

## DEAR LADIES AND GENTLEMEN,

### Slide 1

It is a pleasure and honour of mine to participate in today's meeting. I am very glad that we will be able to discuss the increasing opportunities for business and investments in Bulgaria.

To start with, I would like to emphasize the importance of Bulgaria's accession to the European Union. For both business and institutions this means clear rules and sustainability. Our country is a proven key factor for economic and political stability in the region of South Eastern Europe (SEE). Bulgaria has constantly developed active and friendly relations with all its neighbours – not only with the Western Balkans, but also within the Black Sea region. As a geo-political location Bulgaria is the gate for the international business to the European market. This is a rare opportunity that international companies take into account and explore more and more following our EU accession.

I would like to point out that we are entering the European Union with the ambition not to be just a consumer, but with a desire and striving to contribute to strengthen the European Union with our stable macroeconomic environment and dynamic development over the past years and with our potential to generate sustained development in the region.

I am convinced that being a member of the European Union, Bulgaria will speed up the implementation of the reforms while taking advantage of the favourable environment.

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Our priorities for competitiveness improvement and accelerated economic development are investment promotion, entrepreneurship and innovations encouragement and maintenance of stable financial and macroeconomic framework.

The analysis of the investment processes is very important because it is namely the investments that are the most precise assessment given directly by international companies, about the status of the business environment, the economy's development, the policy pursued and about how the competitiveness of our economy will develop.

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According to the latest surveys by UNCTAD the two regions, which are most attractive for investments, are **Asia and South Eastern Europe**.

I dare declare that Bulgaria has definitely contributed substantially to the development of the region as a whole. It played a key role for the political stability, without which we cannot speak of any sustainable social-economic development. As an EU member Bulgaria enjoys a preferential access to EU market.

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#### **Where does Bulgaria actually stand?**

It was for the first time in 2006 that Bulgaria was included in the most respectful world rating of economies' competitiveness – „IMD World Competitiveness Yearbook 2006.” of the Swiss Foundation **International Institute for Management Development**. Bulgaria ranks 47<sup>th</sup> among 61 economies, ahead of countries such as Romania, Poland, Russia, Turkey and others. For comparison, Romania ranks 57<sup>th</sup>.

The comparative advantages of our economy (the indicators according to which our country ranks among the top 10 in the world) are:

- the stable macroeconomic environment,
- the relatively high growth per capita,
- the low taxes,
- the export of services,
- the budget balance,
- the labour remuneration and labour costs per unit of production, and especially managers' salaries,
- The investments in telecommunications as a percentage of GDP.

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The positive trend of development reflected in **5.5%** real growth of the GDP in 2005, and in terms of this indicator Bulgaria is one of the leaders among the Central and East European Countries. According to the latest NSI data the real GDP growth is accelerating for the period Jan-Sept 2006 and reached record level of 6.3% at annual base. **The real GDP growth for the third quarter of 2006 is 6,7%**. Significant contribution for the economy development and unemployment decrease came from the private sector, which Gross Value Added increased by 8.2% in real terms for the period Jan-Sep 2006. The industrial sector grew by 9.8% thus proving its increasing development potential. Fast advancement was made also by the SMEs, with all groups of companies increasing their share in the added value.

The fast economic growth, as well as the targeted economic policy made Bulgaria one of the most competitive destinations for investments in the world.

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According UNCTAD's FDI Performance Index<sup>1</sup> from World Investment Report **Bulgaria is the 9<sup>th</sup> most attractive destination to foreign investment worldwide and 1-st in the SEE countries.**

Furthermore, the comparison matrix for this index and "FDI Potential Index", calculated on the basis of 12 economic and structural variables, place Bulgaria at parity with countries like **Switzerland and Finland – with excellent investment performance and high investment potential.**

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Also in accordance with the latest study of outsourcing opportunities conducted by the research and consulting company "A.T. Kearney" Bulgaria is the **second best destination for investments** (mostly in the IT sector and the business services) **in Central and Eastern Europe** (right after the Czech Republic), while Romania ranks 6<sup>th</sup>. Bulgaria ranks 15<sup>th</sup> among the world top leaders.

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After the new Bulgarian government was formed in 2005 the country's credit rating was raised by Fitch and Japan Credit Rating Agency to BBB with a positive outlook. The credit rating was also raised by and Standard&Poor's to BBB+ with a positive outlook for

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<sup>1</sup> "World Investment Report" (UNCTAD)

foreign currency and by Moody's to Baa3 for foreign currency. Bulgaria's credit rating was changed many times over – the most accelerated changes in the region; since 2000 it has been increased over 25 times.

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The positive trends in the field of investments ranked Bulgaria among the leaders in terms of Foreign Direct Investments (FDI) as a percentage of the GDP in Central and Eastern Europe (CEE). The investments not related to privatization reached the record-high level of 2.3 billion Euro in 2005. **Moreover, the FDI inflow for the period Jan-Nov 2006 marked a record-high level throughout the transition period, namely 3.3 bln Euro, which is 13,2% of GDP. The general level of investments is also the highest for the transitional period. It has reached 25% in the first half of 2006 which is accomplishment of one of the goals of the Government for its 4 years period of governance.**

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Of significant importance are the countries whose business invests in Bulgaria. **The largest investments attracted to Bulgaria came from Austria, followed by Greece, the Netherlands Italy etc. The investment inflows from the EU countries are a proof that Bulgaria can offer competitive business environment for the European companies and a long term prospective for business development, as well as reliable relations to foreign partnercompanies.**

The sectors, which attracted the largest investments in general, **are industry, trade, finance, transport and communications.**

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The large investments inflows in the industry contributed considerably to the sector's development. The Bulgarian goods received better acceptance on the foreign market. This resulted in an extremely favorable trend – growth in the export of investment goods by 17.7% in 2004, **34.6% in 2005 and another 21,4% for the period January – October 2006.**

As a result of the investments also the competitiveness of overall business has improved. The export has also increased and reached EUR 9.96 bln. for the three quarters of 2006 which is a growth of 29.1% compared to the same period of 2005. The export growth is higher than the import growth which is a new positive trend. The import rise was 25.6% for the same period.

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**The conclusions from the survey by UNCTAD (for 2007 – 2008) show that the sectors with best future prospects for attracting investments in Bulgaria are:**

- **Services sector: IT, and other related to production and distribution of electric, thermal energy, gas and water, transport and tourism;**
- **Industry sector: electronics, mechanical and electrical engineering and steel processing;**
- **Primary sector: mining and quarrying, petroleum products.**

**The conclusions from another survey made in 2005 by Deloitte by request of the Ministry of Economy and Energy show the country's advantages lie also in the production of products targeted to small market niches, products of average and high added value, and**

investments in the energy sector, transport and infrastructure. The best prospects for investments are in the **ITC, outsourcing, machine building, electronics and electrical engineering, and tourism.**

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In order to enhance Bulgaria's future positive investment performance, the government prepares in cooperation with the business draft **amendments to the Investment Promotion Law.** The currently applicable Investments Promotion Law places a particular emphasis on the large investment projects. Our intention is to provide incentives also for number of jobs, type of region, high-tech sectors, etc. The amendments being drafted are underpinned by the best practices and our willingness to meet the investors' requirements.

Particular emphasis will be laid down on the setting up and development of industrial zones and technology incubators.

Our leading objective will be also to pursue a proactive investments marketing. Concerning the infrastructure we do realize that it is not a separate development factor, but rather it is a constituent component of the economy, therefore the investments in the infrastructure will be the most important for us. **The Bulgarian government is implementing a consistent policy also for modernization of the infrastructure.** In order to upgrade the infrastructure we make use of all available financial levers – budget, international loans, pre-accession EU programs, foreign investments, as well as establishing of operational public-private partnerships. All these measures will be pursued under the conditions of financial stability.

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We view the investment environment also through the prism of the financial policy, by which we have ensured the macroeconomic stability. Currently Bulgaria has one the most competitive corporate profit tax rates – **10% starting from 01.01.2007.**

In more than 100 municipalities with high unemployment rate the corporate tax is 0%. We already extended this number of municipalities from 01.01.2007.

Furthermore, the depreciation rate of investments in new machinery and equipment is 50%. Besides, we have also raised the non-taxable income of the population by 11%.

In respect of optimization of regulatory regimes they will continue to be either abolished or will be alleviated.

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We will encourage investments also through privatization. The emphasis in the privatization process in 2007 will be put on the conclusion of privatization of district heating companies, as well as on investments in combined generation facilities.

We also expect finalization of privatization of thermal power plants, Bulgartabak and Bulgarian Maritime Fleet.

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**The Bulgarian energy sector** is of extremely significant importance for the security of power supply in the region of South Eastern Europe and it has been covering between 50 and 100% of the permanent electric power deficit in the importer-countries in the region.

In 2005 the Bulgarian energy sector had ongoing energy projects with ensured financing totally amounting to over 2.3 billion Euro, and the expectation for 2007 is the amount of investments to exceed 6 billion Euro, whereby a large portion of the investments are made by private and public companies without sovereign guarantees. **What is more, the Bulgarian energy sector has been identified on the UNCTAD investment map to be the second most competitive one for investments in the world after the energy sector of Brazil.**

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Bulgaria focuses on:

- Setting up and expansion of the electric power inter-system connections in the SEE region;
- Construction and expansion of the gas infrastructure for natural gas transfer and transiting to Bulgaria, SEE and the EU.
- Construction of the infrastructure for oil transiting to the SEE, EU countries and the world markets.

Bulgaria's energy policy is in compliance with the **Green Paper of the EU for safe, competitive and sustained energy**, which requires the elaboration of a common EU energy policy.

Bulgarian, as well as EU energy policy has the following main directions:

- Diversification of the energy resources;
- Improvement of the energy efficiency and decrease of the energy consumption per unit GDP;
- Optimal utilization of the renewable energy sources.

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**Main energy projects are as follows:**

**NABUCCO project** is for construction of gas pipeline from the Caspian region, Iran, Iraq and Egypt through Turkey, Bulgaria, Romania, Hungary to Austria and Central and Western Europe.

**Burgas-Alexandropolis Oil Pipeline** - Project between Bulgaria, Greece and Russia, is priority project for our government. The length of the pipeline is 270 km and the capacity is between 600 000 and 800 000 barrels/day.

#### **Burgas-Vlore Oil Pipeline**

Construction of replacement capacity at the site of Maritza East 1 TPP

Rehabilitation of Maritza East 2 and 2 TPP

Construction of HPP Tsankov kamak

Dolna Arda rehabilitation project

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**Construction of a new nuclear capacity at the site of Belene NPP**

Belene project is for construction of new nuclear power plant with capacity 2x1000 MW. The preliminary assessment for the construction of the first part of the plant valued at 2,4 bln euros.

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In the field of tourism in 2006 there was an annual growth in the number of tourists visited Bulgaria of over 5 %, as well as revenues of over EUR 2 bln. which to larger extend contribute to cover the current account deficit.

In addition to the prospective sea and mountain tourism we put a priority to the development of eco tourism, cultural heritage and spa tourism.

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Last but not least – the policy presented will be developed in a very good business environment. In 2006 the **total business climate indicator increased 4 times reached a long-term maximum since 1994. That was due to the favourable development of industry, construction and retail trade.**

In addition Bulgaria was ranked 54th in the annual report of the World Bank for the easiness of business in 175 countries worldwide. The country has moved 5 spots up compared to last year's report. The report shows Bulgaria has made serious progress in reforming and improving the business environment. Bulgaria has climbed 6 places up in the "starting business" criterion and just as many in the employing workers criterion

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Furthermore, Bulgarian entrepreneurs have more optimistic expectations for the development of their business. 56% of the Bulgarian companies expect positive development, compared to 46% of the companies in EU-15.

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The positive development of the country has become possible also due to the fact that the business environment in Bulgaria is predictable owing to the maintained financial and macroeconomic stability. **The inflation in the recent years has been about 5 %. The cumulative inflation in Bulgaria in 2005 was 6.5%, despite of the sharp increase (by over 60%) of the fuel prices. The cumulative inflation is 5.3% for the period January – November 2006.**

**The general improvement of the business environment and growth in investments supported the decrease in the unemployment rate – it has dropped from 18 % in 2000 down to 10.73 % in 2005 and to 8.69% in November 2006.**

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Our expectations from the fulfillment of our priorities for encouraging investments and our improved business environment are: faster economic growth, and of course, improved living standard, which will ensure for us also a successful start in the European Union.

In conclusion I would like to point out that Bulgaria enters the European Union as a stable, predictable partner with a consistent policy and priorities. We would like to further maintain and develop the relationships to our partner countries. The Government welcomes every new investment project and will support its successful implementation.

We are looking forward to welcome you in Bulgaria as your gate to the EU.

Thank you for your attention!