

SMEs - STAGNATION OR PROGRESS

MACROECONOMIC ENVIRONMENT AND DEVELOPMENT STRATEGY

(Introduction)

The report analyses the macroeconomic development in Bulgaria over the last ten years since the introduction of market economy.

The steady growth of the gross domestic product, the stable inflation rate which is maintained at a low level, and the latest development of the labour market contribute to the country's stable macroeconomic status.

Specific analytical charts illustrate the behaviour of the gross domestic product, annual inflation, bilateral trade with Austria, the state of employment, the external debt, the foreign exchange reserves, the labour costs etc. for the last six to ten years, with the presentation of the trend and of the projected development for 2005 being particularly noteworthy.

Along with that, the report covers both the legal provisions for SME promotion and the national development strategy. In this connection, a special emphasis is laid on the fact that the Government, along with the SME Act, has also determined and approved a National Strategy for Small and Medium-sized Enterprise Promotion for the 2002-2006 Period. New components of the Strategy include encouragement of innovation and technical advances together with technology transfer, improvement of the access to information services, as well as measures to encourage the general spirit of entrepreneurship.

The significance of SMEs for the Bulgarian economy is evident not only from their increased GDP share but also from the level of employment and from the possibilities to improve labour productivity.

The report furthermore pays special attention to the development of the banking system as a whole and bank financing, specifically for SMEs, because lending has surged precisely over the last 12 months. In this connection, the report investigates whether the apprehensions of the International Monetary Fund (IMF) and of the Bulgarian National Bank about this credit expansion are justified.

Along with that, the participation of SMEs in public procurement is analysed, since their share is too low even though they could easily qualify in the areas where they succeed and, moreover, they enjoy *ex-lege* preferences until 2007, which is a substantial advantage.

The report pays special attention to the stabilising and encouraging factors, especially considering the signing of the Accession Treaty on April 25, 2005 and the expected entry of Bulgaria into the EU in 2007, as well as the latest revision of the Constitution that allows foreigners to acquire land ownership.

The open problems facing Bulgaria are not bypassed, either: a large grey economy, problems in the judicial system, bureaucracy, corruption and crime.

Particular attention is paid to foreign investment protection.

The successful economic development has contributed to a steady increase in foreign direct investment inflows over the last two years, in which Austria ranks first, leaving the rest far behind.

The report discusses certain specific opportunities for activation of Austrian SMEs to invest in Bulgaria, as well as considering joint subcontracting of major infrastructure and other projects which are financially supported by the EU and other sources.

This would tie in with the upgrading of Bulgaria's credit rating to investment grade, as well as to the assessment of the European Commission that Bulgaria is a functioning market economy.

An attempt is made to outline an objective and comprehensive picture of the specific investment climate in Bulgaria.