BULGARIA

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998 1/
Income, Production and Employment:			
Nominal GDP	9.5	10.2	12.5
Real GDP Growth (pct)	-10.9	-6.9	4.5
GDP by Sector:			
Agriculture	1.1	2.4	N/A
Manufacturing	3.0	2.7	N/A
Services	5.1	4.0	N/A
Per Capita GDP (US$)	1,129	1,230	1,510
Labor Force (000s)	3,570	3,564	3,587
Unemployment Rate (pct) 2/	10.8	14.0	12.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	119.3	362.1	N/A
Consumer Price Inflation	311	578.6	9
Exchange Rate (Leva/US$ annual average) 3/			
Official	175	1,677	1,800
Parallel	200	1,750	N/A
Balance of Payments and Trade:			
Total Exports FOB	4.2	4.91	4.52
Exports to U.S. (US$ millions) 4/	116	172	N/A
Total Imports CIF	4.0	4.89	5.02
Imports from U.S. (US$ millions) 4/	138	104	N/A
Trade Balance	0.2	0.02	-0.5
Balance with U.S. (US$ millions) 4/	-22	68	N/A
Current Account Balance/GDP (pct)	0.2	3.88	-1.09
External Public Debt	9.6	9.7	10.2
Debt Service Payments/GDP (pct)	13.0	10.9	9.0
Fiscal Deficit/GDP (pct)	8.0	2.5	0.0
Foreign Exchange Reserves and Gold	0.8	2.5	2.9
Aid from U.S. (US$ millions) 5/	27.8	28.1	34.3
Aid from All Other Sources	N/A	N/A	N/A

1/ 1998 figures are estimates based on 6 to 9 months of data.

2/ Annual average.

3/ The rate declined to 2920:1 in mid-February 1997, and then was fixed to the DM at 1000:1 on July 1, 1997.

4/ Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis. For January to April 1998, exports to the U.S. were $94 million; imports from the U.S. amounted to $44 million.

5/ USAID and DOD humanitarian assistance ($635,086 in FY97; $1.1 million FY98). Other DOD FY98 assistance totals $8.1 million.

1. General Policy Framework

Since 1989, Bulgaria has been a parliamentary republic ruled by democratically-elected governments. A reform-minded coalition led by the center-right Union of Democratic Forces (UDF) won an outright majority in April 1997 pre-term parliamentary elections, called after a discredited socialist government voluntarily relinquished power. The current president, elected in November 1996, also came from the ranks of the UDF.

Bulgaria experienced a severe economic crisis in 1996 and early 1997. The crisis was triggered by a banking panic in 1995 and 1996, and culminated in a brief period of hyperinflation early in 1997. The new UDF government reached agreement with the IMF and World Bank on a stabilization program centered on a currency board arrangement linking the Bulgarian Lev to the German Mark.

The program quickly succeeded in stabilizing the economy. The triple digit inflation of 1996 and early 1997 has given way to a consumer price increase of less than 3 percent for January through September 1998. Official reserves rebounded from $400 million in January 1997 to $2.5 billion at the end of August 1998. Moody's Investors Service upgraded Bulgaria's credit rating to B2. Unemployment has trended downward to less than 11 percent of the labor force in September 1998, due in large measure to a growing private sector. Following declines in GDP in both 1996 and 1997, the economy as a whole is expected to grow in 1998. The government has balanced its budget for 1998.

Bulgaria's association agreement with the European Union (EU) took effect January 1, 1994, and Bulgaria is actively pursuing its goal of EU membership. A Bilateral Investment Treaty with the United States took effect in July 1994.

2. Exchange Rate Policy

Under the currency board arrangement, the Bulgarian Lev (BGL) is fixed by law at BGL 1000/DM 1. The Bulgarian National Bank (BNB) sets an indicative daily U.S. Dollar rate (based on the dollar/DM exchange rate in Frankfurt) for statistical and customs purposes, but commercial banks and others licensed to trade on the interbank market are free to set their own rates.

Only some of the commercial banks are licensed to conduct currency operations abroad. Companies may freely buy foreign exchange for imports from the interbank market. Companies are required to repatriate, but no longer to surrender, earned foreign exchange to the central bank. Bulgarian citizens and foreign persons may also open foreign currency accounts with commercial banks. Foreign investors may repatriate 100 percent of profits and other earnings; however, profits and dividends derived from privatization transactions in which Brady bonds were used for half the purchase price may not be repatriated for four years. Capital gains transfers appear to be protected under the revised Foreign Investment Law; free and prompt transfers of capital gains are guaranteed in the Bilateral Investment Treaty. A permit is required for hard currency payments to foreign persons for direct and indirect investments and free transfers unconnected with import of goods or services. In September 1998, Bulgaria announced that it would review its foreign exchange system with a view to accepting the IMF's Article VIII obligations. This would raise the ceiling on foreign exchange which can be taken abroad and liberalize other international financial transactions.

3. Structural Policies

Bulgaria's legal structure does not inhibit U.S. exports, which are more affected by the domestic economic situation and Bulgaria's isolation from trade financing. While implementation of certain elements of the reform program, particularly privatization, have been hindered by slow decision-making, the government has generally shown an ability to deliver needed legislative reforms and a willingness to listen to the views of those outside government, including donors and the private sector. The Foreign Investment Law adopted in 1997 and amended in March 1998 was drafted with input from foreign investors. The Collateral Loan Law, implemented in 1997, set out procedures for secured lending. Bulgaria is also making significant strides in regulation of the banking sector and the securities market.

The government has committed to a program of structural reforms, including a far-reaching privatization program. In 1997, the state garnered $572 million in privatization proceeds, triple the level of the previous year. Bulgaria's IMF program calls for 50 percent of state assets to be privatized by the end of March 1999 and for all remaining state banks to be privatized by 2000. The state plans to sell stakes in the monopoly telecommunications company (BTK), a large tobacco producer (Bulgartabak), the national airline (Balkan), and many other firms. The privatization process has involved a number of management-employee buyouts for smaller firms and the use of foreign consultants/intermediaries for medium and large companies. The privatization framework has also included complex criteria for selecting buyers that have generated concerns about the transparency of the process. The government has also committed to gradually phasing out subsidies in agriculture and energy.

Bulgaria taxes value added, profits, income, and maintains excise and customs duties. The draft 1999 budget envisions a 2 percentage point reduction in the Value Added Tax (to 20 percent), and the profits tax will be reduced for large businesses by 3 percentage points (to 27 percent). The government plans to replace existing tax preferences for foreign investors with a new set of incentives which would be available to both domestic and foreign investors.

The government's draft 1999 budget calls for approximately $150 million to be allocated to subsidize prices of electricity, heating, mass transit, rail transport, university cafeterias and housing, and the postal service.

4. Debt Management Policies

Bulgaria's former Communist regime more than doubled the country's external debt from 1985 to 1990. With more than $10 billion outstanding, the government declared a debt service moratorium in March 1990, then resumed partial servicing of the debt in late 1992. In April 1994, Bulgaria rescheduled its official ("Paris Club") debt for 1993 and 1994. In June of that year, it concluded a Brady Plan-type agreement to reschedule $8.1 billion of its debt to commercial creditors ("London Club") , reducing its commercial debt by 47 percent. However, without considerable investment flows in the next years, Bulgaria will be challenged to meet its total debt service requirements after 2000. In addition to its external debt (over $10 billion in May 1998), Bulgaria has a considerable domestic debt burden, of which over $920 million is dollar-denominated. Falling domestic interest rates associated with the currency board have considerably eased the debt burden.

In September, the IMF approved a three-year Extended Fund Facility (EFF) which provides credits worth about $864 million in support of the government's economic reform program. About $72 million was released shortly after negotiation of the EFF. Another 11 tranches will be made available quarterly through May 2001, subject to IMF reviews of Bulgarian adherence to the program. The government will seek an equivalent amount of external financing from the World bank, the European Union, and other donors. The World Bank disbursed a Financial and Enterprise Sector Adjustment Loan (FESAL) of $100 million in March 1998. The government is negotiating with the World Bank for a second FESAL of similar value.

5. Significant Barriers to U.S. Exports

Bulgaria acceded to the World Trade Organization in December 1996. Bulgaria also acceded to the WTO Plurilateral Agreement on Civil Aircraft and committed to sign the Agreement on Government Procurement. Bulgaria "graduated" from Jackson-Vanik requirements and was accorded unconditional MFN treatment by the United States in October 1996.

Bulgaria's Association Agreement with the European Union phases out tariffs between Bulgaria and the EU while U.S. exporters still face duties. This has created a competitive disadvantage for some U.S. exporters (e.g. soda ash exporters). The agreement improved reciprocal market access to certain farm products. In July 1998, Bulgaria joined the Central European Free Trade Area (CEFTA). Over the next three years, tariffs on 80 percent of industrial goods traded between CEFTA countries will be eliminated. In addition, a free trade agreement with Turkey will also take effect in January 1999.

Average Bulgarian import tariffs are relatively high, on top of which Bulgaria implemented a 5 percent import surcharge in 1996. The surcharge will be eliminated from January 1999. In previous years, some U.S. investors have reported that high import tariffs on products needed for the operation of their establishments in Bulgaria served as a significant barrier to investment. However, the Foreign Investment Law exempts capital contributions in kind valued at over $100,000 from VAT and customs.

Import licenses are required for a specific, limited list of goods including radioactive elements, rare and precious metals and stones, certain pharmaceutical products and pesticides. The government has declared that it grants licenses within three days of application in a nondiscriminatory manner. The U.S. Embassy has no complaints on record from U.S. exporters that the import-license regime has negatively affected U.S. exports. Armaments and military-production technology and components also require import licenses and can only be imported by companies licensed by the government to trade in arms (see below). Dual-use items are also controlled.

The government states that its system of standardization is in line with internationally accepted principles and practices, but there were two cases in 1997 involving U.S. commodities held at ports of entry for alleged failure to meet Bulgarian standards. In product testing, imported goods are accorded treatment no less favorable than that for domestic products. The testing and certification process generally requires at least two months. All imports of goods of plant or animal origin are subject to phytosanitary and veterinary control, and relevant certificates should accompany such goods.

Foreign persons cannot own land in Bulgaria because of a constitutional prohibition, but foreign-owned companies registered in Bulgaria are considered to be Bulgarian persons. Foreign persons may acquire ownership of buildings and limited property rights, and may lease land. Local companies where foreign partners have controlling interests must obtain prior approval (licenses) to engage in certain activities: production and export of arms/ammunition (note that only firms with over 50 percent Bulgarian participation can be licensed for international trade in arms); banking and insurance; exploration, development and exploitation of natural resources; and acquisition of property in certain designated geographic areas/zones.

There are no specific local content or export-performance requirements nor specific restrictions on hiring of expatriate personnel, but residence permits are often difficult to obtain. In its Bilateral Investment Treaty with the United States, Bulgaria committed itself to international arbitration in the event of expropriation, disinvestment, or compensation disputes.

Foreign investors complain that massive tax evasion by private domestic firms combined with the failure of the authorities to enforce collection from large, often financially-precarious, state-owned enterprises places the foreign investor at a real disadvantage.

The 1997 Law on Assignment of Government and Municipal Contracts is the first clear-cut procedure for government procurement to be introduced in Bulgaria. It is equally applicable to local and foreign potential providers, and, with few exceptions treats them both equally. Government procurement works mostly by competitively bid international tenders. Under the new law, participants in pre-contract procedures (tender, two-phase tender, silent auction, or negotiations with three or more potential contractors) may appeal against violations of the applicable procedures. General government supervision for compliance is exercised by the National Audit Chamber. Each ministry has a government procurement office which is responsible for overseeing the process. There have been problems of lack of clarity in many tendering procedures. U.S. investors have also found that in general neither remaining state enterprises nor private firms are accustomed to competitive bidding procedures to supply goods and services to these investors within Bulgaria. However, tenders organized under projects financed by international donors have tended to be open and transparent.

Bulgaria uses the single customs administrative document used by European Community members. A one percent customs clearance fee was abolished in January 1998.

6. Export Subsidies Policies

The government applies no export subsidies as such at the present. However, the 1995 Law for the Protection of Agricultural Producers established a State Fund for Agriculture whose regulations give it the authority to stimulate the export of agricultural and food products through export subsidies or export guarantees.

7. Protection of U.S. Intellectual Property

Bulgarian intellectual property legislation is generally adequate, with modern patent and copyright laws and criminal penalties for copyright infringement. However, until recently, Bulgaria was the largest source of CD and CD-ROM piracy in Europe and one of the world's leading exporters of pirated goods. For this reason, Bulgaria was originally placed on the U.S. Trade Representative's "Special 301" Watch List in October 1996, and elevated to the Priority Watch List in January 1998.

In 1998, enforcement improved considerably with the introduction of a CD-production licensing system. All CD production facilities were initially closed down and those which received licenses are subject to 24-hour surveillance. Bulgaria's title verification decree was also amended to require CD manufacturers to present an agreement with the author or collecting society before starting production and to improve coordination between the Ministry of Culture and Bulgarian law enforcement authorities. Nonetheless, gaps in the title verification system and customs enforcement continue to be a cause of concern. In recognition of the significant progress made by the Bulgarian government in improving protection of intellectual property, the U.S. Trade Representative moved Bulgaria from the Special 301 Priority Watch List to the Watch List in November 1998.

Amendments to strengthen the Trademark and Industrial Design Law have been drafted, but not yet reviewed by parliament. U.S. companies cite illegal use of trademarks as a barrier to the Bulgarian market. A Law for the Protection of New Types of Plants and Animal Breeds was adopted in September 1996; a law on the topography of integrated circuits is in preparation.

Bulgaria is a member of the World Intellectual Property Organization (WIPO) and a signatory to the following agreements: the Paris Convention for the Protection of Intellectual Property; the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcast Organizations; the Geneva Phonograms Convention; the Madrid Agreement for the Repression of False or Deceptive Indications of Source of Goods; the Madrid Agreement on the International Classification and Registration of Trademarks; the Patent Cooperation Treaty; the Universal Copyright Convention; the Berne Convention for the Protection of Literary and Artistic Works; the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration; the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purpose of Patent Protection; and the Nairobi Treaty on the Protection of the Olympic Symbol. On acceding to the WTO, Bulgaria agreed to implement the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) without a transitional period.

8. Worker Rights

a. The Right of Association: The 1991 Constitution provides for the right of all workers to form or join trade unions of their choice. This right has apparently been freely exercised. Estimates of the unionized share of the work force range from 30 to 50 percent. This share continues to shrink as large firms lay off workers, and most new positions appear in small, non-unionized businesses. There are two large trade union confederations, the Confederation of Independent Trade Unions of Bulgaria and Podkrepa, as well as two newer unions, the Community of Free Union Organizations in Bulgaria and Promyana.

The 1992 Labor Code recognizes the right to strike when other means of conflict resolution have been exhausted, but "political strikes" are forbidden. Workers in essential services (primarily military and police) are also subject to a blanket prohibition from striking. However, Podkrepa has complained that a 1998 law denying workers the right to appeal government decisions on the legality of strikes is unconstitutional and violates an ILO convention. The Labor Code's prohibitions against antiunion discrimination include a 6-month period of protection against dismissal as a form of retribution. While these provisions appear to be within international norms, there is no mechanism other than the courts for resolving complaints, and the burden of proof in such a case rests entirely on the employee. There are no restrictions on affiliation or contact with international labor organizations, and unions actively exercise this right. However, doctors, dentists, and some unions expressed dissatisfaction with a new union structure that that they claim the government imposed upon them in 1998, an action which some claim violates an ILO convention.

b. The Right to Organize and Bargain Collectively: The Labor Code institutes collective bargaining on the national and local levels. The legal prohibition against striking by key public sector employees weakens their bargaining position; however, these groups have been able to influence negotiations by staging protests and engaging in other pressure activities without going on strike. Labor unions have complained that while the legal structure for collective bargaining was adequate, many employers failed to bargain in good faith or to adhere to concluded agreements. Labor observers viewed the government's enforcement of labor contracts as inadequate. There were several instances in which an employer was found guilty of anti-union discrimination, but the employers appealed the decisions. The backlog of cases in the legal system delayed redress of workers' grievances. The same obligation of collective bargaining and adherence to labor standards prevails in the export processing zones, and unions may organize workers in these areas.

c. Prohibition of Forced or Compulsory Labor: The constitution prohibits forced or compulsory labor. Many observers argue that the practice of shunting minority and conscientious-objector military draftees into work units that often carry out commercial construction and maintenance projects is a form of compulsory labor.

d. Minimum Age of Employment of Children: The Labor Code sets the minimum age for employment at 16, and 18 for dangerous work. The Ministry of Labor and Social Welfare (MLSW) is responsible for enforcing these provisions. Child labor laws are enforced well in the formal sector, but some observers believe that children are increasingly exploited in certain industries and by organized crime. Observers estimate that between 50,000 and 100,000 children under 16 are illegally employed in Bulgaria. Underage employment in the informal and agricultural sectors is believed to be increasing as collective farms are broken up and the private sector continues to grow.

e. Acceptable Conditions of Work: The national monthly minimum wage is approximately $30. Delayed payment of wages continues to be a problem with certain employers in Bulgaria. The constitution stipulates the right to social security and welfare aid assistance for the temporarily unemployed, although in practice such assistance is often late. The Labor Code provides for a standard workweek of 40 hours with at least one 24-hour rest period per week. The MLSW is responsible for enforcing both the minimum wage and the standard workweek. Enforcement has been generally effective in the state sector (although there are reports that state-run enterprises fall into arrears on salary payments to their employees if the firms incur losses), but is weaker in the emerging private sector. The MLSW is responsible for enforcing the national labor safety program, with standards established by the Labor Code. The constitution states that employees are entitled to healthy and non-hazardous working conditions. Under the Labor Code, employees have the right to remove themselves from work situations that present a serious or immediate danger to life or health without jeopardizing their continued employment. In practice, refusal to work in such situations would result in loss of employment for many workers.

f. Rights in Sectors with U.S. Investment: Conditions do not significantly differ in the few sectors with a U.S. presence.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		1
Total Manufacturing		21
Food & Kindred Products	(1)	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		22

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.