

Comments on the figures and tables

No. 1

Here we mostly refer to the development of the labour market as an important criterion for the macroeconomic environment. It was precisely in the last two years that new jobs were opened, at which unemployment dropped although the number of able-bodied population increased.

In addition, the considerably increased number of permanently employed under labour or official contract is evidence of the increasing transparency in this field.

No. 2

The figure shows a permanent GDP growth of some 25 billion in 2000 and 38 billion in 2004. A GDP growth of up to 42 billion for 2005 is expected on the basis of anticipated stable growth speed of 5.5 per cent, the increasing foreign direct investments and, naturally, the much more dynamic home investments, as well as the general pick-up of the economy.

Economically active No. 3

The figure indicates that the trend of outflow of workforce from Bulgaria is stopping. That is why one could say that a **decisive step** has been taken toward a more stable economic development and the development of the labour market. A total of 97,000 new jobs were opened in 2004 alone. There is a certain trend towards restoring and stabilisation of the small and medium-sized enterprises, relatively higher dynamics in the development of private enterprises in general and an increased number of joint ventures, which have a double contribution as regards labour productivity and opening attractive new jobs.

A slightly rising trend is expected for 2005.

Inflation –No. 4

One notices a stabilisation of the inflation level with a trend for slight increase over the coming years which, however, in view of the speed of growth and the dynamics of economic development, we regard as acceptable, particularly as the percentage of economic growth is higher than the percentage of inflation.

The lowest inflation level was registered in 2003 (some 2.5 per cent), with some 4.1 per cent given for 2004 and some 4.5 to 5.0 per cent expected for 2005.

Balance of payment – No. 5-1

The figure shows a negative balance of payment as a result of increased consumption as compared to production in the country, which is currently being compensated by direct investments, growth in the field of tourism, transfer of savings of Bulgarians working abroad instead of these funds being used to create conditions for economic growth, transfer of new technologies, health care and culture, i.e. there is massive wastefulness of income gained with difficulty.

This also shows what changes are called for in the next few years. Since the dynamics of imports, particularly of non-investment means, is larger as compared to exports, on the basis of the increased negative trade balance there are expectations of a slightly negative development of the balance of trade for 2005 up to some 7.5 per cent of GDP.

No. 5-2

Austria is a traditional partner of Bulgaria in exchange of goods. After the economic crisis of 1996-1997, which also had a negative effect on the bilateral exchange of goods, a constantly rising growth was recorded in subsequent years. The years 2003 and 2004 unquestionably exceeded the year before the transition, at which the exchange of goods in 2004 grew by 45 per cent year-on-year.

Exports feature mainly motors (16.9%), shoes (16.1%), meat products (13.5%) and electric appliances (13,3%).

Imports included medicines (19.3%), fittings (16.3%), various machine oils (11.4%) and radio equipment (7.7%).

The exchange of goods totalled 558 million dollars, at which the import standing at 340 million considerably exceeded the export of 218 million, leading to a new record of the negative balance of trade of some 123 million dollars.

No. 6-8

This is an outline of the legal framework, including the legally provided preferences, more particularly from the point of view of Bulgaria's accession to the European Charter for Small and Medium-Sized Enterprises and the national development strategy for 2002-2006. Particular attention is paid to the encouragement of the enterprising spirit, to the administrative and financial environment, as well as to the development of the information system.

Significance of SME – No. 9

The share of small and medium-sized enterprises in gross domestic product increased from 10.3 per cent in 2001 to 11 per cent in the subsequent year. In 2004 that share amounted to 13 per cent.

In 2002 the SMEs provided 34.2 per cent of enterprise added value (36 per cent in 2004). In comparison, values from previous years reveal an upward trend that began in 1998 when the value added share of SMEs amounted to 25.4 per cent, grew to 30.72 per cent in the next year, remained almost unchanged in 2000 and reached 31.2 per cent in 2001.

In comparison with the relatively smaller SME contribution to the end result of the country's economic performance measured by the share in the gross domestic product, the SMEs are distinguished by a two-fold larger contribution to the total employment in the economy. In 2001 25.7 per cent of all workers were employed at SMEs, and the next year the share of SMEs in the number of employed grew to 27.3 per cent.

The increase of productivity per person employed at an SME stood at 5.9 per cent for 2002 and at 7.0 per cent for 2004 year-on-year. With this growth the SMEs exceed the growth of labour productivity in general in the Bulgarian economy, which stood at 4.7 per cent over the same period.

The share of SMEs in foreign direct investments, however, stands at slightly above 30 per cent. Data reveal that enterprises with 250 and more employees are attractive for foreign investors.

No. 10-1

Statistics reveal a slightly reverse trend in the number of the smallest enterprises and a stable number of enterprises with more than 100 workers.

Medium-sized enterprises of up to 100 workers record a constant growth of some 6.7 per cent in 2000 to 11 per cent in 2004. These dynamics permit a forecast of about 14 per cent for 2005.

This group includes most of the joint ventures, which have the highest labour productivity and a considerable share in export.

No. 10-2

This is an illustration of Bulgaria's present electronic readiness as expected condition one year after the country's accession to the EU. While in the case of Internet access, familiarity with computers and the number of schools with Internet access we can forecast an analogous level in 2008, a considerable deficit remains in terms of general computer coverage.

To No. 11

The figure reveals that the economic reform became irreversible already in 2000, as for the first time the number of employed in the private sector reached 50 per cent. In 2004 the employed in the private sector were already twice those in the public sector, which also explains the judgement of the European Union that Bulgaria has a functioning market economy.

Statistical data of number of employed in millions

	2000	2001	2002	2003	2004
Employed - total	1.867	1.875	1.973	2.005	2.109
In public sector	0.821	0.764	0.757	0.759	0.718
In private sector	1.046	1.110	1.216	1.247	1.392
SME	-	0.480	0.512	0.574	0.626

Foreign debts – No. 12

The total level remains the same (EUR 12 billion), at which the increase in 2004 stood at some 12 per cent. This, however, happened at a considerable reduction of state debts from BGN 9 to 6.7 billion as a result of the successful restructuring of part of the foreign debts, at which the debts from the private sector grew considerably.

Forecasts for 2005 expect a reduction of state debt to 6 billion and an increase of private sector debts to EUR 6.5 billion.

No. 13

The table shows a stable growth of foreign currency reserves of the Bulgarian National Bank (BNB) from some 3.5 in 1998 to 6.5 billion euro in 2004. As regards 2005 we could assume a slightly reverse development (6 billion euro), since provisions have been made for advance payment of loans (some EUR 400 million) and reserves for investment funds for infrastructure projects to the amount of BGN 240 million.

Credit rating No. 14

After part of the state debts were settled in 2003 and 2004, respectively restructured with a resulting reduced amount by some 860,000 euro, Bulgaria's credit rating reached the level of investment rating. This shows that Bulgaria is currently considered a secure place for investments, which also explains the increase of direct "greenfield" investments from 1.4 billion euro in 2003 to 2.0 billion euro.

Bank financing – Nos. 15-16

A considerable increase of credits and in the interest of banks in minor bank operations and in small and medium entrepreneurs is observed after the final stabilisation of the bank sector. At that the growth rate of credits for small and medium-sized enterprises and the credits for private households (consumer credits) clearly exceeds the rate at which the credits for large enterprises in the private sector increase.

According to official BNB statistics, the scope of credits in BGN extended in the period September 2003 – September 2004 by about 50 per cent, while credits in foreign currency rose by 114 per cent.

At end-August 2004 private household crediting reached an annual growth of 76 per cent. In the first eight months of 2004 credits for natural persons and households grew by a total of 48 per cent, thereby forming one-fourth of the credit potential of the commercial banks.

Even in July 2004 the total credit portfolio of the banks rose by 53 per cent on an annual basis and by the end of the year deviated from the agreed percentage of 30-35 per cent with the IMF.

The higher credit index, however, should not have a negative effect on the stability of the banking sector since the credits are extended in strict abidance with the risk assessment rules that have been introduced. In addition, the banks require guarantees that most frequently exceed the extended funds twice over. In addition, by 2007 Bulgaria should achieve a credit level of 50 per cent as compared to GDP, while now it stands at about 36 per cent.

Mutual indebtedness of companies, however, may prove problematic, standing as it did at **120 per cent (BGN 50,000,000,000)** in 2004.

There has been a considerable increase of credits in the first months of 2005, at which a high level of recalculated EUR 6.0 billion was reached. A total of 66 per cent of these go for companies from the non-financial sector. That is why the BNB undertook restrictive measures, at which the base for capital access was raised to 13.5 per cent as compared to assets, while the annual increase was restricted to 26 per cent.

Calculated profit, as well as financial assets, are dropped out in calculation of capital sufficiency. The banks, however, surround this with a variety of flexible measures, which is partly a reason for the increase of private foreign indebtedness.

Deposits and credits No. 17

	2001	2002	2003	2004	2005
Bank assets in % of GDP	41.3%	45%	50.3%	65%	72%
Credits as compared to bank assets in %	33.9%	41.4%	52%	52.5%	53%
Non-financial institution deposits measured by GDP	29.2%	31.1%	35.2%	44.5%	40%
Credits measured by GDP	14%	18.7%	26.2%	35%	43%
Commercial credits in % of the total volume	72%	71%	69%	68%	65%
Credits for private persons in % of the total volume	20%	21%	23%	27%	32%

*One can see that the credits for private households (the so-called consumer credits) reveal the highest growth rate, at which there is also stable positive dynamics for investment credits. Nevertheless, stemming from the structure of Bulgarian micro-enterprises, the credits for private households frequently approach investment credits, which in all cases contributes to the invigoration of the economy.

No. 18 (1-2)

At the assessment of the offers of a candidate that is a small or medium-sized enterprise in the sense of the Small and Medium-sized Enterprises Act, the price offered by that candidate is regarded as the lowest offer, providing it does not exceed the price offered by another candidate by more than

10 per cent for 2005;

5.0 per cent for 2006,

at which this provision will be revoked with Bulgaria's accession to the EU on January 1, 2007.

Unemployment – No. 19

Just as previously, now there is a considerable difference between the situation in the large cities like Sofia, Varna and Bourgas in which the bulk of Bulgarian industrial enterprises are concentrated, as well as other companies as those offering services, on the one hand, and the situation in the smaller towns and villages on the other. Unemployment there reaches 25-30 per cent, which is why great store is set by the development of SMEs as they can absorb a considerable portion of the otherwise well-trained workforce and there are also preferences for the sparsely populated regions.

The creation of 97,000 new jobs (in 2004) and the general economic boost led to a considerable reduction of unemployment from nearly 20 per cent in 2001 to some 12.5 per cent in 2004. An additional reduction of up to 11 per cent may be forecast for 2005.

INCOME – No. 20 Savings No. 21

Year	Total income/private household	Total income/person
2001	450	173
2002	489	188
2003	548	210
2004	560	214

COSTS

Year	Total costs/private household	Total costs/person
2001	328	126
2002	367	141
2003	426	163
2004	450	176

There is an albeit slow but stable growth of income, of costs and a relatively stable increase of savings. Naturally, this can show only a general trend, since shadow economy in Bulgaria still generates revenue that cannot be covered by statistics. Household incomes are probably twice larger, which is also indicative of better opportunities for market placement.

Savings register a stable trend of growth, at which the maximum value of some 26 per cent of GDP in 1991 will be reached again in 2005.

No. 22

Economic and financial stability are underscored along with the political stability resulting from the NATO membership and the accession to the EU in 2007 in the case of the factors of stability and encouragement.

A currency board, a good legal basis and liberal foreign trade law complement the good human potential. There is this important conclusion that the conditions for irreversibility of a free market economy have been laid down.

No. 23 (1, 2)

In the problem group special attention should be paid to the shadow economy, corruption and slow transformation (enforcement) of judicial decisions.

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There is a trend of increasing the formation of general capital, at which, however, the dynamics of internal investments is higher as compared to the equally good dynamics of direct investments.

This clearly indicates a general improvement of investment climate.

30 (1, 2)

There is an official trend for a slow increase of costs for employed in the last 12 years, but the level of the years before that still cannot be achieved.

Comparison with some new EU members shows relative advantages of Bulgaria in this respect at a similar quality of specialists.

We should, however, proceed from twice this figure of costs on the basis of the level of shadow economy and the lack of overall transparency in this respect.

Economic environment

SME development strategy

SME funding

Opportunities for SME development

Factors of stability and encouragement

Problems with which Bulgaria should deal

Tax system encourages investments

Development of SME joint ventures with German companies