

**COUNTRY PROFILE:****REPUBLIC OF BULGARIA****DATED:****MAY 2011****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

<i>Export Department Comment/ Opinion</i>	Rating 3C. Cover is considered on a case-by-case basis only. We have limited underwriting experience. We have not paid any claims in this market.
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**Recent Political Highlights**

- Political opposition to Bulgaria's entry into the Schengen zone continues to rise, this time with Danish members of the European Parliament (MEP) urging their government to oppose Bulgaria and Romania's entry. The Schengen Area operates very much like a single state for international travel with border controls for those travelling in and out of the area, but with no internal border controls. The area comprises twenty-five European countries.

**Recent Economic Highlights**

- According to the IMF, Bulgaria's exports have rebounded above pre-crisis levels and are expected to positively impact real GDP growth to 3% this year as growth rebalances towards the export sector. This is said to be helping offset weaknesses in domestic consumption stemming from increases in inflation and in precautionary savings in the context of heightened external uncertainty. Imports remain subdued and the current account is moving closer to balance. Higher food and fuel prices are projected to increase inflation to 4.25% in 2011, before easing to 3% in 2012. Bulgaria's economic ministry expects the average inflation rate in 2011 to reach 3.9% primarily due to the impact of international fuel and resource prices and the recovering domestic consumption.
- According to BMI View, Bulgaria's unemployment rate fell in March to 9.5%, from 9.8% in February. This is an encouraging sign for the country's labour market and it should continue through 2011. The ongoing economic recovery will help alleviate both private and public unemployment, bringing down the headline rate. The unemployment rate is expected to average 8.3% this year, an improvement over last year's rate of 11.3%. In 2012-2014, the Finance Ministry expects an "acceleration of productivity combined with a moderate growth of employment, with the unemployment rate expected to decline to 8.9% in 2014.
- Economic Minister Traicho Traikov declared a 5% growth in tourism in 2010 compared to the previous year and predicted up to 10% growth in the industry for 2011. According to Traikov, analysts are expecting 2011 to be particularly positive for summer tourism, with growth projections estimated at up to 10%. To prove the trend, Bulgaria's major airports in Sofia and Plovdiv reported of an increase of charter flights from the United Kingdom and Russia, as well as growing interest from neighbouring countries. The constant strikes in Greece might have contributed to the recovery of the Bulgarian sector as well.
- Bulgaria exported a previously unrecorded amount of honey in 2010. Bulgarian producers exported between 7 200 and 7 700 tons of honey in 2010 out of a total of 12-13 000 produced last year. In 2007 Bulgaria imported 12% of the necessary quantities of fresh milk and about 60% in 2010, according to the Bulgarian Association of Dairy Processors. The collapse of the sector was also confirmed by statistical data - by December 2010, 29.7% of all dairy farms had gone bankrupt. At the end of this year, the transitional period granted by Brussels will expire, after which all farms whose output does not comply with EU standards will be closed down.
- Bulgaria's wine exports rose 10% y-o-y to 57.7 million litres in 2010. Russia, Poland, the UK, the Czech Republic, Lithuania and Germany were the country's largest markets in the past year, with bottled wine representing the major part of the exports. In addition, Bulgaria's wine production has started regaining its popularity in the Middle East.
- Bulgaria's state cigarette producer Bulgartabac Holding, whose management has been harshly criticized in recent years, has been declared for privatization after years of procrastination. The procedure has been given the go-ahead by the agency for privatization and post-privatization control. The sale of Bulgartabac Holding AD, Sopot-based Vazovski Mashinostroitelni Zavodi (VMZ) and the minority stakes in the electricity distributors have been said to be a must-do task in 2011 due to the sorry performance of the state-owned companies. The bidding process is expected to begin mid-year and will be the start of the third official attempt to sell the state-owned stake in the company.
- Bulgaria's industrial production rose by 15.2% y-o-y in February 2011 after rising by 8.6% in January, marking the third largest annual growth in the European Union, data by the bloc's statistics bureau Eurostat has shown. Estonia registered the biggest jump in industrial output in the period, of 31.3%, followed by Sweden with 15.9%. Industrial production in the euro zone went up by 7.3% on average in February, while the annual average increase in the EU countries came in at 7%. Manufacturing drove the charge, rising by 22.3% y-o-y. This trend is expected to continue, with industry playing an important role in the country's economic recovery. Domestic demand remains the weak link in the recovery as the labour market begins to rebound from the downturn.

**Latest Trade Developments**

- Major exports: clothing, footwear, iron and steel, machinery and equipment and fuels
- Major imports: metals and ores; chemicals and plastics; fuels, minerals and raw materials
- Main trading partners: Russia, Germany, Italy, Greece, Romania, Turkey, Ukraine, Austria, Italy, Belgium and France
- SA exports to Bulgaria in 2009 totaled R42m; in 2010 it totaled R73m and year to February 2011 totaled R19m.
- SA imports from Bulgaria in 2009 totaled R115m; in 2010 they were R126m and year to February 2011 totaled R27m.

*Researched and compiled by Hlohelo Pule, economic services – Credit Guarantee Insurance*