

COUNTRY PROFILE:**REPUBLIC OF BULGARIA****DATED:****MAY 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	ILC

Recent Political Highlights

- ❑ Chief of state since January 2002 has been President Georgi Parvanov. The president is elected by popular vote for a five-year term and is eligible for a second term. The next election is scheduled for 2011.
- ❑ The EU congratulated Bulgaria after it became the sixth EU nation to ratify the bloc's new reform treaty through parliament. The Lisbon Treaty is expected to streamline the EU's operations by reducing the size of the European Parliament, limiting the use of national vetoes and creating a post of more permanent president and European foreign policy supremo.
- ❑ Bulgaria is supporting Turkey's bid to join the EU. Turkey started negotiations in 2005, but talks froze on 8 of the 35 policy fields that candidates must complete before accession.

Recent Economic Highlights

- ❑ Bulgaria is situated in the eastern Balkans and is characterised by spectacular mountains and the Black Sea coastline. Its transition to democracy and a market economy post the collapse of communism has not been easy and the country is striving to improve its low standards of living. It has a population of 7m people that is expected to grow at a rate of -0.8% in 2008.
- ❑ The economy expanded by 6.2% in 2007, but The Economist says that a slight deceleration in domestic demand will slow GDP growth in 2008 and 2009. According to Bulgaria's Centre for Economic Development (CED), the economy should expand by 6% this year. The CED expects foreign direct investment to be €6.5bn – similar to 2007.
- ❑ Inflation reached 14.2% in March due to sharp price rises in the tobacco category, reflecting increases in excise duties required under the terms of Bulgaria's EU accession. The CED expects inflation to come down to single-digit figures this year. The CED argued that the current account deficit will remain at 22% of GDP this year from 2007, rendering the country increasingly dependent on investments from abroad. Bulgaria will likely join the euro-zone in 2013-2014, but inflation remains its biggest challenge. The European Central Bank maintains that inflation will remain high this year and drop to 6% in 2009. The bank expects energy and food prices to aggravate inflation.
- ❑ The EU has halted some of its infrastructure subsidies including roughly €100m for a motorway that was meant to ease bottlenecks. The EU warned that tackling organised crime and corruption was supposed to be a pre-condition for Bulgaria's membership which began in January 2007. The EU has also threatened to hold back funding for farmers should the corruption not stop. Farmers are in turn pressuring Government as they are dependent on EU funding to raise the standards of their farms to that of EU members. Government has ordered urgent measures to fight fraud and corruption following the suspension of EU funding. Bulgaria has until June 16th to report on measures taken to combat misuse of European farming, infrastructure and regional development subsidies.
- ❑ German energy giant RWE is interested in acquiring a 49% stake in the company that will build and operate Bulgaria's second nuclear power plant on the Danube. Bulgaria's National Electricity Company will hold the remaining 51% in Belene and the authorities hope that this would once again make the country a major electricity exporter in South-Eastern Europe after it had shut down Soviet-built reactors at its Kozloduy power plant before joining the EU. Total cost of the project is said to be €7bn.
- ❑ In order to counter the shortage of skilled labour, Bulgaria announced plans to lure home tens of thousands of its citizens living abroad. Some 500,000 Bulgarians live in other EU states, 200,000 in the US, 45,000 in Canada, 20,000 in Australia and 20,000 in South Africa. Major employers in the energy, construction and tourism sectors have been complained about the difficulty of finding skilled workers.

Latest Trade Developments

- ❑ Major exports: clothing, footwear, iron and steel, machinery and equipment and fuels.
- ❑ Major imports: machinery and equipment, metals and ores, chemicals and plastics, fuels, minerals and raw materials.
- ❑ Main trading partners: Turkey, Italy, Germany, Greece, Belgium, France, China and Romania.
- ❑ South African exports to Bulgaria totaled R342m in 2007 from R113m in 2006 and R15m in January 2008.