Bulgaria

BUSINESS FORUM
LONDON 22-24 APRIL 2001

Investment Profile
2001

Held on the occasion of the
EBRD ANNUAL MEETING

Contents

This document was drafted by the EBRD Country Promotion Programme team assisted by Bank staff and the Bulgarian authorities. It was prepared with information available up to March 2001, derived principally from the EBRD, the EU, the EIU, Reuters and the World Bank. Every effort has been made to ensure accuracy. However, no responsibility is accepted for the contents of this document.
ISSN 1470-3963

Foreword

Bulgaria is one of the most stable countries in the Balkan region. Despite a sometimes difficult situation in the surrounding region, it has managed to get by without experiencing major problems. In each year since 1998, the Bulgarian economy has achieved real growth. The currency board, introduced in July 1997, has served the country well. Inflation has been single-digit or close to single-digit. The tax system is well diversified, with a gradually declining burden of direct taxes – among the lowest in central and eastern Europe. The overall business and investment environment is transparent and predictable.

Bulgaria has clearly stated its intentions of joining the European Union and NATO. A little more than a year since being invited to start negotiations for EU membership we have been able to close more than a quarter of the negotiating chapters. These negotiations have been concluded in view of the EU's recognition that we now meet the criteria in these areas.

The Bulgarian economy would not have been so stable without the structural reforms undertaken by the government. So far, 75 per cent of the assets subject to sale have been privatised. In the banking sector the private sector share is over 70 per cent of all assets. Private sector activities accounted for more than 70 per cent of GDP in 2000.
The challenges we are now facing are as follows:

- to maintain the stability of the macroeconomic and fiscal environment, enabling us to further reduce the tax burden,
- to complete market-oriented reforms in the pension and health-care sectors, and
- to finalise large privatisation deals for the telecom company, the tobacco firm and the second largest bank.

These actions should allow the economy to achieve high and sustainable growth, create new jobs, and increase incomes and profits. Our objective is to maintain and even accelerate the speed of foreign investment inflows in the enterprise sector and green-field projects. It is extremely important to attract foreign financing to our energy, water supply and district heating sectors. There is also much to be done to develop the capital markets.

The government's main objective is to support business in every way and to further improve the investment climate, as we are convinced that this is the only way of achieving growth. We will continue to allocate significant budgetary resources for the improvement of infrastructure – roads, motorways, railways, airports, and ports. For this purpose we will also rely on external funding.

There are plenty of investment opportunities in Bulgaria and the country is well worth investing in. So we are waiting for you to take advantage of the benefits!

Looking forward to seeing you in Bulgaria,

Muravey Radev
Minister of Finance
EBRD Governor

Introduction

In 2000, Bulgaria continued to build on the successes of the reforms and IMF co-operation initiated in 1997. It has established a positive track record of macroeconomic stabilisation and performance. The speed of the privatisation process has also increased in the last two years. The government's commitment to structural reforms, as well as to improvement of the regulatory framework, has been contributing to the improved functioning of markets. Following the success achieved in macroeconomic stabilisation, the main challenge now facing Bulgaria is to implement further reforms in the enterprise and banking sectors.

Political and economic transition

After the end of communism, the early transition years in Bulgaria were marked by political deadlock as elections failed to produce clear reformist majorities in parliament. Important structural reforms were thus delayed or implemented half-heartedly. This period came to a dramatic head in 1996 and 1997, when a major economic and financial crisis brought the country's economy to the verge of collapse.

The crisis brought an important political change in Bulgaria. Parliament was dissolved two years ahead of schedule and early elections in the spring of 1997 produced a clear reformist majority for the first time since the start of transition. A new centre-right government of the Union of Democratic Forces (UDF) and the People's Union was formed, headed by UDF leader Ivan Kostov.

The government took radical measures towards economic stabilisation and reforms. In economic policy, it has been fully committed to multilateral recommendations on stabilising and restructuring the economy and has received much support from the IMF and the World Bank. Following a recommendation made by the IMF, Bulgaria introduced a currency board in July 1997.

As a result of these measures, in a relatively short time the new government achieved remarkable economic stabilisation, passed important legislation and initiated economic reform in many areas. It also concluded a three-year agreement with the IMF in 1998 that is still on track, as the government implemented very tight reform targets and has remained committed to them.

Challenges met, and challenges ahead

Bulgaria's economic and political record for the last four years has been largely positive. Despite the unfavourable external environment, including the Russian crisis in 1998 and the Kosovo conflict in 1999, the country has recorded a strong economic recovery and achieved macroeconomic stability. Under the currency board scheme, foreign-exchange reserves at the Bulgarian National Bank must cover at least 100 per cent of the money supply and the lev is pegged to the euro. As a result, foreign exchange reserves have recovered sharply, and inflation has stayed moderate. The government's fiscal performance has been also very strong in the last three years. (See *Economic summary* below.)

Following the success achieved in macroeconomic stabilisation, the main challenge now facing Bulgaria is to implement far-reaching structural reforms in the enterprise, energy and banking sectors. The government's record on enterprise restructuring and privatisation has been encouraging, but further improvements are needed to compensate for the delay Bulgaria suffered in the first half of the 1990s.

Important progress has been achieved in privatisation, as in the last three years the sell-off of large state assets, especially in the financial sector, was accelerated. However, several companies in the public monopolies and services, such as the Bulgarian Telecommunications Company (BTC), Bulgartabac, the tobacco company, and Bulgarian Marine Fleet have yet to be privatised. Bulgaria also started the restructuring of its energy sector in 2000 and the partial privatisation of utility companies is to be advanced in 2001. (See *Major sectors of the economy* below.)

Despite measures taken in the wake of the 1996-97 crisis to promote financial discipline and to provide incentives for restructuring, the pace of enterprise restructuring remained slow. Improvements in the implementation of bankruptcy legislation and in the availability of commercial credit are needed to secure more positive developments in this area.

Foreign investment in Bulgaria was comparatively low till the late 1990s, but the recent increase in FDI inflows reflects positive changes in the investment climate. The improving performance of the Bulgarian economy, regained political and regional stability, and the acceleration of the privatisation process are the factors behind the improvements. The government's decision to cut corporate taxes to among the lowest levels in the region in 2000 and the introduction of new business legislation are likely to reinforce the positive trend. Investors and international institutions (the EU and the IMF) have identified weaknesses in the implementation and enforcement of legal provisions and the level of corruption as major problems for conducting business in the country. (See *Investment climate* below.)

Privatisation in the banking sector is nearing completion, as investors hold now over 70 per cent of bank assets. Despite this progress, financial intermediation remains rather low and the shortage of bank credit to private enterprises is one of the main constraints to growth. It is expected that recent strengthening of the regulatory framework and the inflow of foreign capital will provide enough impetus for positive changes in the medium term. Financial intermediation in the non-banking sector is also limited. However, the planned pension reform is expected to play an important role in boosting the capital markets. (See *Financial sector* below.)

International relations and regional co-operation

Throughout the 1990s Bulgaria has maintained a balanced foreign policy and has been a stabilising factor in the sometimes unsettled Balkan region. The government's foreign policy has been oriented towards the EU and NATO. The country has been conducting accession negotiations with the EU since March 2000. (See *EU integration* below.) Bulgaria has also been pursuing an ambitious programme to secure its place in the next round of NATO enlargement.

Bulgaria has been very active in promoting regional integration. The country is a member of the Central European Initiative (CEI) and the Black Sea Economic Co-operation (BSEC) and a participant in the South East European Co-operative Initiative (SECI) and the EC Royaumont process. Bulgaria is also member of the Stability Pact for South-Eastern Europe. The Pact supports countries of the region including Bulgaria in their efforts to foster peace, democracy, and respect for human rights and economic prosperity. Bulgaria is also to benefit from projects, mainly in the infrastructure sector, that are funded by international financial institutions under the umbrella of the Stability Pact. In January 1999, the country joined the Central European Free Trade Agreement (CEFTA), which also includes the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia.

Good or excellent relations persist between Bulgaria and its neighbours, Greece, Turkey and Romania. Relations with FYR Macedonia were enhanced in February 1999 when a series of new treaties on intensifying bilateral co-operation were signed, including a free trade agreement.

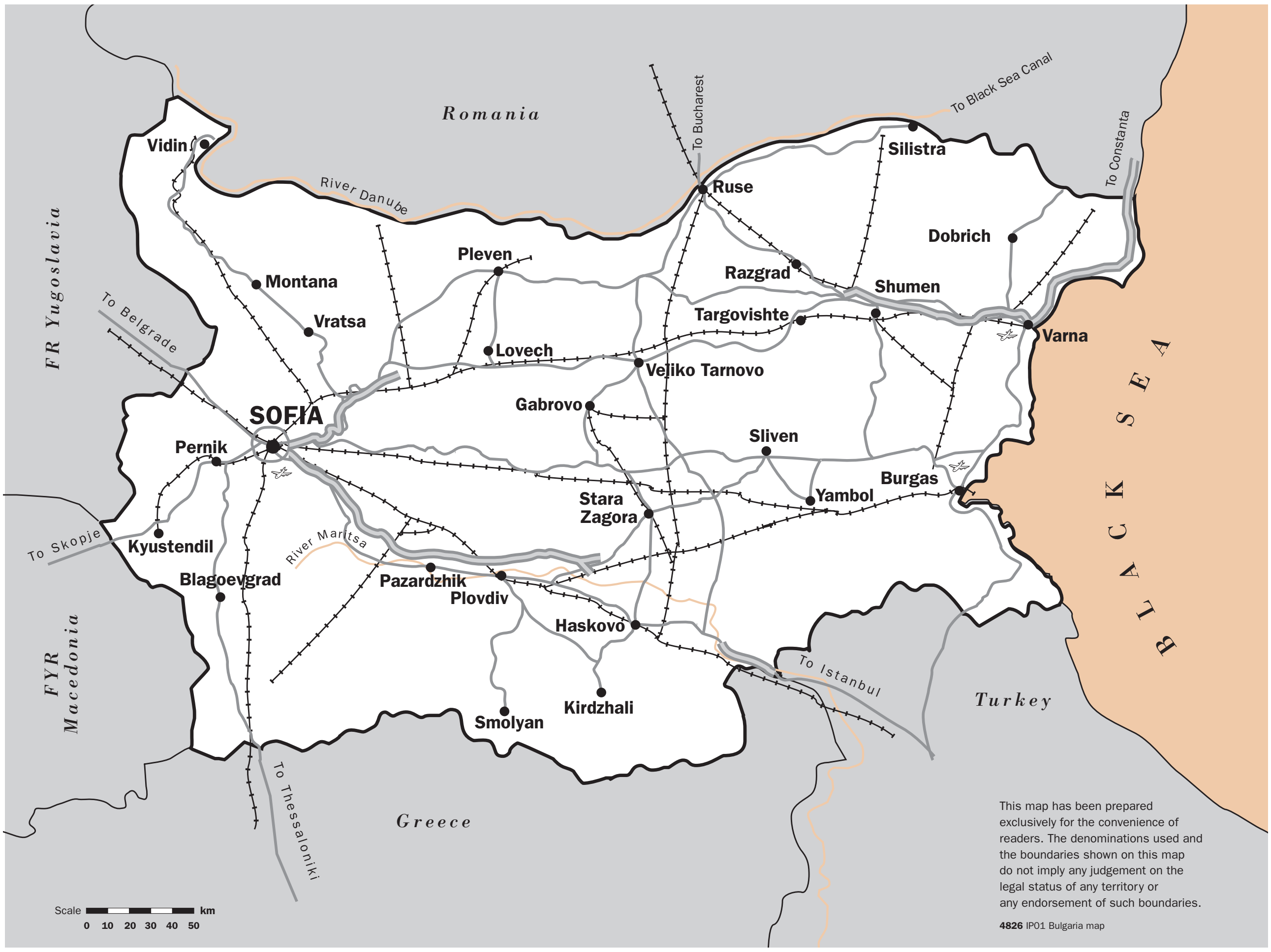
EU integration

Bulgaria has been developing close political and economic ties with the EU. Accession talks commenced in March 2000, following the decision taken by the EU at the Helsinki summit in December 1999. In December 2000, the EU made a decision on Bulgaria's removal from the Schengen list, a step that carries great symbolic and practical importance for the country.

Since the launch of accession negotiations, out of the total 31 chapters, 11 have been opened and eight have been provisionally closed (common foreign and security policy, external relations, small and medium sized enterprises, science and research, education and training, statistics, telecom and information technologies, consumers and health protection).

Bulgaria is benefiting from three pre-accession instruments financed by the EU: the PHARE programme; SAPARD, which provides aid for agricultural and rural development (See *Major sectors of the economy: Agriculture* below.); and ISPA, which finances infrastructure projects in the fields of environment and transport (See *Major sectors of the economy: Transport* below). In the years 2000-02, the indicative annual financial allocations for Bulgaria are € 100 million from PHARE, € 52 million from SAPARD, and between € 83 million and € 125 million from ISPA.

The latest EU Progress Report on Bulgaria was issued in November 2000. The report presented a favourable appraisal of the country's economic progress and preparations for membership, but pointed out the need to further promote enterprise restructuring and support business formation.
The main issues identified in the document are as follows:



EU Progress Report in summary

Progress:
• High economic growth.
• Progress towards becoming a functioning market economy.
• Progress made in privatisation
• Major reform of health and pension systems has begun.
• Good pace of alignment of legislation.

For the full text of the latest EU Progress Report on Bulgaria and other information related to enlargement see:
www.europa.eu.int/comm/enlargement/bulgaria/index.htm

Information on the PHARE programme is available on the EU Commission's web site:
www.europa.eu.int/comm/enlargement/pas/phare/index.htm

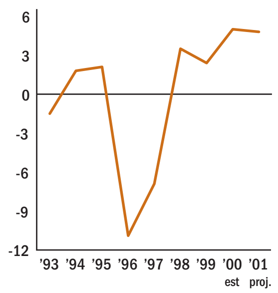
EU Progress Report in summary

Progress yet to be made:
• Structural reforms need to be taken further.
• Enterprise restructuring needs to be advanced.
• The level of corruption needs to be reduced.
• Industrial pollution needs be reduced.
• The working of the judiciary requires improvement.
• The capacity of the state administration must be increased.
• Discrimination against the Roma minority needs to be fought.

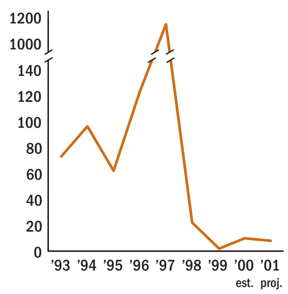
Economic summary

Bulgaria has achieved good results in terms of macroeconomic stabilisation in the last three years. The positive developments were the result of the government's prudent economic policies and the successful operation of the currency board agreement, in place since July 1997. Macroeconomic stability was maintained and the Ministry of Finance projection for 2000 is 5 per cent GDP growth. The government's fiscal performance was better than expected; however, inflation overshot its target. The main challenges for 2001 are to continue with the prudent fiscal policies and to accelerate structural reforms, in order to achieve sustainable growth.

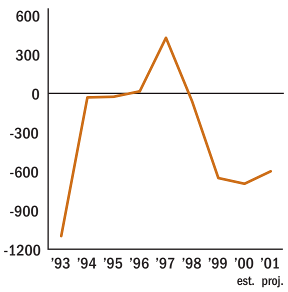
GDP
% change



Consumer prices
Annual average, % change



Current account
US$ millions



GDP growth

Following a series of adverse external shocks that hit the economy in 1998-99, including the global financial crisis and the war in Kosovo, Bulgaria has recorded a solid recovery in economic activity and exports since mid-1999. The economy grew by about 5 per cent in 2000, with services and industrial output growing rapidly, while agriculture had a poor performance due to a summer drought. Economic growth is expected to slow down slightly in 2001. The main underlying reasons are a slowdown in EU growth and an appreciation of the euro-fixed lev that will reduce the price competitiveness of Bulgarian export goods. This will be offset by trade liberalisation with the EU and the easing of oil prices.

Inflation

Higher energy and food prices resulted in a year-on-year inflation rate of 11.4 per cent in December 2000, which is higher than in 1999 when end-year inflation was 6.2 per cent. In 2001 and 2002, inflationary pressures are expected to ease, assuming that oil prices stay low and the euro-linked lev starts to appreciate as the US economy slows down. The continuing liberalisation of energy prices will represent an upward pressure. However, in view of the discipline of the currency board arrangement, the underlying trend in inflation should be downward, and end-year inflation is forecast to drop to 4 per cent.

Current account

Despite sustained export growth and higher than expected tourism revenues, the current account balance at the end of 2000 recorded a € 753 million deficit, compared to € 587million in 1999, amounting to 5.8 per cent of GDP (according to National Bank of Bulgaria data). The deterioration of the current account in the year 2000 was largely due to the € 1,277 million trade deficit, higher than the corresponding figure in 1999 (€ 1,008 million), according to the National Bank of Bulgaria. The current account deficit is expected to decline gradually in 2001 and stay below 5 per cent of GDP, if more favourable external conditions materialise. The EU's recent liberalisation of trade with Balkan countries, an easing of oil prices and downward pressure on import prices coming from a stronger euro-fixed lev against the US dollar might all contribute positively to the current account performance. However, these factors will be somewhat offset by an expected drop in EU demand for Bulgarian products as the EU economies slow down.

FDI

Foreign investment in Bulgaria has been relatively low by regional standards, with accumulated net FDI for the past 10 years reaching US$ 3,148 million by the end of 2000. However, in the past two years the country has managed to increase FDI inflows significantly. Net FDI receipts were € 775 million in 1999, and increased to € 1,073 million in 2000, according to the National Bank of Bulgaria The 2000 FDI inflow was almost equally divided between privatisation projects and green-field investment. The largest investment in 2000 was made in the financial sector, when the country's largest bank, Bulbank, was privatised.

Government balance

In the last three years, Bulgaria has had a good fiscal performance. In 2000, the general government deficit was 1 per cent of GDP, a figure below that targeted in the annual budget. Unexpectedly high revenues, reflecting steadily improving tax collection, were behind the improvement. The excess in government budget spending was still much smaller than excess revenue.

The main principles of the 2001 budget were designed in partnership with the IMF. The consolidated budget deficit has been calculated at 1.5 per cent of GDP and that of the central government amounts to 3 per cent of GDP. The budget's key feature is an ambitious programme of tax cuts for enterprises, most importantly reductions in the corporate tax rate and in the employers' social security contributions.

Exchange rate

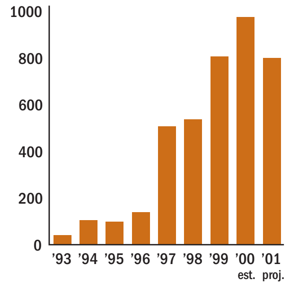
Under the terms of the currency board arrangement (CBA) the exchange rate of the lev is fixed to the euro. Over the next two years, assuming the continuing slowdown of the US economy, the lev will appreciate with the euro against the US dollar, leading to a real appreciation.

IMF agreements

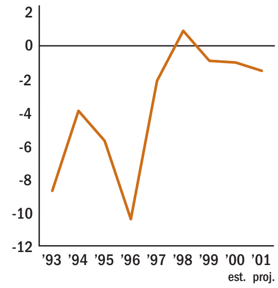
Bulgaria has an agreement in place with the IMF for a three-year US$ 860 million Extended Fund Facility (EFF) signed in September 1998. An IMF mission completed the fifth review in February 2001, leading to the release of the final tranche of the EFF, conditional upon the submission to the Parliament of a list of amendments to the energy law.

The report issued following the review praised the Bulgarian authorities for following prudent fiscal and incomes policies and advancing the process of structural reform. The IMF also called for keeping the fiscal deficit no higher than 1.5 per cent of GDP in 2000 and 2001 and for measures to preserve competitiveness and continue with structural reform. To foster competitiveness, continued wage moderation and measures to improve labour market flexibility are of great importance. Key priorities regarding other structural reforms include continued restructuring of the energy sector, completing the remaining privatisation projects, and further improving governance and the business climate, the Fund said.

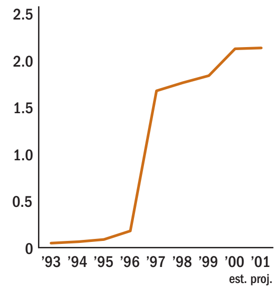
Total FDI
US$ millions, cash receipts, net



General government balance
% of GDP



Exchange rate
Annual average, leva per US$



Source: EBRD, February 2001

EU convergence issues

In its latest progress report on Bulgaria, the EU praised the country for its good results in macroeconomic stabilisation. The high rate of economic growth and the relatively low rate of inflation were singled out as positive achievements. However, the Commission also pointed out the slow pace of industrial restructuring, weak financial intermediation, and the underdeveloped land market as areas for improvement. The government was urged to improve the capacity of the state administration to implement and enforce EU rules.

Credit ratings

Standard & Poor's sovereign ratings, January 2001

Local Currency			Foreign currency		
Long-term	Outlook	Short-term	Long-term	Outlook	Short-term
BBB+	Negative	B	B+	Positive	B

Moody's country ceilings for foreign currency ratings, January 2001

Bonds and notes		Bank deposits	
Long-term	Short-term	Long-term	Short-term
B2	NP	B3	NP

Fitch IBCA foreign currency sovereign ratings, January 2001

Long term	Short term
B+	B

Selected economic indicators

	1993	1994	1995	1996	1997	1998	1999	2000 est.	2001 pro.
GDP (% change)	-1.5	1.8	2.1	-10.9	-6.9	3.5	2.4	5.0	4.8
Consumer prices (annual average % change)	73.0	96.3	62.0	123.0	1,082	22.2	0.7	9.9	8.0
Current account (in US$ millions)	-1,099	-31	-26	16	428	-62	-652	-696	-600
General government balance (% of GDP)	-8.7	-3.9	-5.7	-10.4	-2.1	0.9	-0.9	-1	-1.5
Trade balance (in US$ millions)	-885	-17	121	188	380	-381	-1,081	-1,173	-1,100
Total FDI (in US$ millions, cash receipts, net)	40	105	98	138	507	537	806	975	800
External debt stock (US$ millions)	13,836	11,338	10,148	9,602	9,760	10,260	9,989	10,170	9,500
Unemployment (% of labour force)	16.4	12.8	11.1	12.5	13.7	12.2	16.0	17.9	na
Exchange rate, annual average, leva per US$	0.028	0.054	0.067	0.178	1.674	1.760	1.836	2.123	2.132
Gross reserves, excluding gold (end-year, US$ millions)	655	1,002	1,236	518	2,121	2,679	2,900	3,460	3,800

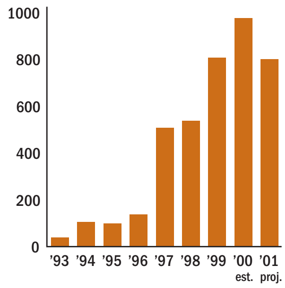
Source: ERBD, February 2001

Investment climate

Foreign investment in Bulgaria was comparatively low until 1997, but since then the new reformist government has brought about a remarkable change in the investment climate. As a result, the receipts from foreign investment have increased substantially, with two banking privatisation deals delivering the largest revenues in 2000. This tendency is expected to continue as the Bulgarian economy is now in improving health, and many large enterprises and banks are at an advanced stage of preparation for privatisation. Greenfield investments are also on the rise, and accounted for around 50 per cent of FDI inflows in 2000. From January 2001, corporate taxes were cut to some of the lowest levels in the region, further improving the investment environment.

Foreign direct investment

Total FDI
US$ millions, cash receipts, net



Source: EBRD, February 2001

Net FDI inflows have increased sharply in the last two years in Bulgaria. A total of € 775 million in 1999 rose to € 1,073 million in 2000, according to the National Bank of Bulgaria. The improved macroeconomic situation, the high growth rate of the economy, the return of stability to the region and the acceleration of the privatisation process are all factors responsible for Bulgaria's improving performance in attracting foreign investment.

In historical terms, foreign investment in Bulgaria has been relatively low by regional standards. The accumulated net FDI of the past 10 years had reached US$ 3,148 million by the end of 2000. However, the good performance of the last two years is changing the picture and quickly narrowing the gap between Bulgaria and other central and eastern European countries.

In 2000, Bulgaria ranked first in terms of foreign investment among the Balkan countries for the first time since transition began.

The 2000 FDI inflow was almost evenly divided between privatisation projects and greenfield investment. Some 90 per cent of all foreign investment came from 28 large investors. The two biggest investments were in the financial sector. The largest one, US$ 307.57 million, was made by Italian bank Unicredito for the purchase of Bulgaria's leading bank, Bulbank. The second biggest deal involving a foreign investor was the sale of the United Bulgarian Bank (UBB) to the National Bank of Greece for US$ 76.09 million. (See *Financial sector* below.)

In the last three years, the largest investments have been made in the financial, trade and services, and petroleum and chemicals sectors. Regarding the countries of origin, three EU countries (Germany, Belgium and Italy) rank as the top investors in Bulgaria in the 1992-2000 period.

In the coming years, the growth in foreign investment volumes is likely to continue. According to the Bulgarian Foreign Investment Agency, Bulgaria hopes to win US$ 1.3 billion in foreign investment in 2001, mainly due to improving confidence

FDI by country of origin, 1992-2000

Country	US$ million
Germany	498.2
Belgium	412.9
Italy	374.1
Greece	328.0
Cyprus	238.1
US	235.5
Austria	213.7
Russia	204.7
Netherlands	183.1
UK	180.5

Source: Bulgarian Foreign Investment Agency

FDI by sector, 1998-2000

Sector	US$ million
Tourism	88.09
Wood products	100.31
Petroleum & chemicals	278.25
Mineral products	229.79
Trade and services	430.87
Finance	596.96
Food products	75.93
Total	2490.13

Source: Bulgarian Foreign Investment Agency in the economy and the planned privatisation of several large-scale assets. The largest ongoing privatisation deals are the sales of Biochim (the fourth largest bank) and DZI (the largest insurance company). The largest sales due to take place in 2001-02 are of DSK Bank (the third largest bank), Bulgartabac (the national tobacco company), and BTC (the fixed-line telecom monopoly). The preparatory stage of privatisation of certain facilities within the infrastructure branches – energy, railway transport, water supply and sewerage – has also been initiated.

Investment policy and incentives

The Bulgarian government has a very liberal and open attitude towards foreign investors. In recent years, a regulatory environment that provides very favourable conditions for foreign investors has been put in place. The harmonisation of the legal framework with EU requirements has also started.

In 1999, Bulgaria replaced its outdated and fragmented **foreign currency legislation** and liberalised the current international transactions in line with IMF obligations. The foreign exchange regime is now based on the principle of freedom of concluding transactions, actions and payments. There are no restrictions on the transfer of investment related funds. A limited number of transactions between residents and non-residents must be registered with the Bulgarian National Bank prior to being conducted. The registration requirement is waived, however, in several specified cases. Import of national and foreign exchange cash by residents and non-residents is free, while export of over BGN 20,000 (around € 10,000) or its equivalent in foreign exchange requires a permit from the Bank.

The main remaining restriction on capital movements concerns the **acquisition of land** by foreigners, which is forbidden by the Constitution. This prohibition does not apply to legal persons with foreign participation registered in Bulgaria since, according to the law, they are considered to be Bulgarian legal persons irrespective of the size of the foreign capital participation.

Bulgarian Foreign Investment Agency (BFIA)

The role of Bulgarian Foreign Investment Agency is to assist companies in the investment process. It provides up-to-date information to prospective investors on the investment process in the country, legal advice, identification of suitable Bulgarian partners, co-ordination of investment policy with other institutions, etc.

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Trade and markets

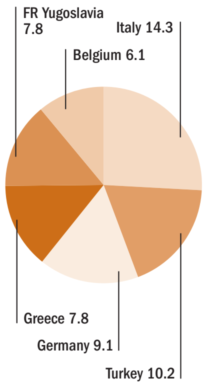
Bulgaria is a member of the World Trade Organisation (WTO) and its customs duties follow international norms. The country has an Association Agreement with the EU that came into force in 1995. In autumn 2000 the EU agreed to alter the General System of Preferences for the western Balkan states, including Bulgaria, lifting tariffs for 95 per cent of goods, meaning almost entirely duty-free

Largest foreign investments in Bulgaria, 1990-2000

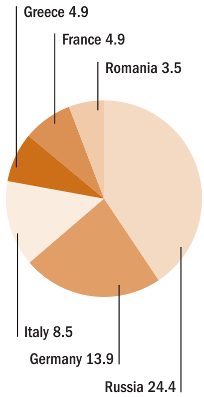
Investor	Country	Sector	Bulgarian company	Volume in US$ million
Unicredito	Italy	finance	Bulbank	307
National Bank of Greece	Greece	finance	United Bulgarian Bank	270
EBRD	International			261
Solvay	Belgium	chemicals	Sodi Devnya	201
Union Miniere	Belgium	copper smelting	MNK Pirdop	190.3
Lukoil Petrol	Russia	petrol	Neftochim	101
American Standard	US	industry	Ideal Standard, Vidima Ideal	100
Shell Overseas Holdings	UK	trade	Shell Bulgaria	92.9
Heidelberger Zement	Germany	cement	Zlatna Panega, Granatoid	70.2
Metro	Germany	retail	Metro Bulgaria	68

Source: Bulgarian Foreign Investment Agency

Exports by country
in 2000, %



Imports by country
in 2000, %



Source: Ministry of Economics

export to the EU. Since the start of 1998 Bulgarian industrial products are exported free of duty to EFTA member countries. Bulgaria became a member of the Central European Free Trade Agreement (CEFTA) in 1999. In accordance with the agreement, Bulgaria has begun a process of trade liberalisation in industrial and agricultural goods with Poland, the Czech Republic, Hungary, Romania, Slovakia and Slovenia, which will be completed by 2002.

The EU countries are Bulgaria's most important trading partners. Of these, Germany, Italy and Greece are the leading partners for both imports and exports. Russia accounts for the largest share of imports, mostly mineral products and fuels, oil and gas. The central European countries lost their historical importance in the 1990s as both markets and suppliers, but Bulgaria's entry to CEFTA brought about some improvement. Trading with the former Yugoslav republics suffered greatly, but a rapprochement with FYR Macedonia started recently. Neighbouring Turkey is also an important partner, especially on the export side.

Bulgaria's most significant imports are raw materials, mineral products and fuels, especially oil and gas, and machinery and equipment of various sorts. The chemicals, plastics and rubber, textiles, clothing, footwear and industrial consumer goods sectors generally account for more than 10 per cent of imports each. The export side is rather diverse. In the mid-1990s the best performers were metallurgy and a relatively modern bulk-chemicals sector. Exports of agricultural products have remained important, but problems in the agricultural sector have prevented their full potential from being realised.

Taxation and social expenditure

In 2000, Bulgaria implemented changes in its tax regime with the aim of providing a more predictable tax environment for businesses and to improve the efficiency of tax collection. The tax reductions delivered in 2000 were small-scale, due to budgetary difficulties. However, the government indicated that further tax cuts are likely in 2001, as the budgetary situation is expected to improve. Most importantly, the standard rate of profit tax was cut from 25 per cent to 20 per cent, while the concessionary rate (payable by companies with taxable profits under the equivalent of US$ 26,300) was reduced from 20 to 15 per cent. This took effect from January 2001, and makes Bulgarian corporate tax rates among the lowest in the region. The tax for the municipalities remained the same rate of at 10 per cent for all legal entities. Concerning income tax, the rate for the highest taxable income was cut by 2 per cent, from 40 per cent to 38 per cent. At the same time, the minimum income not subject to taxation was increased from the equivalent of US$ 42 to the equivalent of US$ 53 per month. Indirect taxation consists of VAT at a rate of 20 per cent and excise duties charged on goods such as fuel, tobacco products, alcoholic beverages, coffee and some types of cars. VAT will be extended to tourist services provided to foreigners from 2002.

Ambitious reforms to the **pension and health systems** have been initiated in Bulgaria in recent years. Under the 1999 health reforms, a Health Insurance Fund was created, which will gradually contract out healthcare provision to competing agencies including a mixture of public and private providers. The government is also implementing a much-needed reform of the pension system. The proposed three-pillar system consists of a public pay-as-you-go system, a mandatory privately managed second pillar, and a voluntary third pillar. Legislation for the reformed state scheme (first pillar) was passed in August 1999 in the form of the Social Insurance Code, and its phased implementation, including a raising of the minimum retirement age and a substantial reduction in early retirement categories, started in 2000. The legislative base for the third pillar (additional voluntary private contributions) was also adopted in July 1999, paving the way for the introduction of regulated private pension funds.

Privatisation and restructuring

Enterprise privatisation made remarkable progress in 1999 and 2000, and privatisation, apart from the utilities, will be almost completed by the end of 2001. Stakes and shares in 4,535 enterprises were sold between 1993 and December 2000, representing around 78 per cent of assets nominated for privatisation. The process has been carried out under three programmes:

- Market (cash) privatisation of state and municipal property;
- Voucher privatisation; and
- Restitution of real estate property.

New legislative changes introduced in 2000 are likely to improve conditions for further privatisations. In November 2000, a new privatisation law was approved that introduces tougher conditions for management-employee buyouts and makes the functioning of the Privatisation Agency more transparent. The new legislation was introduced as a response to criticism that management-employee buyouts hitherto have been too easy, resulting in fewer enterprises being sold to strategic investors.

In the 1999-2000 period, the sell-off of large state assets was accelerated. The most important deal in 1999 was the acquisition of Neftochim, the largest Bulgarian refinery, by Russia's Lukoil. (See *Major sectors of the economy: chemicals and petrochemicals* below.)

The financial sector is the area where most progress was made in the 1999-2000 period. Bulgaria's largest financial institution, Bulbank, was bought by Italy's Unicredito and Germany's Allianz Holding in July 2000. Two important deals took place in the financial sector in 1999. A 98 per cent share of Express Bank was sold to Societe Generale (France) and a 97.5 per cent stake in HebrosBank was acquired by the Regent Pacific Group (UK).

The country's two remaining large state-owned banks, Biochim and Banka DSK (State Savings Bank), are scheduled for sell-off in 2001.

In addition, the largest insurance company, DZI (State Insurance Institute), was launched for privatisation in late 2000, and a consortium of German-Israeli TBI Holding and DZI Management and Employee Company was the only bidder. (See *Financial sector* below.)

In the telecommunications sector, privatisation has progressed with mixed success. After long negotiations, the sale of the telecommunications monopoly, BTC, to a Greek-Dutch (Greece's OTE and Dutch KPN) consortium fell through in late July. The second global system for mobile communications (GSM) licence was awarded seperately to OTE in late 2000. (See *Major sectors of the economy: Telecommunications* below.) Another deal that failed to come off was the sale of Bulgartabac, the national tobacco company. It will be re-launched for sale with a new strategy in 2001. (See *Major sectors of the economy: Agriculture* below.)

Enterprise restructuring has progressed with some success in recent years. A programme of "isolation" and liquidation targeting the largest loss-making state-owned enterprises was launched in 1996 when 30 state-owned utilities (group A) and 48 state-owned commercial enterprises (group B) were cut off from bank credit, thereby forcing a fundamental restructuring of their operations.

The programme has helped to improve the operational and financial performance of many targeted enterprises. All group B enterprises have now exited the programme, with 31 being privatised, 13 under liquidation, and three under insolvency proceedings. By the end of 1999, production in all group B enterprises under liquidation had ceased, and by the middle of 2000, the majority of assets put under liquidation had been sold. The financial performance of some of the group A enterprises remains a source of concern.

Major sectors of the economy

The service sector (especially retail, tourism and telecommunications), which generates around 56 per cent of Bulgaria's GDP, has experienced the highest growth in the last few years. The share of heavy industry has been in decline. Most of the state-owned chemical, petrochemical, and metallurgical plants have been privatised, but so far their restructuring has been slow. The traditionally well developed agricultural sector has had a difficult transition due to uncertainties surrounding land reform, but the revitalisation of the sector has started.

Agriculture and food processing

Bulgaria is continuing to implement structural reform in the agricultural sector, which has been held up over the past decade by lack of a firm policy. Agriculture accounted for about 17 per cent of GDP in 1999, and about a quarter of the work force. The privatisation of the sector has accelerated and private farming now dominates in terms of output in the livestock farming sector. However, there is a still a dominance of collective forms of enterprise in terms of output in the crop sector.

Bulgaria's main crops are wheat, barley, maize, sunflowers, tobacco, sugar beet, fruit including wine grapes and apples, and vegetables including tomatoes, peppers and cucumbers. Livestock is another important agricultural sub-sector, although it has declined in recent years. Bulgaria also has a strong tradition of dairy farming, with yoghurt and feta cheese produced in large quantities.

Agricultural reform is geared towards meeting EU accession criteria. A National Agriculture and Rural Development Plan for 2000-06 (NARDP) has been adopted, which will use funding from the EU's Special Accession Programme for Agriculture and Rural Development (SAPARD) to achieve aims including improving efficiency in agricultural production, stimulating competitive private enterprise in agriculture, releasing credits, and sustainable rural development consistent with the best environmental practices. SAPARD will extend about € 53 million each year until 2006 for Bulgarian agricultural projects.
About 60 per cent of the financing is aimed at improving the competitiveness of agriculture and the food processing industry.
A National Agriculture Advisory Service (NAAS) has been established as a legal body under the Ministry of Agriculture and Forestry to provide support, expertise and consultancy to farmers, and ensure a close link between research, agricultural policy objectives, and agricultural activities.

Progress towards a land market

Land restitution picked up a rapid pace in 1999 and is now almost complete. By November 2000 around 98.1 per cent of the land had been restituted with title deeds issued to the owners, which has held up the emergence of a functioning land market. Legislative amendments have been introduced in 1998 to accelerate land reform, notably by simplifying the procedure for acquiring land titles. A Law on Unified Cadastre and Property Register was adopted by Parliament in April 2000.

This Law allows for the creation and the administration of a unified cadastre and property register. A Cadastre Agency has been created at the Ministry of Regional Development and Public Works. By January 2001, some 99.79 per cent of the land had been restituted. The process of land restitution has resulted in significant increases in fragmentation of land ownership (the total number of claims is 1.7 million and the total area under these claims is 5.5 million hectares). This has had a negative effect on the food processing industry.

A land market information system was created at the end of 1999. However, despite the new legislation and administrative structures, a well-developed transparent land market is still not in place, and banks still do not accept land as collateral. According to the EU's November 2000 Progress Report, much needs to be done to create a complete, unified cadastre, and the administrative structures need to become operational.

The constitutional prohibition on acquisition by foreigners of direct ownership of real estate (including land) remains, but 100 per cent foreign-owned firms registered in Bulgaria may purchase land and real estate, including agricultural land.

The EU's November 2000 Progress Report concluded that Bulgaria had made significant progress since the last report in terms of approximation of legislation, especially in the wine and cereal sectors. However, it states that further efforts are needed to address the lack of capital and investment in agriculture from the private sector, and that further adjustment of agricultural policy will be needed to conform to the Common Agricultural Policy. On-going feasibility studies will determine the necessary measures to come into line with EC requirements. Significant progress has been made in terms of adoption of legislation for the veterinary and phytosanitary sectors, but implementation capacity remains a serious problem.

The World Bank has provided an Agriculture Sector Adjustment Loan (ASAL I) worth US$ 75.76 million to Bulgaria, and plans to launch a second phase of the project (ASAL II), worth US$ 50 million in 2001. While ASAL I emphasised liberalisation, improvements in the incentives regime, and privatisation, with a secondary emphasis on regulatory and institutional reform, ASAL II will focus on establishing the legal and institutional requirements for market development. These loans will contribute to Bulgaria's preparations for EU accession. The World Bank is also contributing US$ 20 million to the initiative to establish a land registry.

Food processing

Food processing contributes about 4 per cent of GDP, but the sector only uses about 40 per cent of its capacity. About three-quarters of the fixed assets have been privatised. Investment in the sector accounts for 30 per cent of all foreign investment in Bulgaria. The leading sub-sectors are wine and tobacco.

Tobacco

Tobacco is an important export item, accounting for around 1 per cent of total exports in 2000. Initially, the break-up of the former Soviet Union affected the tobacco sector, but recent years have seen a recovery. The US is the main market for raw tobacco, and Russia for cigarettes.

The state enterprise Bulgartabac Holding is one of the largest cigarette producers in Europe. It deals with the production and purchase of raw tobacco and the import of raw materials, as well as with manufacture of end products, research and development. The holding consists of 22 companies, 12 of which deal with processing raw tobacco, one makes the packaging and the remaining nine are cigarette-producing plants. The holding is a majority shareholder in four joint ventures in Russia and Ukraine. It plans to set up two more companies, one in Moscow and the other in Romania.

After two years of failed attempts to privatise Bulgartabac, in November 2000 a new privatisation strategy was announced, involving splitting off inefficient companies and preserving a holding structure for the rest, which will be sold as a package to a strategic investor. The split-off companies will be sold independently. The aim is to make the domestic market more competitive by setting up a leading company and a number of smaller ones to fill market niches. According to the investors who were interested in the original privatisation of Bulgartabac, the main problems that caused them to pull out related to the clumsy structure of the holding company and the small size of the stake on offer (16-17 per cent). The new privatisation process is expected to be launched in March 2001. In early 2001, British American Tobacco (BAT) was reported to be interested in the privatisation.

Wine

The grape harvest totalled 400,000 tonnes in 2000, 30 per cent up from 1999. The wine production sector is 100 per cent privately owned, but is strongly decapitalised, and in dire need of modernisation. Wine is regarded as a sector with strong export potential, but progress has been hampered by lack of investment, in vineyards in particular. Financial institutions have little interest in lending to wineries in view of a decline in wine exports caused by the fiercely competitive nature of the low-price-range wine market.

A strategic partnership

At the end of 2000 Domaine Boyar, Bulgaria's leading wine exporter, joined forces with the Vinprom Rousse winery, owned by Seaboard Overseas Co (US). The two companies are combining their management and marketing expertise and their investments into a holding company, Boyar Estates, while at the same time preserving their existing brands. The combined enterprise expects to generate significant synergies in marketing and distribution, and to create production efficiencies. This partnership represents the establishment of the largest wine-producer in the country, with pro forma annual sales of € 30 million. It is estimated that the two companies exports account for almost half of Bulgaria's total wine exports. About 80 per cent of the wine produced by the combined group is exported, mainly to the UK, where it is sold in supermarkets such as Safeway and Sainsburys. The group will also enjoy a significant market share for Bulgarian wines in Germany, the Benelux countries and Scandinavia. New markets in North America and some of the central European countries will receive increased focus. Seaboard invested about US$ 25 million in Vinprom Rousse as part of its plans to turn it into eastern Europe's leading wine producer and renovated the company's four wine cellars. It intends to plant 200 hectares of vines each year. Domaine Boyar's own investment project has involved financing from the EBRD, Barings Central

European Investments (part of the ING-Bank group, Netherlands), and Dutch wine trader Baarsma, all of whom are shareholders. The funding was used to modernise two wineries (Vinprom Shumen and Vinis Yambol) and to build a state-of-the-art one at Sliven.
The EBRD, both as a shareholder and creditor of Domaine Boyar, and now of the new group, has shown initiative and flexibility in this process. It has revised and amended the terms of its financing to give the enterprise, and through it the Bulgarian wine industry, a most welcome boost in its efforts to meet increasing competition from “new world” wines.

Progress has been made in creating a regulatory framework for the sector. The establishment of control over wine production in accordance with EU standards is intended to enable Bulgarian wines to appear on European markets with low customs duties. A new Law on Wine and Spirits came into force on 1 January 2000, which aims at setting up conditions for the recovery of vine growing and wine producing. It introduces stricter control of the origin of wine and a classification system. The new Law was followed by four Ordinances adopted in April 2000 concerning the production of quality wines, licensing and commercial presentation of wines and spirits. A Vine and Wine Agency has been established as a state monitoring body to control and oversee wine production and collection, and also the National Vine and Wine Chambers.

Energy

Bulgaria's power-generation sector comprises nuclear, conventional thermo-electric and hydroelectric components. Nuclear capacity produces more than 40 per cent of electricity. The conventional capacity runs largely on domestically produced coal.

Under a comprehensive reform plan, Bulgaria's energy sector is now undergoing restructuring, to be followed by privatisation. The adoption of a long-awaited Energy and Energy Efficiency Act (EEEA) in July 1999 accelerated power sector reform by providing the regulatory and legal framework for the market-based development of the energy sector. It paved the way for the establishment of the State Commission for Energy Regulation (SCER) to oversee pricing and licensing, the State Agency for Energy and Energy Resources (SAEER) to formulate energy policy and exercise the state's ownership functions, and the Energy Efficiency Agency.

In April 2000, key secondary legislation to support the legal separation of the National Electricity Company's (NEK) generation, distribution and transmission assets into separate corporate entities was introduced. The new legislation also allows for the access of other companies in the transmission and distribution networks for electricity and natural gas once prices are fully liberalised from the beginning of 2001.
The strategy aims to tackle some structural problems, such as persistent energy losses and little incentive for final consumers to diminish waste.

The transmission company will act as an independent system operator and the only buyer and seller of electricity until 1 January 2002, when third party access rules will come into effect. The energy law allows for a single buyer with regulated access to the grid for eligible customers from early 2002. The law also anticipates the opening of a domestic power market as defined by EU electricity directive 96/92. Bulgaria hopes that at least 30 per cent of the power market will be opened by 2003. Third party access rules will come into effect from January 2002.

The liberalisation of prices continued in 2000. The remaining administered prices have been gradually brought closer to cost recovery levels as part of the reform programme. Electricity prices were the subject of some controversy after the government announced its intention to freeze prices for an extended period. The freeze was replaced by targeted assistance to the poorest households. Electricity prices will be raised to full cost recovery levels by January 2002.

The first phase of privatisation in the energy sector has begun with the planned sale of 22 small hydro plants with a total capacity of 226 megawatts (MW). This scheme will act as a pilot project before the privatisation of Bulgaria's entire generation sector. Another 41 hydro plants with a total capacity of 148 MW will follow this sale. Among the largest of the plants on offer is Stara Zagora with a total installed capacity of 22.4 MW.

Six minor hydropower stations were sold to local buyers in June-July 2000 for a total of US$ 4.5 million, with promises to invest amounts totalling US$ 1.144 million. In November 2000 French joint venture Mecamidi-Sofia (owned by Mecamidi, and SIIF Energie of France) won a tender to buy the Pirinska Bistritsa hydropower cascade. Mecamidi-Sofia will pay US$ 15 million for the power plants and has agreed to invest a further US$ 1.2 million in the 49.2 MW two-dam cascade. The government hopes that the investor's involvement in the project will help attract further foreign investment into the power sector. The most recent amendments in the Restructuring and Privatisation of State and Municipality Companies Law introduced a new

method for the privatisation of power utilities, including the hydropower plants that have not yet been sold.
By the end of 2001, the government will adopt a strategy for the privatisation of state-owned commercial entities in the power sector (energy, natural gas, district heating, and coal mining).

In preparation for the eventual decommissioning of the oldest units of the Kozlodui Nuclear Power Plant (see box) there is a need to construct new capacity. The country's newest hydro development involves a three-plant hydro cascade at Gorna Arda in the eastern Rhodope Mountains after a late 1998 framework agreement with Turkey. The US$ 220 million project will have a 170-MW capacity and annual output of 455 gigawatt hours (GWh). However, following the withdrawal of original joint venture partner Ceylan Holding (Turkey), in view of its own financial difficulties, a new strategic investor is being sought to take over financing of the project.

Two joint power projects are scheduled to start in 2001 with the involvement of NEK and two American companies, US Entergy and AES Corporation. The projects are related to the modernising and operating of coal-fired power plants at Bulgaria's biggest coal mining complex that supplies 30 per cent of the country's electricity. The joint venture in which Entergy will hold 67 per cent and NEK the rest will revamp a 840-MW coal-fired plant at the Maritsa East 3 extension. Work on the project, worth over US$ 400 million, is expected to be completed within four years. The other venture, with AES Corporation, is to build and operate a 670-MW coal-fired plant at the Maritsa East 1 facility. The US$ 860 million plant is expected to become operational by 2004-05. Both ventures are negotiating credits from IFIs (including the EBRD, KfW and OPIC).

The reforms at NEK are strongly supported by the EBRD, the IMF, the World Bank and other international financial institutions. In 1992 the EBRD provided credit of € 40 million for co-financing the implementation of the Maritza East 2 power plant project. In 2001, NEK will obtain a State Guarantee Loan in the amount of € 41.1 million to finance the implementation of the Power Transmission Project – Energy 2. In 1997, NEK received a € 60 million loan from the EBRD (co-financed by the EIB) that has been used to finance the refurbishment of the Maritsa East 3 power plant.

Current industrial restructuring and a decline in industrial production have lowered domestic demand for energy, which has given the government the opportunity to export the excess production. Income from electricity exports in 2000 is estimated at over US$ 120 million, sold to Turkey, Greece and Yugoslavia.

Under a recent contract, Bulgaria will export 4 terawatt hours (TWh) of electricity to Turkey between 2002 and 2008. Under a common agreement, in October 2000, Bulgarian electricity exports to Turkey in 2000 were increased to 3.3 TWh instead of 2.5 TWh as foreseen in a 1999 agreement. Exports are ultimately expected to increase to 4.0 TWh, as foreseen in the long-term contract. It will be possible to guarantee the security of electricity deliveries to Turkey once a second 400 kilo-volt transmission line has been completed at a cost of US$ 30-35 million. Construction started in October 2000, and is due to be completed in autumn 2001.

Kozlodui Nuclear Power Plant

Bulgaria's only nuclear plant, Kozlodui, produces 40 per cent of the country's electricity. The EU stated officially that it no longer views the Kozludui nuclear power plant as an obstacle to further progress before accession negotiations. In November 1999 the government agreed to EU demands to close the plant's two oldest 440/230-MW reactors before 2003. At the same time the EU also insisted that two other 440/230 reactors be closed in 2006, but agreed to postpone a final decision on the exact timing of the closure until Bulgaria updates its national energy strategy in 2002. Kozlodui's two VVER 1000 (1,000-MW) reactors will remain operational and will be upgraded to meet internationally accepted standards. As Kozlodui decreases generation, from 2003 three of the thermal plants (Bobov Dol, Rousse and Varna) will return to full capacity, prompting investors to focus on these plants.
A major portion of the EU grant aimed at supporting the decommissioning of VVER 440/230 reactors and offsetting social problems related to the closure of the reactors will be channelled through the International Decommissioning Support Fund established at the EBRD in 2000. Besides decommissioning, proceeds from the Fund will also finance related energy and energy efficiency programmes. The Fund will become operational in early 2001.

Telecommunications

The adoption of the new Telecommunications Law in 1998 introduced a liberalised regime for activities in the sector. All services were liberalised except voice telephony and leased lines, which will be opened to competition on 1 January 2003. This is well in advance of the WTO commitment of 1 January 2005.

Privatisation of Bulgarian Telecommunications Company (BTC), the state-owned firm with a monopoly on fixed-line communications, stalled in August 2000 when negotiations to sell a 51 per cent stake to a consortium of KPN Telecom (Netherlands) and OTE (Greece) failed, partly because of a lack of agreement over the extent of BTC's monopoly. Following these events, the government decided on a new strategy consisting of attracting an expert management team, possibly with a minority package, to prepare BTC for listing on international stock exchanges as a means of privatisation. This strategy does not exclude the possibility that a financial institution may take a stake in BTC.

Mobile telephony

Some business-oriented services such as mobile phones, satellite phones and data transmission are also in operation, largely in joint ventures between foreign companies and BTC. Mobile telephone penetration has grown rapidly in recent years, reaching a level of 7.5 per 100 inhabitants by October 2000 (as compared with 40 per 100 in western Europe).

Until the end of 2000 there were only two mobile operators, Mobikom and Mobiltel. Mobikom is an analogue cellular operator jointly owned by BTC and the UK's Cable & Wireless (49 per cent). Mobiltel was Bulgaria's first GSM operator, and by December 2000 had 450,000 subscribers. It covers 76 per cent of the country's territory and has roaming agreements with 226 operators worldwide. In December 2000, a second GSM licence was awarded to OTE (Greece) for US$ 135 million. OTE plans to invest up to US$ 300 million over the next two years to develop the network, and aims to achieve countrywide coverage and a 50 per cent market within two to three years.

Third-generation UMTS mobile licences will not be issued earlier than the end of 2001.

Bulgaria has relatively high line density. Recent investment have increased the fixed line telephone penetration from 33.6 lines per 100 inhabitants in 1998 to about 38 lines per 100 inhabitants at the end of 2000, close to the 40-50 per 100 inhabitants which is standard for industrialised countries. The level of digitalisation of local lines was quite low in 1998, at only 8 per cent. Digitalisation is more advanced for the international and long distance networks, at 100 and 80 per cent respectively. Further modernisation of the networks is under way, including a long-term programme of digitalisation, primarily aimed at improving business services. Its first phase, Project DON (Digital Overlay Network), was completed in 1998, with assistance from the EBRD. This put in place a new international exchange, 11 trunk exchanges and a number of local exchanges (all digital), two optical rings, digital relay links and more than 100,000 new subscriber lines with access to digital exchanges. The second stage of the programme is currently being implemented, with the aim of broadening local line digitalisation, and will be completed by 2010.

The Bulgarian part of the Trans-European network linking northern and central Europe with the Middle East was finished within the first stage of the DON. A fibre-optic cable project is also under discussion with the Black Sea Economic Cooperation zone. A digital version of the Trans-Balkan trunk line linking Istanbul to Italy could also allow Bulgaria to become a retransmission centre under the SuperNet programme.

Case study: Rila solutions – EBRD supports Bulgaria's IT sector

Rila Solutions, an internet and wireless solutions company, is the first business to benefit from a new US$ 30 million facility set up by the EBRD to support internet and high-technology firms in central and eastern Europe. In December 2000, the EBRD decided to make a US$ 3 million equity investment in Rila Solutions, providing a rapidly growing company with essential capital. In addition to the EBRD's investment, Rila has raised an additional US$ 6 million capital from other investors, including ARGUS Capital Partners (a private equity fund), in this round of financing. The funds acquired will be used to continue to develop Rila's operations and to increase the level of service and technology offered to clients.

The project is part of a more comprehensive strategy by the EBRD to promote growth in the region's IT sector by investing directly in private, small and medium-sized companies that derive a significant part of their revenue from internet-related activities.

Rila was founded by international financier George Soros in 1998, following a meeting with Bulgarian prime minister Ivan Kostov. George Soros remains a key shareholder of the company, as does Bulgarian Telecommunications Company, Rila's other initial shareholder.

The company develops leading-edge e-commerce solutions for clients in the US and Europe, which include Microsoft, Intuit, MyAlert and Essential Markets. 2000 was a particularly successful year for Rila, as its revenue grew six-fold compared with the previous year, while its workforce grew three-fold. Rila has offices in New York, Philadelphia, Paris and London.

Through its equity investment in Rila Solutions, the EBRD intends to support the growth of a well-managed business in a flourishing sector of the Bulgarian economy. The EBRD also expects Rila to set an example to other companies in the internet and IT sectors, not just in Bulgaria, but across the whole region.

Transport

Bulgaria's transport infrastructure is reasonably well developed, but has suffered from under-investment and poor maintenance in recent years. The country has major potential as a transport centre due to its geographic position on the traditional route from the Middle East to central and western Europe. The Pan-European Transport Corridors crossing Bulgaria's territory are Corridor IV, from Calafat in Romania through Sofia to Promachin in Greece and to Svilengrad on the Bulgarian-Turkish border; Corridor VIII from Gueshevo on the Bulgarian-Macedonian border via Sofia to the Black Sea ports of Burgas and Varna; Corridor IX from Giurgiu in Romania via Ruse to Alexandroupolis in Greece; and Corridor X from the Yugoslav border to Edirne in Turkey. Additionally, Corridor VII involves transport along the River Danube.

The need for development of alternative transport links was dramatically highlighted twice this decade. The trade embargo on former Yugoslavia and later the Kosovo conflict resulted in the blocking of Bulgaria's most important land and river routes to central and western Europe and led to major losses in exports. In the light of this, the speedy implementation of the European transport corridor projects has acquired an added urgency for the country.

Under the Stability Pact for South-Eastern Europe, established to coordinate regional integration and development projects, Bulgaria is to benefit from a wide range of initiatives, including three “Quick Start” projects in transport infrastructure. These are: the construction of a road and rail bridge over the Danube from Vidin in Bulgaria to Calafat in Romania (now that its disputed location has been settled with EU mediation work is proceeding, with an initial € 50 million that might be followed by an additional € 20 million financing from the EIB); the rehabilitation of ports along the Danube; and the construction of a new terminal and a new runway at Sofia airport.

On the basis of the EU's Transport Infrastructure Needs Assessment (TINA), which identifies projects to be undertaken to develop the Trans-European networks and link them up with the Pan-European Transport Corridors, the Bulgarian government has adopted a medium-term investment programme for transport infrastructure and a Transport Sector Strategy for 2000-06. Priorities include EU-aided road repair schemes, extensions to motorways (including a ring road for Sofia), reconstruction of major railway routes, the Danube bridge, and the development of various transport terminals at major ports. Many of these projects will be eligible for ISPA (Instrument for Structural Policies for Pre-Accession) funding from the EU.

The World Bank is funding a project for **Trade and Transport Facilitation in Southeast Europe**, which involves modernisation of customs administration, upgrading of information systems, improvements to border crossing infrastructure and equipment and technical assistance for trade facilitation. This regional programme involves Albania, Bosnia and Herzegovina, Bulgaria, Croatia, and FYR Macedonia. An investment of up to US$ 140 million is planned for the period to 2003. The main sources of financing will be the World Bank (US$ 38 million), its soft-loan arm the International Development Agency (US$ 30 million), the US government (US$ 9 million), and the EU (US$ 50 million), with participating countries providing US$ 18 million. This programme will represent the first regionally linked project in support of the Stability Pact.

Road

The total length of the national road network is 37,288 kilometres, about 90 per cent of which are asphalt-surfaced. Bulgaria has 324 kilometres of motorway, mostly with two lanes only. Economic difficulties and lack of financing for road infrastructure have caused deterioration.

With the help of the EIB, the EBRD and EU-PHARE, essential maintenance work has been carried out on the motorways and higher-category roads under an ongoing programme focusing on upgrading the main east-west roads linking the key industrial centres of Sofia, Plovdiv, Varna and Burgas (Corridors IV and VIII), and the north-south road between Romania and Greece (Corridor IX). After completion, about 85 per cent of the road network will meet EU norms for quality, safety and loading. Another priority is road transport connections with neighbouring countries and integration with the international network. Efforts are being made to upgrade existing border crossings, open new ones, construct new access roads and bring the existing roads up to standards relevant to current and expected traffic.

In addition to the Road Transport Law that came into force in September 1999, a new Roads Law regulating ownership, operation, management, construction and repairs of road infrastructure was introduced in April 2000. In January 2000, the Road Transport Administration was reorganised. An inter-agency Commission on Road Traffic Safety has been established to facilitate coordination among the authorities in this area.

Bulgaria's geographical situation – especially its place on the route from western Europe to the Middle East – has given it a strategic position in international haulage, in which the communist regime made heavy investments. The biggest haulage company, SoMat, was an early case of privatisation, with 55 per cent of its shares sold to Germany's Willi Betz in mid-1994. Betz and its Spanish subsidiary have since acquired much of the rest. Other haulage companies have been privatised and some new ones have appeared.

Rail

Rail is the most important domestic form of transport for freight. The network is run by the Bulgarian State Railways company. The Bulgarian rail network consists of about 4,300 kilometres of track, of which about 960 kilometres (22 per cent) is double track, and 2,640 kilometres (61.4 per cent) electrified. Only 150 kilometres of the lines were designed for speeds up to 130 kilometres per hour (kmph), and the rest for speeds up to 80-100 kmph. The main effort is on renovating and repairing the existing infrastructure, electrification of the track, and upgrading rolling stock. The signalling system generally conforms to European standards.

Bulgaria is implementing a rail restructuring programme, partly financed by loans from the EBRD, the World Bank and the EU. Projects being implemented concentrate on track repairs and new rolling stock. A new Railway Transport Law that will come into effect in January 2002 will allow the complete separation of infrastructure and transport operations. Ultimately only the infrastructure will remain under state ownership, while the passenger and freight services of Bulgarian State Railways will be privatised. A railway administration agency is to be set up to implement the process. By December 2000, eight out of 13 railway enterprises had been privatised.

Air

Bulgaria has 10 airports, four of which have international status. The main international airport is Sofia, which has potential as a regional transport hub. Under the ongoing transport development programme, Sofia airport is to undergo much needed modernisation, accelerated as a priority project under the Stability Pact. The airport will gain a new passenger terminal and a new runway at a cost of € 210 million, to be financed by the EIB, the EC, the Kuwait Development Fund and the Bulgarian government. Work on both was due to start in March 2001. The two other main airports serving international destinations are at Burgas and Varna. Both are equipped with modern navigation equipment.

Balkan Airlines, the national carrier, was sold to Zeevi Group (Israel) in 1999, who bought a 75 per cent stake for US$ 150,000 and pledged to invest US$ 100 million by 2004. However, the company had run into increasing difficulties by early 2001, and in February 2001 creditors filed bankruptcy petitions against Balkan.

According to the November 2000 EU accession progress report, Bulgaria has made considerable efforts to align legislation in air transport and has signed a bilateral protocol with the EC on the multilateral agreement to establish a European Common Aviation Area (ECAA), which will lead to progressive alignment with the acquis, including commitments aiming at full ECAA implementation by the end of 2005. In May 2000 Bulgaria became a candidate member of the Council of the Joint Aviation Authorities (JAA).

Water transport

Bulgaria has four relatively modern major ports. Two are on the Black Sea (Varna and Burgas) and two on the Danube (Ruse and Vidin). The country has strong maritime traditions and a large merchant marine fleet. The largest shipping company, Navigation Maritime Bulgare (Navibulgar), has shown healthy profits for most of the post-communist period. Of all the modes of transport, sea shipping has declined the least since 1989, as it has been least dependent on the vagaries of the domestic economy. It has also been an important alternative export route, especially during the trade embargo on former Yugoslavia.

The two major seaports, Varna and Burgas, handle more than 60 per cent of freight turnover. These ports have container terminals, ro-ro equipment and berths for various types of bulk and liquid freight, as well as connections with the railway and road networks.

The port of Burgas has an oil terminal, and the nearby location of the country's biggest oil refinery has made the port the main oil delivery and transit point. Vessels of up to 25,000 tonnes can be handled and there is direct connection with the road and railway networks. Within the framework of the transport corridor development programme, major investment projects are currently being implemented to build four new terminals at the port, at a total cost of US$ 380 million. US$ 120 million of the funding is being provided by Japanese finance. The projects include a new bulk terminal and expansion of the container terminal to increase cargo-handling capacity.

Before 1990, Varna was a major seaport servicing trade with the former Soviet republics. However, its capacity has dropped since, and it is in need of modernisation. Varna's bulk freight port handles ships of up to 60,000 tonnes and has direct connection with the road and railway networks. It too is undergoing an expansion of its container terminal with new berths and cargo-handling equipment, and construction of a new grain terminal.

The port of Varna is planning to build six terminals jointly with foreign companies under a master plan for development. The EBRD has provided technical assistance for the preparation of the plan and also for the container and grain handling facilities. Ongoing development projects include the construction of a terminal for liquid chemicals in partnership with Oil Tanking GmbH Hamburg (Germany). The project is expected to be completed in 2001 with a total planned investment cost of DEM 93 million. A joint venture between Varna port and Italcementi (Italy), the owner of Devnya cement, is building a second terminal for cement with two silos and a new conveyor, worth US$ 7 million.

Inland waterways

Inland water transport only accounts for about 5 per cent of Bulgarian vessel tonnage, with goods loaded and unloaded at river ports only about 13 per cent of the total including sea ports.
However, there are plans for modernisation of river ports over the next few years, including projects for port rehabilitation at Danube ports in both Bulgaria and Romania under the Stability Pact Quick Start programme. The EIB is the lead agency for the projects.
The main ports on the Danube are Ruse, Lom and Vidin. Ruse has an intermodal terminal, serving traffic to Germany and Ukraine.
Ruse is to be the site of several of the projects identified as Quick Start activities under the Stability Pact. These include a US$ 20 million project to build a combined transport terminal, renovate ro-ro terminal infrastructure, and install a new crane at the existing container terminal, among other upgrades. Another project aims to build a grain terminal, at a cost of US$ 2.9 million. Lom has an international road transport terminal for catamarans travelling to western Europe and handles domestic and international freight forwarding, together with bulk, general and container cargoes.
Lom too is to benefit from a new container terminal and related infrastructure at an estimated cost of US$ 24 million, and full modernisation for a further US$ 20 million. Vidin port has three specialised quays for loading and offloading as well as direct railway and road connections to the national transport network, and a duty free zone.

Case study: Sofia Water System Concession

More than 1 million residents of Sofia will benefit from the country's first privately managed water and waste-water company, Sofijska Voda AD, which has received a € 31 million loan from the EBRD.
The operation will enable the company to undertake a programme of capital investments in connection with its performance obligations as concessionaire of the water and waste-water system of the municipality of Sofia.
Sofijska Voda is 51 per cent owned by International Water Sofia BV, whose parent companies include Bechtel Enterprises Holdings Inc., Edison SpA and United Utilities plc. The remaining shares are held by Vodosnabdjavane i Kanalizatsia EAD, a company wholly owned by the municipality of Sofia. A 25-year concession contract gives Sofijska Voda the responsibility of running Sofia's water and waste-water services while keeping ownership of the assets in the hands of the city. This is the first privately owned concession for a water and waste-water utility in Bulgaria, and in fact the first instance of any substantial private sector participation in a public utility in Bulgaria. The project will demonstrate that private-sector capital can be mobilised for significant improvements in standards of living and health. In addition to providing the loan, the EBRD played a central role in helping Sofia municipality define parameters for private-sector participation, as well as mobilising independent advisors who worked with the city to prepare the project and select a concessionaire through open and competitive international bidding.
The concession contains a number of innovative provisions dealing with tariff adjustments and dispute resolution that should have a demonstration effect not only in the region, but also for similar concessions elsewhere in the world.
The funds provided by the EBRD will help Sofijska Voda to improve the condition of the city's pipe system, enhance customer service and promote a more efficient and easy-to-use billing system.
Initial investments will concentrate on the rehabilitation of the water and sewerage networks to reduce leakage and infiltration, ensure reliable supply as well as streamline billing and financial management.

The ports of Varna and Burgas could attract substantial oil transit from the central Asian republics, which see Bulgaria as a convenient shipping route to west European oil markets. Recent meetings of Bulgarian officials with counterparts from Kazakhstan, Uzbekistan and Azerbaijan have given shape to such projects.

A gradual privatisation after restructuring is envisaged for non-core activities of the shipping companies and ports.
The separation and subsequent privatisation of the tug fleet

and the Bulgarian Register of Shipping are under way. The ports will be restructured and leased under concession, either totally or in part, which is provided for in the Law on marine areas, inland waterways and ports. An implementation agency, Maritime Administration, has been established under the Ministry of Transport and Communications, and a General Directorate for Port Administration was also set up.

Shipyards

At its peak, Varna shipyard was able to build up to 10 ships a year and employed 5,000 people. However, now heavily indebted, the shipyard was due for liquidation until in June 2000 British shipbuilder Cammell Laird devised a rehabilitation plan. The plan envisages paying off the shipyard's debts and investing US$ 10 million over five years. At the end of August, the shipyard's creditors backed the rehabilitation plan, but in the light of complaints that the shipyard's assets had been heavily undervalued, some of the major creditors, including Navibulgar, later opposed the plan and it was rejected. In February 2001, a compromise was still being sought, but liquidation in order to pay off the creditors was a possibility.
In spring 2000, a management buyout company acquired an 80 per cent stake in Burgas shipyard. The new management announced plans to invest US$ 15 million for the construction of quay walls and the purchase of new equipment.

Chemicals and petrochemicals

Oil refining

Bulgaria has the largest oil refinery in the Balkans, Neftochim. Its privatisation was the biggest foreign investment deal of 1999. Russia's Lukoil paid US$ 101 million plus a total of € 591 million in debts and modernisation investments for a 58 per cent share of the refinery. 24.5 per cent of its shares are held by individuals and funds that acquired them in the mass privatisation process of 1996. The state retains a “golden share” which gives it power over strategic decisions. As part of the deal, Lukoil also owns the oil terminal facilities at Burgas on the Black Sea coast. Lukoil wants to obtain a concession for the Burgas oil port, which would enable the company to expand its activities. Construction of a pipeline between the refinery and the oil terminal is also being considered. Lukoil also has plans to set up a network of 120 gasoline stations across Bulgaria. This would win Lukoil a 25 per cent market share of the retail market.

Since privatisation, Neftochim's performance has been improving. In February 2001, the management announced that the consolidated profit for 2001 is expected to reach US$ 50 million. In 1999, the refinery had posted a loss of US$ 200 million. However, Neftochim needs extensive modernisation, changes in its production line and cost saving measures.

Pharmaceuticals

The pharmaceuticals sector has attracted a high level of foreign investment. The main reason for this is the privatisation of three large pharmaceuticals enterprises, Antibiotik Razgrad, Pharmacia Dupnitsa and Troyapharm, bought by Balkanpharma, a local pharmaceuticals trading company which is partly owned by the Icelandic pharmaceutical distibutor Pharmaco Ltd. Privatisation of the three companies was followed by improved sales, and the plants have been profitable since the start of 2000. In January 2001, Balkanpharma announced plans to invest US$ 27.3 million in its three factories this year. In summer 2000, Bulgaria's privatisation agency sold a 67 per cent stake in Sopharma, the country's biggest drug producer and the last remaining state-owned drugs company, to local company Elpharma for US$ 24 million in cash. Elpharma is a joint venture between local firm Electroimpex and Unipharm, a small drugs company bought out by the management in 1998.

Bulgaria is introducing good Manufacturing Practice (GMP) at its pharmaceuticals plants in a move to revive exports. The deadline for the introduction of GMP has been extended until 2002.

Metallurgy

Bulgaria has a relatively developed metallurgy industry, formerly a centrepiece of the socialist industrial development programme. It accounted for 10 per cent of the manufacturing sector and 10 per cent of exports in 2000, and is recording rapid growth in both sales and exports.

In the non-ferrous sector, the copper industry has attracted some foreign investment including the involvement of Belgium's Union Miniere, which bought the Pirdop copper works in 1997. Pirdop posted a 74-per cent rise in copper anode production and a 55-per cent increase in copper cathode output in 2000.
The refinery exported 78 per cent of copper anode output to Belgium, with the remainder sold on the local market.

The biggest copper concentrate producer is Asarel-Medet, which was privatised through a management-employee buy-out in 1999. It provides most of its production to Union Miniere's Pirdop plant.

The Steelmet plant for aluminium sections was inaugurated in November 2000. In 1994, Viohalko (Greece) and Bulgaria's Metalsnab Holding established Steelmet as a joint venture trading in non-ferrous metals. In 2000 Vihalko also acquired the non-ferrous Sofia Met plant in co-operation with Union Miniere (Belgium). The plant's annual output is 7,000 tonnes, 30 per cent of which is sold in the domestic market and the rest exported to Germany, Greece Italy, the Netherlands, Ukraine, Russia and some other Balkan countries. The company is also building storage facilities in Varna, and has plans for more at Ruse (on the Danube) to supply products to Romania.

Construction materials

Bulgaria has a rich construction materials sector. In October 2000 the government adopted a directive introducing EU standards and regulations for the sector, which will remove barriers for free movement of Bulgarian building materials in the EU.

There is substantial foreign interest in the construction materials sector. Italcementi (Italy) owns one of the biggest cement factories, Devnya Cement. The IFC is to provide financing of US$ 30 million for investment projects at the facility. Another cement factory, Zlatna Panega, was bought by Heidelberger Zement (Germany) and is undergoing upgrading. The German group has so far invested about DEM 20 million to computerise the facility, increase production capacity and energy efficiency. With a production capacity of 1 million tonnes per year, the company aims to be a market leader in the Balkans. The Beloizvorski cement plant was bought by Holderbank (Switzerland) in 1997. Holderbank is investing about US$ 20 million in new technology and environmental upgrades.

Tourism

Bulgaria's range of tourist attractions is comprehensive, encompassing almost every facet of mainstream tourist activity. The country is abundant in natural resources, including Black Sea beaches and mountain resorts suitable for skiing. There are also many historical and cultural sites with potential for heritage tourism. The sector is therefore considered very promising and among the most attractive for foreign investment. Bulgaria now plans to focus on more income-generating tourism projects such as the development of hiking or monastery tours as well as skiing, and to find better ways of promoting itself as a destination.

The Bulgarian tourism industry has attracted considerable foreign investment especially from large German tour operators such as ITS, Neckermann and TUI, who have invested some DEM 90 million in the renewal of the hotels and infrastructure at various Black Sea resorts.

In 2000 there was a boom in the number of visitors. Bulgaria registered US$ 1.012 billion in revenues from international tourism over the first 11 months of 2000, a 15.72 per cent rise year-on-year. A number of important privatisation deals were completed in the sector, including the sale of a 76 per cent share of Zlatni Pyasatsi Black Sea resort, bought for US$ 96.2 million by German tour operator Condor & Neckermann, who bid in a consortium with two local firms, Zlatni Pyasatsi (which owns six hotels and 20 restaurants among other tourist facilities) and Agrima. A 60 per cent stake of tourist company Pamporovo AD was purchased by the Swiss-registered Tourist Invest for US$ 11 million in January 2001. Pamporovo AD owns a ski resort of the same name in southern Bulgaria. The buyer is committed to invest US$ 2.447 million in Pamporovo over the next three years.

The EBRD is involved in supporting the Bulgarian tourist industry through a DEM 40 million credit line aimed at small and medium-sized tourist enterprises. The size of the loans available is between DEM 200,000 and DEM 2 million.

Financial sector

The most important event in the financial sector in 2000 was the privatisation of the country's largest and most successful financial institution, Bulbank. Preparations also advanced for the sell off of two more leading Bulgarian banks. The banking sector in general had a successful year based on the improving economic conditions and legislative reforms introduced in 1999-2000. Other major developments were the continued entry of foreign players into the insurance market and the launch of the country's largest insurance company, DZI, for privatisation.

Banking sector

The legislative framework for the Bulgarian banking sector was established in the early 1990s with two laws: the Law on the Bulgarian National Bank and the Law on Banks and Credit Activity. The framework for the functioning of commercial banks was created as well. In 1992 the Bank Consolidation Company (BCC) was set up to handle the government's shares in the state-owned banks and to prepare them for privatisation. These original acts were greatly amended and improved following the 1996 banking crisis and more recently within the framework of legal harmonisation with the acquis as Bulgaria prepares for EU membership. In 2000, the most important legislative changes related to the issuing of permits for performing banking activity and provisions on consolidated supervision. This new legislation has given the banking supervision department of the central bank additional powers and expanded legal scope for action.

The Bulgarian banking system is characterised by high concentration. The three largest banks (Bulbank, United Bulgarian Bank (UBB) and DSK Bank (the former savings bank)) accounted for 83 per cent of the net interest revenues of the banking system or for almost 50 per cent of the profitable asset total in the end of 2000. Bulbank and UBB were sold to foreign investors in 2000, while Banka DSK, which is the repository of much of the population's savings, has already been legally transformed into a commercial bank and is moving towards privatisation in 2001-02.

The regained soundness of the banking sector is illustrated by the strong performance of Bulgarian banks in 2000. The revenues of the banking system show a 40.43 per cent increase in the first nine months of 2000 as against the same period of 1999. The overall assets of the banking system by the end of September 2000 had grown by 29.39 per cent compared to the same period in the previous year.

Bank stabilisation

The banking sector in the early 1990s was characterised by lack of financial discipline, irresponsible lending to loss-making large state enterprises, lax supervision and excessive central bank refinancing. This, combined with the general economic mismanagement of the early 1990s, led in 1996 and early 1997 to a catastrophic few months' crisis of confidence in the banking system and a collapse of the national currency. The new government that came into power in 1997 put in place a comprehensive plan for banking reform and stabilisation. This plan contained four main elements: introduction of a currency board, stricter prudential rules and supervision, consolidation and privatisation.

The currency board, introduced in July 1997, was designed as the centrepiece of the country's stabilisation package and its functioning established conditions for the stabilisation of the banking sector. By stabilising the foreign-exchange market and severely reducing the scope for financing deficits with government paper, the board forced banks to concentrate on more sound activities. In addition, by restoring confidence in the currency and in the banking system, it encouraged the return of money that had been kept outside the system in hard currency.

New legislative measures also greatly contributed to the stabilisation of the sector. These included a new law on commercial banking and extensive amendments to the law on the central bank. The new provisions focused on an increase in personal liability and tougher qualification requirements for key banking personnel. Stringent collateral requirements for large credits and a phased increase of capital adequacy requirements (12 per cent by the end of 1999) have been introduced as well.

As a result of these measures, banking sector soundness has improved substantially. There has been an impressive inflow of fresh funds and banks have become very liquid. The incidence of violations of major requirements (including capital adequacy, open foreign currency positions, and loan concentrations to individual borrowers) has been reduced significantly.

Selected financial items for some larger banks ranked by assets, 30 June 2000, BGN 000

Banks	Strategic partner	Assets	Deposits	Current profit/loss
Bulbank	Unicredito, Allianz	2,333,721	1,610,015	66,206
United Bulgarian Bank	National Bank of Greece	1,110,380	833,851	8,825
DSK Bank	To be sold in 2001-02	1,095,887	945,961	12,141
Biochim Bank	To be sold in 2001	459,116	385,846	2,808
Bulgarian Post Bank	Eurobank (GR) Alico (US)	448,650	365,289	1,434
SG Expressbank	Societe Generale	377,561	293,741	1,160
Hebrosbank	Regent Pacific	336,938	246,185	3,719
First Investment Bank	Private, EBRD stake	248,065	141,976	5,436
Unionbank	Private	66,277	37,702	1,299

Source: Bulgarian National Bank

Selected aggregated financial items for the whole banking system, 30 June 2000, BGN 000

Banks base	Capital capital	Primary component	Total risk component	Total capital adequacy, %	Primary capital adequacy, %	Degree of asset coverage, %
Banking system, total	1,310,382	945,625	3,455,991	37.92	27.36	15.39

Source: Bulgarian National Bank

Privatisation

In 2000, banking privatisation reached a breakthrough as the country's largest and second largest banks were successfully sold to foreign investors. In July 2000, the largest bank, Bulbank, was sold to Italy's Unicredito and Germany's Allianz Holding. (See box for details.)

Around the same time, the National Bank of Greece acquired an 89.9 per cent stake in United Bulgarian Bank (UBB) for US$ 207 million. UBB is the second largest bank in terms of assets. The previous shareholders of UBB were: the EBRD, Bulbank (35 per cent), AIG New Europe Group, a subsidiary of American International Group (17.9 per cent), and CIBC Oppenheimer & Co (US) (12.7 per cent). The EBRD announced that it would keep 10 per cent for two years. The country's fourth largest bank, Biochim, and DSK Bank are scheduled for privatisation in 2001.

With the completion of these deals, the number of Bulgarian banks sold to foreign investors is five. The first sell-off took place in 1998, when a US-Greek consortium bought Post Bank. In 1999, France's Societe Generale acquired 97.94 per cent of the shares of one of the best performing Bulgarian banks, Expressbank, and the UK emerging market investment house Regent Pacific Group bought a 97.6 per cent stake in Hebrosbank.

Bulbank privatisation

By far the most important bank privatisation in Bulgaria took place in July 2000, when 98 per cent of Bulbank was sold for US$ 313 million. The buyers were a consortium of Italy's Unicredito (93 per cent) and Germany's Allianz Holding (5 per cent). Bulbank holds 27 per cent of the Bulgarian banking system's assets and deposits of around US$ 660 million, and has a reputation for good management and sound operational practices. In 2000, the bank achieved excellent results with its profit totalling US$ 77.4 million, or 69 per cent of the total net profit of the country's banking sector. UniCredito's management said that it does not intend to make major changes to Bulbank's strategy, but aims to improve customer services and put more focus on SMEs.

Non-bank financial institutions

Stock market

The Bulgarian Stock Exchange (BSE) was reopened in 1997, following a short-term suspension in 1996 caused by the financial and economic crisis. It recorded impressive growth in the first half of 1998, but the Russian financial crisis and the subsequent aversion towards emerging markets reversed this trend. The main role of the small stock market is to function as a secondary market trading shares distributed through privatisation, rather than as a way for companies to raise new capital.

Trading on the stock market remained limited in 2000. The registered turnover remained flat, with turnover for the year totalling US$ 63.9 million, almost equal to the 1999 turnover.

In 2000 there was some progress in creating the necessary legislative basis for the functioning of the stock market. The new Securities Public Offering Act that entered into force in January 2000 put in place an appropriate regulatory framework and adequate supervision and provided for substantial alignment with the acquis. The law is aimed at providing protection of investors and creating prerequisites for development of a transparent and efficient capital market. In particular, it enhances the protection of minority shareholders and strengthens the supervisory and regulatory powers of the State Securities Commission. A law regulating the activities of voluntary pension funds was adopted by Parliament as well. These funds are expected to play an active role in the development of domestic capital markets. As another development, in November 2000 the BSE banned off-the-floor deals and commission fees were cut, as part of its efforts to boost transparency and increase turnover.

The Securities and Stock Exchanges Commission (SSEC) is the state authority which supervises the security market, including the admission of securities to official listings. It has the power to grant and revoke licences and certificates and approvals, and can impose compulsory administrative measures and penalty payments. With the coming into effect of the new Law on Public Offering of Securities the name of the SSEC has been changed to the State Securities Commission.

Insurance

The insurance market, although relatively small, has good potential for rapid development and increased activities for foreign insurance companies. At the end of 2000, 24 insurance companies were operating on the Bulgarian market, of which 17 are engaged in general insurance and seven in life insurance. Two companies hold the largest market share, namely the state-owned DZI (State Insurance Institute) and the recently privatised Bulstrad. Bulstrad is 66.4 per cent owned by the German-Israeli TBI Holding. The EBRD acquired a 23.5 per cent stake in TBI Holding in 2000.

The most important event in 2000 was the launch of DZI for privatisation. DZI is the largest insurer in Bulgaria, with a dominant 74.5 per cent share of the life insurance market. It also holds a 35.5 per cent share of total life and general insurance premium revenue. A controlling stake of 51-67 per cent is being offered for sale. Despite initial interest from several well known institutions, such as Generali Holding (Austria) and Eureko (Netherlands), the only institution to put in an offer so far has been a consortium of TBI Holding and DZI Management and Employee Company. The government has indicated that it intends to start negotiations with TBI Holding, subject to clearance from the Bulgarian competition watchdog.

The market was opened up to foreign companies in 1997 with the introduction of a western-style insurance law. Several large insurance groups are present in the country, including AIG (US), Allianz (Germany), Interamerican (Greece), Munich Re (Germany), Hannover Re (Germany) and Garant Insurance of Vienna (Austria). In 2000, a new entrant to the market was Grazer Wechelseitige Versicherung/GRAWE (Austria). GRAWE Bulgaria is the firm's eighth investment in eastern Europe.

The activities of the insurance companies are regulated by the Insurance and Gambling Supervision Agency. The new insurance law, passed in mid-1997, largely improved regulation and conditions in the sector. It raised the minimum capital and debarred insurers from other activities, such as security services. Prudential requirements have been increased as well, and a re-licensing process was completed in 1998. As a result, the number of companies operating in Bulgaria had decreased from about 120 in 1998 to 25 in 2000.

EBRD activities in Bulgaria

By the end of 2000, the European Bank for Reconstruction and Development (EBRD) had signed 41 investments in Bulgaria, totalling € 443 million. Of these, six were in the state sector, totalling € 182 million (41 per cent), and 35 in the private sector (representing 24 clients), totalling € 261 million (59 per cent).

EBRD portfolio in Bulgaria, as at 31 December 2000

Operation category:	Number	Total project cost	EBRD participation Signed	% of total
1. Private industrial				
a) Foreign sponsor	11	535.2	139.4	31.4%
b) Bulgarian corporate	2	112.5	32.9	7.4%
Sub total	***13***	***647.7***	***172.4***	***38.9%***
2. Financial institutions				
a) Equity funds	5	89.3	22.1	5.0%
b) Banks	16	152.2	56.0	12.6%
c) Pension/insurance	1	24.0	10.8	2.4%
Sub total	22	265.5	88.9	20.0%
3. Public infrastructure				
a) Transport	2	430.8	94.6	21.3%
b) Telecom	2	188.7	33.1	7.5%
c) Power	1	111.1	43.8	9.9%
d) Other (agriculture)	1	36.5	10.7	2.4%
Sub total	***6***	***767.1***	***182.1***	***41.1%***
TOTAL	**41**	**1,680.3**	**443.4**	**100.0%**

Disbursements have reached € 380 million. Apart from 12 projects, all funding in the private sector is equity driven. The EBRD approved projects have mobilised total funding of € 1.7 billion for the country. In addition, 31 technical co-operation projects totalling € 8 million have been approved. Finally, one Nuclear Safety Account grant of € 24 million for the Kozloduy nuclear plant was committed in 1993.

Signed projects as at 31 December 2000

1. Private Industrial sector

Danone-Serdika

In March 1994, the EBRD made an equity investment of € 1.2 million in Danone-Serdika, a joint venture between Danone and Serdika-Sofia. Danone-Serdika is Bulgaria's leading **yoghurt manufacturer** and is the country's first privatised dairy company. The Bank's investment has contributed to the upgrading and modernisation of the existing product line and equipment, with a view to improved quality and a longer shelf-life for existing products, as well as the launch of new products. Two subsequent capital increase for a total of € 2.7 million were subscribed by the EBRD.

Delta Dairy

In December 1994 the EBRD made an equity investment of US$ 3.4 million in Delvi-P, an **ice-cream production** joint venture sponsored by Delta Dairy SA, a leading Greek dairy products manufacturer. Delvi-P is a joint venture between Delta, Vitalact (former state-owned dairy recently privatised by Delta) and Lb Bulgaricum (a Bulgarian yoghurt research and production company). The proceeds of the EBRD investment were used to expand Delvi-P's existing ice-cream production capability and install new production lines. Delvi-P is EBRD's first successfully completed and repaid private sector operation in Bulgaria.

Astera

In October 1996 the EBRD made a loan of US$ 10 million to Astera AD, a leading Bulgarian **personal care products** company, which acquired Aroma AD in a privatisation transaction, a long standing Bulgarian producer of cosmetics and personal hygiene products. The proceeds of the loan have supported the privatisation and modernisation of Aroma. This was the EBRD's first private sector industrial transaction with a 100 per cent Bulgarian owned company.

Storco

In October 1996 the EBRD extended a US$ 8.25 million loan and made an equity investment of US$ 1.75 million in Storco AD, one of Bulgaria's largest **fruit and vegetable processing** companies. The funding was provided to finance Storco's post-privatisation investment programme, including the upgrading of its food-processing facilities, restructuring of its operations and the improvement of its raw material supplies. Storco was privatised in November 1995 through the sale of 80 per cent of its share capital to Luxcraft Trading Ltd, a holding company owned by the Geller Group (Israel).

Solvay-Sodi Devnya AD

In June 1997, the EBRD made an equity investment of US$ 40 million to facilitate the privatisation and modernisation of Varna based Sodi Devnya AD, a world-wide leader in the **production of soda ash**. The privatisation transaction was one of the largest ever signed by the Bulgarian Government. The project sponsor is Solvay SA, a Brussels-based international chemical and pharmaceutical group. Solvay-Sodi's management is implementing a US$ 66.5 million five-year investment programme, including follow-up privatisation of three major suppliers in the Devnya region – Thermo-Electric Power Plant Devnya, the Lisitchevo Limestone Quarry and the Geosol salt mine.

Domaine Boyar

In June 1998 the EBRD approved a € 25.9 million syndicated loan for Domaine Boyar AD to fund the modernisation and expansion of the production facilities of two existing **wineries** and the construction of a third greenfield winery in the town of Sliven. This was EBRD's first commercial co-financing transaction in Bulgaria. The financing consists of a € 18.6 million loan from the EBRD and a € 9 million loan from ING Bank. The EBRD has also committed a € 2.2 million equity investment in the company.

Celhart

In November 1998 the EBRD approved a US$ 13.9 million loan and US$ 1.5 million equity investment for Celhart AD to fund the modernisation and expansion of the pulp and **kraft paper production** facilities at the plant in Stamboliiski. The project sponsor is the Isiklar Group from Turkey, a major player in the paper sack industry. To enlarge the factory capacity, a follow-up investment of US$ 10 million was approved in May 2000 (adding up to a total cost of the project of US$ 75 million). The financing of the project has been undertaken jointly and on equal terms with the IFC.

Foodstores (Ramstore) Bulgaria

A loan of US$ 12.8 million to Ramstore Bulgaria A.D., a wholly owned subsidiary of the Turkish retailer Migros Turk T.A.S in June 2000. The EBRD's loan will finance the construction of a chain of **hypermarkets and supermarkets** across the country, improving the efficiency of the local food distribution sector. The total project cost will be US$ 36.5 million. Migros Turk T.A.S is the largest retailer in Turkey.

Sofia Water Concession

EBRD extended a € 31 million loan to Sofijska Voda AD, the country's first **privately managed water and waste-water company**, under a project to improve the water system of Bulgaria's 1.2 million people capital. The water and waste water concessionaire company is majority owned by International Water UU (Sofia), whose ultimate parent companies are Bechtel Enterprises Holdings, Inc., Edison SpA and United Utilities plc. The loan supports the utility company's capital expenditure programme for the first five years of the concession, as well as various financing and start-up costs. Initial investments concentrate on the rehabilitation of the water and sewerage networks to reduce leakage and infiltration and improve continuity of supply.

Rila Solutions

In December 2000 the EBRD participated in the second round of financing of Rila Solutions, an **internet and wireless solutions** company founded by George Soros and BTC in 1998, through a US$ 3 million equity investment providing the rapidly growing company with essential early-stage capital. As a result of EBRD's assistance and participation, Rila Solutions raised a total of US$ 9 million from the EBRD and other investors, including ARGUS Capital Partners, a private equity fund, in this round of financing. The proceeds from this investment will be used to support the growth of the Company by attracting top engagement managers in the key West European and US markets. Rila Solutions is the first EBRD investment supporting the development of the high-tech sector in Bulgaria.

2. Financial sector

International Commercial Bank (formerly Bulgarian Investment Bank)

The recently renamed International Commercial Bank (Bulgaria) is a private sector investment bank established to provide corporate finance services and medium to long-term **loans to small and medium-sized private sector companies**.

The Bank was founded in 1994, with EBRD holding 46 per cent of the shares. The other shareholders were five Bulgarian commercial banks and BNP (France). In 1995, the Commercial Bank of Greece was attracted as a strategic sponsor and assumed management responsibilities for BIB in 1996. Currently the EBRD owns 8 per cent of the share capital.

BNP-Dresdner (Bulgaria) Bank

In September 1995 BNP-Dresdner (Bulgaria) Bank was opened in Sofia, a joint venture between France's Banque Nationale de Paris and Germany's Dresdner Bank, each of which holds 40 per cent of the capital. The remaining 20 per cent is held by the EBRD. The bank specialises in **trade and corporate finance**, offering financial services to international and Bulgarian companies. A total of € 4.9 million was invested by the EBRD.

Caresbac

In October 1994 the EBRD signed a US$ 4 million equity investment agreement with the investment company CARESBAC-Bulgaria. The company is owned by Small Enterprises Assistance Funds (SEAF), at 65.8 per cent and EBRD (34.2 per cent). CARESBAC-Bulgaria focuses on supporting SMEs through equity investments, mainly in agriculture, food processing and light manufacturing, with an emphasis on the export sector. The Fund is **targeting the low end of the investment spectrum** with investments of US$ 50,000 – 250,000. The Fund has a portfolio of 23 investments at a cost of US$ 6 million.

Euromerchant Balkan Fund

Euromerchant Fund is a venture capital fund established to invest primarily in small and medium-sized Bulgarian and Romanian **joint ventures with foreign companies and promising medium-sized local companies**. With a participation of US$ 8.3 million, the EBRD is a lead investor in the US$ 27.3 million fund. Global Finance SA, the fund manager, is a Greek financial services company. The Project Sponsor is the Athens-based EFG – EURO Bank. IFC is also an investor in the fund. The fund is fully invested and has committed US$ 23 million in 11 investments, five of which are in Bulgaria.

First Investment Bank

In October 1996 the EBRD signed an agreement with First Investment Bank (FIB), a private Bulgarian bank for a credit line of US$ 6.5 million (since fully repaid) for **on-lending to small and medium-sized enterprises**. In the first quarter of 1997 the EBRD acquired a 20 per cent equity stake of FIB in the form of a capital increase to facilitate the availability of financing to SMEs. Additionally, in August 1999, the EBRD arranged a € 13 million syndicated loan for FIB, comprising an A-Loan portion of € 5.0 million for the EBRD's own account and a B-Loan portion of € 8.0 million for the account of commercial banks. The transaction represented the first financial sector operation in the region following the end of the Kosovo crisis.

United Bulgarian Bank

UBB was established in 1993 through the consolidation of 22 local banks, largely spin-offs from the Bulgarian National Bank. UBB is a full service universal commercial bank. It was the first large Bulgarian bank to be fully privatised in mid 1997. EBRD took a 35 per cent participation along other institutional shareholders. The privatisation deal was concluded together with Bulbank (acquiring 35 per cent of UBB) and AIG New Europe Fund (30 per cent). In June 2000 some 90 per cent of UBB was sold to the National Bank of Greece, EBRD has kept a 10 per cent stake.

Black Sea Fund

The EBRD invested US$ 20 million in the Black Sea Fund (BSF), which closed in August 1998 with total capital commitments of US$ 62 million. BSF is a **follow-on fund to the Euromerchant Balkan Fund**, which is fully invested. The core countries in which BSF will invest are Bulgaria, Romania, Ukraine and southern Russia (with a possibility to consider opportunities elsewhere in the Balkan and Caucasus regions). BSF will provide much needed equity capital to local small and medium-sized enterprises and will promote the formation of joint ventures thereby facilitating foreign direct investment in the Black Sea region.

Post Privatisation Fund

A joint project between the EBRD and the European Commission, signed in December 1997. The EBRD committed € 30 million for direct **equity investment in medium-sized private or privatised enterprises** with good growth perspectives across the entire industrial sector. The size of individual investments is in the range of € 1 to 3 million. Additional equity of € 10 million is provided by the Fund Manager, Europa Capital

Management AS (Czech Republic). The BPPF is complemented by a technical assistance grant of € 15 million provided by EU Phare, mainly for pre-investment due diligence and post-investment support. As of 31 December 2000, the Fund had made six investments for € 14 million, of which EBRD invested € 10.3 million. Investee companies are active in food manufacturing, medical supplies, IT, micro-electronics, packaging and wine.

Grain Receipt Programme – SG Expressbank

Together with other institutions, the EBRD has worked closely together with the Bulgarian Ministry of Agriculture in developing and enabling **lending agricultural producers against warehouse grain receipts**. On the 26 of July 1999 the EBRD signed a Memorandum of Understanding with the Ministry of Agriculture, through which the Bank makes available up to DEM 50 million to Bulgarian commercial banks for a period of up to four years, to be on-lent yearly to agricultural producers against warehouse grain receipts. On the same day, the Bank signed the first loan agreement under this framework with SG Expressbank for an amount of DEM 10 million, which was renewed on 30 June 2000.

Warehouse receipts will enable farmers to borrow against their grain, using warehouse receipts as collateral. This will provide commercial banks with a safe and easily enforceable mechanism for financing the agricultural sector.

IO Fund: B&C Bulgaria

The IO Fund is a Danish government Sponsored Developing Financial Institution which **co-finance JV projects in the CEE countries** with Danish JV sponsors. EBRD is to co-finance the projects put together by the IO Fund, mainly of SME's.

Under the co-financing facility, EBRD has made one investment in Bulgaria, which is in B&C Bulgaria – a company that produces women's knit clothing. It is a joint venture with GERA, a Bulgarian company and BC, a Danish private company.

Trade Facilitation Programme

The Trade Facilitation Programme includes a range of products aimed at **facilitating intra-regional and international trade** of the countries of operations, consisting of (i) EBRD guarantee facility, allowing confirmation of trade finance instruments issued by client banks without cash collateral, and (ii) possibly, short-term pre-export advances to client banks. International Commercial Bank (Bulgaria) was the first beneficiary of this facility in Bulgaria. The EBRD has signed agreements for Trade Facilitation Financing with International Commercial Bank and United Bulgarian Bank.

Bulgarian Insurance Group

In December 1999, the EBRD signed a US$ 5.15 million equity investment in TBI Holding, a joint venture between Kardan Ltd of Israel and Deutsche Bank private equity. The company will invest in and actively manage insurance and pension fund management companies and health insurance funds in Bulgaria. It holds controlling stakes in Pension Fund Doverie and Bulstrad Insurance and Reinsurance Plc. The project promotes the development of capital markets in Bulgaria, contributing to the implementation of comprehensive pension reform. In December 2000 a new investment with the same sponsor was made to fund similar initiatives at a regional level, expanding the funding available to the Bulgarian project to US$ 9 million.

Small and Medium-sized Enterprises Facility

Union Commercial Bank (Unionbank) was the first bank in Bulgaria to benefit from a dedicated SME finance facility launched in 2000 by the EBRD and the European Commission. The signed € 3 million credit line aims to promote the growth of Bulgaria's small and medium-sized enterprises (SMEs). Unionbank has also received a substantial technical co-operation package aimed at developing its SME lending programme, as well as a grant to help cover the costs of building this business, both funded by the European Commission's Phare programme.

Bulgarian Tourism/SME Credit Line

In July 2000 EBRD signed US$ 5 million credit line with the Bulgarian-American Credit Bank. The Line will facilitate investments in the Tourism and SME sector. The credit line was extended at a very crucial moment of the Bulgarian tourism sector development, when almost all the industry has been privatised and financing is needed to improve the quality of the service offered, thereby making Bulgaria a preferred place for tourism.

3. Public infrastructure sector

Maritza East II Power Station

In June 1992 the EBRD provided credit of € 39.5 million for construction work at the Maritza East II power plant. The loan was to help finance the **completion of a lignite-fired generation unit** and the **retrofitting of sulphur dioxide removal equipment** to comply with environmental legislation. The total cost of the operation was € 114.0 million, including the project components financed by the European Investment Bank and the National Electricity Company of Bulgaria.

Eurovision

Bulgaria was one of 15 central and east European countries to benefit from the extension of the Eurovision network. In July 1992 the EBRD granted credit of € 12.0 million to help finance the **design, supply and installation of earth stations** in the countries, thus enabling them to be linked to the Eurovision network by satellite. Each country borrowed € 0.9 million for the partial financing of one transmit-and-receive earth station.

Bulgarian Telecommunications Company

In September 1992 the EBRD approved a loan of € 32.0 million to Bulgarian Telecommunications Company (BTC), the national telecommunications operator. The loan was designed to **finance the modernisation of Bulgaria's telecommunications facilities**, including the installation of nearly 100,000 line units of switching capacity in large cities throughout the country, a transit network inter-linking them, and new earth station and international gateway facilities. The total project cost was € 187 million, co-financed by the European Investment Bank, BTC and other sources.

Bulgarian Transit Roads

This major road construction project involved completion of a 32-kilometre section of the Trans-European Motorway between Plovdiv and Orizovo as well as improvements to some 800 kilometres of primary roads serving regional and long-distance transit traffic. The EBRD loan totalled € 38.9 million, with an in-kind contribution from the government of Bulgaria and a further loan from the European Investment Bank making up the total project cost of € 95.7 million.

Bulgarian Railways Restructuring

With co-financing from the World Bank, export credit agencies (ECAs) and EU Phare, the EBRD has contributed US$ 45 million to a major railway restructuring project. The ECA financing (USD 12.0 million) was organised by the EBRD, and is for track renewal machines, with the Bank financing 40 per cent of the corresponding contracts. The EBRD is also financing a turnkey project for coach rehabilitation, equipment for workshops and locomotive parts. This was the first loan under the EBRD's export credit loan arrangement programme (ECLAT).

Bulgarian Wholesale Markets

In December 1995 a loan agreement was signed to finance the **construction and rehabilitation of modern agricultural wholesale market facilities** designed to provide competitive outlets for private sector suppliers and traders of fresh agricultural products. In order to facilitate implementation, this project was redesigned in 1999 and reduced in scope. A new loan agreement (replacing the existing one) was signed on the 5th August 1999 for US$ 10 million. The new project will cover the construction of up to four markets in Bulgaria.

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Signed projects, as at 31 December 2000 (in € million)

Operation name	Product	Total project cost	EBRD participation			
			Board approved			Signed
			Debt	Equity	Total	
Private:						
International Commercial Bank	Equity subscription	1.6	-	1.0	1.0	1.0
Danone-Serdika	Equity subscription	8.3	-	1.2	1.2	1.2
BNP-Paribas Bulgaria	Equity subscription	7.8	-	1.3	1.3	1.3
Caresbac	Equity fund	14.0	-	4.3	4.3	4.3
Euromerchant Balkan Fund	Equity fund	16.2	-	4.8	4.8	4.8
Delta Dairy	Equity subscription	12.0	-	5.2	5.2	5.2
International Commercial Bank	Capital increase	3.9	-	1.8	1.8	1.8
BNP-Paribas Bulgaria	Capital increase	3.3	-	0.7	0.7	0.7
Danone-Serdika	Capital increase	2.0	-	1.2	1.2	1.2
First Investment Bank	Credit line	6.4	6.4	-	6.4	6.4
Astera	Loan	20.1	-	10.7	10.7	10.7
Storco	Loan + equity	35.0	10.5	1.8	12.3	12.3
BNP-Paribas Bulgaria	Capital increase	0.7	-	0.2	0.2	0.2
International Commercial Bank	Capital increase	5.4	-	0.3	0.3	0.3
First Investment Bank	Equity subscription	6.4	-	3.6	3.6	3.6
Danone-Serdika	Capital increase	4.1	-	1.5	1.5	1.5
Solvay Sodi	Equity subscription	246.1	-	43.0	43.0	43.0
United Bulgarian Bank	Equity subscription	48.2	-	11.1	11.1	10.7
BNP-Paribas Bulgaria	Capital increase	0.8	-	0.8	0.8	0.8
Domaine Boyar	Syndicated loan + equity	92.4	20.0	2.2	22.2	22.2
Black Sea Fund	Equity fund	14.3	-	4.6	4.6	4.6
Isiklar Celhart	Loan + equity	47.9	14.7	1.6	16.4	16.4
Post-Privatisation Equity Fund	Equity fund	44.8	-	29.1	29.1	8.3
Grain Receipt Programme	Credit line	20.5	20.5	-	20.5	5.1
IO Fund – B&C Bulgaria	Equity fund	0.04	-	0.04	0.04	0.04
First Investment Bank	Syndicated loan	12.5	5.0	-	5.0	5.0
Trade Facilitation Programme	Guarantee	9.1	9.1	-	9.1	9.1
Bulgaria Insurance Group	Equity subscription	24.0	-	10.8	10.8	10.8
BNP-Paribas Bulgaria	Capital increase	2.0	-	2.0	2.0	2.0
Isiklar Celhart	Follow-up loan	32.2	10.7	-	10.7	10.7
Bulgarian Tourist Credit Line	Credit line	20.5	20.4	-	20.4	5.1

Continued

Signed projects, as at 31 December 2000 (in € million) continued

Operation name	Product	Total project cost	EBRD participation			
			Board approved			Signed
			Debt	Equity	Total	
Private:						
SME Facility Programme	Credit line	3.0	3.0	-	3.0	3.0
Foodstores Sofia	Loan	39.2	13.7	-	13.7	13.7
Sofia Water Concession	Loan	98.7	31.0	-	31.0	31.0
Rila Solutions		9.7	-	3.2	3.2	3.2
35 private projects total:		***913.2***	***175.8***	***137.3***	***313.1***	***261.2***
Public:						
Maritza East II Power	Sovereign loan	111.1	43.8	-	43.8	43.8
Eurovision	Sovereign loan	1.1	1.1	-	1.1	1.1
Bulgarian Telecom	Sovereign loan	187.6	32.0	-	32.0	32.0
Bulgarian Transit Roads	Sovereign loan	112.8	46.2	-	46.2	46.2
Railway Restructuring Project	Sovereign loan	318.0	48.4	-	48.4	48.4
Wholesale Markets	Sovereign loan	36.5	10.7	-	10.7	10.7
6 public projects total:		**767.1**	**182.1**	**-**	**182.1**	**182.1**
41 projects TOTAL:		**1,680.3**	**357.9**	**137.3**	**495.2**	**443.4**