



**Organization for Security and Co-operation in Europe
Secretariat**

EF.DEL/35/06/Corr.1
22 May 2006

ENGLISH only

Conference Services

Please find attached the contribution by the Ministry of Economy and Energy of Bulgaria delivered to Side Event (*Launching of the OSCE Best-Practice Guide for a Positive Business and Investment Climate*), of the 14th OSCE Economic Forum, Part 2, Prague, 22-24 May 2006.

BULGARIA – PROSPECTIVE LOCATION FOR FOREIGN DIRECT INVESTMENT

May 2006

MINISTRY OF ECONOMY AND ENERGY

SEE in the Spotlight

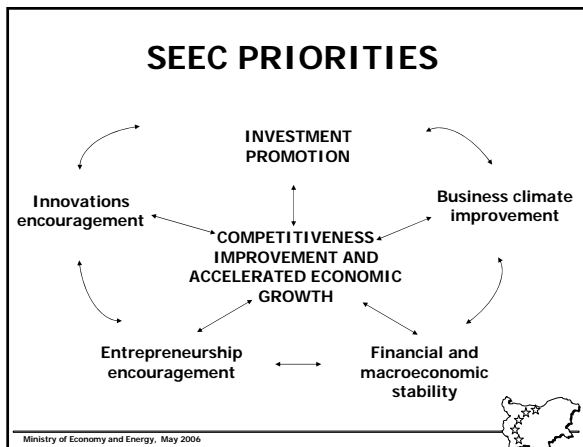
*New UNCTAD Surveys:
FOREIGN DIRECT INVESTMENT
PROSPECTS PROMISING FOR 2005-2008*

Investors' attention appears to be shifting away from traditionally important Locations towards certain emerging markets. Asia and Eastern Europe are the two regions with the most positive FDI prospects.

Bulgaria:

- Political Stability – Key factor for socio-economic development
- NATO membership
- Forthcoming EU membership – 01.01.2007
- Liberalized access to markets with over 560 M consumers

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SEEC (6) – RECENT DEVELOPMENTS

- Apparent progress in terms of economic development
- Inflation remained relatively high compared with EU-15
- High current account deficits still reflect structural deficiencies and remain a threat to macroeconomic stability
- The FDI stock in the region reached record levels

SEEC (6) - Albania; Bosnia and Herzegovina; Bulgaria; Croatia; Romania; Serbia and Montenegro
Source: WIIW; Reifeisen Research
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SEEC (6) – RECENT DEVELOPMENTS

Investment Compact for Integrity and Growth in South East Europe admits that

THE REGION OF SOUTH EASTERN EUROPE has made significant progress in the areas of:

- Regulatory reform
- National treatment - all SEE countries have implemented reforms concerning equal treatment of all countries in the area of tax and competition
- Corporate tax – lowest in Europe: Bulgaria 15%, Romania 16%, Serbia 10%, Montenegro 9%
- Access to finance – especially for Small and Medium Size businesses

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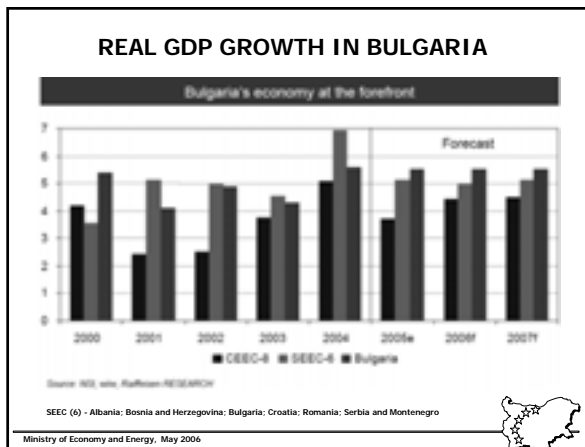
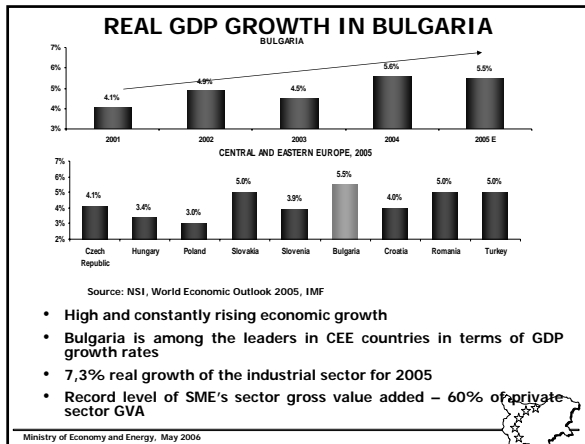
STRONG ECONOMIC GROWTH IN SEE COUNTRIES

Strong economic growth in SEE countries continues

Source: Real GDP growth, % per Annum
Source: Economic Research Institute, WIIW; Reifeisen Research

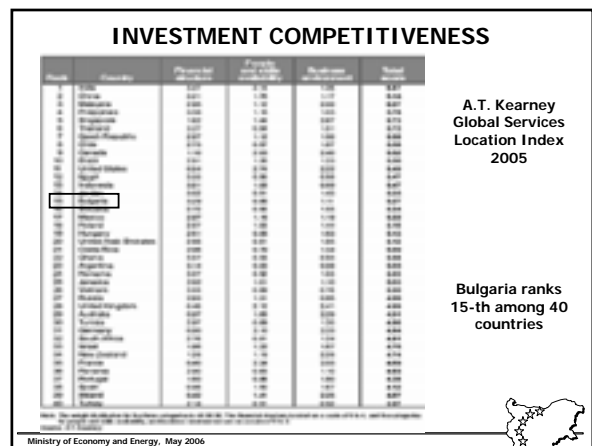
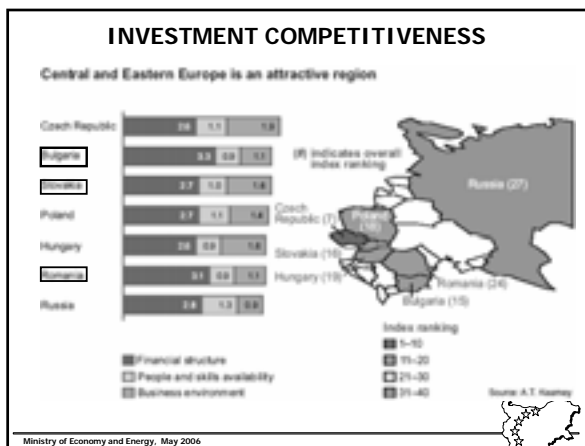
Real GDP growth in SEEC(6) will be strong and even accelerated in 2006 with an average weighted growth rate of more and about 5%

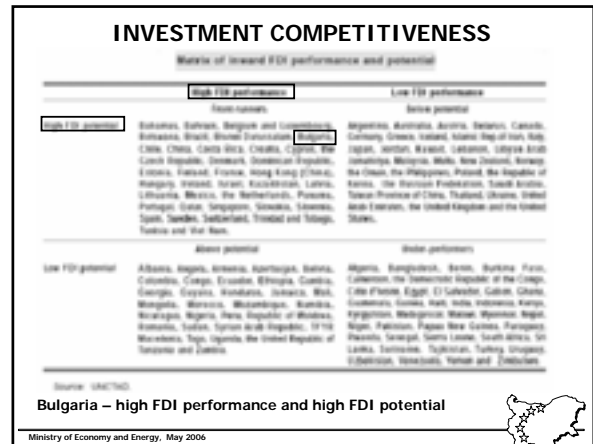
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The stable economic development of Bulgaria and the consistent economic policy has contributed for becoming one of the most competitive investment locations

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INVESTMENT COMPETITIVENESS

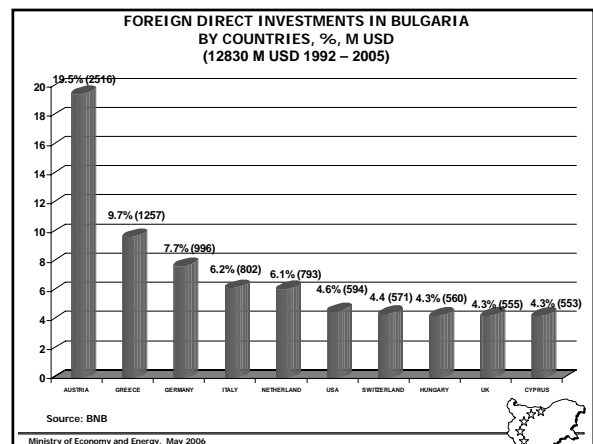
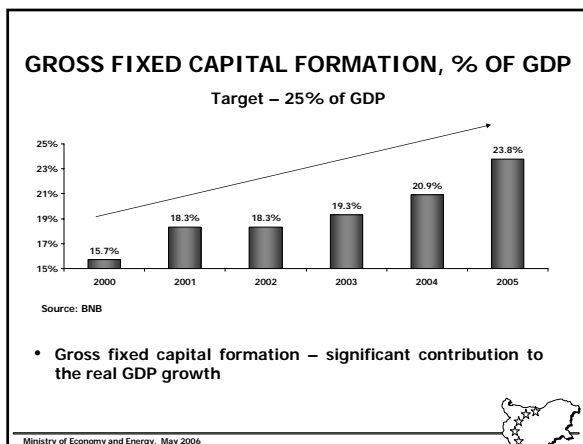
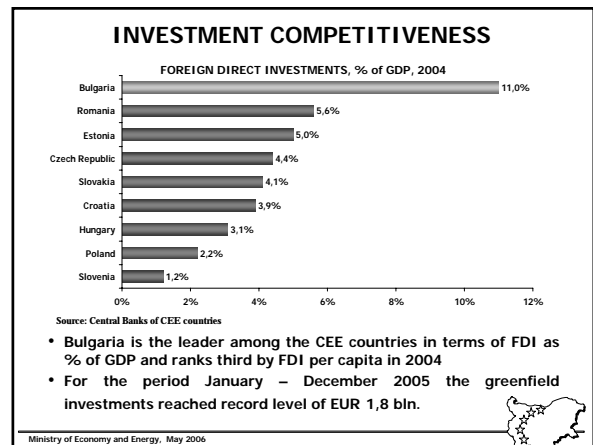
CREDIT RAITING

Agency	Data	Foreign currency			Local currency		
		Long-term	Short-term	Outlook	Long-term	Short-term	Outlook
Fitch	17 Aug 2005	BBB	F3	Stable	BBB+	-	-
Standard & Poor's	27 Oct 2005	BBB	A-3	Positive	BBB+	A-2	Stable
Moody's	03 Mar 2006	Baa3	-	Stable	Baa1	-	Stable

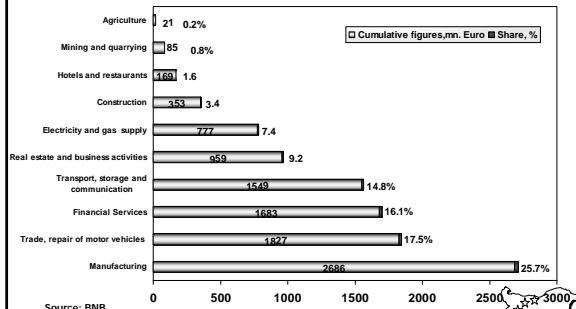
Source: Ministry of Finance

- Since 2000 the credit rating of Bulgaria has been raised over 20 times. In 2004 the country gained an investment rating

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FDI IN BULGARIA BY INDUSTRIES 1998-2005 (EUR mln and as %)



Source: BNB
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INVESTMENTS – SIGNIFICANT CONTRIBUTION TO EXPORT GROWTH

- The sector's development has led to a 17,7% rise in the export of investment goods in 2004 and a further 34,6% in 2005

- The export rise to the EU-15 is accelerating– 7,9% in 2002; 11,7% in 2003; 14,9% in 2004 and 12,5% in 2005

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INVESTMENT FOCUS

DELOITTE'S SURVEY OUTLINES

the main competitive advantages of Bulgaria:

- Products for lower volume niches
- Goods and services with average and high level of value added
- In shorter term – investments in energy, transport and infrastructure
- In medium and long term – greenfield investment, acquisitions and merges

and the most prospective sectors for investment:

IT, outsourcing, mechanical and electrical engineering / machinery

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Investment Promotion Law

Current situation - focused mainly on larger investment projects

Proposed amendments:

- Widening the scope of promotion:
 - Greenfield and expansion
 - high-tech production and services
 - business and industrial zones
 - job creation
 - vocational training
- Procedures optimization

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INVESTMENT CLIMATE

- Facilitation of administrative regulations and maintenance of financial stability
- Liberalization and demonopolization of the economy and active support for investments by employing budgetary means and EU funds and funds supplied by donor organizations
- Development of modern infrastructure
- Industrial zones and business incubators establishment
- Pro-active investment marketing

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INVESTMENT CLIMATE

- 15 per cent corporate tax since 2005
- 0 per cent profit tax in more than 100 municipalities with high unemployment rate
- VAT refund for export companies - up to 30 days
- Increased depreciation rate to 50% for purchasing new production and technology equipment, machinery, software and hardware
- Reduction of the social security burden by 6 percentage points and allocation of over 300 million euros for use by the business
- Optimization of the regulative regimes in collaboration with the business sector
- Up to now 164 regulatory regimes (85% of all regimes proposed for alleviation) have been abolished or simplified
- Providing equality and transparency to public procurement system, through development of e-system

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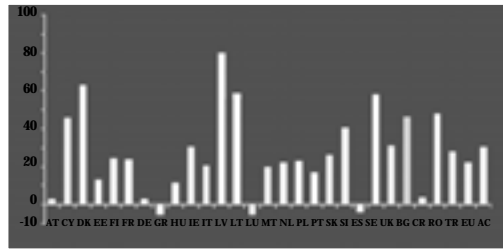
INVESTMENT ENCOURAGEMENT THROUGH PRIVATIZATION

- Privatisation of the District Heating Companies in Pleven, Varna, Shoumen, Sliven and Pernik – encouragement of the investment in co-generating capacities
- Conclusion of the privatisation deals with Thermal Power Plants in Varna, Rousse and Bobovdol
- Start of privatisation of Bulgartabak – Holding, aiming at construction of working and competitive core of factories
- Attraction of a strategic investor for Bulgaria Air – the flag-carrier

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EUROPEAN BUSINESS CLIMATE SURVEY

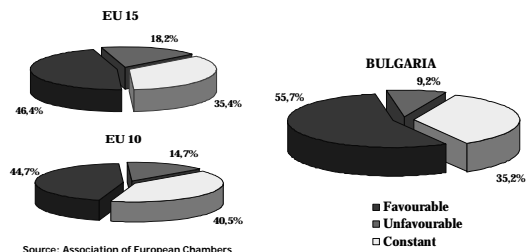


- Bulgaria takes the 6-th place out of 27 European countries regarding entrepreneurs positive expectations for the business climate in 2006 according to the Association of European Chambers Survey.

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ENTREPRENEURS EXPECTATIONS FOR THE BUSINESS CLIMATE IN 2006



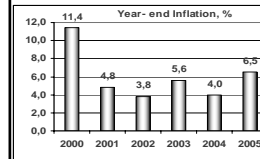
Source: Association of European Chambers

- Bulgarian entrepreneurs are more optimistic than their European counterparts about business development during the year.

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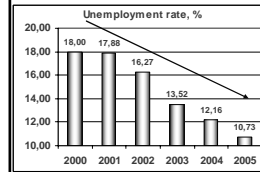
PREDICTABLE BUSINESS ENVIRONMENT



Despite higher oil prices the inflation in 2005 is 6,5%

Predictable business environment

Business climate improvement



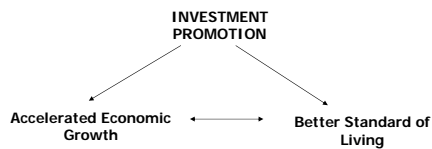
Consumption encouragement

25% increase of the minimum salary in 2005 – new 7% in 2006
Almost 50% increase of the average salary for the last four years
Decrease of the personal income tax rates

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EXPECTED RESULTS



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