

COUNTRY PROFILE: REPUBLIC OF BULGARIA**DATED: MAY 2007****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	No Restrictions

Recent Political Highlights

- ❑ Gheorgi Parvanov won a second five-year term with a landslide victory in October 2006, beating nationalist Volen Siderov who opposed EU entry. The president's role is largely ceremonial and legislative power is exercised by the prime minister and parliament.
- ❑ Bulgaria's opposition narrowly won European Parliamentary elections, sending a warning shot to the Socialist-led government that it needs to get serious about fighting crime and corruption. The ruling coalition which was caught in a graft scandal after the country joined the EU in January 2007, polled 48% of the vote, way below the almost two thirds it got in the general elections in 2005. Election officials were awaiting a second count to apportion the 18 seats the country has at the European Parliament.

Recent Economic Highlights

- ❑ Bulgaria's 17-year transition after the collapse of communism to a free market economy has not been easy as the country is trying to boost standards of living. It signed an EU accession treaty in April 2005 and joined in January this year. EU officials set tough entry requirements, reflecting their concerns about corruption and organised crime. Brussels is closely monitoring the fight against graft and has threatened to withhold aid if there are no tangible results. The accession of Bulgaria and Romania means the EU now has 27 members and about half a billion people. Bulgaria now faces export bans on certain foods and has been warned that 55 of its aircraft could be grounded unless they reach EU safety standards.
- ❑ Bulgaria's population is falling faster than anywhere else in Europe. A survey reveals that if the trend continues Bulgaria could lose a third of its 7.5m population in a few decades time. The exodus from Bulgaria is set to increase as EU membership makes emigration easier. To keep the population stable a birth rate of 2.2 is needed but it is presently 1.3.
- ❑ The government pledged economic growth of at least 6% a year in a three-year program that aims to raise the living standards. GDP is forecast to slow from 6.1% in 2006 to 5.2% in 2007 and 5.5% in 2008. Despite an overall positive performance, Bulgaria continues to be one of the poorest countries in Central and Eastern Europe.
- ❑ In 2006, Bulgaria had a record current account deficit of \$6.8bn or 15.8% of GDP. The IMF forecasts the deficit at 16.6% of GDP this year, following the delayed restructuring in the steel and copper sector. The Finance Minister projects that the deficit could reach up to 18% of GDP as EU membership fuels consumption and investment as well as the removal of import taxes with EU member states.
- ❑ The Bulgarian lev is pegged to the euro at the rate of 1.9558. According to the World Bank, in 2006 Bulgaria attracted the highest levels of foreign direct investment as a share of GDP among the EU10(EU 8+ 2 new member states). In order to attract additional foreign investment, the Bulgarian Government lowered corporate tax rates to 10% in January 2007 from 15% in 2006, reportedly the lowest in Europe. VAT is levied at a single rate of 20%.
- ❑ Moody's revealed that the short-term outlook of Bulgaria has deteriorated but the fundamental creditworthiness of the government remains strong, following concerns of high growth rates, inflation and a rising current account deficit.
- ❑ An advisory body with Bulgaria's agriculture ministry will meet to discuss state subsidies for grain producers who are set to lose some of this year's harvest due to early spring drought. Producers have threatened nationwide protests should the size of their compensations fail to meet their expectations.

Latest Trade Developments

- ❑ Main exports: clothing and footwear, chemicals, plastics and rubber, food and drink, tobacco and machine-building equipment.
- ❑ Main imports: crude oil and natural gas, machinery and equipment, textiles, chemicals, plastic and rubber.
- ❑ Major trade partners: Italy, Germany, Turkey and Russia.
- ❑ South Africa exports to Bulgaria more than doubled from R40.5m in 2005 to R113.3 in 2006. Exports in the year-to-date-to-March are estimated at R91.2m.
- ❑ Pakistan's pharmaceutical manufacturers see Bulgaria as its exports gateway to the European countries in the near future. Leading exporters estimated that Pakistan could initiate its pharmaceutical exports to Bulgaria from \$5m by next year after complying with all the health standards set by the European Union.
- ❑ Bulgaria and Romania can import sugar cane at a reduced tariff of €98 a metric ton to meet the needs of domestic sugar refineries, the European Parliament said. The decision permits yearly imports of 329,636 tons for Romania and 198,748 tons for Bulgaria at the reduced rate. The normal tariff for sugar imports into the EU is €419 a ton.