in connection with relevant extraction;
- waterfront beach strip;
- biological, mineral and energy resources of the continental shelf and in the exclusive economic zone, in reference to exploration, development, production, utilization thereof;
- roads-sites of the railway infrastructure, including the land on which they are constructed or which is designed for their construction, ports or technologically detached parts of them for public transport and civil airports, existing and/or such which shall be built by and with the funding of the concessionaire;
- waters, including mineral waters that are sole state property;
- aquaculture and the water supply facilities and systems, which are public state property;
- forests and parks of national significance;
- nuclear facilities;
- natural and archaeological preserves;
- other objects, which are public, state property, specified by law.

According to the Law the following activities on which state monopoly has been established may be subjected to concession:

- usage of nuclear power;
- manufacture of radioactive products, arms, explosives and substances with strong biological activity.

Under the Law concessions may be granted not only over existing objects that are public state property, but also over objects, which shall be built and funded by the concessionaire. The procedure for granting concessions includes:

- adoption of a decision to grant a concession by the Council of Ministers upon the corresponding minister's proposal;
- a competition or tender organized and carried out by a minister appointed in the above decision;
- assignment of the concessionaire;
- conclusion of a concession agreement with the concessionaire.

In some cases envisaged by the law the concessionaire may be determined without a competition or a tender. Concessions may be granted for a period up to 35 years. This term can be extended but the total duration of the concession cannot be longer than 50 years. When the contract has expired, per equal other conditions the concessionaire under the contract has priority for the conclusion of a new concession contract for the same object or activity.

4.9.2. Granting concessions for objects that are public municipal property (regulated by the Law on Municipal Ownership)

Pursuant to the Law on Municipal Ownership a "concession" represents the grant of a particular right to use an object, which is public municipal property with the purpose of permanently satisfying the public needs of municipal importance, and allowing that the activities be conducted by the municipality.

The objects over which concessions may be granted include:

- water resources (including mineral waters) used solely for municipal needs;
- municipal water basins and beaches thereto;
- inert and other materials necessary for meeting the populations demand and extracted by a quarry method in volume not bigger than 10,000 m³ per year;
- local roads and parking lots;
- municipal forests.

The activities for which a concession may be granted by a municipality are specified as:

- water supply and sewerage;
- activities involving transport infrastructure and transportation of passengers;
- business conducted in objects, which are public municipal property.

The procedure for granting concessions includes the following steps:

- adoption of a decision to grant a concession by the Municipal Council;
- carrying out a competition or a tender;
- concluding the concession contract.

Concession may be granted for a period of up to 15 years. However, the term can be extended. The total duration of the concession may not be longer than 25 years.

4.10. Licensing of the Telecommunications Activities

The Law on Telecommunications, adopted in August 1998, specifies the regulations concerning the regime of the telecommunications. The Law aims at liberalizing the telecommunication services, setting up the free market and preventing the unfair competition. It provides for an equal treatment of the operators.

Under the Law telecommunications are considered the following: transfer, transmission or acceptance of all kinds of signs, signals, written words, pictures, sounds or information by the means of a conductor, radio waves, optical or other electromagnetic surroundings.

The telecommunications activity is the performance of telecommunications through establishment, maintenance and utilization of telecommunication networks and/or delivery of telecommunication services. The telecommunications operators provide telecommunications services for free or through licensing.

Pursuant to the Law a "license" is considered as the permission for utilizing the radio frequency spectrum, for activities on performing telecommunication services as well as for radio and television activities.

The activities on performing telecommunications services will be realized after licensing with individual licenses, general license or free.

The radio and television activities are performed only after an individual licensing is given.

The individual licenses are personal. They can be issued without a competition or a tender, whenever their object is an unlimited resource. The individual license may be issued for a period of up to 20 years. This term can be extended but the total duration of the individual license cannot exceed 35 years.

The general license shall be promulgated in the State Gazette. Every person may perform activity in telecommunications under a general license after registering by the State Commission on Telecommunications.

The Government approves issuing licenses for establishment of telecommunications networks and delivery of public telecommunications services by using the radio frequency spectrum upon a proposal made by the Commission on Telecommunications.

The Council of Ministers approves a National plan for assignment of radio frequencies upon a proposal made by the Council on the National Radio Frequency Spectrum. The State Commission on Telecommunications permits:

- the import of transmission radio facilities for civil purposes;
- the production and/or distribution of transmission radio facilities for civil purposes on the territory of the country;
- the legal competence to radio operators - professionals and amateurs.

4.11. Licensing of the Activities in the Energy Sector

On 16 July 1999 the new Law on Energy and the Power Efficiency (LEPE) was published in State Gazette No 64. It regulates:

- public relations in the energy sector;
- the rights and obligations of legal entities related to activities in the field of:
 - generation, import, export, transmission, distribution and supply of electric power, heat, and natural gas;
 - improvement of energy efficiency; and
 - promotion of the use of renewable sources of energy.

It abolishes some provisions of the Law on Concessions concerning concessions regime in the area above mentioned. It is substituted by a license regime.

However, persons conducting activities in the energy sector on the grounds of a granted license or concession by order of another act retain their rights but at the condition that they apply for a license within one-year period after the day LEPE has come into force.

State Commission issues the licenses for Energy Regulation (SCER) in case the applicant meets the strict requirements of LEPE. Only by tender an investor is determined for construction of:

- new generation capacities exceeding 25 MW;
- new heat transmission systems;
- new gas distribution networks;
- natural gas storage facilities.

The tender is held by SCER or the respective municipality after the tender documents have been cleared by SCER pursuant to a procedure defined in a special regulation. The tender winner shall be granted:

- a facility construction permit;
- electricity and/or heat generation license if requested.

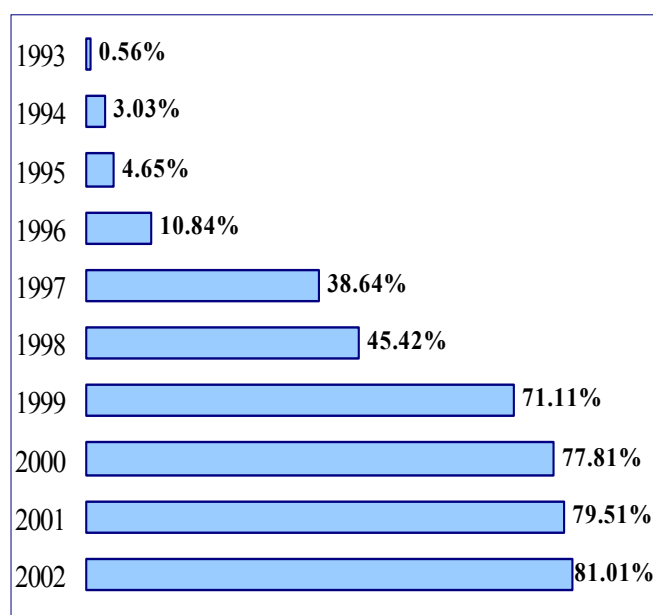
The tender winner shall receive a contract with the transmission enterprise for sale of the electric power and/or heat to be generated for a term not shorter than 10 years.

5. Privatisation

5.1. Historical Overview

Privatisation has been a top priority for all governments since the beginning of the economic and political changes in Bulgaria in the early 90s. It started in 1993 using various techniques and witnessing big legislative changes, all aimed at improving transparency and attracting bigger foreign investors. By the end of 2002, more than 80% of the assets subject to privatisation have been privatised as shown on Figure 5.1.

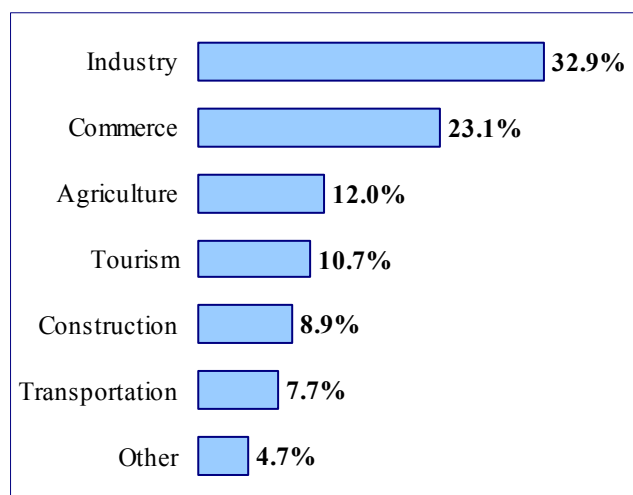
Figure 5.1 Privatised assets as a percentage of state assets subject to privatisation



Source: Privatisation Agency

The majority of privatisation deals in the period 1993 - 2002 took place in the industry and commerce sectors, as shown in Figure 5.2.

Figure 5.2 Structure of privatisation deals by sector

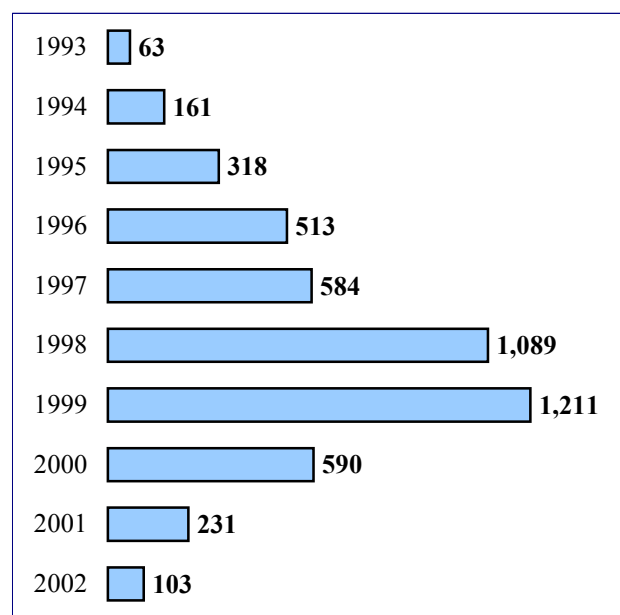


Source: Privatisation Agency

The sale of the large enterprises in the major industrial sectors (food and beverage, textiles, chemistry, metallurgy, machine building) has been almost completed. The enterprises, which are not privatised yet, enjoyed until recently a monopoly status in infrastructure sectors like energy, telecommunications, and railway transport.

Figure 5.3 exhibits that year 1999 witnessed the largest volume of privatisation activity in the period 1993 - 2002.

Figure 5.3 Number of privatisation deals



Source: Privatisation Agency

In the period 1 January 1993 - 28 February 2003 there were 158 privatisation deals with foreign investors. The deals that marked highest value were in the financial sector, followed by the chemical industry. Foreign investors demonstrated highest interest in the following industries and sectors:

- Financial sector (Uni Credito, Italy; National Bank of Greece, Greece; Bank Austria Creditanstalt, Austria; Alico, USA);
- Chemical industry (Lukoil, Russia; Solvay Sodi, Belgium; Yukos Petroleum, Russia);
- Building materials (Marvex, Spain; Knauf, Austria; Ytong and Heidelberger Zement, Germany);
- Non-ferrous metals (Umicore, Belgium);
- Brewery (Interbrew, Belgium; Brewinvest/Heineken, Greece/The Netherlands; Carlsberg, Denmark);
- Confectionary (Nestle SA, Switzerland; Kraft General Foods Ltd, USA);
- Sanitary and fittings (American Standard Inc., USA).

The top 10 privatisation deals with foreign investors for the period 1993 - 2002 are displayed in Figure 5.4.

Figure 5.4 Top ten privatisation transactions with foreign investors for the period 1993 - 2002

No	Name of the buyer	Name of enterprise	Year	Subsector	Shares sold, %	Revenue USD m	Investments contracted USD m
1.	Unicredito, Italy	Bulbank	2000	finance	85.00	307.00	
2.	National Bank of Greece, Greece	United Bulgarian Bank	2000	finance	90.00	270.00	
3.	Solvay, Belgium	Sodi Devnya	1997	chemical industry	60.00	160.00	67.00
4.	Lucoil Petrol, Russia	Neftochim	1999	chemical industry	58.00	101.00	408.30
5.	Bank Austria Creditanstalt, Austria	Biochim	2002	finance	99.59	82.00	
6.	Union Miniere Group, Belgium	MDK	1997	copper production	56.00	80.00	220.00
7.	Alico, USA	Postbank	1998	finance	86.00	55.60	
8.	Consortium of Yucos Petroleum Bulgaria, Petrol Holding & OMV, Austria	Petrol	1999	chemical industry	51.00	52.00	60.00
9.	Marvex, Spain	Devnya Cement	1997	cement production	70.00	44.55	209.45
10.	Energo-Pro Bulgaria, Czech Republic	Sandanska Bistritza	2002	energy	100.00	33.06	489.00

The goal of the present Bulgarian government is to complete the sale of the major state-owned assets by the end of 2004.

5.2. Regulatory Framework

The privatisation process is regulated by the Law on Privatisation and Post-Privatisation Control (LPPPC) which came into effect on 23 March 2002. It abrogated the old privatisation law, which has been in force since 1992. A special Regulation on Tenders was adopted on 5 March 2002. The other regulations issued in line with the old law shall be effective in case they do not contradict the provisions of the new one.

The changes in the privatisation legislation concentrate the sale process mainly through the Privatisation Agency for the purpose of making it more transparent and effective. There are some new provisions in the LPPPC that differ substantially from the provisions in the old privatisation law:

- all state-owned companies (with a few exceptions) are offered for sale by virtue of the LPPPC (previously, a special decision of the competent body was needed for starting a privatisation procedure);
- only the Privatisation Agency is the competent body to sell state-owned property (previously, the ministries were also competent to represent the State in privatisation deals);
- a new body has been established as a separate legal entity – the Post-Privatisation Control Agency. It shall

supervise the fulfilment of the buyers' obligations under concluded privatisation deals. The Post-Privatisation Control Agency shall:

- take the necessary steps to collect the penalties that are imposed for breach of the privatisation contract;
- supervise the deferred payments under privatisation contracts, if any;
- require information in cases of doubt that there is a breach of privatisation contracts;
- perform inspections in relation to fulfilment of the obligations of the buyers under the privatisation contracts;
- give permissions or approvals on behalf of the State in the privatisation contracts.
- the Privatisation Agency is governed by an Executive Board consisting of 3 members (previously, it was only an Executive Director) and a Supervisory Board;
- the most commonly used privatisation method so far "Negotiations with potential buyers" is no longer in force as it is perceived as a source of corruption;
- the legitimate methods for privatisation are:
 - Public offering;
 - Public auction;
 - Publicly announced tender (there is a new regulation on that method, that clarifies the terms, procedures, etc.);
 - Centralised public auction, and

- Acceptance of tender offer as per art.149 of the Law on Public Offering of Securities.
- according to the LPPPC, parties in privatisation through MBO's will no longer have preferential rights;
- the employees of privatised companies will no longer have the right to buy 20% of the share capital of the privatised company at preferential price;
- additional agreements will no longer be allowed in relation to obligations of the buyer in a privatisation deal.

5.3 Current and Forthcoming Privatisation Deals

In December 2002, the Privatisation Agency approved its Privatisation Plan for the year 2003. According to the Plan, 1,100 privatisation transactions are to be concluded by the end of 2003, with sale revenues expected to reach BGN 550 million.

According to the LPPPC, all state-owned companies, with some exceptions listed in an Appendix to the law, will be considered with open privatisation procedures. The exceptions include regional utility companies, airports, sea ports, free trade zones, Bulgarian Posts, NPP Kozlodui, Bulgargas, the Bulgarian Stock Exchange, etc.

On 20 May, OTP Bank, Hungary signed a contract for privatisation of 100% of the shares of the third largest Bulgarian bank – DSK for EUR 311 million. The deal has finalized the privatisation process in the banking sector.

The procedures for privatisation of the two state monopolies – Bulgartabac Holding and Bulgarian Telecommunication Company (BTC) are underway.

Along with the initiated privatisation in the energy sector, a privatisation strategy and valuations of the 7 electric power distribution companies are currently developed.

In the beginning of 2003, the Privatisation Agency opened a tender for selection of a consultant for the forthcoming privatisation of Bulgarian Air Tour – the national flag carrier.

By the end of March 2003, bids for the privatisation of Balkankar Holding, one of the biggest machinery engineering producers in Bulgaria, have to be submitted to the Privatisation Agency.

5.4 Privatisation with non-cash payment instruments

In the beginning of March 2003 a list of state-owned enterprises subject to privatisation with non-cash payment instruments was promulgated. The list comprises of 1,084 companies, 95 of which will be privatised through the Bulgarian Stock Exchange, 761 through centralised public auctions and 228 enterprises through public tenders arranged by the Privatisation Agency.

6. Company Law and Business Organizations in Bulgaria

6.1. Forms of Business Organisations

The following forms of business organisation exist under the Bulgarian law:

- an unlimited (general) partnership
- a limited partnership
- a partnership limited by shares
- a limited liability company
- a joint-stock company
- a public company
- a sole trader
- a joint venture
- a branch
- a holding
- a co-operative
- a representative office

The forms of business organisation, save representative offices and co-operatives, are governed by the Commerce Act 1991, as for certain types of companies (e.g., banks, insurance companies, public companies) special rules apply. Representative offices and co-operatives are regulated respectively by the Foreign Investments Act 1997 and by the Co-operatives Act 1999.

The most appropriate types of companies for conducting business in Bulgaria are the limited liability and the joint-stock company, including in the form of a single-member company. These types of companies must be entered into the commercial register of the relevant district court.

LIMITED LIABILITY COMPANY (OOD) is a commercial company, the capital of which is formed by the quotas (sometimes referred to as shares) of its members (shareholders). The liability of a member is limited to the amount of the capital the member has subscribed. A limited liability company is founded or owned by one or more persons, including foreign natural or legal persons. The minimum authorised capital is BGN 5,000. Each share must be with a value of at least BGN 10, as any higher value must be divisible by 100. At least 70% of the capital must be paid up before registration. Contributions to the foundation capital can be done in cash or in kind. The general meeting of members, which must be held at least once a year, and a manager (or managers), are the statutory bodies of a limited liability company.

A single-member limited liability company (EOOD) is an OOD owned by one person, including a foreign individual or a legal entity. The sole owner of an EOOD exercises the powers of both the general meeting and the manager, unless another manager has been appointed to run the company.

OODs must prepare a balance sheet and financial statements each year.

JOINT-STOCK COMPANY (AD) is a company, the capital of which is divided into shares, each of a par value of at least BGN 1. Any higher par value must be

determined in whole numbers in BGN. The company is liable to its creditors to the extent of its assets. An AD may be founded or owned by one or more persons, including foreign individuals or legal persons.

The minimum capital of an AD is BGN 50,000.

A higher minimum capital is required to establish certain special companies like:

- **Banks** - BGN 10,000,000
- **Insurance companies**
 - BGN 2,000,000 for life insurance and personal accident insurance
 - BGN 3,000,000 for property insurance
 - BGN 4,000,000 for reinsurance
- **Investment companies** – BGN 500,000
- **Voluntary health insurance companies** – BGN 2,000,000 (initially has to be in cash, subsequently can be in kind)
- **Voluntary pension security companies** – BGN 3,000,000 (paid in cash)

In general, contributions to the foundation capital of an AD may be paid in cash or in kind. At least 25% of the value of each share must be paid up on foundation.

A joint-stock company may issue either registered, bearer or preference shares.

Management bodies of an AD are the general meeting of shareholders, which must be held at least once a year, and a board of directors (one-tier management system) or a general meeting, supervisory board and managing board (two-tier management system).

A single-member joint-stock company (EAD) is an AD owned by one person, including a foreign individual or legal entity, as in this case the sole owner of the capital exercises the powers of the general meeting of shareholders.

ADs must prepare a balance sheet and financial statements each year.

There are some specific additional requirements as to the foundation and running of certain types of company (e.g., banks and insurance companies).

PUBLIC COMPANY – this is a type of joint-stock company initially introduced by the revoked Securities, Stock Exchanges and Investment Companies Act 1995 and currently regulated by the Public Offering of Securities Act 1999 (POSA).

The events, which trigger the obligation of a company to register as public, are preserved in POSA.

A company must register as public if (i) it makes a primary offering of shares; or (ii) its shares are registered for trading on an organised securities market.

Another way to create a public company is through a business combination involving at least one public company - the surviving company will be public, too.

HOLDING COMPANY - A holding company is a joint-stock company, a partnership limited by shares or a limited liability company. A holding company can hold interest in any form or participate in the management of and control over other companies. The Commerce Act control is exercised where the holding company (i) holds at least 25% of the shares or interest in a subsidiary company; or (ii) is in a position to appoint, directly or indirectly, more than 1/2 of the board members of the subsidiary.

A holding can conduct its own business, as the activities it can perform or is disallowed to perform are exhaustively enumerated in the Commerce Act.

BRANCH - foreign legal entities registered abroad, as well as foreign individuals or persons other than legal entities, can register a branch in Bulgaria if duly incorporated and entitled to conduct business activities under their national law.

A branch of a foreign person is part of its parent company, but has a different seat. A branch is not a legal entity. However, it must keep account books just like independent legal entities do. The branch of a foreign company has to prepare a balance sheet.

No authorised capital is required to found a branch.

REPRESENTATIVE OFFICE - Representative offices can be set up by foreign persons entitled to engage in business activity under their national law. Representative offices are not legal entities and may not engage in economic activities.

JOINT VENTURE - it is a company formed jointly by a Bulgarian and a foreign partner. The extent of the foreign participation in a joint venture is not limited. Joint ventures must take one of the forms of business entities under the Commerce Act. Establishing a joint venture is one of the forms of investing in Bulgaria.

6.2. Formation and Registration of a Company, Branch and Representative Office

A company is deemed incorporated as of the date of its registration into the commercial register of the relevant district court. The application for registration, furnished with certain documents required by the law, is filed in the court by the elected managing body.

LIMITED LIABILITY COMPANY - in order to be registered a limited liability company must:

- produce its articles of association (memorandum of association - for single-member limited liability companies)
- have appointed a manager (or managers)
- have paid up at least 70% (BGN 3,500) of its authorised capital, including at least one-third of each member's quota

This information together with certain details (e.g., the manner of management and representation, the company's seat and head-office address, its business name) is recorded

in the commercial register and promulgated in the State Gazette.

JOINT-STOCK COMPANY - to be registered at court a joint-stock company must:

- have adopted its articles of association (memorandum of association - for single-member joint-stock companies)
- have its authorised capital fully subscribed
- have paid up at least 25% of the value of each share
- have elected a managing board or respectively a board of directors and a supervisory board
- have met any other statutory requirements (e.g., banks and insurance companies must submit to the court, apart from the other documents required, the licenses that BNB, respectively the National Insurance Council, have granted to them)

Certain details (e.g., the manner of management and representation, the company's seat and head-office address, its business name) are recorded in the commercial register and promulgated in the State Gazette.

BRANCH - it is entered in the commercial register of the district court on its location. An entry is made on the basis of a written application, furnished with the documents required by law.

REPRESENTATIVE OFFICE - it is registered with the Bulgarian Chamber of Commerce and Industry (BCCI) upon submission of a standard form and a registration card, furnished with the documents required by law. The registration takes from 1 to 3 days.

Once registered, companies, branches and representative offices are subject to registration with the National Statistical Institute, the National Insurance Institute and the tax authorities.

6.3. Other Forms of Business Organisations

GENERAL PARTNERSHIPS - it is a company founded by at least two partners for the purpose of engaging in commercial transactions under a joint business name. The partners bear joint and unlimited liability. A foreign person must have permanent residence in Bulgaria in order to participate in a general partnership. There are no requirements for minimum or maximum amount of registered capital.

Each partner may participate in the management of the partnership's business unless the articles of partnership provide otherwise. Each partner is entitled to one vote where the articles of partnership require that certain resolutions should be passed with a majority. A general partnership must be registered with a district court and entered in the commercial register.

LIMITED PARTNERSHIP - it is a company founded by two or more persons for the purpose of engaging in commercial transactions under a joint business name. There are one or more general partners, bearing unlimited liability, and one or more "limited

partners”, the liability of which/whom is limited to the extent of their agreed contribution. A foreign person must have permanent residence in Bulgaria in order to participate in a limited partnership as a general partner. The general partners are responsible for managing the partnership. A limited partnership must be registered with a district court and entered in the commercial register.

PARTNERSHIP LIMITED BY SHARES - it is a transitional entity between a joint-stock company and a limited partnership, and shares features of both legal forms. A partnership limited by shares has general partners, who have unlimited liability, and at least three limited partners, the liability of whom is limited to the extent of their shareholding. To be able to participate in a partnership limited by shares the foreign general partners must have permanent residence in Bulgaria. The general partners are responsible for managing the business. A partnership limited by shares must be registered with a district court and entered in the commercial register.

CO-OPERATIVE SOCIETY - a co-operative is a voluntary society of individuals, with a non-fixed capital and a non-fixed number of members, who carry out economic and other activities to satisfy their interests, by mutual aid and co-operation. A co-operative is a legal entity and is deemed a merchant under the Commerce Act. Just like members of commercial companies, co-operative members must make efforts and contribute to the achievement of the co-operative’s goals. Co-operative

members can only be individuals, at least 7 in number. To participate in a co-operative, foreign persons should have permanent residence in Bulgaria.

The general meeting of a co-operative consists of all co-operative members. The right to vote at the general meeting may be exercised only in person. Every member is entitled to one vote, irrespective of his or her shares.

All members have rights to participate in the business and to share in the profits, etc.

SOLE TRADER - any capable individual, having permanent residence in the country, can register as a sole trader.

STATE COMPANIES - they exist under the forms of one-member limited liability or joint-stock companies where the quotas/shares are solely owned by the State. These forms of business are established either to facilitate the process of privatisation of the state companies through the sale of their quotas/shares to private persons, or to conduct certain business activities. Notwithstanding the above, the State can be a member/shareholder in companies, having private participation, subject to certain requirements.

MUNICIPAL COMPANIES – the above mentioned in respect of the State and the its fully or partially owned companies is accordingly relevant to the municipalities and their companies.

7. Taxation

7.1. Direct Taxation: Individuals

General rules

Territoriality and residence

Under Personal Income Tax Act (PITA) tax liable persons are individuals - residents and non-residents, and corporates explicitly enumerated therein.

Residents, irrespective of their citizenship, are considered those persons:

- Who have their permanent domicile in Bulgaria;
- Who reside in the country for more than 183 days in a 365-day period.

Non-residents are considered those individuals who do not meet the above criteria for residents.

Residents are liable for their worldwide income. Non-residents are liable only for their income derived from Bulgarian sources. Foreign experts are taxed only on their Bulgarian-source income irrespective of the duration of their stay in the country.

Bulgarian source incomes

Any income derived by an individual from the conduct of business on the territory of Bulgaria is considered to be from a Bulgarian source. A person is considered to have carried out business on the territory of the country if:

- He has a permanent establishment¹ or a fixed base² in Bulgaria;
- He assigns or performs assignments on the territory of the country, whether in person, or through a procurator, agent or in some other way.

Any income under an employment contract or derived from rendering services is considered to have been derived from a Bulgarian source where labour has been extended or services have been delivered on the territory of the country, regardless of the source of payment for the labour extended or services rendered.

Notwithstanding the above, some kinds of incomes paid out by Bulgarian residents or from a permanent establishment to a non-resident on the territory of the country are

considered to be from a Bulgarian source. These incomes include, for example, dividends and distribution of profits of entities with or without legal presence, interest, royalties, rentals, payments under lease, franchising, factoring, as well as emoluments of freelancers, or members of a managing or controlling body of a Bulgarian corporate; branch of a foreign entity, etc.

Incomes derived from the use of real estate and capital gains from the sale of real estate located in the country, as well as incomes from transactions with quotas/shares in local companies and incomes from securities transactions with securities issued by the Bulgarian state and municipalities are also incomes from a Bulgarian source.

Tax exempt income

Tax exempt are considered:

- Incomes derived from the sale or exchange of certain types of immovable property (flats, houses or villas) or means of transport, subject to certain conditions
- incomes derived from the sale or exchange of movable property except for the means of transport as per the preceding bullet, as well as the sale of shares, quotas and other equity interest in a commercial company, etc.
- compensations received as a result of statutory health and social security insurance, as well as other certain compensations
- interest on deposits in local commercial banks and branches of foreign banks, mutual benefit funds, savings and credit cooperations, the interest and expenses on court-awarded claims, the interests and discounts on state, municipal and corporate securities as well as moratoria interests on bond relations, incomes derived from investments of the insurance reserves on "Life" insurance, marriage and children's insurance and insurance "Life", if connected with an investment fund as well as incomes derived from investment of the assets of the voluntary pension funds.
- indemnification and other similar payments for average and severe corporal damage, decease or professional disease; compensations on property insurance and compensations for alienation of rights and for losses up to the amount of the loss, indemnification for suffered non-proprietary damages; insurance indemnification for permanent working incapacity and the medical expenses thereof refunded by an insurer when permanent working incapacity has occurred; the sums paid by an insurer for death, the sums for marriage and child insurance when the insurance event has occurred – marriage or birth or the term of the insurance has expired ;
- interest on court established receivables, which are not subject to taxation and adjudicated indemnification for expenses related to court cases
- income in cash and in kind from social aid, received on the grounds of a normative act and unemployment indemnification and support;
- financial aid granted by social funds and organisations;
- children subsidies from the state and payments determined by court to child support;
- student grants for Bulgarian resident individuals for their education in the country and abroad;

¹ For the purposes of PITA a "permanent establishment" means specific premises, through which a foreign enterprise conducts, partly or wholly, its business in Bulgaria. The premises may include: a place of management, a branch, an office, a studio, a bureau, a plant, a factory, a workshop, a shop, a warehouse wherein trade is conducted, an installation, a construction site, a mine, an oil or gas well, a quarry or any other place of extraction of natural resources. A "permanent establishment" will also be the conduct of a business through a procurator or another dependent agent, entitled to, and habitually concluding contracts on behalf of the foreign person.

² A "fixed base" means specific premises, through which a foreign individual renders, partly or wholly, independent services or acts as a member of the professions (e.g. a law firm; an independent auditor or accountant).

- income in cash and in kind from social aid, received on the grounds of a legislative act;
- prizes from the lottery and other games of fortune
- salaries and remuneration for: members of the personnel of the diplomatic representations according to the Vienna convention for the diplomatic relations; the members of the consular offices according to the Vienna convention for the consular relations; employees of inter-governmental and inter-state organisations according to the international contract, concluded with the respective organization, and the members of the families of the above persons, in as much as provided in the respective international contract;
- company profits distributed as new quotas and shares in commercial companies, as well as the profits distributed as an increase in existing quotas and shares' par value;
- incomes derived from transactions with public companies' stocks and trading rights on public companies' stocks, made on the regulated Bulgarian stock market;
- national and state prizes awarded to authors of cultural works;
- profits, received by natural persons and sole traders - for the unprocessed plant and animal production, in this number apiculture, sericulture, fresh water fisheries from artificial basins and greenhouse production without the decorations;
- incomes derived from sale or exchange of property, obtained as inheritance, bequest, donation and restituted property, as well as the inheritance and donations;
- rentals from agricultural land.

Incomes, not specified by PITA as tax exempt, are considered taxable.

Taxable base

The annual taxable base is the sum of all taxable incomes received during the calendar year, reduced with:

- incomes taxed with a final tax
- the amount of mandatory national insurance contributions made by the individual, and voluntary pension, health insurance and unemployment fund contributions not exceeding 10% of the taxable income, as well as premiums paid during the year on account of the persons under "Life" insurance contracts and "Life" insurance, if connected with an investment fund, not exceeding 10% of the taxable income;
- statutory deductions applicable only to non-employment contracts (e.g. 35% of the gross income for service contracts; 10% for management fees);
- social expenses for the account of the employer, taxed under the Law on corporate income tax;
- relieves for donations not exceeding 10% of the taxable income under some statutory conditions.

There are no tax deductions related to personal allowances for spouses and dependants.

The loss carry forward facility is not applicable for individuals.

Annual scale

In principle, the total annual income, after the respective

adjustments are made, is taxed in accordance with an annual progressive scale. The annual scale in force as from 1 January 2003 is given below.

Annual income	Tax
up to BGN 1,320	non-taxable
From BGN 1,320 to BGN 1,800	15% on the excess over BGN 1,320
From BGN 1,800 to BGN 3,000	BGN 72+22% of the excess over BGN 1,800
From BGN 3,000 to BGN 7,200	BGN 336+26% of the excess over BGN 3,000
over BGN 7,200	BGN 1,428+29% of the excess over BGN 7,200

Specific rules relevant to taxation of different types of income

Employment income

Incomes from employment consist of all payments, including fringe benefits in cash or in kind, paid out by the employer or at its expense to the tax-liable person during the calendar month.

The following incomes are non-taxable:

- The value of free of charge prophylactic foodstuffs, antidotes and personal safety guards pursuant to the Labour Code and other statutory instruments;
- The value of the special working clothes, the free of charge working or representing clothes and uniforms which are provided under the Labour Code or other acts (e.g. those provided to state servants);
- Certain compensations under the Labour Code (e.g. business travel compensations; reassignment compensations; etc.);
- The value of travel cards for travelling from place of residence to place of work provided by the employer to the employee free of charge;
- Social expenditures incurred by the employer and taxed under the Corporate Income Taxation Act (fringe benefits distributed as social expenses).

The tax base of incomes, derived under employment relationships and relationships that are equalised to them, is formed by reducing the taxable income with the instalments made for pension, health and other insurance the employee is bound to make by virtue of law. The taxable income is reduced with the personal instalments paid in on account of the persons, made for voluntary pension and health insurance and voluntary unemployment insurance not exceeding 10% of the taxable income, as well as with the premiums paid in under "Life" insurance contracts and "Life" insurance on account of the persons, if connected with an investment fund, not exceeding 10% of the taxable income.

Incomes derived under an employment contract are taxed on a monthly basis and the annual tax obligation is subject to adjustment on an annual basis, determined by the annual progressive scale (please refer to the annual progressive table from above).

The employment income is taxed on a monthly basis in accordance with a progressive scale. The scale applicable as from 1 January 2003 is given below.

Monthly income	Tax
up to BGN 110	non-taxable
from BGN 110 to BGN 150	15% on the excess over BGN 110
from BGN 150 to BGN 250	BGN 6+22% on the excess over BGN 150
from BGN 250 to BGN 600	BGN 28+26% on the excess over BGN 250
over BGN 600	BGN 119+29% on the excess over BGN 600

Capital Gains: The tax base in case of sale or exchange of immovable and **certain** types of movable property is the difference between the selling price and the higher price between the actual and updated price paid for the acquisition of such property. This rule applies to certain types of vehicles (e.g. aircraft, sea vessels, and cars). For any other type of movable property the tax base is the difference between the selling price and the inflation-indexed price for the acquisition of such property.

Income Received by Civil Contractors and Freelancers: a 15% advance tax payment is due upon payment and the final tax obligation is assessed and paid annually. 65% of the gross income is taxable. It is further reduced with the amount of mandatory pension, health and other contributions and the amount of voluntary pension, health and other contributions not exceeding 10% of the taxable income as well as personal premiums under “Life” insurance contracts and “Life” insurance, related to an investment fund, made on account of the individuals and not exceeding 10% of the taxable income before applying the advance tax. The pre-paid tax is set off against the final annual tax obligation.

Income Received by Managers and Members of Boards of Directors: Managers and members of Boards of Directors, who are registered with the court and work under civil contracts are obliged to pay personal income tax on an annual basis. 15% of the tax payable is withheld at the moment of payment as an advance tax payment. If the payer of the income is non-resident the individual is obliged to pay advance tax on a quarterly basis. 90% of the gross income is taxable. It is further reduced with the amount of mandatory pension, health and other contributions and the amount of voluntary pension, health and other contributions not exceeding 10% of the taxable income as well as personal premiums under “Life” insurance contracts and “Life” insurance related to an investment fund made on account of the individuals and not exceeding 10% of the taxable income, can be deducted from the taxable income before applying the advance tax. The pre-paid tax is set off against the final annual tax obligation.

Income Received by Sole Traders. The base for taxation is determined under the rules of the Corporate Income Tax Act. Advance payments of tax are made following the rules of the same Act. The annual tax is paid in accordance with the annual progressive scale.

The amount of mandatory pension, health and other contributions and the amount of voluntary pension, health and other contributions not exceeding 10% of the taxable

income as well as personal premiums under “Life” insurance contracts and “Life” insurance related to an investment fund made on account of the individuals and not exceeding 10% of the taxable income, are deducted from the taxable income.

Rental Income Received: Personal income tax is due on an annual basis³. 20% of the income is tax deductible. Persons owe advance tax amounting to 15 %. This advance tax is paid on the gross amount of the received income, reduced by the expenses acknowledged by the law after the taxable income from all sources exceeds the annual nontaxable income.

Incomes of individuals and businesses carrying out certain activities enumerated in the PITA, whose annual turnover for the preceding year has been up to BGN 75,000, are taxed with a final patent tax. The patent tax is levied as an annual lump sum, which depends on the nature of the activities and other criteria, established by the law.

Royalty payments and technical services fees, when paid to non-Bulgarian tax residents, are subject to a 15% withholding tax at the source (the paying company or partnership). No additional tax is levied. As of 1 January 2003 fees for management services are also subject to withholding tax.

Dividends (including any distributed profit from companies or partnerships) are taxed by 15% at the source (the paying company or partnership), which is the final tax on this kind of income (except when the dividends are distributed to local commercial companies). Stock dividends are not taxable.

Payments under lease, factoring and franchising contracts are subject to personal income tax under the annual progressive scale.

Interest payments except for those defined as non-taxable, are subject to 20% final tax on the gross amount.

Other income, e.g. income from occasional transactions is taxed with 20% final tax on the gross amount. Income in the form of compensations from voluntary pension, health, unemployment and “Life” insurance, including “Life” insurance if related to an investment fund, is taxed with 20% final tax if received by the individual or transferred to the account of third parties before the expiry of the insurance contract. The final tax is 15% for compensations received after the expiration of contracts for personal “Life” insurance and “Life” insurance, if related to an investment fund, when the term of the insurance contract is over 10 years. Pensions and compensations from voluntary pension insurance received after the insurance event are taxable under the general rules. No tax is levied on the income corresponding to the part of the voluntary pension insurance instalments, for which tax relief /as determined by the law/ has not been used.

Tax credits

Tax credits may be granted on the basis of double taxation treaties in force.

³ Please note that rentals from agricultural land are exempt.

If there is no double tax treaty in place PITA provides for unilateral tax credit to be granted to Bulgarian tax residents for identical or similar taxes paid abroad. Tax credit is assessed on a per-country limitation basis and is limited to the amount of the Bulgarian tax, which would be paid on the foreign source income.

Tax administration

Tax Declarations: Persons who during the tax year have received income only from:

- employment; and/or,
- rentals from agricultural land; and/or,
- certain incomes taxed at their payment

are not obliged to submit tax declarations. Other taxpayers submit annual tax declarations by 15 April of the year following the respective tax year. For tax purposes, spouses are treated as separate taxpayers. The tax declarations are presented at the territorial tax directorate at the permanent address and by foreign persons – at the address of their last stay in the country.

The standard form of the tax returns is promulgated in the State Gazette and is available on Internet.

Payment of Tax: Personal income tax on employment income is withheld from the gross remuneration on a monthly basis by the employer. The employer acts as an agent of the Revenue authorities and transfers the tax to the budget. Taxpayers who are not employees in certain cases pay advance tax, either regularly (sole traders) or whenever income is received.

Social security, unemployment fund and health care contributions

In general, employers are obliged to pay social security contributions, including unemployment fund contributions, at a 27.7% rate, and employees at and 9% rate.

Health care contributions at a 4.5% rate will be due by the employer and another 1.5% by the employee.

The above contributions shall be calculated on the remuneration and other employment income of the employee for the respective month but on not more than the maximum monthly insurance base fixed annually in the Mandatory National Insurance Budget Act. The fixed base for 2003 is BGN 1,000. Since January 2003 minimum monthly insurance bases for the main economic activities and groups of professions have been introduced.

The expatriates will attract the same payroll costs as Bulgarian employees.

7.2. Direct Taxation: Corporations

Corporate income tax

Under the Corporate Income Tax Act (CITA) all companies and partnerships (including non-incorporated partnerships), carrying out business in the country, are liable to corporate income tax. The corporate income tax rate is 23.5%.

Bulgarian resident entities are taxed on a worldwide basis. Other entities are taxed on their Bulgarian-source income. Non-business organisations (including governmental) are taxed for their business activities.

Specific tax regimes

Tax on insurance and re-insurance premiums

Insurance companies pay one-time final tax on insurance premiums and on any other kind of income and are not obliged to pay corporate income tax separately for their activities other than insurance or re-insurance.

The tax base is the sum of all insurance premiums and any other income (even if not related to insurance) within a given month, reduced by the gross amount of reinsurance premiums and insurance premiums paid out to clients. If the tax base is a negative figure it is deductible from the tax base in the subsequent months.

The rate of the special tax for insurance companies is 7%, except for life insurance companies whose income will be taxed at 2%.

Companies in the gambling business

Companies organising games of luck such as lotteries, number lotteries, TOTO, LOTTO, Bingo, Keno, betting on sports events and other uncertain events, will be taxed on their income (bets collected) by a final tax, and are not subject to corporate income tax.

The tax rate for the bets made for the games TOTO, LOTTO and bets made on the outcome of sports matches and other uncertain events is 8%.

The tax rate for the tax on the tickets for BINGO, KENO, and other lotteries is 12%. The same is the rate for the tax on games organised over the phone, the tax base being the increased price of the telephone or the telecommunication connection. The tax on the games organised over the phone is deducted and paid by the company-licensed telecommunication operator, which is obliged to examine the permit of the organiser of the phone games and to submit to the respective territorial tax directorate the contract where the written clause for the increased price is included.

The providers of phone or telecommunication services are taxed with a final tax on the price of such services determined in the contract with the telecommunications operator. The tax rate is 12%.

Entities organising gambling games other than those mentioned above are taxable in accordance with the general rules for corporate income taxation.

Taxation of certain company expenses

Entertainment and representative expenses and business gifts, that do not bear the trademark or the business name of the company, as well as donations and sponsorships, which are accounted for as expenses, are subject to a final 20% tax. Social expenses representing fringe benefits, as well as expenses for maintenance, repair and exploitation of cars used for administrative purposes are subject to a final 20% tax.

Property tax

Owners of immovable property are liable to property tax at a rate of 0.15%. For companies the tax base is the

accountancy cost of non-residential immovable property. The tax base of residential property is determined in accordance with an appendix to the Local Taxes and Fees Act.

Corporate residence

A company is considered to be resident in Bulgaria for tax purposes if it is registered in Bulgaria. Companies resident in Bulgaria are subject to tax on their worldwide income. Foreign entities are subject to tax on their Bulgarian-source income, but their Bulgarian branches are considered Bulgarian resident companies for tax purposes.

Branch income

Although branches are not legal persons, branches of non-resident companies have separate balance sheet and profit and loss account. They are subject to corporate income tax at the standard rate of 23.5%, and to other general taxes too (VAT, etc.)

Representative offices are not subject to corporate taxation provided that they do not carry out business activities.

Income determination

The income determination is based on the taxpayers' profit and loss account.

Inventory valuation

Inventory valuation and revaluation will be determined according to the applicable accounting standards. Companies can choose the method of inventory valuation, but have to apply the chosen method consistently throughout the accounting period.

Inventories at the end of the year are to be valued at the lower of their net realisable value or book value at the balance sheet date. The difference is reported in the profit and loss account.

Capital gains

In general capital gains are included in the corporate income and taxed at the full corporate tax rate.

The financial result (accountancy profit or loss) is reduced with the capital gains from shares of public companies as well as from tradable rights in shares realized on a regulated Bulgarian stock market

Exchange rate gains and losses are reported in the profit and loss account but do not reflect the assessment of the taxable income.

Dividends

Dividends payable by local companies to Bulgarian resident individuals and certain types of charity institutions, defined by CITA, are taxed with 15% withholding tax.

Dividends distributed by Bulgarian companies to foreign shareholders are subject to 15% withholding tax.

Stock dividends

Dividends capitalised into shares (stock dividends) are not subject to withholding tax.

Foreign income

Income derived outside Bulgaria by resident entities and branches of non-residents is included in the taxable base for corporate income tax purposes. Resident entities utilise tax credit for the foreign source income, which is taxed abroad. The tax credit is limited to the amount of the Bulgarian tax obligation, which would have been levied if the profit or income had originated from Bulgaria.

If Bulgaria has a double tax treaty with the state where the income originates from, the provisions of the double tax treaty shall apply. Undistributed income of foreign subsidiaries of a Bulgarian resident company is not taxed.

Tax relieves

The total amount of the tax relieves as defined in CITA shall not exceed the positive financial result as accounted for in the respective profit and loss account, before its adjustment for tax purposes.

Depreciation

On calculating the taxable base, the tax allowable size of the depreciation is deducted from the taxable income, and the accounting depreciation is added-back.

As of 1 January 2003 companies are obliged to prepare a depreciation plan for tax purposes, which may differ from that used for accounting purposes. A definition of an asset is introduced for tax purposes, i.e. a long-term asset of initial value BGN 500 unless the accounting policy of the company provides for a lower materiality threshold. Depreciation is calculated by systematically applying the straight-line depreciation method.

For tax purposes the assets subject to depreciation are grouped into the following categories:

I category – steady buildings, facilities, communication devices, electricity carriers, communication lines;

II category – machinery, manufacturing equipment, apparatus;

III category – transportation vehicles, excluding automobiles; coverage of roads and aeroplane runways;

IV category – computers, software and right of using software;

V category – automobiles;

VI category – all other depreciative assets.

The depreciation norms should not exceed the following rates:

Category of assets	Annual depreciation norms (%)
I	4
II	30
III	10
IV	50
V	25
VI	15

Net operating losses

Losses are carried forward over the following five years (ten years - for banks). There is a new definition of the loss to be carried forward, which includes all add-backs and deductions under Art.23, par.2 and 3 of CITA. The right to carry over losses is not transferred upon termination of

activity for reasons of liquidation or bankruptcy of the enterprise. This right is terminated on transformation (without transformation from one type to another) of the taxable body suffering losses, as well as on transfer of an enterprise. Carry-forward of foreign source losses is restricted to income from the same foreign source. Loss carry-back is not permitted. The loss carry-over can be used with regard to the advance tax payments as well as on an annual basis.

Thin capitalisation rules

The maximum amount of the expenses for interests, decreased by the revenues from interests, for loans from traders, partners and other entities, as well as for financial leasing and bank loans (only if between related parties), cannot exceed 75% of the accounting profit, not counting the interests. In case of loss, the financial result is increased with the excess of interest expenses over interest income. The expenses for interests, with which the financial result is increased at its tax transformation, are subject to deduction from the taxable income during the next three tax years. For each case of thin capitalisation the three-year period begins at the moment of their occurrence.

Other significant tax allowances

As of 1 January 2003 the rules for the tax adjustment of the financial result were changed substantially. The major amendments reflect aspects of the introduction of the international accounting standards. Companies may deduct the following costs for tax purposes:

- Grants extended to Bulgarian educational, cultural, health-care and other institutions or non-profit entities as well as municipalities. Grants are made on the account of the reserves and undistributed profit from previous tax periods and can not exceed 10% of the positive financial result before tax adjustment;
- Promotional and advertisement costs
- Contributions made by employers for voluntary pension and health insurance and voluntary unemployment insurance and/or "Life" insurance and "Life" insurance, if connected with investment fund, in favour of the employees if such contributions are up to BGN 40 per employee per month. The excess over BGN 40 is subject to the one-time tax at 20%.
- The remuneration as well as the social security and health care contribution to the account of the employer paid for each employee, hired under a labour contract for no less than 12 months within the same tax year and if registered as unemployed— for more than 1 year, or is over 50 years old, or is with reduced working ability. This tax allowance can be used for the year of hiring the unemployed person.

Group taxation

There is no group taxation legislation. All companies are assessed on individual assessable profits and losses. However, tax anti-avoidance rules cover transfer pricing and related persons.

Tax administration

Tax declarations

Annual profit must be declared no later than 31 March of the year following the taxable year. The tax declaration shall indicate the obligation for financial audit according to the Bulgarian legislation.

Payment of tax

In 2003 the corporate tax pre-payments due by entities, which ended 2002 with a taxable profit, are payable monthly as follows:

- for the first quarter of the year - on the basis of 1/12 of the declared taxable profit for 2001, and
- for the remaining nine months - on the basis of 1/12 of the declared taxable profit for 2002

The above bases are adjusted by a coefficient published in the State Budget Act for the respective year (for 2003 the coefficient is 1.1).

Entities ending 2002 at a loss and entities registered in 2003 will pay quarterly advance tax on their taxable profit for the respective quarter. The rate of corporate tax in this case is 23.5%.

The monthly prepayments are to be effected latest on the 15th day of the current month. The term for the prepayments on quarterly basis is the 15th day of the month following the respective quarter. No prepayment is to be made for the last quarter of the year.

Overpaid annual tax is set off against the tax to be paid for the following period. The positive difference between the annual tax declared in the tax declaration and the prepayment of tax for the same year must be paid by the deadline for submitting the tax declaration, i.e. 31 March.

Withholding tax is payable as follows:

- If the payer of the income is a tax liable person –by the end of the month following the month in which the respective expenses are incurred or the resolution on distribution of dividends or liquidation quotas has been made.
- If the payer of the income is not a tax liable person - by the recipient of the income within 30 days as of receiving the income.

After payment of the withholding taxes the payer of the income should declare this fact to the respective tax office, which shall then issue a certificate of paid withholding taxes to the foreign person entitled to the income already taxed. This certificate is necessary for repatriation of the net income.

7.2.1. Tax Exemptions

Tax incentive for investments in regions with high unemployment

Companies engaged in production, including production under job processing, enjoy 100% exemption of the corporate income tax in case they meet all of the following requirements:

1. Production assets of the company, which are obligatory declared under the Tax Procedure Code, are entirely located within the administrative boundaries of the

municipalities⁴ with unemployment exceeding 50% the average of the country for the previous year.

2. 80% of the annual⁵ average number of the employees, working under labour contract, have a permanent address in a municipality under item 1.
3. In the calendar year of exemption the company does not have any due tax or obligatory social security liabilities or any interests on such liabilities.

Corporate income tax exemption could be enjoyed if the amount of the tax, accounted as reserves, is invested for acquiring assets necessary for the production activity as well as for remuneration of the employees, working under labour contract, by the end of the calendar year following the year of exemption.

A company, which qualifies for the above tax exemption, can enjoy it for the following 5 years, even if as a result of decreased unemployment, the municipality is excluded from the above mentioned list approved by the Minister of Finance.

7.3. Withholding Taxes

Certain types of income originating from Bulgaria and payable to foreign entities (if not realised through a permanent establishment) or individuals are subject to a 15% withholding tax. The types of income are defined in CITA as follows:

- dividends and liquidation proceeds;
- interest, including such under finance leases;
- royalties;
- technical services remuneration;
- rentals;
- payments under operating leases, franchising and factoring;
- capital gains from sale of immovable property, stakes in local companies, securities and financial assets;
- remunerations received under management contracts;
- remunerations for members of board of directors or controlling bodies of Bulgarian legal entities.

Capital gains from transactions involving shares in public companies and tradable rights in such shares realised on regulated Bulgarian stock markets are not subject to withholding tax.

Withholding tax rates under double tax treaties of Bulgaria

Country	Divi- dends %	Inte- rest %	Royal- ties %
Albania (Note 3, 6, 9)	5/15	10/0	10
Armenia (Note 1, 6)	5/10	10/0	10
Austria (Note 12)	0	0	0
Belarus (Note 6)	10	10/0	10
Belgium (Note 6)	10	10/0	5
Canada (Note 16,9)	10/15	10	10
China (Note 2, 6, 9, 18)	10	10/0	7/10

Croatia	5	5	0
Cyprus (Note 3,9)	5/10	7	10
Czech Republic (Note 9, 11)	10	10/0	10
Denmark (Note 3)	5/15	0	0
Finland (Note 4, 9, 12)	10	0	0/5
France (Note 5)	5/15	0	5
Georgia (Note 6)	10	10/0	10
Germany	15	0	5
Greece	10	10	10
Hungary (Note 6)	10	10/0	10
India (Note 6)	15	15/0	15/20
Indonesia (Note 6)	15	10/0	10
Ireland, Republic of (Note 3, 9)	5/10	5	10
Israel (Note 19, 20, 21)	10/7.5-12.5	0/5/10	7.5-12.5
Italy	10	0	5
Japan (Note 3, 6)	10/15	10/0	10
Kazakhstan (Note 8, 9)	10	10	10
Lebanon (Note 6)	5	7/0	5
Luxembourg (Note 3)	5/15	10	5
Macedonia (Note 3, 6, 9)	5/15	10/0	10
Malta (Note 12, 17)	0/30	0	10
Morocco (Note 5, 9)	7/10	10	10
Moldova (Note 3, 6, 9)	5/15	10/0	10
The Netherlands (Note 3, 7, 9)	5/15	0	0/5
Norway	15	0	0
North Korea (Note 6)	10	10/0	10
Poland (Note 6)	10	10/0	5
Portugal (Note 3, 6)	10/15	10/0	10
Romania (Note 3, 6)	10/15	15/0	15
Russian Federation (Note 6)	15	15/0	15
Spain (Note 3)	5/15	0	0
Singapore (Note 6)	5	5/0	5
Slovak Republic	10	10	10
South Korea (Note 5, 6)	5/10	10/0	5
Sweden (Note 9)	10	0	5
Switzerland (Note 3,10,13)	5/15	10/0	0/5
Syria	10	10/0	18
Thailand (Note 9, 14, 15)	10	10/15	5/15
Turkey (Note 3, 6, 9)	10/15	10/0	10
Ukraine (Note 3, 6, 9)	5/15	10/0	10
United Kingdom	10	0	0
Vietnam (Note 6, 9)	15	10/0	15
Yugoslavia (Note 3)	5/15	10	10
Zimbabwe (Note 3, 6, 9)	10/20	10/0	10

Notes:

1. The lower rate applies to dividends paid out to a non-resident, which is the direct owner of at least USD 40,000, forming part of the capital of the company making the payment.
2. The withholding tax on royalties for use (or right to use) of industrial, commercial or scientific equipment is reduced to 7%.

⁴ The Minister of Finance annually approves the list of municipalities.

⁵ The year, for which exemption is received

3. The lower rate applies to dividends paid out to a foreign company, which controls directly at least 25% of the share capital of the payer of the dividends. In the specific cases of the different countries more requirements may be in place.
4. There is no withholding tax on royalties for the use (or the right to use) of scientific or cultural works.
5. The lower per cent rate applies to dividends paid out to a foreign company, which controls directly at least 15% of the share capital of the payer of the dividends.
6. There is no withholding tax on interest when paid to public bodies (Government, the BNB, state financial or non-financial institutions).
7. 5% royalties are applicable in case the Netherlands applies withholding tax under their domestic law.
8. Up to 10% branch tax may be imposed on permanent establishment profits.
9. The 15% rate applies in specific cases pointed out in the respective treaty.
10. The zero rate on interests applies, if the loan is extended by a bank.
11. The zero rate on interest applies if the interest is paid to public bodies (Government, Municipality, the BNB or any financial institution owned entirely by the Government), to residents of the other country when the loan or the credit is guaranteed by its Government, or if the loan is extended by a company for any equipment or goods
12. The Council of Ministers has stated its intention to renegotiate the DTTs with Austria, Malta and Finland.
13. 5% on royalties will apply if the Swiss Confederation introduces in its domestic law withholding tax on royalties paid to non-residents.
14. The 10% rate on interest applies if the interest is received from a financial institution, including an insurance company.
15. The 5% rate on royalties applies if the royalties are paid for the use of copyright for literal, art or scientific work.
16. The lower rate applies to dividends paid out to a foreign company, which controls directly at least 10% of the share capital of the payer of the dividends.
17. The 0% rate applies to dividends payable by a Bulgarian resident entity to an entity resident in Malta. The 30% rate applies to dividends payable by a Maltese entity to a Bulgarian entity.
18. There are indications that there may be some amendments to the Treaty, which are not yet officially promulgated in Bulgaria.
19. The 10% rate applies to dividends, distributed by companies that enjoy a reduced or zero corporate income tax by virtue of a tax incentive for investments. . In all other cases the rate is equal to ½ of the applicable rate as per the national legislations of Bulgaria and Israel, nevertheless the withholding tax rate may not be less than 7.5% and more than 12.5%.
20. The 5% rate applies to interest payable to banks or other financial institutions. The zero rate applies to interest payable to certain public bodies (governments, municipalities, Central Banks) or to residents of the other country when the loan or credit is guaranteed, insured or financed by a public body of that country or

by the Israeli international Trade Insurance Company. The 10% rate applies in all other cases.

21. The rate on royalties is equal to ½ of the applicable rate as per the national legislations of Bulgaria and Israel; nevertheless the withholding tax rate may not be less than 7.5% and more than 12.5%.

Under some double taxation treaties technical service payments fall within the definition of royalty payments and are taxed accordingly.

7.4. Indirect Taxation: VAT

The Value Added Tax Act (VAT Act) currently in force is effective as from 1 January 1999, last amendments 17 December 2002. Although Bulgaria is not a member of the European Community, the VAT legislation in many aspects follows the provisions of the Sixth VAT Directive.

Administration

VAT is administered by the tax and customs administrations of the Ministry of Finance.

Although VAT is administered separately from the other existing taxes, any VAT refunds that arise can be used to cover other tax liabilities, subject to certain conditions and procedures.

Registration

Any person (legal or physical, resident or non-resident), who has a taxable turnover (excluding exports) of at least BGN 50,000 during the preceding twelve months is obliged to register for VAT purposes by filing a standard registration form within 14 days after the end of the calendar month in which the above threshold is reached. Under the VAT Act, such non-registered persons are subject to mandatory VAT registration. Non-residents register through an agent, upon achieving the respective turnover, regardless of whether:

- they have a permanent establishment in Bulgaria (other than a branch), and
- the activities are continuing and/or performed from a “fixed place” in Bulgaria.

Voluntary registration is possible for persons with taxable turnover (including exports) over BGN 50,000 for a period no longer than the last 12 months before the current one.

Group or divisional registration is not allowed.

Any taxable person is obliged to open a "VAT-account" not later than 14 days from the date of registration under the law and to hold it while registered under the law. The VAT account can be used only for VAT payments and aims to facilitate the VAT refund procedure. As of 1 January 2003 the use of VAT accounts is obligatory for payment of VAT above BGN 1,000 when the customer is VAT registered. There are special rules for the VAT registration in some cases of commercial companies' transformation and acquisition.

Filing requirements

VAT-registered persons file annual and monthly tax declarations. The monthly VAT declaration must be submitted within 14 days as of the end of each calendar month. VAT-registered persons providing both taxable

(including export) and exempt supplies during a calendar year are obliged to submit an annual VAT declaration by 15 April of the following year.

Payment requirements

VAT payments to the state and VAT refunds from the state can only be made in BGN. The payment must be made within 14 days as of the end of the respective month. In case of VAT de-registration the payment due for the last tax period must be made within 30 days as of the date of de-registration. The VAT due as per the annual VAT declaration is payable within 3 months as of the date of submitting the declaration.

VAT credit refund

Generally, the VAT refund procedure is as follows:

If for a given month a VAT registered person has more input VAT than output VAT, the tax authorities offset the excess against any other outstanding tax liabilities of the person. If there is any remainder, the person offsets it against the output VAT he charges during a 3-month term following the month in which the excess of input VAT occurred. If after this term there is still any remainder, the tax authorities set it off against any other outstanding tax liabilities of the person or refund it to him within 45 days as of the submission of the VAT return for the third month.

Exporters are entitled to a VAT credit refund within 45 days as of the date of submitting the VAT declaration for the respective month. Persons with turnover from export supplies exceeding 30% of the value of their supplies in aggregate for the preceding twelve months are considered "exporters". VAT credit is also subject to recovery in case of carrying out supplies, which are exempt by virtue of international agreements to which Bulgaria is a party.

The VAT shall be restored within the above 45-day period if the person has paid no less than 80% of the tax charged to him, for which the right of tax credit for the period has been exercised through a "VAT-account", including for imports. If tax liabilities are present, deduction and restoration of the remainder, if any, shall be made within the same period.

Tax base

The tax base for supplies within Bulgaria is the price (exclusive of VAT) charged to the customer, and all other taxes and fees, including excise duties, subsidies and financing relating to a transaction, as well as any interest and penalties under a transaction. The tax base also includes transportation, package and other expenses related to supply if these are borne by the customer. The value of the free-of-charge warranty services is considered included in the taxable base of the supply of the respective good.

The tax base for transactions between related parties is at least the market value of the goods and/or services involved.

The tax base for imports includes the customs value, the customs duties and excise duties (if any) on the import goods.

Place of supply

Bulgaria has adopted the EU definitions of place of supply

of goods and services.

VAT Exemptions

There are three types of exempt supplies:

- Supplies, which, according to the statutory "place of supply" rule, are provided outside the territory of Bulgaria.
- Supplies of goods in customs warehouses within the frame of the respective customs procedure.
- Supplies exempt due to their subject, such as:
 - transfer of ownership and limited property rights over land
 - financial services
 - insurance services
 - lease of buildings and parts thereof, provided these are leased out for dwelling purposes
 - transfer of a going concern of a company, as well as businesses or parts thereof as per the Privatisation Act
 - provision of legal advice by registered attorneys in accordance with the Attorneys Act and of services under the Notaries Act
 - land processing services rendered by co-operatives by means of their own equipment, provided that the land is owned by the co-operative members
 - supply of grain as an in-kind rent for use of land
 - betting and gambling
 - donations in favour of certain charity institutions

Export of goods and services

The export of goods and services is subject to VAT at a zero rate.

Within the meaning of the VAT Act export of goods is exportation abroad or to the free zones, free warehouses and duty-free outlets. However, supply of goods to customs warehouses does not qualify as export.

International transport is defined to be the transportation between two points abroad, irrespective of whether part of the transport route passes through Bulgaria or not. A number of services relating to international transport (including forwarding or agent services; sales of tickets for international flights and services related to them) are also considered export services.

Processing of imported goods that are further re-exported is also zero-rated.

As of 1 January 2002 the transfer of rights over software when the place of execution is out of the territory of the country and the implemented export has been paid by the customer in full amount and received in a local bank is qualified for export.

As of 30 April 2002 the transfer of rights on films, when the place of delivery is outside the territory of the country is qualified for export.

Exporters are obliged to charge and pay VAT at 20% if the goods intended for export are sold but not physically exported by the end of the calendar month following the month in which the ownership was transferred as a result of the sale.

When the goods are subsequently exported the sale is re-characterised and the respective VAT charged and paid to the State by the exporter should be recovered. However, there are no clear rules on how the re-characterisation of the sale will be reflected in the VAT declarations and how the recovery will be done in practice.

Special preferential VAT regime for imports

As of 1 January 2003 VAT on the import of goods can be charged by the VAT registered importer if he holds a permit issued by the Minister of Finance and imports goods (with the exception of excise goods) according to a list approved by the Minister of Finance.

The importer shall exercise his right by:

- declaring in the filed customs declaration that he will use this regime;
- declaring that at the time of the import he is registered for VAT and has no outstanding tax liabilities and liabilities to the obligatory social and health insurance.

Where the importer has exercised his right, the customs authorities shall admit lifting the goods **without effective payment or securing of the VAT**.

The above special import regime is applicable to a person who simultaneously meets the following requirements:

- realises an investment project approved by the Minister of Finance;
- is registered for VAT;
- has no outstanding tax liabilities and obligatory social and health insurance liabilities;
- has obtained a permit by the Minister of Finance.

The investment project shall be approved by the Minister of Finance in compliance with the following requirements:

- term of fulfilment of the project – up to two years;
- size of the investments – over BGN 10 million for a period not longer than two years;
- opening of more than 50 new jobs;
- the possibilities of the person to finance the project, as well as to construct and maintain sites providing its fulfilment.

The permit shall be issued for a period of up to two years on the grounds of a written request, to which the document designates by the Law are enclosed.

Partial exemption

If a registered person makes both taxable (including zero-rated) and exempt supplies the following rules apply:

1. The input VAT charged for goods or services entirely used for taxable (including zero-rated) supplies is fully recoverable.
2. The input VAT charged for goods or services entirely used for exempt supplies is not recoverable.
3. The input VAT charged for goods or services used both for taxable (including zero-rated) and exempt supplies, is partially recoverable. The amount of recoverable input VAT is calculated by reference to the proportion of taxable supplies to exempt supplies.

VAT rates

Under the VAT Act two rates are applicable to taxable

supplies:

- 20% applicable to taxable supplies, including import of goods and services.
- 0% rate applicable to exports.

Disallowable input VAT

As a rule, input VAT cannot be reclaimed for goods and services, which are:

- used for promotional purposes
- related to cars
- used for exempt transactions.

Refund of VAT to non-registered persons

VAT is not refundable to non-registered persons. However, a number of possibilities such as the recovery of VAT charged upon acquisition of assets before the registration, or upon cancellation of previous VAT registration, are provided.

Such a VAT refund can be claimed, if the following requirements are met cumulatively:

- the taxpayer registers for VAT purposes
- the assets are available to the taxpayer on the date of the VAT registration, and
- the required documentation is available.

If VAT is not refunded within the statutory term, interest is charged at the statutory interest rate.

Reverse charge

For services imported from abroad VAT at 20% must be charged and paid by the recipient if all of the following conditions are met:

- the latter is registered for VAT, and
- the non-resident supplier is not a VAT-registered person, and
- the service is subject to VAT, and
- the place of supply for the service is in Bulgaria, and
- the services are used for the provision of exempt supplies as well.

In all other cases no reverse charge applies in Bulgaria to services received from non-resident suppliers.

7.5. Indirect Taxation: Excise Duties

Excise duties are levied on goods and services listed in the Excise Duties Tariff, which are:

- subject to transactions performed in Bulgaria, or
- subject to cross-border transactions from abroad to Bulgaria.

Subject to excise duties are:

- Spirit drinks, including beer, but not wine,
- Tobacco products,
- Fuels,
- Some types of automobiles,
- Gambling machines and other casino facilities,
- Coffee and tea.

The Excise Duties Act provides for reimbursement of excise duties upon exportation of goods, on which excise duties have been paid, when excise stickers have been paid but not used by producers, etc.

8. Labour Force and Employment Regulation

8.1. Labour Supply

One of the most attractive benefits of investment in Bulgaria is the abundant supply of skilled and well-educated workers. The workforce in Bulgaria comprises about 4.5 million well-educated and highly skilled men and women many of whom have higher education or Technical Education at one of the many possible colleges. It has always been a part of the Bulgarian tradition to educate the children to a high level. This includes teaching many European languages at specialised language schools as well as selecting high-level science and technical subjects. In most cities there are English, German and French language schools that teach all of the curriculum subjects in the specific language.

Parents feel a great responsibility for the education of their children and spend money on private education in addition to the one provided by the schools. In this way most of the younger generation is able to speak good English, French or German.

Most investors coming to Bulgaria do find problems with middle and upper management. Until recently there have been no courses available to train managers in the skills of modern management at this level. Recently however, there have been a number of courses made available through the Universities in conjunction with Western universities and also courses provided by the European Community through the PHARE program. These courses are available throughout Bulgaria and have been used extensively by managers of privatised companies. It is more unusual for managers of state companies to be trained in this way. There are also MBA courses available to managers.

During 2002 the economy in Bulgaria improved with average GDP growth 4-5% throughout the quarters of the year. Inflation remained at approximately 5.8% at the end of 2002. The unemployment rate in December 2002 stands at about 16.3% of the labour force. The unemployment is a more serious problem in the countryside than it is in the cities and it is also more of a problem in the smaller cities. Throughout Bulgaria there is a skilled labour force available particularly in the sectors of tourism, industry and agriculture. There has been little training in the field of agriculture where techniques have been passed on from father to son and as a result in many of the rural areas there has been little mechanization. In some parts of Bulgaria co-operative farms are still in existence on a voluntary basis and these tend to be better equipped and better managed.

The food processing industry is more modernised and employs a large part of the rural labour force. Again the European community farm program is running courses for the agriculture and food processing industries and some companies are already reaching European community standards. Part of the European Pre-accession Strategy for CEEC is the SAPARD project. With the accreditation of the State Fund Agriculture as an Agency for implementation of SAPARD Programme on May 15, 2001,

Bulgaria has become the first country, which received the right to manage the financial funds of SAPARD.

Both local companies and local branches of international companies can benefit from the SAPARD financial funds. There is number of consulting companies offering advise and assistance in the application process for SAPARD, like NEW i, Elana, KPMG, PricewaterhouseCoopers, Ivana, ACDI/VOCA, Delaware International, Cibola 2000, Brokers group, MAK Consult.

Another branch of employment is the tourist industry. Bulgaria has good facilities for both winter and summer tourism. Again there is a number of skilled workers in the branch of the tourist industry.

How to find staff

Most of the methods of finding workers that exist in Western Europe and North America are now practised in Bulgaria. There is a preference for working in the private sector and most skilled people in the state sector are looking for jobs with a better salary and better work conditions, which are standard in privatised companies. There is a fluent English-speaking pool of applicants that comes directly out of the Universities and that has some management knowledge but no skills yet. There is however, a much smaller pool of managers with three or four years of management experience in a Western company that have acquired a Western way of thinking. These managers are very sort after and can command higher salaries than one would normally expect. There is a serious lack of middle managers in Bulgarian industry and this leads to management problems. Senior managers have been often trained to take decisions at the top instead of delegating the decision-making. These bad habits continue when there is no adequate middle management for them to delegate to. Most companies find that a short period of working with an expatriate can be very beneficial and the Bulgarian managers are fast at learning new techniques. Most privatised companies, whose buyer comes from abroad, place senior managers in the company for two or three years. After this time, in most cases, the local managers are perfectly capable of working on their own.

The most common way of finding new staff is by using a human resource agency. There are agencies with four, five and more years of working in Bulgaria that provide professional staff for investors. In most cases they are able to carry out, all of the work for the investors including advertising, prior selection and psychological testing of the applicants. Most of these companies also have a database of persons looking for other work. In these cases new staff can be found very quickly for most positions.

The most common way of finding staff is by using press advertisements. There are several newspapers that are commonly used by Bulgarians to look for new jobs, these include **PARI** or **CAPITAL** specialised in economic positions, also **24 HOURS** and **TRUD**.

More recently some companies have been able to do executive search for higher-level managers. Executive search is becoming a practice for Bulgaria although not well established yet. It can however, be successful for

senior positions because managers have either worked abroad or are aware of international methods.

A common problem is overstaffing in the newly privatised factories. There are now a few companies of Human Resource consultants who have the experience to restructure the work force, set new incentive schemes and assess the quality of the local managers. These consulting companies can also assist in carrying out a training needs analysis of the Bulgarian work force and organise the training.

Health and Safety is a subject that hadn't received much attention until recently. Although the legislation was more than adequate very few companies actually took much notice of the rules in practice and companies were neglected in this area for a long time. Recent updates to the legislation made Bulgarian law in line with European Union directives. This will require a great deal of investment in equipment and training.

Investors will need to make sure that they use a licensed consultant for Health and Safety issues.

Specialist HR Consulting Service Firms

The big audit companies do, in most cases, have personnel selection functions for their clients. Some of them, like KPMG and PricewaterhouseCoopers provide HR consulting service as well. There are also a few western specialist firms operating in Bulgaria. These include: Hill International, NEW i / Hay Group, Hill International, PMC, AIMS Human Capital Bulgaria, ConsulTeam / Mercer.

A number of the above companies provide training services as well, mostly in development of personal and interpersonal competencies.

Remuneration and non financial means for motivation

The full remuneration and salary structure is set up according to the Labour Code in Bulgaria. The total cost of employment consists of the basic salary plus the social security payments and a number of other smaller taxes. Salaries in the private sector are usually higher than in the state sector. It is not uncommon for workers and managers in the private sector to be paid a higher salary than those of many senior government officials. There is a tendency for new companies coming to Bulgaria to pay what they consider a fair salary, lower than in their home country, but still higher than is normally found in Bulgaria. This problem is compounded when job applicants state that their present salary is higher than it actually is. For example, they might say their salary is the net figure when in reality it is the gross or they might include overtime and bonuses as part of the basic salary. It is difficult for a new investor to be able to judge what the real situation is.

For a number of years now professional consultants provide very detailed salary surveys of the Bulgarian market covering most business sectors. One of the most popular survey is the salary survey of Hay Group. The figures provided in that particular survey are based on studying over 70 companies and give a good guide to real salary figures. It also gives information on the levels of bonuses, provision of cars and telephones and other components of

the full remuneration package. It should be remembered that any additions to the basic salary are taxable. One must be careful and check if these incentives are included as part of the basic salary or not. If they are included, then they will also be included in calculating the Social Security taxes. If the incentives are given as extras to the basic salary then they are not counted for Social Security and the employee is liable for taxation. It should be noted that salaries outside Sofia are lower for all positions than those for workers in Sofia.

The most common form of incentives are:

- Free medical service
- Food vouchers
- Transport cards for the buses
- Clothing allowances
- Discount on company's product

Senior managers frequently get a car, telephone or representation allowances and often club membership.

Employment relations

The relations between the company and the workers in Bulgaria are governed by the Labour Code. All Bulgarian citizens have the right to work. Management cannot impose any restriction on the workforce on the basis of race, sex or any other discriminating factor. The constitution and the Labour Code prevent such discrimination.

Labour relations within the country at a national level are governed by agreements between the trade unions, the government and representatives of the employers. At the work level, agreements are made between the trade unions and the employer. There are two main trade unions in Bulgaria **The Confederation of Independent Trade Unions of Bulgaria** and **Confederation of Labour Podkrepa**. Newly privatised companies can expect attempts by the trade union leaders to increase their power within the company. Good managers can have large benefits by working closely with the trade union. The trade union workers tend to listen carefully to the union leaders in a factory. It is found that working with the unions to increase the quality of life of the workforce, work hygiene and the safety of working conditions can form a good working relationship with the unions and hence an increased productivity.

Employment contracts

Employment relationships are regulated by the Bulgarian Labour Law through employment contracts. The employment contracts between the employee (not under 16-years of age) and the employer are prepared in written form and should specify the place and nature of work and the salary to be paid. As a rule the employment contract is concluded for an indefinite period. Some fixed period employment contracts are exclusively specified in the Labour Code or may be concluded only for temporary, seasonal and short-term works and activities. The existence of indefinite period employment contracts as a rule aims to give employee stability and security. The law provides an opportunity for transformation of the fixed term contract into one for an indefinite period, which makes the relationship more stable and effective. The parties may also choose a trial period of up to 6 months. Other types of

employment contracts are those for example for 5 days work per month and the ones for additional work for the same or another employer.

The content of the contract must comply with the mandatory provisions of the labour law that concern the special protection of the employee: working hours and rest, labour remuneration, holidays, safe and healthy conditions of work, social and cultural services, and conditions and requirements for termination of the contract. Of importance is the influence of collective agreements between the employer and the trade union organisation.

The monthly labour remuneration must not be less than the amount of the minimum labour salary in the country, defined by the Council of Ministers for the respective period of one month (BGN 110). Its payment may be done in advance or twice a month, or as agreed. Income taxes, due and voluntary social security contributions are deducted at source.

Together with employment relationship goes the obligation of the employer to provide social security and make contributions regularly at his expense for the employee. There is an obligation to register at National Insurance Institute all new employment contracts at least 7 days before the employment commence.

Another way to use the labour force is through concluding a civil contract. The difference between the civil and the employment contract extends to the following: civil contract is the contract pursuant to which the two parties agree that one of them shall perform an activity that shall produce a result of the assigned activity, while the other shall pay a remuneration i.e. the subject of the contract is the result of the activity and the employer can not specify the working conditions, working time, leaves, etc. It is also important that he/she does not exercise a control. The employer can only specify the particular time of the activity that should be done and set requirements to the produced result. Under civil contract the employee pays 15% Advance Tax defined by the Law for Taxation of the incomes of Natural Persons, but neither the employer nor the employee pays 4.0% Unemployment Fund Contribution. Due to the last in case the contract is terminated the employee cannot register him/herself as unemployed and can not receive unemployment benefits. Because of those unpleasant results for the employee, the State Labour Inspectorate which provides control over the employment relations, can impose a penalty if the subject of the concluded civil contract is not as the aforementioned, and the employer attempts to conceal its employment relationship (i.e. not paying the Unemployment Contribution).

Termination of the contract is a significant point in labour regulation. The law provides three possibilities: general grounds, special grounds for termination with notice or without a notice. Notices should be in writing for a period from 30 days up to 3 months. Each of the parties may terminate the relationship without notice only in the cases listed by the law, so that parties can be protected from detrimental behaviour. If notice periods are not observed,

the regular party is entitled to a compensation to the extent of the gross labour remuneration or real damages caused.

There are special provisions about dismissal and protection against it in favour of some categories of workers.

The employer exercises disciplinary power and is still the strongest party at the labour-force market.

Social security

The employers must register at the local social security administration within 7 days from the day, on which they have employed anyone that is now subject to compulsory insurance. Branches that are not financially separated do not register separately. They are included in the registration of their central company. In the case of liquidation, changes in organisation or merging, the employer must inform the relevant territorial body of the National Security Institute. The Court will not approve the reorganisation of the insurer if a proof of notification is not applied.

Public Social Security is obligatory for all employees employed by Bulgarian or foreign natural or corporate bodies within the country. They are secured for all risks.

The Code of social insurance includes insurance for general illness, work accidents, professional diseases, maternity leave, old age and death, unemployment, as well as additional compulsory pension insurance. The main principles are: compulsion and comprehensiveness, solidarity and equality of the insured persons, the fund organization and others.

It is required that all workers and employees are to be insured, no matter if they had labour or civil contracts. Workers and employees that work under civil contract are obliged only for insuring: disability, caused by general illness, for old age and for death. An exception of this obligation is possible only if the civil contract was for monthly payment under one minimum working salary. (BGN 110). There is implemented, since January 2003, job classification requiring different minimum insurance payments for different types of jobs.

Insurers are the juridical and natural persons, having an obligation, by law, to pay in insurance instalments. The amount of the insurance instalments is determined by the Law of the Government and Social Insurance Budget.

The distribution of the instalments between insurers and insured are at the rate of 75:25 for 2003, 75:25 for 2004 until the gradual equalization at year 2009 – 50:50. The insurance instalments to fund 'Work accidents and Professional diseases' is on behalf of the insurers. On the social insurance expenses, the workers periodically pay in insurance instalments. The instalments are paid in banks to the respective fund accounts with separate paying orders both when paying salaries and when paying in advance. The part of insurance instalments due the insured persons is paid in when remuneration is paid.

The government and social insurance financial resources are grouped in four separate funds – Pensions, Work

Accidents and Professional Diseases, General Illness and Maternity and Teacher's Pension Fund.

The insurance instalments are paid in by the 10th day of each month they apply to.

According Code of the Compulsory Social Insurance and to the Law of Foreign Investments, the workers and employees who are foreign citizens are insured under the Bulgarian Law.

Law for protection in cases of unemployment and encouragement of employment regulates voluntary social security for unemployment which is available to every Bulgarian citizen above 18 years of age who has concluded a contract for voluntary social security for unemployment with the specifically created and licensed for the purpose social security institutions. Employers may participate in these social security contracts, too. The instalments made under the contracts, which must comply with the explicit legal requirements, are deducted from the taxable income of the persons and the taxable profit of the employers.

Public social security provides the following: financial aids and compensation in case of temporary disability due to illness, accident, pregnancy, birth, raising a young child, quarantine, taking care of a sick family member, as well as additions to the salary after labour readjustment of pregnant women and persons with temporarily decreased working capacity when the new job is paid less, pensions in case of disability, age, as well as inheritable pensions of family members in case of death of the person that has provided them, one time aid after the birth of a child. In case of labour accident the employers have to pay back the amount of the compensations paid by Public Social Security. Such payments are made within the monthly payments to Public Social Security.

Health Security System

The health insurance in Bulgaria is both compulsory and voluntarily. It is a system for a social health protection of the people and it guaranties a package of health services carried out by the National Health Insurance Fund. The voluntarily health insurance is a supplementary one and is carried out by Joint Stock Companies, registered under the Trade Act and licensed under the Law on the Health Insurance.

The health insurance contribution is not subject to taxation. Its exact amount in percentage of the gross remuneration shall be set out in the Law for the Annual Budget of the National Health Insurance Fund.

Its current amount of the National Health Insurance Fund, according to the Budget for 2002, is 6% and for workers and employees and public servants is paid by both insurers and insured persons in the following proportions:

- for the year 2003 – 75:25
- for the year 2004 – 75:25
- for the year 2005 – 70:30
- for the year 2006 – 65:35
- for the year 2007 – 60:40
- for the year 2008 – 55:45
- for the year 2009 and after – 50:50

The contribution to the National Health Insurance Fund shall be paid by the employer on a monthly basis and shall be deducted from the gross remuneration and the financial aids for temporary disability. The employers are obliged on request to submit information for the insurable income on the ground of which the contribution shall be calculated by the National Insurance Institute.

Working hours

The normal duration for a five-day work week is up to 40 hours, and 46 hours for a six-day work week. The general principle laid down in the Labour Code is that overtime work is prohibited. The Code considers as overtime work, the work done by the order or with the knowledge of the employer, beyond the normal working hours. There is a governmental institution, Labour Inspectorate, which supervises the use of overtime. In enterprises where organization of work allows flexible working hours may be established. The period, during which the employee must be at work in the enterprise, as well as the manner of accounting it, shall be specified by the employer. Other than the time of the compulsory presence, the employee may decide on when the working day.

Holidays

The employee is entitled to an annual paid leave after 8 months length of service. The duration of the basic annual paid leave shall be not less than 20 work days.

During the maternity leave the insured woman is entitled to receive pecuniary indemnification from the National Security Institute in extent of 90 percent of the insurance income for a term of 135 days, 45 of which before the childbirth. After this period the mother shall be paid a monthly pecuniary indemnification in extent of the minimum monthly salary established for the country until the child reaches 2 years of age. The same rules apply for adoption.

There is also a leave for temporary disability during which compensation is paid by the funds of the National Insurance Institute.

Disability

Disability occurs when the employee can not or is hindered from doing his work due to: illness, work accident, professional disease, sanatorium treatment, medical examination, quarantine, taking care of a sick family member, accompanying a family member to a medical institution and also pregnancy and birth for women.

The compulsory insured persons shall pay for every visit to the duly chosen personal doctor or dentist- 1% of the minimal salary established for the country and for every day of hospital treatment – 2% of the minimal salary established for the country, but not more than 20 days yearly.

The rest of the medical services are chargeable pursuant to a tariff issued by the Ministry of Health. The obligation for ensuring safe and healthy work conditions concerns medical service, special work clothes and measures for preventing and reducing injuries and general illness as a whole. A special law together with the Labour Code elaborates on the obligations of employers to assure healthy

and safe work conditions. Employers must undertake at their expense all the necessary statutory measures in order to prevent accidents and avoid their detrimental consequences in case of emergencies. Employers are obliged to inform the employees about the risks for their health and safety and appoint one/several persons whose tasks is/are to organize activities for prevention and protection from these professional risks. To facilitate exercising of control, every employer must declare to the Regional Labour Inspectorate his activities, number of employees, work conditions, risk factors and undertaken preventive measures when beginning his business activity and whenever he changes it or his technology.

Patient's Rights under the National Framework Agreement

Pursuant to Appendix 12 to the National Framework Agreement, signed by the National Health Insurance Institute and the professional organizations of medical doctors and dentists, each person, who has health insurance, is entitled to a promotion and prevention package, in addition to the diagnostic, treatment and rehabilitation services. Besides the patient's rights, the Health Insurance Act stipulates the obligation of the persons, having health insurance, to respond to the invitation of general practitioners to go to this type of examinations. The sanction for failing to do so is the loss of insurance rights for a period of one month according to Administrative and punitive provisions of the Health Insurance Act. This part of the general practitioners' activity is connected with the intention of the health reform - to shift the emphasis from diagnosis and treatment to prevention, for the purpose of ensuring fuller employment, from the point of view of both the employees and employers. On the other hand, in this way both the strategy of the World Health Organization and one of the main principles of the health reform are implemented - orientation towards improving the health of the healthy, and an early diagnosing and preventing diseases.

Exemption of Some Types of Indemnities under the Labour Code from Insurance Contributions

The exemption of some indemnities is regulated by the Directive on the remuneration elements and the income, on which insurance contributions are made, and on calculating the monetary indemnities for temporary disability, pregnancy and bearing a child.

The indemnities are exempt, which are paid to the heirs of the employee, when the death of the testator has occurred as a result of a labour accident, and the employer's financial liability is realized. In the event of a damage inflicted on the employee's health and a limited employer's financial liability, no insurance contributions are made on the indemnity paid.

The following indemnities are also exempt from insurance contributions: in case of removal; default in giving notice; termination of the employment contract without notice; termination of the employment contract due to sickness; termination of the employment contract due to entitlement to a full old-age pension; for unused paid annual leave, etc..

Insurance of Persons Working without an Employment Contract and Receiving a Monthly Remuneration more than the Minimum Salary

Under these terms and procedures, employers usually hire consultants under a civil part-time contract, to do a specific task under specified terms of reference. The practice so far has proved that it is easier to regulate the relationship between employers and consultants under the terms and procedures of the Obligations and Contracts Act, which allows more flexibility in the bargaining than the Labour Code.

The remuneration for the work done by consultants is given, after deducting the operating costs, recognized pursuant to the Natural Persons Income Tax Act, and then the tax due under the same Act is deducted. Such persons are subject only to disability insurance due to a general disease, old age and death, the amount of the insurance contributions being 29%.

Tax Rebates for Insurance Contributions Made

The employer's contributions for additional compulsory pension insurance are recognized as operating costs, pursuant to Art.162 of the Compulsory Social Insurance Code. The additional compulsory pension insurance is done for some categories of employees, born after 31 December 1959 and for employees, working under particularly difficult conditions. The ratio between the employee's and the employer's parts is the same as in the case of the compulsory pension insurance.

The Compulsory Social Insurance Code regulates the three anchors of the pension reform. The third anchor is the voluntary pension insurance. Employees themselves can pay their contributions in the voluntary pension funds. The Act, however, provides the possibility for the employer to also insure the employees. This possibility is regulated by the collective employment contract, signed by the employer and the representatives of the trade unions or those elected by the employees' general meeting. In this case, the expenses, made by the employer for voluntary pension funds, health insurance, unemployment insurance and life insurance that exceed BGN 40 per covered person shall be taxed at the source with final tax amounting to 20%.

In the field of health and safety regulation is provided by the Occupational Health and Safety Law. It obliges the employers whose staff outnumbers 50 employees to establish Occupational Health Services and Health and a Safety Committee. The functions of the Occupational Health Services are mainly preventive and prophylactic. The members of the Health and Safety Committee are appointed by the general meeting.

8.2. Employment of Foreign Persons

All foreign persons that have a permanent residence permit or are granted the right of sanctuary or refugee status can be employed in the same way as Bulgarian citizens. Temporary work permits are issued by the National Office of Employment of the Ministry of Labour and Social Policy. The work permits are issued for a specified time, job and employer.

The permit is issued after a request by the employer. A work permit shall be issued for work, requiring specialized knowledge, skills and professional experience. It is valid for the time of the employment contract but not more than one year. The permission can be prolonged several times but within a three year period. For issuing the permit the employer submits to the Labour Authority the following documents:

- application-request form /2 copies/
- three photographs of the employee
- motivation of the request
- certified copy of the court registration of the employer and/or registration in the Bulgarian Chamber of Commerce and Industry or another document, establishing the employer's identity
- a deed for actual commercial activity
- legalized documents for qualification, education, etc. of the employee
- written statement for the foreigners, who work for the employer, including their names, date of birth and citizenship:
 - for those, who have concluded employment contract - including the number, date and term of the work permit, visa or permit for stay
 - for those, who are entitled to run the company, or have concluded management contract- including the number and the date of expire of the identification card of the foreigner
- written statement for the number of the employed persons for the last 12 months, signed by the employer and the chief book-keeper
- employment contract, concluded under the conditions of the Bulgarian Legislation, signed by the parties, which is enforced with the issue of the permit, including the obligations of the parties /medical and other insurances, accommodations expenses, transport from and to the country of the permanent establishment of the foreign person/
- other documents that are necessary due to the specific job requirements, according to the Bulgarian labour legislation
- copy of the international passport of the employee

The time necessary to grant a work permit is between 3 weeks and 1 month. The employer must pay to the State Budget BGN 600 upon issuing of the permit.

The permit can be issued only if there is no Bulgarian citizen suitable for the job. The number of employees who are foreign citizens cannot be over 10% of the total work force. The employer must assure transport expenses for the foreigner's return in case of termination of the employment contract ahead of term, expiration or annulment of the granted work permit.

The law specifies that the permit be issued only in the name of the employee for a specified employer, job, place and a period of time.

The employment contracts concluded with a foreign person should specify several other points too: the obligations of the parties about accommodation expenses, medical

treatment, insurance and transport from and to the home country of the foreigner.

The law does not allow issuing of work permits when:

- the applying employer has dismissed within the previous 3 months Bulgarian citizens who are suitable for the jobs for which the issuing of work permit is asked;
- the offered work conditions and remuneration are less favourable than the standard ones for Bulgarian employees;
- the offered salary is insufficient to ensure the necessary means of existence;
- the Constitution or the laws require Bulgarian citizenship for the job;
- the foreigner has been sanctioned for illegal labour activity in the last 5 years
- the employer has been sanctioned for employing foreigners without work permit in the last 2 years
- the employer has been sanctioned for labour legislation violations
- the foreigner was listed as an unwanted person or received no visa

Foreign persons

Foreign persons shall be secured according to the regulations for Bulgarian citizens. The insurance conditions should be settled in the employment contract. Foreign persons registered as exercising free lance profession and/or craft activity or working as sole traders, owners or partners in commercial companies are obligatory insured for disability due to general decease, old age and death. The amount of the insurance contribution is 29 % and is paid entirely by the insured person. The above mentioned persons on their choice can secure for all social risks without labour accident and professional decease and then the amount of the insurance instalment is 32 %.

Disputes under contract with foreigners may be handled either by a Bulgarian or another court, as agreed.

The labour law is well organized and quite comprehensive for foreigners so there could be no problems in the legal aspect of employment relations.

According the Law on Foreign Investments there is no limit for transferring foreign currency abroad. In the explicitly enumerated cases, including received salaries, foreigners may transfer foreign currency freely, after presenting a certificate for paid taxes.

8.3. Work Regulations for Foreigners

Entry to the country

A foreign person can enter the Republic of Bulgaria only if he/she has valid papers. These are:

- A passport or other alternative document allowing him/her to travel abroad.
- An entry permit - either entry or transit visa.

A visa is not required if there is a bilateral agreement between Bulgaria and the native country of the visitor. Currently no visas are required from citizens of the

European Union member countries for stays for period of less than 30 days.

Issuing and validity of visas

Entry or transit visas are issued by the diplomatic or consulate offices abroad. Some types of visas can be issued also at the border check-points at the entry to Bulgaria.

The Diplomatic or consular offices issue the following types of visas:

- Visa for airport transfer - the foreigner does not enter the country but only changes flights at the airport
- Transit visas - the foreigner should leave the country within 24 hours after the entry with such a visa
- Short stay visa - it is for a single or multiple entries for no more than 90 days. The visa is valid for three months after the issuing.
- Long stay visa - it is for multiple entries, up to 90 days each. The visa is valid for no more than 12 months.

Long stay visa can be issued to foreign persons who intends to reside in the country continuously or permanently on the grounds listed in the Law on Foreigners in the Republic of Bulgaria.

Foreign persons that have an employment contract and a valid work permit can acquire a permit for stay in the country for the time of the contract but for no more than one year. The permission for continuous residence can be prolonged if the work permission is prolonged but the maximum period for prolongation of the work permission cannot exceed three years.

Foreign persons that perform commercial activity in Bulgaria and as a result of it at least ten Bulgarian citizens are employed can acquire a permit for stay up to one year. The permit can be prolonged each year.

Permit for permanent residence

Permits for permanent residence do not specify when the foreign person should leave the country.

Permits for permanent residence can be acquired by foreign persons in the following cases:

- Foreign persons originally holding Bulgarian nationality.
- Two years after marriage to Bulgarian citizens or to foreign persons that have received permit for permanent residence.
- Children of Bulgarian citizens or of other foreign persons that have permits for permanent stay.
- Staying in Bulgaria permanently within the last five years.

The permission for permanent residence is issued by the regional sections of the Ministry of Internal Affairs. The necessary documents must be submitted to the regional Passport Authority in the region where the foreign person resides. The documents can also be submitted to the diplomatic or consular office in the home country of the applicant.

The applicant must submit the following documents:

- Completed application form approved by the Ministry of Internal Affairs or from the Foreign Ministry
- Passport or another alternative document for travelling abroad
- Document for a paid fee
- Autobiography.
- Two photographs of the applicant

The permit is issued within two months from the day of submitting the documents. If they are submitted to a diplomatic or consular office abroad - the permit is issued within six months.

At any time foreigners should carry with them a valid passport or a permanent residency document and are obliged to present it to the governmental authorities if it is requested. A driving license cannot be used for this purpose.

Appendix 1

Bulgaria Fact Sheet

Official title	Republic of Bulgaria
Location	Southeast Europe, bordering the Black Sea, Romania, Serbia, Macedonia, Greece and Turkey
Form of the Government	Parliamentary Republic, one chamber – 240 seats, elections every four years
President	Georgi Parvanov
Prime-minister	Simeon Saxe-Coburg Gotha
Official language	Bulgarian, alphabet – Cyrillic
Religion	East Orthodox Christians (83.8%), Muslims (12.1%), others (4.1%)
Area	110,912 sq. km
Population	7.93 million
Capital city	Sofia (1.2 million inhabitants)
Currency	Bulgarian Lev (BGN)
Exchange rate	BGN 1 per EUR 0.51129
Time	GMT(London) +2
Country telephone code	+359 (Bulgaria); 2 (Sofia)
Climate	Moderate continental with four seasons. Average annual temperature of 10.5°C
Air access	Five international airports. Over 60 regular international flights. Flights from Central Europe last between 2 and 2.5 hours
Entering the country	A valid international passport is all that is required for stays up to 30 days for visitors from the USA, Canada, EU, EFTA, CEFTA countries, Estonia, Lithuania, Latvia, Macedonia, Serbia & Montenegro, Andorra, Monaco, Vatican, Malta, Israel, Tunisia, Japan, South Korea, Australia and New Zealand
Public holidays	1 January, 3 March, 1 May, Easter, 24 May, 6 September, 22 September, Christmas

Appendix 2

Operational cost in Bulgaria, June 2003

Gross monthly salary, average, 1Q 2003, EUR	139			
Social security, unemployment and health care contributions as % of monthly salary, 2003	32.2% paid by the employer			
Corporate income tax, 2003, %	23.5			
VAT, 2003, %	20			
Office rent in the centre of Sofia, June 2003, EUR per sq m/month	3-17			
Office purchase price in the centre of Sofia, June 2003, EUR per sq m	409-970			
Apartment purchase price in the prestigious areas of Sofia, June 2003, EUR per sq m	300-1,020 (EUR 405 average price in Sofia, 2Q 2003)			
<i>Price of land, 2002, average</i>				
Agricultural land, EUR per 1,000 sq m	59-224			
Industrial land, EUR per sq m	10-30			
Cost for changing the status of the land from agricultural to industrial, EUR per sq m	1			
<i>Construction</i>				
<i>Costs of rough construction, 2002, average, EUR per sq m</i>				
Industrial construction	170-200			
Office building construction	220-280			
Water charges for corporate clients in Sofia, year 2003, including VAT, EUR per m ³	0.47-0.53			
Water charges for household use in Sofia, year 2003, including VAT, EUR per m ³	0.39			
Telephone installation charge ⁶ , VAT not included, EUR	41			
Monthly telephone subscription fee ⁷ , VAT not included, EUR	private – 4.35; business – 7.70			
Telephone transfer charge, VAT not included, EUR	private and business – 20.45			
International phone call from Bulgaria per 1 min, VAT not included, EUR	Operator	to Europe	to the USA	through a satellite
	BTC	0.20-0.25	0.41	2.05
	Orbitel	0.14-0.18	0.16	-
<i>Electricity Prices per kWh including VAT, EUR</i>				
<i>Electricity for industrial use, medium voltage (1 kV – 60 kV)</i>				
<u>3 tariff-reading</u>				
peak electricity	0.070			
day electricity	0.043			
night electricity	0.027			
<u>2 tariff-reading</u>				
day electricity	0.056			
night electricity	0.027			
<u>1 tariff-reading electricity</u>	0.053			
<i>Electricity for household use, 2 tariff reading, (since 1 July 2003)</i>				
day electricity, over 75 kWh	0.078			
night electricity, over 50 kWh	0.042			
<i>Motor fuel, VAT included, average as of June 2003, EUR</i>				
95 unleaded	0.62			
98 unleaded	0.78			
Diesel	0.54			
Natural gas, marginal price, VAT included, 3Q 2003, EUR per 1,000 m ³	140			

⁶ BTC⁷ fixed direct lines, BTC

Appendix 3

List of countries, which have concluded Agreements with the Bulgarian Government on Mutual Protection and Promotion of Foreign Investment (as of January 2003)

Albania	Macedonia
Austria	Malta
Algeria	Moldova
Argentina	Mongolia
Armenia	Morocco
Belarus	Netherlands
Belgium-Luxembourg	Nigeria
China	Pakistan
Croatia	Poland
Cuba	Portugal
Cyprus	Romania
Czech Republic	Russian Federation
Denmark	Slovakia
Egypt	Slovenia
Finland	Spain
France	Sudan
Germany	Sweden
Georgia	Switzerland
Greece	Syria
Hungary	Tunisia
India	Turkey
Iran	Ukraine
Italy	United Kingdom
Israel	United States
Kazakhstan	Uzbekistan
Kuwait	Vietnam
Lebanon	Yugoslavia
Libya	

Appendix 4

List of countries, which have concluded Double Taxation Treaties with Bulgarian Government (refer to 7.4. Withholding Taxes)

Albania	Lebanon
Armenia	Luxembourg
Austria	Macedonia
Belarus	Malta
Belgium	Moldova
Canada	Morocco
China	Netherlands
Croatia	Norway
Cyprus	Poland
Czech Republic	Portugal
Denmark	Romania
Finland	Russian Federation
France	Spain
Georgia	Singapore
Germany	Slovakia
Greece	Sweden
Hungary	Switzerland
India	Syria
Indonesia	Thailand
Ireland	Turkey
Israel	Ukraine
Italy	United Kingdom
Japan	Vietnam
Kazakhstan	Yugoslavia
Korea North	Zimbabwe
Korea South	

Appendix 5

BULGARIAN BANKS

BULGARIAN NATIONAL BANK

Postal Address	1 Alexander Batenberg Sq., Sofia 1000, Bulgaria
Working Time	08:30 - 17:00h GMT+2, Monday - Friday
Tel.	(+359 2) 91459 (Switchboard)
Fax	(+359 2) 980-24-25; (+359 2) 980-64-93
Telex	(+067) 24090 bnb bg; (+067) 24091 bnb bg
S.W.I.F.T.	BNBGBGSF
Reuters	BNBB
E-mail	press_office@bnb.org
Web server names	www.bnb.bg; www.bnbank.org

Commercial Banks with an International Banking License

- Biochim, Sofia /Austria/
- BNP-Paribas (Bulgaria), Sofia (former BNP-Dresdnerbank) - /France/
- Bulbank, Sofia - /Italy/
- Bulgaria-Invest Bank, Sofia - /Germany/
- Bulgarian-American Credit Bank Ltd., Sofia - /USA/
- Bulgarian Post Bank, Sofia - /USA/
- Central Cooperative Bank, Sofia
- Commercial Bank of Greece (former International Commercial Bank) - /Greece/
- Corporate Commercial Bank PLC, Sofia
- Demirbank (Bulgaria), Sofia - /Turkey/
- DSK Bank Plc
- Economic and Investment Bank AD (former BRIBank) - /Bermudas/
- Encouragement Bank, Sofia
- Evrobank, Sofia - /Slovak Rep./
- First East International Bank, Sofia
- First Investment Bank, Sofia - /Austria/
- Hebrosbank, Plovdiv - /UK/
- International Bank for Trade and Development, Sofia
- Municipal Bank, Sofia
- Neftinvestbank, Sofia

- ProCredit Bank, Sofia
- Raiffeisenbank (Bulgaria), Sofia - /Austria/
- Roseximbank, Sofia
- SG Expressbank, Varna - /France/
- Texim Private Entrepreneurial Bank - /Lichtenstein/
- Unionbank, Sofia
- United Bulgarian Bank, Sofia - /Greece/

Commercial Banks with Domestic and Limited License

- Tokuda Credit Express Bank, Sofia - /Japan/

Branches of Foreign Banks in Bulgaria

- Alpha Bank (Ionian and National Bank of Greece S.A.) - Sofia Branch - /Greece/
- Citibank N. A. - Sofia Branch - /USA/
- HypoVereinsBank Bulgaria - Sofia Branch - /Germany/
- ING Bank N.V. - Sofia Branch - /Netherlands/
- National Bank of Greece - Sofia Branch /Greece/
- Pireos Bank - Sofia Branch (former Xiosbank) - /Greece/
- T.C. Ziraat Bank - Sofia Branch - /Turkey/

/.../ - The country of the main shareholder

1. Alpha Bank (Ionian and National Bank of Greece) - Sofia Branch

Head office address

20 Alexander Stamboliisky Blvd. Sofia 1000
Tel.: (+359 2) 980 1557, (+359 2) 981 6554
Fax: (+359 2) 981 7799

Contact:

Mr. Simela Mavridu, Secretariat

License Type

Branches of foreign banks in Bulgaria

Shareholders (shares over 10%)

Alfa Bank AE, Greece

2. Biochim Commercial Bank, Sofia

Head office address

1 Ivan Vazov Str., Sofia 1040
Tel.: (+359 2) 926 9210
Fax: (+359 2) 981 9151
E-mail: pr_cbb@biochim.com, info@biochim.com,
lnejkova@biochim.com
Internet: www.biochim.com

Correspondent and Credit Relations Department

Mr. Stefan Stoev (+359 2) 980 4926, 549 9280
Ms. Madeleine Ilicheva (+359 2) 980 2125

International Payments Department

Eleonora Vassileva (+359 2) 987 1348
Rumiana Zaharieva (+359 2) 980 4934

Cheques and Bank Cards Department

Nikolai Nikolov (+359 2) 980 6519

Treasury Department

Georgi Kissov (+359 2) 980 4944/45/46/47
Dimitar Kutelov (+359 2) 981 1483

License Type

International banking license

Bank branches

54 branches (9 regional); 71 offices

Shareholders (shares over 10%)

Bank Austria – 99.59%

3. BNP-Paribas (Bulgaria), (former BNP-Dresdnerbank)

Head office address

1 Tsar Osvoboditel Str., Sofia 1000
Tel.: (+359 2) 9218 650
Fax: (+359 2) 9218 691
E-mail: bulgaria_bnp@bnpparibas.com

Managing Directors

Ullrich Schubert
Werner Fick

Corporate Customers

Thilo Matthes

International Department

Vladimir Georgiev

License Type

International banking license

Bank branches - 3

Shareholders (shares over 10%)

Bank Nationale de Paris, France – 80%

European Bank for Reconstruction and Development – 20%

4. Bulbank Ltd.

Head office address

7 Sveta Nedelya Sq., Sofia 1000
Tel. (+359 2) 984 11111
Fax (+359 2) 988 4636, (+359 2) 988 5370
E-mail: info@sof.bulbank.bg
Internet: www.bulbank.bg

Reuters: BULB

S.W.I.F.T.: BFTBBGSF

Manager International Payments Petar Kalinov (+359 2) 984 12328

Manager Treasury Department

Kalinka Kirova (+359 2) 9841 2560

Manager Correspondent Department

Slavyana Kalajdjieva (+359 2) 9841 2282

Manager Custody and Depository Operations

Radostina Radeva (+359 2) 984 12420

Overseas Representative Offices:

UK - Georgi Georgiev - (+44171) 626 1888

Germany - Antony Tonev - (+4969) 283247

Austria - Zdravko Milev - (+431) 5133182

License Type

International banking license

Bank branches

3 regional branches; 26 branches; 22 offices

Shareholders (shares over 10%)

UniCredito Italiano S.A., Italy – 85.19%

5. Bulgaria-Invest Commercial Bank Ltd.

Head office address

79 Maria-Louisa Blvd., Sofia 1202
Tel.: (+359 2) 9215 404, 407, 414
Fax: (+359 2) 981 9307
E-mail: bulinvadmin@bank.allianz.bg
S.W.I.F.T.: BUIN BG SF

Contact

Dimitar Zhelev, Chairman of the Board of Directors
Temenuga Gazdova, Executive Director
Strahil Vidinov, Executive Director
Dimitar Kostov, Executive Director

License Type

International banking license

Bank branches

15 branches

Shareholders (shares over 10%)

Allianz Bulgaria Holding, Germany – 79.26%

6. Bulgarian American Credit Bank, Sofia

Head office address

16 Krakra Str.

Tel.: (+359 2) 965 8358, (+359 2) 965 8345

Fax: (+359 2) 965 8345

Contact

Thomas Higgins - Executive Director

Frank Bauer - Executive Director

Temenuga Gazdova - Executive Director

Stoyan Dinchiski - Executive Director

Daniela Handjieva - Secretary of the BOD

License Type

International banking license

Shareholders - (shares over 10%)

Bulgarian-American Investment Fund – 99.9%

7. Bulgarian Post Bank, Sofia

Head office address

1 Bulgaria Sq., Sofia 1414

Tel.: (+359 2) 963 2105

Fax: (+359 2) 963 0482

E-mail: iap@postbank.bg

License Type

International banking license

Bank branches

30 branches; 93 offices

Shareholders (shares over 10%)

ALIKO/CEN Balkan Holdings Limited, USA – 86.24%

8. Central and Cooperative Bank, Sofia

Head office address

103 G.S. Rakovski Str., Sofia, 1000

Tel.: (+359 2) 926 6266

Fax: (+359 2) 980 4387

E-mail: ccb@mbox.cit.bg

License Type

International banking license

Bank branches

34 branches

Shareholders (shares over 10%)

Chimimport – 42.66%

Central Cooperative Union – 23.45%

9. Citibank N. A., Sofia Branch

Head office address

2 Maria Louisa Blvd., 5 floor, Sofia 1000

Tel.: (+359 2) 9175100, (+359 2) 9175101

Fax: (+359 2) 9819914, (+359 2) 9819588

License Type

Branches of foreign banks in Bulgaria

10. Commercial Bank of Greece, Bulgaria

Head office address

4 Layos Koshut Str., Sofia 1606

Tel.: (+359 2) 981 65 25, 980 12 10

Fax: (+359 2) 981 41 02

License Type

International banking license

Shareholders (shares over 10%)

Commercial Bank of Greece – 99.1%

11. Corporate Commercial Bank, Sofia

Head office address

10 Graf Ignatiev Str., Sofia 1000

Tel.: (+359 2) 937 5601, 937 5609

Fax: (+359 2) 980 8948

License Type

International banking license

12. Demirbank, Bulgaria

Head office address

8 Tzar Osoboditel Str., Sofia 1000

Tel.: (+359 2) 989 44 44

Fax: (+359 2) 989 48 48

E-mail: info@demirbank.bg

Internet: www.demirbank.bg

License Type

International banking license

Bank branches

Demirbank, Varna (+35952) 63 21 01, 02, 08

Shareholders (shares over 10%)

Mrs Isil Dogan – 50%

Mr Halit Djangalluoglu – 50%

13. DSK Bank, Plc

Head office address

19 Moskovska Str., Sofia 1040

Tel.: (+359 2) 939 1220

Fax: (+359 2) 980 6477

E-mail: bsbank@bsbg.net

License Type

International banking license

Bank branches

35 regional branches; 126 branches; 176 affiliates; 1699 offices

Shareholders (shares over 10%)

single-member joint-stock company with state property

14. Economic and Investment Bank AD (former BRIBank)

Head office address

11-A Saborna Str., Sofia 1000
Tel.: (+359 2) 98500/240
Fax: (+359 2) 981 25 26
E-mail: hq_supervisors@hq.bribank.bg

License Type

International banking license

Bank branches

10 branches; 2 offices

Shareholders (shares over 10%)

Refco Capital Markets Ltd., Bermudas – 10.00%

15. Encouragement Bank, Sofia

Head office address

1 Vasil Levski Sq., Sofia 1040
Tel.: (+359 2) 9306 301, (+359 2) 9306 304
Fax: (+359 2) 9306 321
E-mail: office@nasbank.bg
Internet: www.nasbank.bg

License Type

International banking license

Shareholders (shares over 10%)

Ministry of Finance, Bulgaria – 99.995%

16. Eurobank Plc

Head office address

43 Cherni Vrah Blv., Sofia 1407
Tel.: (+359 2) 623 366, (+359 2) 624 005
Fax: (+359 2) 681 085
E-mail: kosio@eurobank.bg
Internet: www.eurobank.bg

Contact:

Galina Nikolova, Director "Public Relations and Marketing" - (+359 2) 626595
Bisser Haralampiev, Director "International Banking Correspondence" - (+359 2) 9625985
Mariola Nikolova, Company Secretary - (+359 2) 624005; (+359 2) 624360

License Type

International banking license

Bank branches

20 branches

Shareholders (shares over 10%)

Evrocapital – Bulgaria (Slovak Rep.): 85.35%

17. First East International Bank

Head office address

81-83 Todor Alexandrov Blvd., Sofia 1303
Tel.: (+359 2) 8120 111
Fax: (+359 2) 9204 201
E-mail: feib@asico.net

Contact:

Ira Zlatanova - Director, International Operations Division

License Type

International banking license

Bank branches

26 branches

Shareholders (shares over 10%)

Dynatrade International – 30%

18. First Investment Bank, Sofia

Head office address

10 Stefan Karadja Str., Sofia 1000
Tel.: (+359 2) 91001
Fax: (+359 2) 980 5033
E-mail: fib@fibank.bg
Internet: www.fibank.bg

Contact

Bojidar Grigorov; tel. (+359 2) 980 3017

License Type

International banking license

Bank branches

9 branches; 2 representative offices - Cyprus, Albania

Shareholders (shares over 10%)

European Privatisation and Investment Company, Vienna, Austria – 39%
European Bank for Reconstruction and Development – 20%
First Financial Brokerage House – 13.89%
Ivailo Dimitrov Moutafchiev – 13.89%
Tseko Todorov Minev – 10.73%

19. Hebrosbank, Plovdiv

Head office address

37 Czar Boris III Obedinitel Blvd., Plovdiv 4018
Tel.: (+35932) 628 870, 631 876
Fax: (+35932) 563 798, 623 964
E-mail: hebros@hebros.bg
Internet: www.hebros.bg

License Type

International banking license

Bank branches

69 branches

Shareholders (shares over 10%)

I Regent Group Limited – 98.16%

Corporate office

2, Knyaginya Maria Luiza Blvd.,
TZUM, 7th floor
Sofia 1558
Tel.: (+35932) 962 05 00
Fax: (+35932) 962 05 60

Contact:

Gautam Vir - Chief Executive Officer
E-mail: gautam.vir@hebros.bg

20. HypoVereinsBank, Bulgaria - Sofia Branch**Head office address**

90 Rakovski Str., Sofia 1000

Tel.: (+359 2) 932 0100

Fax: (+359 2) 980 5313

E-mail:

vladimir_babursky@bg.hypovereinsbank.com

License Type

Branches of foreign banks in Bulgaria

Shareholders (shares over 10%)

Bank Austria AG, – 100%

21. ING Bank N.V. - Sofia Branch**Head office address**

12 Emil Bersinsky Str., Sofia 1408

Tel.: (+359 2) 917 6400

Fax: (+359 2) 951 5694

E-mail: support@ing.bg

Internet: www.ing.bg

License Type

Branches of foreign banks in Bulgaria

Shareholders (shares over 10%)

Sole shareholder: ING Groep N.V./4972, Netherlands

22. International Bank for Trade and Development**Head office address**

2 Ivan Vazov Str., Sofia 1040

Tel.: (+359 2) 987 1626

Fax: (+359 2) 987 3041

E-mail: bcd_sf@ttm.bg

Contact:

Alexander Alexandrov, Executive Director

License Type

International banking license

Bank branches

10 branches; 1 office

Shareholders (shares over 10%)**23. Investbank, Sofia****Head office address**

155 Rakovsky Str., Sofia 1000

Tel.: (+359 2) 981 6938

Fax: (+359 2) 9807722

License Type

International banking license

Bank branches

5 branches

24. Municipal Bank, Sofia**Head office address**

6 Vrabtcha Str. 2nd floor, Sofia 1000

Tel.: (+359 2) 9300 111

Fax: (+359 2) 981 5147

License Type

International banking license

Bank branches

9 branches; 4 offices

Shareholders (shares over 10%)

Sofia Municipality – 67%

25. National Bank of Greece - Sofia Branch**Head office address**

5 Triaditza Str., Sofia 1000

Tel.: (+359 2) 9815010, (+359 2) 9805097, (+359 2) 9805098

Fax: (+359 2) 9806956

License Type

Branches of foreign banks in Bulgaria

Shareholders (shares over 10%)

Branch of the National Bank of Greece

26. Pireos Bank - Sofia Branch (former Xiosbank)**Head office address**

3 Vitosha Blvd., Sofia 1000

Tel.: (+359 2) 9805654, (+359 2) 9808903, (+359 2) 9815733

Fax: (+359 2) 9818579

E-mail: xiosbank@netor.gr

Contact:

Joanis Tsirigakis, Margarita Petrova-Karidi, Sylva Videnova, Jasmina Uzunova

License Type

Branches of foreign banks in Bulgaria

Shareholders (shares over 10%)

Branch of Piraeus Bank, Athens, Greece

27. ProCredit Bank, Sofia

131 Hristo Botev Blvd, Sofia 1233

Tel.: (+359 2) 921 71 05, 921 7147

Fax: (+359 2) 921 71 09

Managing Board

Christoph Freytag, Petar Slavov, Guy De Roeck

License Type

International banking license

Shareholders (shares over 10%)

Comerzbank AG 20%

DEG – 20%

EBRD – 20%

International Financial Corporation – 20%

Internationale Micro Investitionen AG – 20%

28. Raiffeisenbank (Bulgaria)

Head office address

18-20 Nikolay Gogol Str., Sofia 1504
Tel.: (+359 2) 19859
Fax: (+359 2) 943 4528
E-mail: ibgagks@rbb-sofia.raiffeisen.at
Reuters: RBBS
S.W.I.F.T.: RZBBBGSF

Contact:

Albert Trayner, Treasurer - (+359 2) 919 85441
Kiril Georgiev, Deputy Treasurer and Chief Dealer - (+359 2) 919 85451
Silvana Grancharova, Manager Correspondent Banking - (+359 2) 919 85431

License Type

International banking license

Bank branches

4 branches

Shareholders (shares over 10%)

Raiffeisen Central Bank Osterreich AG – 99.50%

29. Roseximbank

Head office address

4-6 Dondoukov Blvd., Sofia 1000
Tel.: (+359 2)9307-136
Fax: (+359 2)9802623
E-mail: info@roseximbank.bg
Internet: www.roseximbank.bg

Contact:

Jana Pehlivanova (+359 2)9307-100

License Type

International banking license

Bank branches

7 branches, 3 offices

Shareholders (shares over 10%)

30. SG Expressbank

Head office address

92 Vladislav Varnenchik Str., Varna 9000
Tel.: (+35952) 6600, (+359 2) 937 04
Fax: (+35952) 601324, (+359 2) 981 7917
E-mail: office@sgexpressbank.bg
Internet: www.sgexpressbank.bg

Contact:

Sandy Gillio, Country Manager (+35952) 601 681
Philippe Guidez, Deputy Country Manager (+35952) 601 681
Maria Dobрева, Executive Director (+35952) 601 682
Krasimir Zhilov, Executive Director (+35952) 601 685

License Type

International banking license

Bank branches

22 branches

Shareholders (shares over 10%)

Societe Generale, Paris, France – 97.95%

31. T.C. Ziraat Bank - Sofia Branch

Head office address

19 Sveta Nedelia Sq., Sofia 1000
Tel.: (+359 2) 9800087, (+359 2) 9806661
Fax: (+359 2) 9802113

Contact:

Milka Kosturska - Treasurer - (+359 2)9809904
Biliana Nikolova - Head of Operations Department - (+359 2)9815028
Nikolay Stoyanov - Head of Trade Finance Department - (+359 2)9816451
Katia Bineva - Chief Accountant - (+359 2)9806887

License Type

Branches of foreign banks in Bulgaria

Shareholders (shares over 10%)

T.C.Ziraat Bank, Ankara, Turkey – 100%

32. Texim Private Enterpeneurial Bank

Head office address

107 Maria-Louisa Blvd., Sofia 1000
Tel.: (+359 2) 333 240, (+359 2) 314 038,
(+359 2) 318 038
E-mail: texim@omega.bg

License Type

International banking license

Bank branches

2 branches; 4 offices

Shareholders (shares over 10%)

Paton Anstalt, Lichtenstein – 27.33%
Marieta Georgieva Naidenova – 12.31%
Pavlina Georgieva Dancheva – 12.16%

33. Tokuda Credit Express Bank, Sofia

Head office address

13A Raiko Daskalov Str., Sofia 4000
Tel.: (+359 2) 981 0167, (+359 2) 980 1294,
(+359 2) 980 3300
Fax: (+359 2) 981 5378

License Type

Domestic and limited license

Bank branches

9 branches

Shareholders (shares over 10%)

International Hospital Services Co., Japan – 53.34%
Bulstrad - 33.34%

34. Unionbank Ltd.**Head office address**

10-12 Damyan Gruev Str., Sofia 1606
Tel.: (+359 2) 987 6002, (+359 2) 987 9535
Fax: (+359 2) 980 2004
E-mail: mainmail@unionbank.bg

Internet: www.unionbank.bg
S.W.I.F.T BIC Code: CBUNBGSF
Reuters Dealing Code: UNBS

Contact:

E. Gospodinov - Procurator - (+359 2)9802003;
P. Dosseva - Head of International Division - (+359 2)9802005;
T. Nikolov - Head of Treasury Division - (+359 2)9802370;
Ph. Fotev - Chief Dealer - (+359 2)9801999

License Type

International banking license

Bank branches

4 branches (Russe, Varna, Plovdiv, Burgas)

Shareholders (shares over 10%)

Union Group – 23.52%
Boras – 16.64%
Svetoslav Totev Radev – 10%
Ivan Totev Radev – 10%
Emanuil Yankov Manolov – 10%
Emil Ivanov Ivanov – 10%

35. United Bulgarian Bank AD**Head office address**

5 Sveta Sofia Str., Sofia 1000
Tel.: (+359 2) 9854 2800, (+359 2) 9854 2374
Fax: (+359 2) 880 822, (+359 2) 334 001
E-mail: karavasilev_l@sofml.ubb.bg
Internet: www.ubb.bg

Contact:

Mrs Gotseva (+359 2) 9854 2374

License Type

International banking license

Bank branches

57 branches

Shareholders (shares over 10%)

National Bank of Greece – 89.9%
European Bank for Reconstruction and Development – 10%

Appendix 6

Key government and non-governmental contacts

Office of the President

2 Dondoukov, Boulevard
Sofia, Bulgaria
Tel.: +359 2 98 38 39 / 923 93 33
Fax: +359 2 980 44 84
E-mail: press@president.bg

Office of the Prime Minister

1 Dondoukov Boulevard
Sofia, Bulgaria
Tel.: +359 2 940 20 64
Fax: +359 2 980 20 42
E-mail: primeminister@government.bg

Ministry of Foreign Affairs

2 Aleksandar Zhendov Street
Sofia, Bulgaria
Tel.: +359 2 948 2999
Fax: +359 2 971 2413
E-mail: e.dimitrova@mfa.government.bg

Ministry of Finance

102 Rakovski Street
Sofia, Bulgaria
Tel.: +359 2 985 91; 988 1207
Fax: +359 2 980 6863
E-mail: feedback@minfin.government.bg

Ministry of Regional Development and Public Works

17-19 Kiril I Metodii Street
Sofia, Bulgaria
Tel: +3592 94 059
Fax: +3592 987 25 17
E-mail: press@mrrb.government.bg

Ministry of Economy

12 Batenberg Street
1000 Sofia, Bulgaria
Tel: +359 2 940 71
Fax: +359 2 987 2190
E-mail: public@mi.government.bg
minister@mi.government.bg

Ministry of Agriculture and Forestry

55 Hristo Botev Boulevard
Sofia, Bulgaria
Tel.: +359 2 985 111 99
Fax: +359 2 981 79 55
/980 62 56
E-mail: press@mzgar.government.bg
minister@mzgar.government.bg

Ministry of Labour and Social Policy

2 Triaditsa Street
1051 Sofia, Bulgaria
Tel: +359 2 91 408
Fax: +359 2 986 13 18
E-mail: mlsp@mlsp.government.bg
evitkova@mlsp.government.bg

Ministry of Transport and Communications

9 Levski Street
Sofia, Bulgaria
Tel.: +359 2 940 9450; 988 2650
Fax: +359 2 988 5094
E-mail: press@mtc.government.bg

Ministry of Justice

1 Slavianska Street
1040 Sofia, Bulgaria
Tel: +359 2 91 408
Fax: +359 2 981 91 57
E-mail: pr@mjeli.government.bg

Ministry of Environment and Waters

67 W. Gladston Street
Sofia, Bulgaria
Tel: +359 2 940 60 00
Fax: +359 2 988 59 13
E-mail: feedback@noew.government.bg

Ministry of Energy and Energy Resources

8 Triaditsa Street
1040 Sofia, Bulgaria
Tel.: +359 2 54 909; 988 5932; Tel/Fax 987 84 25
Fax: +3592 980 76 30
E-mail: pressall@doe.bg

State Energy Regulatory Commission

8-10 Dondoukov Boulevard
1000 Sofia, Bulgaria
Tel.: +359 2 988 8730; 932 1013
Fax: +359 2 988 87 82
E-mail: dker@dker.bg

Bulgarian National Bank

1 Alexander Batenberg Square
1000 Sofia, Bulgaria
Tel.: +359 2 91459
Fax: +359 2 980 24 25; 980 64 93
E-mail: press_office@bnbank.org

Securities and Stock Exchanges Commission

23 Vrabcha Street
1000 Sofia, Bulgaria
Tel: +359 2 940 49 99
Fax: +359 2 980 26 47
E-mail: bg_ssec@ssec.bg

Privatisation Agency

29 Aksakov Street
1000 Sofia, Bulgaria
Tel: +359 2 987 32 94
Fax: +359 2 980 98 27
E-mail: bgpriv@mbox.digsys.bg
press@government.bg

National Statistical Institute

2 Panayot Volov Street
1504 Sofia, Bulgaria
Tel: +359 2 9842 835, 9857 333, 9857 457
Fax: +359 2 9842 851; 9857 799
E mail: Ahadjiiski@nsi.bg, presscentre@nsi.bg

Agency for Small and Medium-sized Enterprises

2 Triadica Street, floor 4
1000 Sofia, Bulgaria
Tel: +359 2 981 66 00, 933 20 18
Fax: +359 2 986 18 99
E-mail: info@asme.bg

Insurance Supervision Directorate

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Tel: +359 2 981 79 34
Fax: +359 2 981 78 58
E-mail: ins@minfin.government.bg

Bulgarian International Business Association

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E-mail: office@biba.bg

Bulgarian Chamber of Commerce and Industry

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E-mail: bcci@bis.bg

Bulgarian Industrial Association

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American Chamber of Commerce in Bulgaria

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Appendix 7

Bulgaria on the Internet

www.president.bg	The President of Bulgaria
www.government.bg	Bulgarian Government
www.parliament.bg	National Assembly
www.mfa.government.bg	Ministry of Foreign Affairs
www.mi.government.bg	Ministry of Economy
www.minfin.government.bg	Ministry of Finance
www.doe.bg	Ministry of Energy and Energy Resources
www.mjeli.government.bg	Ministry of Justice
www.mtc.government.bg	Ministry of Transport and Communications
www.mzgar.government.bg	Ministry of Agriculture and Forestry
www.sofia.bg	Sofia Municipality
www.bfia.org	Foreign Investment Agency
www.priv.government.bg	Privatisation Agency
www.asme.bg	Agency for Small and Medium-sized Enterprises
www.bepc.government.bg	Bulgarian Trade Promotion Agency
www.bse-sofia.bg	Bulgarian Stock Exchange
www.bnb.bg	Bulgarian National Bank
www.nsi.bg	National Statistical Institute
www.biba.bg	Bulgarian International Business Association
www.biforum.org	Bulgaria Economic Forum
www.bic.bia-bg.com	Bourse Information Company
www.bia-bg.com	Bulgarian Industrial Association
www.bcci.bg	Bulgarian Chamber of Commerce and Industry
www.econ.bg	Bulgarian Economic Portal
www.seeuropa.net	Business Portal on SEEurope