

# Doing business in Bulgaria

2009

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This guide is one in a series of country profiles prepared for use by clients and professional staff.

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# General overview



Geography

Bulgaria lies in the Southeastern part of the Balkan Peninsula, covering an area of 110,993 square kilometres (approximately 42,855 square miles). Bulgaria has a strategic geographical location in the Balkan region with a long border to the north along the Danube river with Romania. Bulgaria has borders to the south with Greece and Turkey and to the west with Serbia and the Former Yugoslav Republic of Macedonia. The Black Sea forms a natural border to the East. The capital city of Bulgaria is Sofia and other major cities include Plovdiv, Varna, Bourgas and Rousse.

The landscape of the country is predominantly mountainous, although arable land accounts for approximately 41% of the territory. All land routes from Europe to South Asia pass through the territory of Bulgaria.

Bulgaria has a moderate continental climate. The coldest month is January when average temperatures are minus 2 degrees centigrade and the warmest month is July with average temperatures of around plus 25 degrees centigrade. The annual average temperature is 12

degrees centigrade and the average annual rainfall is 700 mm.

Population and language

According to the latest official data as of 2007 year-end, Bulgaria’s population is 7,640.2 thousand people with an average density of approximately 69 people per square km. Urban population constitutes about 70.7%.

The official language of the country is

Bulgarian.

Public holidays

The following table lists public holidays, as provided by the Bulgarian government in 2008:

| Holiday  | Date         |
|--|--------------|
| New Year   | January 1    |
| Day of Liberation from the Ottoman Rule                              | March 3      |
| Second Day of Easter   | April 20     |
| Labour Day   | May 1        |
| St. George’s Day/ Day of the Bulgarian Army                          | May 6        |
| Day of Bulgarian Enlightenment, Culture and Slavonic Alphabet        | May 24       |
| Bulgaria’s Unification Day   | September 6  |
| Bulgaria’s Independence Day  | September 22 |
| Enlightenment Leaders Day (a day-off for educational establishments) | November 1   |
| Christmas Eve  | December 24  |
| Christmas Day  | December 25  |
| Second day of Christmas  | December 26  |



# Government structure

Bulgaria is a parliamentary republic headed by a President. The legal system of the Republic of Bulgaria is structured under the supremacy of the Constitution, adopted in July 1991.

The President is directly elected for a term of five years and can head the Republic for a maximum of two terms. The President emanates the unity of the nation and represents the Republic of Bulgaria in its international relations. Among his powers are ratification of certain diplomatic and military agreements and promulgation of laws, command of the armed forces, etc. The current President Georgi Parvanov, who was elected in November 2001 and then re-elected in November 2006, became the first re-elected president in the newest Bulgarian history.

Supreme legislative power rests with the unicameral 240-seat National Assembly, which is directly elected for four years on the basis of proportional representation. The last parliamentary elections were held on 25 June 2005. Twenty-two parties and coalitions and 13 independent candidates took part in the elections. Seven political forces passed the 4% barrier:

- ▶ “Coalition for Bulgaria” won 33.98% of the votes;
- ▶ Coalition “Simeon II National Movement” won 21.83% of the votes;
- ▶ Coalition “Movement for Rights and Freedom” won 14.07% of the votes
- ▶ Coalition “Attack” won 8.93% of the votes;
- ▶ Coalition “United Democratic Forces” won 8.44% of the votes
- ▶ Coalition “Democrats for a Strong Bulgaria” won 7.07% of the votes;
- ▶ Coalition “Bulgarian People’s Union” won 5.70% of the votes.

The Council of Ministers is the executive state body, which directs both Bulgarian domestic and international policy in Bulgaria. The government manages the implementation of the

state budget, organises the management of state property and approves certain types of international treaties mentioned in the Constitution. On 16 August 2006, the 40th National Assembly elected the new government of the Republic of Bulgaria. A three-party coalition government was formed by the Coalition for Bulgaria, Simeon II National Movement and the Movement for Rights and Freedom. Sergei Stanishev, leader of the Bulgarian Socialist Party, took the position of prime minister.

The new government was declared The Government of European Integration, Economic Growth and Social Responsibility. Its major priorities, stated in the political document signed by the governing coalition partners, were the following: EU membership, enhanced competitiveness and efficiency of the Bulgarian economy, higher standard of living for the Bulgarian citizens, strengthening of the Bulgarian national identity, in-depth reform in the judicial system, active and consistent foreign policy.

Bulgaria is represented by 18 members in the European Parliament, which were elected in May 2007. The Citizens for European Development of Bulgaria and the Bulgarian Socialist Party won five seats each, the Movement for Rights and Freedoms won four seats, the “Attack” Coalition won three seats and Simeon II National Movement won one seat. ■



# Economy

Over the last ten years, Bulgaria has enjoyed a period of sustained economic growth and political stability. As a result, the country joined NATO in April 2004 and EU in January 2007.

## Infrastructure

Bulgaria is located at the heart of the Southeastern European market which comprises of approximately 56 million people. The country's strategic geographical location is further enhanced by the number of international rail and motorways crossing the country and the commercial ports on the Black Sea and the Danube River.

The Pan-European Transport Corridors crossing Bulgaria are: IV, VII, VIII, IX and X. A network of eight motorways (E79, E83, E871, E772, E70, E773, E87, and E85) crosses the country, making connection to Western Europe, Russia, Minor Asia and the Black Sea.

The infrastructure of the country needs considerable investments in new construction and modernisation. For this reason, in 2006 the Ministry of Transport adopted an ambitious Strategy for the Development of the Transport Infrastructure of Bulgaria by 2015. It includes a detailed investment plan for the railway infrastructure, the road network, the ports and the airports of Bulgaria. The development of the national transport infrastructure as an integral part of the Pan-European Transport Network is the core of the Government's investment policy.

Currently, some of the priority investment projects of the Bulgarian Government as outlined in the strategy include:

- ▶ Trans-European transport corridor IV:
  - Construction of second combined (railway and road) bridge over the Danube River in the section Vidin-Kalafat;
  - Electrification and upgrading of the railway line Plovdiv - Svilengrad;
- Construction of "Maritza" motorway;
- Construction of "Lyulin" motorway;
- Constructing the intermodal terminal Sofia (corridors - IV, VIII and X).
- Modernisation of the railway line Blagoevgrad - Kulata;
- Electrification and reconstruction of the railway line Svilengrad - the Turkish border;
- Modernisation of the railway lines Sofia - Pernik - Radomir; Sofia - Plovdiv; Vidin - Sofia; Radomir - Blagoevgrad;
- ▶ Trans-European transport corridor VIII:
  - Completion of the construction of Trakia motorway;
  - Doubling and electrification of the railway line Karnobat - Sindel;
  - Reconstruction of the railway line Plovdiv - Zimnitsa;
  - Replacement of rail sections along the railway line Plovdiv - Bourgas;
  - Doubling and electrification of the railway line Karnobat - Sindel;
- ▶ Trans-European transport corridor IX:
  - Reconstruction of the railway line Ruse - Gorna Oryahovitza.
  - Construction of Hemus motorway
- ▶ Trans-European transport corridor X:
  - Modernisation of the railway line Sofia - Dragoman.



Bulgarian railroad network was developed around 50 years ago. The total railway line length is 4,760 km, of which 66% are electrified. There are six railway routes, eight terminals and one railway-ferry station (Vidin) that are included in the European Agreement on Important Transport Lines.

Bulgaria has five main ports. The largest are Varna and Bourgas, both located on the Black Sea. Rousse, Lom, and Vidin are significant commercial ports on the Danube. Bulgaria has three major airports, situated in the cities of Sofia, Varna and Bourgas. Sofia airport is the country's leading international airport, which handled more than 3.2 million passengers in 2008. Fraport operates the airports of Varna and Bourgas under a 35-year concession. In 2008, Varna Airport handled more than 1.45 million passengers, while the Bourgas airport handled more than 1.9 million .

### **Skilled work force availability**

According to NSI data from the third quarter of 2008, Bulgaria's workforce consists of 3,544,700 highly-educated and skilled men (53%) and women (47%). The adult literacy rate in Bulgaria is 98 percent. A high percentage of the workforce has completed some form of secondary, technical, or vocational education. Many Bulgarians have strong backgrounds in

engineering, medicine, economics, and the sciences, but there is still a relative shortage of professionals with strong management skills. The skilled workforce and the relatively low cost of labour (the average monthly salary as of September 2008 was EUR 275, according to NSI) are considerable incentives for foreign companies, especially those that are labour intensive, to invest in Bulgaria.

### **General Economic Trends**

The overall effect of the global financial turmoil on Bulgaria is not expected to be as severe as in other countries. The local banking system is under strict supervision by the central bank, investment banking is not a common practice, whereas local commercial banks are not directly exposed to "toxic" assets like their Western counterparts. Despite the expansion of retail banking in the recent years, Bulgarians have a traditionally smaller debt burden than people in Western Europe and the US and consumer spending will thus not be as gravely affected. In addition, the country avoids some of the currency risks that its neighbours are currently facing, since the Bulgarian Lev is fixed to the Euro.

The main reflection of the global economic downfall is expected to be a decrease in FDI inflows - the core engine of the country's



economic boom during the past several years. The construction and real estate sectors are expected to suffer the most from the tightening budgets of foreign investors. Industries such as tourism and transportation will also face decreased turnovers. Similar to most countries, the credit environment is worsening and banks are increasingly wary of providing loans to businesses and individuals. Bulgaria's main macroeconomic pressure arises from the widening trade balance deficit - approximately 26% of GDP in 2008.

Bulgaria is among the few Eastern European countries that can boast a healthy real GDP growth at above 6% p.a. (6.2% in 2007 and about 6.0% in 2008) and positive real GDP growth forecast for 2009. GDP forecasts for 2009, which were quite positive in end-2008 were revised to moderate to negative after the impact of the crisis became more evident in the beginning of 2009. GI currently forecasts a 3.5% drop in real GDP for 2009, which is close to the IMF forecast for Bulgaria.

The consumer price inflation in 2003 - 2006 was in the region of 4 - 6.5% p.a. Inflation was significantly higher in 2007, when the global rise of food and oil prices resulted in a 12.5% year-end inflation. In 2008, however, inflation decreased to 7.8% and it is expected that in the following years inflation

will further decrease. In 2006, industrial production grew by 5.9% compared to the year before and this trend of active development continued in 2007 with a growth of 9.2%. In 2008 the industrial production growth decreased significantly; BNB estimates indicate about 0.8% increase on an annual basis.

At the end of 2008, the reported unemployment rate was 6.3% (as compared to 6.9% in 2007, 9.1% in 2006, 10.7% in 2005, 12.2% in 2004 and 13.7% in 2003). The government has undertaken significant construction activities and structural reforms which have enabled the decline in unemployment in the last years.

However, in 2009 the unemployment rate is expected to increase due to the deepening crisis in many sectors of the economy. Unemployment is forecasted by BMI at 6.5% and 6.4% for 2008 and 2009.

In 2007 the government experienced social pressure stemming from the disagreement on pay-related issues with major social and employment groups, including teachers, medics and miners. As a result, in September 2007, Bulgarian teachers went on strike demanding a fair salary increase and improvement of the quality of education in Bulgaria. One month later, an agreement was reached but the credibility and the public rating of the ruling coalition were damaged. 2008 was also marked by several civil protests and failed votes of non-confidence, organised by the opposition. Nevertheless, despite the social and economic challenges faced in 2007 and 2008, there has been no serious threat of social and political instability for the ruling coalition.

### **EU Accession**

On 1 January 2007 Bulgaria became a member of the European Union. The process of harmonisation of Bulgarian legislation with EU legislation started several years ago and is still continuing. Transitional periods have been agreed for the adoption and implementation of some EU legislative acts.

2008 was marked by scandals involving corruption regarding the EU funds, which resulted in freezing of some of the financing from the PHARE, SAPARD and ISPA funds (about EUR 300 million).

### **NATO**

In 2002 Bulgaria was invited to become a member of NATO. The country joined the alliance in 2004.

### **Foreign Direct Investment (FDI)**

Bulgaria has adopted a liberal investment regime and attracting foreign investments is one of the government's top priorities. Between 1996 and December 2005, total cumulative foreign direct investment (FDI) into Bulgaria amounted to approximately EUR 12.9 billion. The 2006 FDI inflows attracted in Bulgaria registered an unprecedented growth, reaching EUR 6 billion, representing 90.5% increase from 2005.

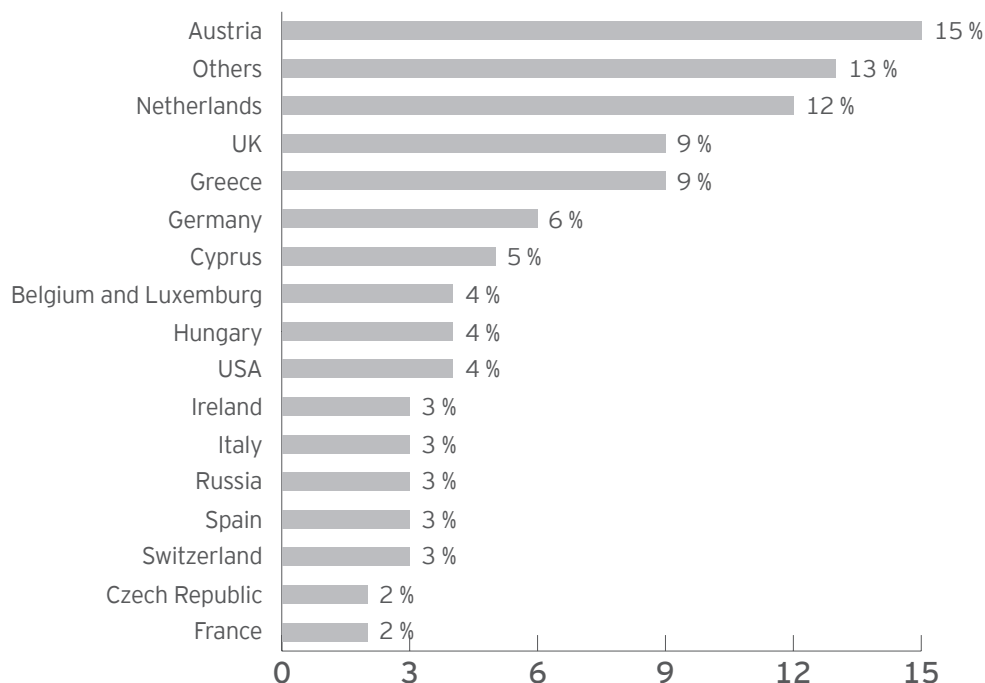
The annual flow of foreign investment for 2007 was EUR 6.5 billion, an 8.5% growth from the previous year. However, during 2008, due to the financial crisis, a slowdown in FDI inflows to EUR 5.4 billion was observed.

Economic development and strong market potential are among the decisive forces that enhance Bulgaria's ability to attract respected international investors. Over the last years the international credit rating agencies have improved the credit rating of the country many times reaching an investment grade. Since 2006 the country has been enjoying an investment grade credit rating. After the expansion of the global financial crisis, in October 2008 Standard & Poor's downgraded Bulgaria's sovereign rating from "BBB+" to "BBB". In November 2008 Fitch Ratings also downgraded the sovereign credit ratings of Bulgaria because of increasing risks of recession and possible ebb of foreign investments. Bulgaria's sovereign ratings were downgraded by the agency to Long-term foreign Issuer Default (IDR) 'BBB-' from 'BBB' and Long-term local currency IDR 'BBB' from 'BBB+'.

Despite the downgrades of the two agencies, the country's credit rating is still in investment class, which makes Bulgaria one of the countries offering opportunities for long-term investments.

The Bulgarian government has signed numerous international treaties for Encouraging and Mutual Protection of Investments with Netherlands, Cyprus, Finland, France, Denmark, Israel, Sweden, United Kingdom, Greece, Romania, Portugal, Slovakia and more, which are discussed in the Tax system section of the report.

The graph below shows the structure of FDI in Bulgaria by origin during the period January 1996 to December 2008:



Source: BNB

Based on information provided by the Bulgarian National Bank for the period from 1998 to 2008, real estate, renting and business activities ranked first in attracting FDI (22%), followed by financial services (20%), manufacturing (18%) wholesale and resale trade, repair of vehicles and personal and household goods (16%), construction (7%), electricity, gas and water supply (6%), transport, storage and communication (6%) and other sectors (5%).

For the period from 1998 to 2008 FDI through green-field, joint ventures, reinvestments and additional investments in already acquired enterprises exceed the FDI generated from privatisation, which has been the main source in the preceding period.

Some of the largest recent foreign acquisitions are presented below:

- ▶ In October 2008, Modern Times Group MTG AB, Sweden-based broadcasting group acquired Nova Television Bulgaria, the Bulgaria-based broadcaster, for a cash consideration of EUR 620 million.
- ▶ In August 2008, Allied Irish Banks plc, Ireland-based supplier of banking and financial services, acquired a 49.99% stake in Bulgarian American Credit Bank for a consideration of EUR 216 million.
- ▶ In August 2008, Central European Media Enterprises Ltd, acquired an 80% stake in TV2 and Ring TV, the Bulgaria-based television channels, for a cash consideration of USD 172 million.
- ▶ In August 2008, the privatisation of a 70% equity stake in Navigation Maritime Bulgare EAD was completed. The stake was acquired by KG Maritime Shipping AD for a consideration of EUR 225 million.
- ▶ In September 2007 KBC Group NV, Belgium-based financial services company acquired a 75% stake in Economic and Investment Bank for a consideration of EUR 295 million.
- ▶ In August 2007, KBC Group NV has acquired a 70% stake in DZI Insurance & Reinsurance AD for a total price consideration of EUR 185 million. As part of the transaction, KBC also acquired DZI Invest, the Bulgarian securities broker.
- ▶ In April 2007 AIG Capital Partners, a subsidiary of AIG Global Investment Group, acquired a 65% stake in incumbent telecommunications operator BTC for a consideration of EUR 1,080 million. ■

# Leading industries

From 1993 through 2008 the structure of the economy has changed towards a decrease in the share of agriculture as a proportion of total value added to the benefit of services and industry. In 1999 services accounted for 54.8% of total value added, in 2007 - 61.5% and in 2008 - 62.2%. The strong service sector growth was driven by above-average increases in trade, communications, financial services and distribution. Industry share in total value added increased from 28.9% in 1999 to 32.3% in 2007 and 30.5% in 2008. The share of agriculture decreased significantly from 16.3% in 1999 to 6.2% in 2007 and 7.3% in 2008.

The 2001-2005 government of Simeon II National Movement had declared the following sectors to be priorities for its industrial policy: communications and high technologies, transport, energy, tourism, food and beverages. The new government, which took office in August 2005, continued the industrial policy direction of its predecessors and also placed emphasis on certain sector priorities set out in the National Strategic Reference Framework for the period 2007-2013, *inter alia*:

- ▶ to support the development of infrastructure as a broad platform for the development of the national economy with an emphasis on transportation, telecommunications, water supply and waste water treatment, waste disposal and recycling, disaster management, etc;
- ▶ to encourage the development of small and medium enterprises (SMEs), which have shown above-average rates of growth in productivity and value added and accounted for more than a half of the employment in the non-financial sector; their industry profile is dominated by trade and processing;

- ▶ to support the on-going reform in agriculture, where fragmented property lead to low levels of specialisation, modernisation and market orientation.

In the last few years the government undertook measures for the restructuring of the energy sector aimed at: creation of conditions for liberalisation and competition that will give consumers the freedom of choice and access; fast-track and transparent privatisation of assets in the sector while the Government remains the owner of the electricity transmission and of the National Dispatching Centre; implementation of regional investment projects to make maximum use of Bulgaria's unique geo-strategic location.

Since 2002, as a part of the energy sector liberalisation, eligible consumers with annual consumption of more than 100 GWh (provided they have no overdue obligations to the transmission and distribution and supply companies) were granted free access to the electricity network and ability to freely negotiate with power generation companies. As of mid-2004 the scope of eligible consumers was widened to include consumers with annual consumption of more than 40 GWh. The threshold has been reduced to 20 GWh in mid-2005 and 9 GWh in mid-2006. From 1 January 2007 eligible consumers include all non-household consumers.

In 2002 the Bulgarian Parliament approved the Energy Strategy of the Republic of Bulgaria ("the 2002 Strategy"), replacing the 1999 Strategy, declaring as its priority the development of a competitive energy market. Among other things, the 2002 Strategy envisioned the privatisation of the distribution and supply companies and then, at a later stage, the privatisation of the power producers with intermediate load capacities - TPP Bobov Dol, TPP Varna and DHC Rousse.



The privatisation of the distribution and supply companies was completed in 2004 and that of the power producers with intermediate load capacities commenced in 2005. The acquisitions of TPP Varna and DHC Rousse were completed in 2006 and 2007 and of TPP Bobov Dol - in 2008.

There was an evident energy export slowdown and decline in the energy production volumes observed in 2007, due to the decommissioning of units 3 and 4 in NPP Kozloduy on 1 January 2007. Historically a net exporter of energy, Bulgaria decreased and may be forced to cease power exports in peak consumption periods and restore only a small part of the past export volumes in warmer months. To restore its former regional advantage, the Government has initiated a project for construction of a new Nuclear Power Plant near the town of Belene. The plant's construction has been already contracted and commenced on 3 September 2008. The project was declared a top priority of the Bulgarian government and its total cost is estimated at around EUR 4 billion.

In the beginning of 2008 the Government of Bulgaria and representatives of the Government of Russia signed a general framework agreement in support of the South Stream project for transit of natural gas from Russia to Southeast Europe and Italy. Another natural gas transit project - Nabucco, is planned to pass through the territory of Bulgaria. The Nabucco project envisages transit of natural gas from the Caspian Sea and the Middle East to Central and Western Europe.

Priorities of the Government's policy in transportation include: active investment strategy for developing of a modern infrastructure through financing from the government sector, EU funds, and other funding sources; privatisation of large

transportation companies and granting concessions for airports (after the successful completion of the Varna and Bourgas concession granting, currently, a procedure for the Rousse airport is ongoing) and ports at the Danube River and the Black Sea; financial stabilisation and modernisation of the state-owned railway transportation and railway infrastructure companies.

Liberalisation and modernisation measures were undertaken for the communications and high technologies sector.

Following the abolishment of the monopoly of the Bulgarian Telecommunications Company (BTC) over fixed-line services as of January 2005, when alternative operators were given access to its network, growth in the telecommunications sector is expected to pick up in the coming years with pace spurred up by the entry of new market competitors. Eighteen alternative operators were licensed by December 2007 (compared to seven by late 2005), though their market share has been small so far. Mobile penetration in the country rose rapidly in the last few years and was estimated at 142.1% at year-end 2008, which is higher than the EU average penetration rate of 120%.

According to data released by the Communications Regulation Commission, the Bulgarian telecom services market was estimated at EUR 1.71 billion in 2007, showing a 11% annual growth.

The internet penetration rate reached 38% in 2008. The expansion and improvement of the telecom infrastructure in the coming years and the increased competition are likely to result in a rapid growth in the number of end-users. Consequently, the Economist Intelligence Unit (EIU) forecasts 52.3% penetration by 2011.

There's a shift from dial-up connection (which accounted for two thirds of connections in mid-2004) to high-speed local area networks (LANs), cable networks and asymmetric digital subscriber line (ADSL).

According to the European Information Technology Observatory (EITO), the IT market in Bulgaria is growing with two-digit rate and will continue to increase at an average of 12.4% per annum until 2009.

The Bulgarian tourism presents significant development opportunities: a growing package holiday market from Western Europe, potential for new summer and winter resort development and theme park- associated resorts.

The flow of foreign tourists has been growing steadily for the past several years. According to the Tourism Agency, the number of foreign tourists who visited the country from January to September 2008 exceeded 4.9 million, a 18.2% growth compared to the same period in 2007. Among the issues impeding the development of the tourist sector are the underdeveloped infrastructure, the quality of services offered, the overconstruction in major Black Sea and mountain resorts and the lack of consistent and well-targeted advertising efforts.

In December 2007 the Government introduced its strategy for development of tourism for the period 2008-2013. The strategy was elaborated with the cooperation of Bulgarian private business and it focuses on attracting wealthier tourists, both by improving service quality and preserving the country's nature and cultural heritage.

Tourism is expected to be one of the significantly affected by the global financial crisis sectors in 2009, mainly in terms of lower occupancy of resorts during the holiday seasons.

Agriculture is dominated by the private sector, which includes a large number of co-operatives. The sector's share in 2008 GDP is 6%. The strategy for the sustainable development of the sector envisages attracting solid investment and know-how, offering incentives to investors in greenhouses and vineyards, orchards and groves, and providing incentives to export-oriented crop-growers, etc. Post-accession EU funds are expected to be the major drive for the revitalisation and development of the agricultural sector. Despite mismanagement issues in 2008, which resulted in temporary freezing of EU funds, the SAPARD funds were extended to December 2009, thus giving more time to be utilized. ■



# Financial system

In December 2008, the banking system reported profit of BGN 1,387 (EUR 709) million, an increase of 21.2% compared to last year and the highest profit for the last ten years.

## **Central Bank and Commercial Banking Sector**

The Bulgarian National Bank (BNB), established in 1879, operates as the Central Bank of Bulgaria. Its main objective is to maintain the stability of the national currency through the implementation of adequate policies and efficient payment system. BNB regulates and supervises the banking sector, grants banking licenses, controls commercial banks' trade in and settlement of government securities, and has the exclusive right to issue banknotes and coins in the country.

Amendments to the BNB law, effective as of January 2005, warrant a complete institutional, financial and functional independence of the BNB. These amendments also enhance the ban on the central bank's funding of public institutions and empower it to fight currency counterfeiting. The Law on Fund Transfers, Electronic Payment Instruments and Payment Systems, which came into effect on October 2005, laid the grounds for Bulgaria's financial integration into the euro area in the field of payments by enabling BNB to fully harmonize the country's payments framework with European Union legislation.

Bulgaria's banking sector has passed through a testing journey to reach the high levels of growth, expansion and confidence evident today. Bank supervision was lax during the early 1990s; state-owned banks systematically granted large loans to loss-making state industries, leading to pronounced deterioration of their asset quality. In the private sector, collusive relations between banks and entrepreneurs resulted in the granting of large loans with little or no collateral and only faint prospects of repayment. In 1996 a plummeting lev, soaring interest rates and BNB restrictions on liquidity led to a severe banking crisis. Net losses to the economy were estimated at USD 1.5 billion.

After the introduction of a Currency Board in 1997, the number of monetary policy instruments at the disposal of BNB was significantly reduced. Bad loans to enterprises were converted by law into state bonds with low interest rates for the first six years. The tightening of regulatory controls and the positive effects brought about by the introduction of the currency board have helped the sector to gradually regain confidence.

The banking system now is stable and maturing. There are 30 commercial banks (including six branches of foreign banks), with total assets of BGN 69.6 (EUR 35.6) billion as of December 2008, compared to BGN 59.1 (EUR 30.2) billion in December 2007 (a 17.7% growth). In December 2008, the banking system reported profit of BGN 1,387 (EUR 709) million, an increase of 21.2% compared to last year and the highest profit for the last ten years. The market is dominated by five large banks, which control about 57% of the system's total assets.

Bulgarian banks enjoy robust profitability levels underscored by sustained and healthy interest margins and strong volume growth. Capital-adequacy ratios stood at 14.86% at the end of December 2008 as compared to 13.83% in 2007, both of which are in excess to the legal requirement of 12%. Since 1 January 2007, BNB introduced the Basel II Capital Accord requirements. High corporate liquidity, coupled with attractive terms and rates on deposits, have contributed to a high level of deposit concentration.

In 2008, the individual and household deposits marked an increase of 16.8%. Consumer loans have expanded quickly in recent years but slowed down significantly in 2008, due to the ongoing financial crisis.

The percentage of loans distributed to the corporate sector are 56% of the bank system's credit portfolio as of September 2008.

Bulgaria has almost completed the privatisation of its state-owned banks, with an exception of Municipal Bank (pending privatisation) and Bulgarian Development Bank, attracting some strong foreign banks as strategic investors. The high level of foreign investment in the Bulgarian banking system supports the banks' development and strengthens the sector in terms of enhanced corporate governance practices and transparency. About 90% of Bulgarian bank assets are owned by large foreign banks, already well established in Central and Eastern Europe or by banks that are committed to achieving bigger market shares in the region.

Some of the major shortfalls of the bank sector include sluggish corporate loan granting process and underdeveloped e-banking.

#### **Stock Exchange and Securities Regulating Authority**

Since 1997, the Bulgarian Stock Exchange (BSE) has operated under a license from the Financial Supervision Commission (formerly known as Securities and Stock Exchange Commission). The 1999 Public Offering of Securities Act (POSA) regulates issuance of securities, transactions, stock exchanges, and investment intermediaries. Comprehensive adjustments to POSA, which were promulgated in June 2002, established rights for minority shareholders and created an important foundation for the adoption of international corporate governance principles in public companies.

The Bulgarian Stock Exchange guarantees its members and their clients equal access to the trading system. Trading can be carried out either on the BSE floor or on a remote basis. The trading system is electronic and order-driven. A modified

version of the RTS system (NASDAQ-based) was implemented in 2000. It offers all participants full transparency regarding price information and guarantees fail-free execution of orders.

In March 2003, Client Order-Book Online System (COBOS) was introduced to allow clients and stock exchange members to place security trading orders over the Internet in real-time. In June 2008, BSE launched the Deutsche Boerse electronic trading system Xetra and successfully integrated COBOS.

The infrastructure of the stock exchange has been substantially improved. Numerous trading instruments (government bonds, corporate bonds, Bulgarian Depositary Receipts, privatisation through the stock exchange, and municipal and mortgage-backed bonds) have been introduced. A new set of rules was adopted in 2006 which provide a new subdivision of the already existing official and unofficial markets. The current three A, B, and C segments of the official market were reduced to two (segments A and B). A newly proposed registration market is in the works and it will be designed to accommodate the needs of companies, which do not meet the minimum capital and liquidity requirements to be listed on the official or unofficial markets.

Although the market remains relatively small and illiquid, there has been significant expansion in the few years before the crisis: stakes in a large number of companies were disposed of in a series of centralised auctions in the period 2004-2008; an offer for 33% of the shares of BTC in 2005 raised BGN 630m (EUR 322m). However, by the end of 2008 after huge wave of sell-offs, the market capitalisation fell to BGN 12.46 (EUR 6.37) billion.

The annual trading turnover on the BSE was BGN 992 (EUR 507) million in 2004, BGN 2,257 million in 2005, BGN 3,377 million in 2006. In 2007, the trading turnover amounted to BGN 9,950 (EUR 5,080) million, but dropped to BGN 2,903 (EUR 1,484) million in 2008 year-end. SOFIX, the market capitalisation-weighted price index consisting of the top domestic stocks, stood at 625.31 points in 2004 year-end, 825.53 points in 2005 year-end, 1224.12 in 2006 year-end and 1767.88 in 2007 year-end. In 2008 SOFIX lost nearly 80% of its value and stood at 358.66 at the end of 2008. In February 2005, BSE introduced BG40 (non-weighted price index), which comprises of 40 companies with largest volume of deals for the last six months. BG40 stood up at 100.00 points on 01.02.2005, 133.26 in 2005 year-end, 200.20 points in 2006 year-end and 519.06 points in 2007 year-end and just like SOFIX dropped more than 77% in 2008 to 107.81 points in 2008 year-end.

In 2007, 11 companies had IPOs on the Bulgarian Stock Exchange, including two banks (First Investment Bank, with BGN 176 (EUR 90) million raised; and Corporate Commercial Bank, with BGN 58.5 (EUR 30) million raised). Two new indexes have been introduced in 2007 - the non-weighted price index BG TR 30 and the free-float adjusted market capitalisation index BG REIT. In 2008, due to the crisis situation, only three companies had IPOs.

As presented above, the market gained momentum in 2007, both trading volumes and liquidity increased considerably. However, during the last quarter of 2007 and the entire 2008 the Bulgarian stock exchange performance was influenced by the global financial turmoil that was stirred by the US subprime mortgage crisis. Despite the recent negative developments, it is

expected that the importance of the Bulgarian Stock Exchange in raising new corporate finance will increase in the future.

### **Insurance and Insurance Supervision System**

The period 1998-2000 was formative for the present market conditions and trends in the insurance sector.

The insurance industry in Bulgaria is currently regulated by a single regulatory body - the Financial Supervision Commission (specifically, by its Insurance Supervision Sub-Division), which was established in March 2003 and replaced the former Insurance Supervision Agency. The Insurance Act from 1997 was amended several times till 2005, when it was replaced by the Insurance Code effective 1 January 2006.

The Insurance Code introduced stricter and detailed requirements with respect to the minimum capital of insurers, which are summarily described hereafter.

The equity of insurers, decreased by the intangible assets should be always higher or equal to the solvency threshold (calculation of which is defined in a special Regulation) or to the minimum amount of guarantee capital, if the latter is higher than the insolvency threshold.

The minimum limits of the guarantee capital are set to:

- ▶ BGN 4.4 million for non-life insurers, not offering the following type of insurance products: third-party liability, credit insurance and guarantee insurance;
- ▶ BGN 6.4 million for life insurers as well as for non-life insurers offering the above mentioned exemptions along with the other insurance products;
- ▶ For insurers, licensed for captive reinsurance the minimum guarantee capital is BGN 2 million;

- For branches of foreign insurers: at least one third of the solvency ratio but not less than half of the minimum guarantee capital required for the respective type of insurance license;
- For insurance co-operatives: the minimum guarantee capital varies from BGN 100 thousand to BGN 400 thousand, depending on the level of annual premium income.

The Insurance Code introduced significant regulatory changes, aiming at harmonisation of the Bulgarian legislative framework with that of the EU, especially in the area of obligatory insurance. The general direction of legislative changes effective from 2006 is towards liberalisation, deregulation in the area of premium setting, and imposition of stricter requirements.

After the privatisation of the largest Bulgarian insurance company - DZI, which took place in 2002, the insurance sector is now almost entirely private-owned (with an exception of the Bulgarian Export Insurance Agency) with 37 insurers as of November 2008 - 20 on the general insurance market and 17 on the life insurance market. The general insurance market grew rapidly in the last few years: in 2005 general insurers realised gross premium income of EUR 470 million, a 26% year-on-year growth and in 2006 - EUR 542 million, a 15% year-on-year growth and in 2007 - EUR 584 million, a 7.7% year-on-year growth. In November 2008 gross premium income of general insurers was EUR 668 million (22% year-on-year growth). In 2006, 2007 and in the first eleven months of 2008 the market share of the three largest general insurers (DZI, Bulstrad and Allianz) was 44.9%, 40.5% and 40.2% respectively. The gross premium of life insurers up to November 2008 marked a year-on-year growth of 18.3% and reached EUR 123 million. Among the foreign investors, which have insurance subsidiaries in

Bulgaria, are Allianz, AIG Inc., Wiener Stadtische, Uniqa, Grawe, Munich Re, and Generali.

Despite the positive changes, the trend of lagging behind the EU countries in terms of insurance penetration still persists. The insurance penetration ratio for Bulgaria was 2.54% in 2006, 2.7% for 2007 and 2.6% for the first nine months of 2008, while the 2007 average ratio in Eastern Europe was around 3.4% and around 9.2% in Western Europe. According to recent market analyses, the insurance sector in Bulgaria has ample opportunities for further growth.

The health insurance market in Bulgaria is in its early stages of development. The gross premium income for 2006 was EUR 11.6 million (27% year on year growth); EUR 12.9 million for 2007 (11% year-on-year growth) and up to November 2008 it amounted to EUR 13.9 million (11% year-on-year growth). The four largest players, which contributed 65.5% of total gross premium income for the eleven months of 2008, were as follows: Generali Zakrila - EUR 2.92 million, DOM Zdrave - EUR 2.89 million, Medico-21 - EUR 1.88 million, and DZI Health Insurance - EUR 1.41 million. ■

# Currency

The currency unit in Bulgaria is the Bulgarian Lev. At present the BGN is fixed to the EUR at the rate of BGN 1.95583 per EUR 1.



The introduction of the Currency Board in the country in July 1997 led to improved confidence in the local currency, exchange rate predictability and lower inflation. After the introduction of the currency board, all constraints on trading with foreign currency within the country were removed. Local banks can sell hard currency to physical and legal entities without any limitations.

The currency unit in Bulgaria is the Bulgarian Lev. Since 5 July 1999, in order to facilitate payments, accounting and exchange operations the Bulgarian Lev has been denominated in a ratio BGL 1,000 to BGN 1. At present the BGN is fixed to the EUR at the rate of BGN 1.95583 per EUR 1. The Bulgarian National Bank announces reference rates of the Lev to the other major foreign currencies on the basis of their international market rates. The BGN denominations are as follows:

- ▶ Notes: BGN 2, BGN 5, BGN 10, BGN 20, BGN 50 and BGN 100;
- ▶ Coins: BGN 0.01, BGN 0.02, BGN 0.05, BGN 0.1, BGN 0.2, BGN 0.5 and BGN 1.

The policy of both the BNB and the government is that the currency board will remain in place until Bulgaria joins the European Economic and Monetary Union (EMU) which is expected to take place no earlier than 2011. ■



# Special Investment Considerations

As of 2008 year-end the remaining assets that are expected to undergo privatisation include 32 majority stakes in companies mainly from the energy and the manufacturing sectors, as well as 185 minority stakes.

## **Regulated Activities**

Banking, insurance, securities, pension, health and investment fund activities are subject to special laws, which regulate the terms of conducting their business operations, authorizing the operators on the market and establishing the capital limits for carrying out these types of activities.

## **Government-Owned Industries and Privatisation**

Bulgarian Privatisation Law was passed in May 1992. However, the privatisation process only started to gain impetus in 1997, when, as a result of a collapse in the economy, Bulgaria signed restructuring agreements with the IMF and the World Bank.

The Privatisation Law provided for two privatisation approaches, which were commonly referred to as “cash privatisation” and “mass privatisation”.

Under the “cash privatisation” programme the major parameters subject to negotiation are the purchase price as well as the investment, employment and environmental commitments to be undertaken by the purchaser. Incentives for purchasers have taken a flexible form with variations in the potential methods of payment rather than tax incentives. Besides, to attract buyers for the largest companies that were in a bad financial shape, the government made further concessions by writing off debts to the state. “Cash privatisation” has been carried out by the Privatisation Agency, various government Ministries and the municipalities by processes including direct negotiations, auctions, tenders and management buy-outs, or a combination of these. Later, the Bulgarian Stock Exchange has also been instrumental in selling stakes in public companies both to the public and to foreign investors.

According to data of the Privatisation Agency, during the period 1993 - October 2008, 99.18% of all state enterprise assets subject to privatisation were transferred to private hands (which constituted 65.5% of all state-owned assets). In 2008, 47 new privatisation deals were concluded, 5 of which were for majority stakes. The overall financial effect of the deals signed by 31 October 2008 amounts to EUR 9,240 million, including EUR 4,813 million in payments agreed on deals, EUR 753 million in liabilities and commitments assumed or paid by the buyers, EUR 3,674 million in investment commitments. Privatisation in the main industries (chemical, metallurgy, mechanical engineering, defence, electrical engineering and electronics, food and light industry), as well as in agriculture, construction and service branches is almost completed.

As of 2008 year-end the remaining assets that are expected to undergo privatisation include 32 majority stakes in companies mainly from the energy and the manufacturing sectors, as well as 185 minority stakes. The largest privatisation deals outside the utilities sector will include the sale of the tobacco processor Bulgartabac, Municipal Bank, two Free trade zones.

Under the “mass privatisation” programme, shares in public companies were transferred to the public in exchange for vouchers. In “mass privatisations” conducted to date, each citizen of Bulgaria above the age of 18 was allowed to acquire privatisation vouchers. Foreign investors have also had the opportunity to participate by establishing either fund management companies or privatisation funds. During the first stage of “mass privatisations” (1996-1997), stakes in 1,050 enterprises were offered and as a result of the placement of these stakes, about 20% of state-owned assets were transferred to private ownership.

A low-key second stage of “mass privatisation” began in 1999 with the purpose of selling the remaining stakes of the state in already privatised companies. One of the most important effects of the mass privatisation schemes was the development of the stock market.

In 2002, the Law on Privatisation and Post-privatisation Control (LPPPC) came into effect, replacing the Privatisation Law of 1992. The changes were aimed at ensuring transparent and effective privatisation procedures. All state companies (with few exceptions) are offered for sale by virtue of the law (previously a special decision of the competent body was needed to start the privatisation). The Privatisation Agency became the competent body to sell state-owned property (previously ministries also were involved in the process). A new Agency for Post Privatisation Control was established with the purpose of controlling the fulfilment of buyers’ contractual obligations. The privatisation technique of direct negotiations with potential buyers that was considered not transparent enough was eliminated. Minority stakes from attractive enterprises are offered through the Stock Exchange.

The new LPPPC includes a list of enterprises with more than 50% state ownership, which are not subject to privatisation, such as the National Electric Company (NEC, excluding small hydroelectric power stations and thermal power station Maritsa Iztok 3), Bulgarian State Railroads (BDZ), the gas monopoly Bulgargaz, Bulgarian Posts; other infrastructure companies in the energy, transport, water supply and sewage sectors such as NPP Kozloduy, sea and river ports, airports, water supply and sewerage companies; state-owned companies in healthcare, education and financial services and duty free zones. The LPPPC stipulates that a special privatisation and restructuring

strategy will be developed for the privatisation of monopolies, companies of dominant position in the sphere of public services, as well as companies connected with national infrastructure networks, and they will be offered for privatisation upon approval by the Council of Ministers. Some of the most important privatisation and restructuring projects are discussed below.

The privatisation strategy in the energy sector envisages fast track and transparent privatisation of assets in the sector while the Government remains the owner of the electricity transmission and of the National Dispatching Centre. The monopoly of NEC was eliminated in 2001 by separating power generation, electricity transmission and distribution capacities. During 2004, the PA announced tenders for the privatisation of the seven electricity distribution and supply companies through sale of 67% of their share capital. The seven companies were separated into three pools - a Western Pool, a North-Eastern Pool and a South-Western Pool with roughly equal coverage of the territory of Bulgaria. The winners of the privatisation tender for each of the pool were the following:

- ▶ 67% of Western Pool - CEZ a.s. (Czech Republic) for EUR 281.5m;
- ▶ 67% of North-Eastern Pool - E.ON Energie AG (Germany) for EUR 140.7m;
- ▶ 67% of South-Eastern Pool - EVN AG (Austria) for EUR 271m.

The privatisation of TPP Bobov Dol, TPP Varna and DHC Rousse, which started in September 2004, was the next step in the power sector privatisation.

In 2006 CEZ a.s. (Czech Republic) acquired TPP Varna for a consideration of EUR 206 million, and in August 2007 Holding Slovenske Elektrarne acquired DHC Rousse for a consideration of EUR 85 million. The privatisation of TPP Bobov Dol, which has been postponed several times, was completed in 2008 when 100% of the plant was sold to Enerгия MK for a consideration of EUR 51 million.

In January 2002 the Law on Railroad Transportation, which aims at liberalising the railway transportation sector, came into effect. In compliance with the provisions of that law, the state monopoly in railway transportation NK BDZ was split into two separate legal entities - National Company Railroad Infrastructure (infrastructure maintaining company) and BDZ EAD (carrier). The aim of the split was to identify activities requiring subsidies and to ensure transparency in subsidies disbursement, as well as to organise the rest of the activities in commercial enterprises.

In 2004 the privatisation of a majority stake (65%) in the state telecom monopoly BTC was finalised. The selected buyer, Viva Ventures - a subsidiary of the American investment fund Advent, paid EUR 230 million, plus EUR 50 million capital increase and commitment to invest about EUR 400 million in the next five years. In April 2007, the 65% stake was acquired by AIG Capital Partners. The transaction consideration was EUR 1,080 million. By the end of the year AIG Capital Partners increased its ownership stake to 90% and announced their intention to delist BTC from the Bulgarian Stock Exchange.

### **Foreign Exchange Control**

According to the currency board arrangements the national currency is internally convertible. The Bulgarian National Bank

(BNB) is obliged to buy and sell Euros in the territory of the country without limitations at spot rates deviating not more than +/-0.5% from the fixed rate. Under current exchange control regulations, banks can sell without limits to foreign investors in Bulgaria hard currency for repatriation of profits. These include dividends, interest, royalties, fees and liquidation proceeds.

The present Bulgarian foreign exchange legislation imposes some restrictions regarding transfers of local and foreign currency and other currency valuables between Bulgarian and foreign persons. The Currency Act, amended and supplemented in 2006 and effective from 1 January 2007, aims at relieving the foreign exchange regime by lifting restrictions on capital account transactions.

This act replaced the regime of permits by a regime of preliminary registrations with the Bulgarian National Bank of transactions between foreign and local persons on the money and capital markets and transactions with shares in companies (foreign persons), as well as all investments deriving from them. The Currency Act requires also that the initial foreign direct investment made by local persons and the financial credits between local and foreign persons be registered with the BNB.

Payments and transfers abroad should be effected only through the commercial banks after submitting a declaration on the purpose of payment/transfer. Local and foreign natural persons are allowed to bring national and foreign notes in cash in unlimited amounts into the country, provided that they have declared the amount before the customs authorities in case its value exceeds EUR 10,000.

Local individuals are allowed to take out of the country national and foreign notes in cash, equivalent to no more than EUR 10,000 without declaring them; amounts between EUR 10,000 and BGN 25,000 need to be declared; amounts in excess of BGN 25,000 can be taken out with prior certificate for lack of overdue liabilities, issued by the National Revenue Agency. The regime regarding foreign individuals is similar: they are required to declare the amount and the origin of notes with local value equivalent between EUR 10,000 and BGN 25,000; amounts in excess of BGN 25,000 can be taken out after declaring the amount, provided the value of the notes that the person has brought into the country exceeds the value of the notes that he plans to take out. If the amount the foreign individual plans to take out of the country is over BGN 25,000 or its equivalent and exceeds the amount he has brought into the country, prior certificate for lack of overdue liabilities, issued by the National Revenue Agency is also needed.

### **Environmental Law**

Since 1989 the environmental law has been almost entirely renewed. However, further efforts are necessary for the harmonisation of the Bulgarian legal environmental framework with the European rules. The Bulgarian environmental legislation is incorporated in a number of laws and regulations as some of their provisions have been amended and supplemented numerous times, thus complicating their application. Some of the most significant provisions, having impact on foreign investments concern the environmental impact assessment, the permission regimes for usage of some types of resources, some restrictions on the use of natural resources in view of preserving the ecological balance, etc.

In accordance with the general process of harmonisation is the harmonisation with European standards in the area of strict protection and conservation of the environment. According to the Kyoto Protocol, a special regime for trade with greenhouse gas is to be established. A National Register for quotas on greenhouse gas emission has already been introduced. In a short term, the European Commission is expected to discuss the Plan for distribution of quotas with emission of greenhouse gas for Bulgaria for 2008-2012.

In the beginning of 2007, huge public discussions have started on the implementation of the EU project Natura 2000. The project is based on two EU Directives which aim at the establishment of a European Ecological Network. Both Directives were implemented through the Biological Diversity Act (BDA). The latter specifies the conditions for the establishment of a National Ecological Network. The Ministry of Environment and Waters is in charge of collecting the documentation about the protected territories. The territories are determined with a decision of the Council of Ministers. All the activities undertaken in the determined territories should be in compliance with the requirements and rules for their protection and conservation.

The main institutions responsible for environmental protection are:

- ▶ the Ministry of Environment and Waters (the central environmental authority);
- ▶ the Regional Inspections of Environment and Waters and the municipal bodies (the local environmental protection authorities).

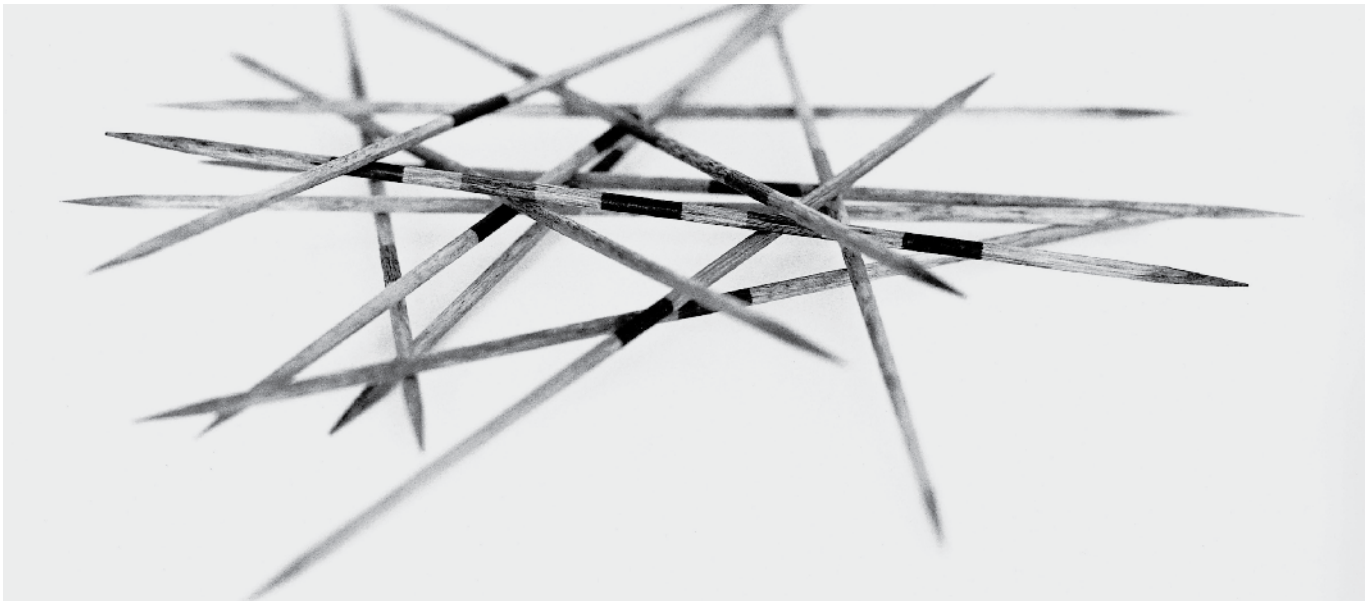
### Intellectual Property

Pursuant to the European Association Agreement between the EU member countries and Bulgaria, harmonisation of the legislation concerning intellectual property was a significant condition for the economic integration of Bulgaria with the European Union. Currently, the Bulgarian regulations are substantially in line with the *acquis communautaire* and provide for the most contemporary solutions for the protection of intellectual property.

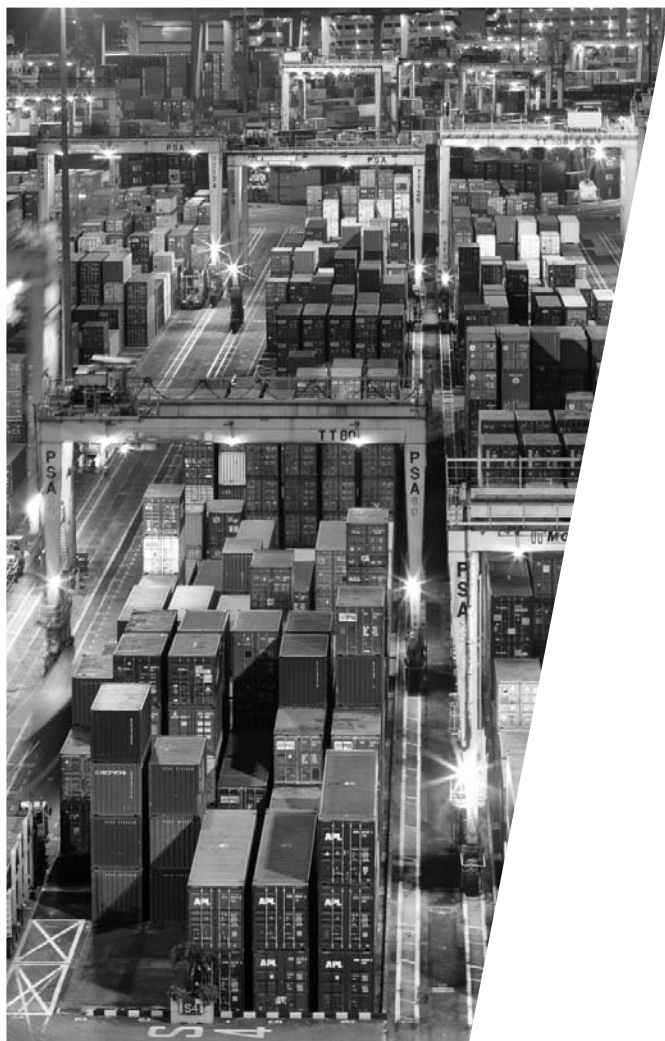
The protection of intellectual property rights is regulated by the following major laws:

- Copyright and Neighbouring Rights Act;
- Patents and Utility Models Registration Act (PUMRA);
- Marks and Geographical Indications Act;
- Industrial Design Act;
- Topology of Integrated Circuits Act, etc.

Bulgaria has ratified the Bern Convention for Protection of Literary and Artistic Works of 1886, the Geneva Universal Copyright Convention, the Convention for Establishment of a World Intellectual Property Organisation, the Paris Convention for the Protection of Industrial Property, the Madrid Treaty on the International Registration of Marks, the TRIPS Agreement, etc. ■



# Regional and international trade agreements and associations



Bulgaria has been a member of the World Trade Organisation ("WTO") since December 1996. In March 1993 Bulgaria signed the European Agreement of Association with the European Communities and their member states. The country entered into an Agreement with the European Free Trade Association ("EFTA"), enforced in 1993 and in July 1998 became a member of the Central European Free Trade Agreement ("CEFTA"). Bulgaria has free trade agreements with Turkey, FYROM, Albania, Israel, Moldova, Bosnia and Herzegovina, Serbia and Montenegro. As a result of these treaties, the number of goods subject to duties has been significantly reduced.

The foreign trade regime in Bulgaria meets the requirements of the WTO. Transactions with a limited number of goods are controlled by the government administration. The Council of Ministers Decree No. 233 of November 2000 further liberalised the foreign trade regime by reducing of the number of goods that are subject to permits. ■

# Importing and exporting

The Bulgarian foreign trade turnover has doubled for five years.

Official data of the National Statistical Institute shows that the Bulgarian foreign trade turnover has doubled for five years: it amounted to BGN 38.3 billion (EUR 19.6 billion) in 2004, BGN 47.2 billion (EUR 24.1 billion) in 2005, BGN 59.6 billion (EUR 30.5 billion) in 2006, BGN 69.2 billion (EUR 35.4 billion) in 2007 and is estimated to BGN 79.4 billion (EUR 40.6 billion) in 2008. Bulgaria has been running an increasingly large trade deficit for some years: in 2000 the trade balance deficit (FOB) stood at 9.4% of GDP, in 2006 it was 22.0%, in 2007 it was 25.3%, while in 2008 it grew further to 26%. The increasing trade deficit is one of the largest concerns on the macro level, which stands behind the decision of Fitch to change Bulgaria's rating perspective from neutral to negative in the beginning of 2008.

## Imports

The FOB imports in Bulgaria in 2007 amounted to BGN 40.7 (EUR 20.8) billion and the estimations of BNB for 2008 are in the range of BGN 47.1 billion (EUR 24.1 billion).

The major categories of imports are: mineral fuels, lubricants and other related materials; manufactured goods; machinery and transport equipment. The lack of significant domestic oil and gas resources contributes to the increase in imports. According to NSI the share of mineral fuels, lubricants and other related materials was 16.7% in 2004, 20.2% in 2005, 21.8% in 2006 and 19.9% in 2007 which indicates an increasing level of dependence of the economy on energy intensive productions. As of November 2008, mineral fuels, lubricants and other related materials accounted for approximately 21.9% of imports.

According to the NSI data, the main origins of imports for the 11 months of 2008 were the Russian Federation (14.5%), Germany (11.8%), Italy (7.8%), Turkey (5.6%) and Greece (5.4%). The imports from the Russian Federation are mainly energy resources - crude oil and gas.

## Exports

FOB exports amounted to BGN 15.6 billion (EUR 8.0 billion) in 2004, BGN 18.5 billion (EUR 9.5 billion) in 2005, BGN 23.5 billion (EUR 12.0 billion) in 2006, BGN 26.3 billion (EUR 13.5 billion) in 2007 and an estimated BGN 29.9 billion (EUR 15.3) in 2008.

The major export categories are ferrous and non-ferrous metals, wearing apparel, minerals and fuels, chemicals, machinery and mechanical appliances, food, beverages, tobacco and other finished goods.

As of November 2008, Bulgaria's main export destinations were Greece (9.9%), Germany (9.3%), Turkey (8.8%), Italy (8.5%), Romania (7.2%) and Belgium (5.9%). ■





# Enterprises for doing business in Bulgaria

# Forms of enterprises

Foreign persons can do business in Bulgaria without incorporation through a permanent establishment.

The Bulgarian Commercial Act (adopted in 1991, last amended 19 December 2008) provides the main framework for commercial entities' set up and corporate governance in Bulgaria.

Foreign persons can do business in Bulgaria without incorporation through a permanent establishment. Under Bulgarian law they can also use the following forms of commercial business organisation:

- ▶ sole trader - individual;
- ▶ partnership: general partnership, limited partnership, partnership limited by shares;
- ▶ commercial entity (company) set up by two or more individuals or legal entities for the purpose of carrying out business;
- ▶ branch;
- ▶ representative office;
- ▶ consortium and holding;
- ▶ co-operative society.

The Commercial Act provides for the following types of companies:

- ▶ joint-stock company (AD);
- ▶ limited liability company (OOD);
- ▶ general partnership;
- ▶ limited partnership;
- ▶ partnership limited by shares;
- ▶ European Economic Interest Grouping (EEIG);
- ▶ European company (SE).

The joint-stock company and the limited liability company may be set up as sole-ownership companies in which case their acronyms change to EAD and EOOD, respectively.

A person (regardless whether an individual or a legal entity) may participate as a shareholder/ partner in more than one company. An individual may register as only one sole trader.

In 2006 a new Commercial Register Act (CRA) was adopted (SG 34/25.04.2006, last amended SG 94/31.10.2008). It came into force on the 1st of January 2008. However, the process of creation of the register has started with the promulgation of the law. The Commercial Register is defined in the law as a standard centralized electronic database which contains certain circumstances and disclosures and which is operated by an information system. A separate file in electronic form is kept for each trader and branch of a foreign trader. The Commercial Register is public. It shall be operated by the Registry Agency with the Minister of Justice.

The Agency provides automated submission of information about entered traders, branches of foreign traders and the circumstances related and the acts announced in the commercial register, to the National Revenue Agency, as well as to other subjects established by law. Traders, branches of foreign traders and circumstances related, subject to registration as per a law, are entered in the commercial register. Acts pertaining to the traders and branches of foreign traders subject to registration should be disclosed in the commercial register. All the persons who are registered in the commercial register receive an obligatory unified identification code which serves as a proof for the circumstances and acts entered in the register.

All traders and branches of foreign traders which are registered in the district courts' registers are obliged to re-register under the CRA in a 3-year period after the day of its enforcement. No state fee is due in this case.

A registration regime applies to Bulgarian companies. The Registry Agency is empowered to verify the compliance of the incorporation actions and documents with the statutory requirements per the Commercial Act. A company's existence comes to validity as of the resolution of the Registry Agency for recording it in the Commercial Register, stating the unified identification number (UIN) of the entity. The registration process takes usually one-two days as of the submission of the documents with the Registry Agency depending on its workload (the statutory deadline for the recording is set within the working day following the day of documents submission).

Upon the incorporation process completion, registration with the National Revenue Agency is done ex officio.

The rules for registration of a commercial entity apply to both Bulgarian and foreign nationals.

Special regulatory/licensing regime is established for companies intended to operate in the field of banking, insurance, voluntary pension, investment brokerage and certain others.

The Bar Act (BA) adopted in the summer of 2004 (last amended SG 69/05.08.2008) introduced a new type of lawyers' associations (law firms). A law firm is a non-commercial entity, recorded in a special register with the respective Bar Association and with the District Court. Law firms combine the descriptions of a partnership (e.g. no fixed capital, partners are personally liable for the firm's liabilities to clients) and a co-operative (e.g. the General Meeting is the law firm's supreme body).

The Bar Act provides for terms and conditions under which foreign lawyers may practice in Bulgaria. The regime regarding lawyers from EU member states is preferential. As of the entry into force of the EU Bulgaria Accession Treaty, the lawyers who are citizens of EU Member States and have obtained their legal qualifications in one of the EU Member States are entitled to exercise the legal profession in Bulgaria through assistance or defence for a specific case or through permanent establishment on the territory of Bulgaria. In providing assistance and defence for specific cases, the foreign lawyer is placed on equal footing with Bulgarian lawyers and is bound to use the same name in which exercises the legal profession in the state where has acquired legal competency. Where under Bulgarian law procedural representation is mandatory, the foreign lawyer may take action of procedural representation only together with a Bulgarian lawyer. A foreign lawyer can establish permanently on the territory of Bulgaria for exercising legal activities under the name used in the state where the legal competency has been acquired, after inscription in the Register of Foreign Lawyers. Following registration in the Register of Foreign Lawyers and three years of actual and uninterrupted exercise of legal profession under the name used in the country where legal competency has been acquired, or following an equivalent examination, a foreign lawyer has the right to apply for inscription at a Bar Association in the Republic of Bulgaria. Inscription at a Bar Association gives foreign lawyers the rights of a Bulgarian lawyer.

Legal representation before a Bulgarian court will be possible for a third country lawyer, when the latter appears in court jointly with a Bulgarian lawyer and a bilateral agreement between the lawyer's home country and Bulgaria exists or the principle of reciprocity is applicable.

## Sole Traders

Every individual over 18 years of age with permanent address<sup>1</sup> in the Republic of Bulgaria, and who is not insolvent or bankrupt can record a sole trader in the Commercial Register.

The commercial registration in this case does not infer the establishment of a separate legal entity. The person, sole trader, preserves his/her status of individual, natural person but adds up the ability of a trader, i.e. to be party to commercial relations. The commercial name of the sole trader should include the individual's first and last name, and the acronym "ET".

Sole traders would be deleted from the commercial register upon the following circumstances:

- ▶ upon the individual's written request in case of closure of activity or permanent establishment abroad;
- ▶ in case of death of the individual: upon request of the heirs;
- ▶ in case the individual's legal capacities have been restricted, e.g. due to mental disease, upon request of the trustee.

## Companies

### Limited Liability Companies (OOD)

Limited liability companies can be established by one (in the case of sole-ownership limited liability company, EOOD) or more individuals/legal entities provided that all requirements set out in the law are complied with.

Limited liability companies are incorporated further to resolution of the ownership interest holders and recording in the Commercial Register administered by the Registry Agency.

An OOD's minimum capital is fixed to BGN 5,000 to be allocated in shares (ownership interests) of value not less than BGN 10. At least 35% of the authorized capital per the Articles of Association should be paid in prior to the commercial registration. Capital instalments can be made by the shareholders either in cash or in kind, whereas a special procedure for the evaluation of the in-cash contribution is provided for by the law.

An OOD is governed by its Articles of Association ("AA") executed by the shareholders. The AA include information on the name, seat and address of management, scope of activities, managing bodies, books of the OOD, etc. The AA is deposited with the Commercial Register.

In Bulgaria there is no practice that shareholders arrange their relations by a separate Shareholders' Agreement (in addition to the AA). However, such an agreement is not prohibited and can be executed, provided that its stipulations do not inflict imperative provisions of the law.

The governing bodies of an OOD are as follows:

- ▶ the General Meeting of its Shareholders; and
- ▶ one or more Managers appointed by the General Meeting.

The General Meeting of the Shareholders is the OOD's supreme managing body and is competent to resolve on the most important corporate issues, e.g. changes in the authorized capital, assignment of Managers, opening and closure of branches, adoption of the annual financial statements.

<sup>1</sup> Foreign nationals receive permanent address in Bulgaria only if they are allowed permanent residence in the country.

The Shareholders are summoned to sessions by the company's Manager. Voting rights are proportionate to a shareholder's participation in the registered capital unless otherwise agreed to in the Articles of Association. The General Meeting takes most of the decisions with simple majority (i.e. more than 50% of the capital). The unanimous vote of the shareholders is required for the General Meeting to resolve on increase or decrease in the capital; and  $\frac{3}{4}$  of the capital is necessary for decisions on: (i) changes in the Articles of Association, (ii) acceptance of and expulsion of shareholders, and (iii) resolutions for additional in-cash contributions.

The Commercial Act allows the General Meeting of an OOD to oblige its shareholders to make additional in-cash contributions proportionate to their participation in the capital, which would serve for the cover of losses or to satisfy the company's temporary need of funds. These contributions are granted to the OOD as a loan and the General Meeting can resolve on the payment of interest thereon. Consequences for a shareholder who has failed to comply with the decision for additional contributions are the same as in case he/she has failed to pay its main contribution to the company's capital and may lead to his/her expulsion from the OOD.

An OOD's Manager is nominated by the GM of the shareholders. He/she is responsible for the day-to-day management of the company and for the implementation of the resolutions of the General Meeting. The Manager is also the OOD's statutory representative to any third parties. In case there is more than one manager, each of them is entitled to represent the OOD independently unless the AA or the resolution of the GM of the shareholders is provided otherwise.

No other restrictions of the Manager's representative power would be applicable vis-à-vis third parties. The name of the Manager is recorded in the Commercial Register.

The personal element involved in the relations among the shareholders in a limited liability company is stronger than the one in a joint stock company. Therefore, a special procedure is applied for the transfer of shares from a shareholder to a non-shareholder. Shareholders in an OOD have the right and the obligation to take part in the company's management and activity, to be informed and to check the company's books and financial statements.

The Articles of Association of an OOD can provide for an additional supervisory body in the company, named Controller. The Controller is assigned to supervise the observance of the Articles of Association, and the management of the company's property. The Controller should report to the General Meeting directly.

In the case of sole-ownership limited liability company (EOOD), the sole owner of the capital has the competence of the General Meeting of the Shareholders. The sole owner can manage and represent the EOOD personally or through a Manager. An EOOD would be terminated with the death of the sole owner, unless his/her heirs decide to continue the company's activity. Should the EOOD be property of a legal entity, the EOOD would be terminated upon winding up/termination of its owner.

Limited liability companies are not statutorily obliged to form special reserves. There is no impediment, however, for decision on the establishment of reserves to be adopted by the General Meeting of the Shareholders/Sole Owner of the Capital or provided for in the Articles of Association.

### **Joint Stock Companies**

A joint-stock company can be set up by one ("EAD") or more individuals/legal entities ("AD").

The set up of an AD should be resolved by a Meeting of the Founding Shareholders at which the subscription of shares in the capital and adoption of the by-laws take place. The newly incorporated company comes to live further to its recording in the Commercial Register. As the other forms of business, AD is subject to the post-commercial registrations stated above.

An AD's minimum capital can amount to BGN 50,000 divided into shares, each of nominal value not less than BGN 1. At least 25 per cent of the capital should be paid in prior to the commercial registration.

The share participation in an AD can be evidenced by the following types of shares:

- ▶ Registered shares - the name of the owner is indicated on the share certificate and in the company's Book of the Shareholders. Such shares can be transferred by means of endorsement. The transfer would bind the company after being recorded in the Book of the Shareholders.
- ▶ Bearer shares - title there over is evidenced by the mere physical possession of the share certificate.
- ▶ Preference shares - incorporate some special rights to their holders (e.g. guaranteed dividend, liquidation quota, etc.).

The AD is the only legal entity under the Bulgarian law that is allowed to issue bonds.

From the company's incorporation until the issuance of paper-form shares, the shareholders evidence their capacity by temporary certificates issued against the contributions to the capital.

A joint stock company can be managed through:

- ▶ one-tier system of management, i.e. by the General Meeting of the Shareholders and a Board of Directors (3 - 9 members); or by
- ▶ two-tier system of management, i.e. by the General Meeting of the Shareholders, Managing Board (3-9 members) and Supervisory Board (3-7 members).

The General Meeting of the Shareholders is the AD's supreme body, competent to resolve on the most important issues related to the corporate operation of the company (e.g. changes to the capital, amendments and supplementation to the by-laws, adoption of the annual financial statements). The General Meeting consists of all shareholders with voting rights. In the case of a sole-ownership joint stock company (EAD), the sole owner of the capital has the competence of the General Meeting.

The General Meeting of the Shareholders should be held at least once per year (Regular General Meeting). The General Meeting should take place at the seat of the company or alternative venue in the Republic of Bulgaria. The General Meeting is summoned by the company's managing body, respectively by the Board of Directors, or Managing Board/Supervisory Board. Shareholders in possession of more than five per cent of the authorized capital can request the summoning of a General Meeting. Should their request not be satisfied within three months, the General Meeting would be convened by the respective District Court.

The invitation for the GM should be published with the Commercial Register at least 30 days prior to the scheduled date of the session.

All materials for the meeting should be at the disposal of the shareholders in the office of the company.

Should no bearer's shares be authorised, and if allowed by the by-laws of the company, the managing body can send written invitations to the shareholders, and not publish the invitation with the Commercial Register.

The law provides for statutory requisites of the invitation to a GM. It should include information about the date, hour, place, agenda and specific proposal for resolutions of the session. In case members of a managing body would be elected, the names and addresses of the proposed individuals/entities should be mentioned.

The GM takes decisions with simple majority of the represented capital. Special majority of 2/3 of the represented capital is necessary for amendment of the by-laws, changes in the capital, and winding up of the company. Qualified majority of 3/4 of the represented shares is required for: restricting the rights under preference shares; capitalisation of profit; transformation of the company; and for continuing the operation of a wound-up company. The GM sessions and the decisions taken should be documented in Minutes under the agenda and a list of the attending shareholders to which the documents are attached. Upon request of a shareholder or a board member, a Notary Public can be invited to the session and prepare a Notary Deed for the General Meeting.

Only the GM or, if the by-laws allow, the managing body by unanimous vote, can resolve on the following transactions:

- ▶ transfer or granting the use over the entire commercial enterprise;
- ▶ disposal of assets amounting to more than half of the

company's assets according to the latest certified annual financial statements;

- ▶ undertaking of liabilities or provision of securities the amount of which during the current year exceeds half of the company's assets according to the latest certified annual financial statements.

Board members in an AD can be individuals or legal entities through their authorized representative. No member to a board can be an individual who: (i) has been member to a board of a company declared insolvent during the two years preceding the resolution of the insolvency and unsatisfied creditors have remained; (ii) does not comply with other requirements set for in the by-laws. An individual proposed for member to a board should prior to his/her appointment notify the shareholders on being an unlimited partner, or for holding more than 25% of another company's capital, and for his/her participation in the management of other entities.

Quorum of at least half of the board members is needed for the meetings. Decisions are taken by simple majority unless otherwise provided for in by-laws or the law. The by-laws can allow boards to adopt resolutions per rollam provided that all board members state their consent in writing. Minutes of the board meetings should be kept and preserved in a special book of the company.

Board members are jointly liable for damages to the company resulted from their activity. Therefore, a guarantee should be deposited by the board members to the company's bank account amounting to not less than three-fold their gross monthly remunerations. Claims against board members can be brought by shareholders of more than 10% of the company's capital.



Joint-stock companies are obliged to form and maintain Reserve Fund of at least one tenth of the authorized capital. The Reserves Fund could be used only to cover current and prior year losses. The company is free to capitalize any reserve exceeding this amount.

Not later than the end of March each year, the Board of Directors/Managing Board should prepare annual financial statements and report on the activity of the AD for the preceding year. The annual financial statements are subject to verification and certification by a certified auditor appointed by the General Meeting. The financial statements and the report for the activity should be further approved by the GM. Dividends can be distributed only if the company's net property per the financial statements less dividends exceeds the cumulative amount of the authorized capital and the reserve funds. Dividends can be up to the amount of the profit for the respective year, undistributed profit from previous years, the portion of the Reserve Funds and the other funds exceeding the minimum established by the law or by the Articles of Incorporation decreased by the uncovered losses from previous years and the mandatory accruals for the Reserve Funds and the other funds of the company.

### **Public Joint Stock Companies**

An AD that has issued shares following public offering at a stock exchange market or has further registered a stock edition for trade at a regulated market of securities or has more than 10,000 shareholders on the last day of two successive calendar years is a "Public Company" under the Public Offering of Securities Act (POSA). Only a joint stock company can be a public one, and it is recorded in a special register with the Commission on Financial Supervision. Such companies are subject to certain restrictions and reporting requirements.

Special rules apply to the procedure for summoning a General Meeting of the Shareholders, the majority for taking decisions, membership of a managing body, etc. Public joint stock companies can apply for delisting from the Register of Public Companies provided that the conditions of the POSA are fulfilled.

### **Special Investment Purpose Companies**

Companies of special investment purpose are joint stock companies formed to invest the funds acquired through issuance of shares in real estate or receivables ("securitization" of real estate/receivables). This type of companies is regulated by the Special Investment Purpose Companies Act (SG, issue 46/2003).

### **Pension Insurance Joint Stock Companies**

Joint stock companies can be set up with the purpose of establishing and operating pension funds. Such joint stock companies should be licensed for their activity by the Commission on Financial Supervision. The regulation applicable to pension insurance companies is provided for in the Social Security Code.

### **Partnerships**

The Bulgarian Commercial Act recognises the following types of partnerships:

- ▶ General partnership (in Bulgarian Sabiratelno Drujestvo, SD) - the partners are fully and jointly liable for the entity's liabilities;
- ▶ Limited partnership (in Bulgarian Komanditno Drujestvo, KD) - some partners are fully and jointly liable for the entity's liabilities and the remaining partners are liable up to the value of their share contribution;

- Partnership limited by shares (in Bulgarian, Komanditno Durjestvo s Aktzii, KDA) - this type of entity is a mixture between a KD and an AD, as the limited shareholders are issued certificates against their contribution to the capital. The provisions of the Commercial Act regarding joint stock companies (AD) apply to KDA, including the minimum authorized capital requirement - BGN 50,000. The KDA is managed by a General Meeting where only the unlimited partners have voting rights and a Board of Directors consisting of the limited partners.

#### ***European Economic Interest Groupings (EEIG)***

The Bulgarian Commercial Act recently introduced provisions acknowledging the European Economic Interest Groupings, within the meaning given by Council Regulation (EEC) No 2137/85 on the European Economic Interest Grouping (EEIG) (hereinafter referred to as "Regulation (EEC) No 2137/85"). An EEIG which has its registered office in the Republic of Bulgaria, shall be a legal entity formed as from the day of its registration in the Commercial Register. The divisions of a EEIG, which have a registered office in another State, shall also be registered in the Commercial Register.

The members of the EEIG recorded in the Republic of Bulgaria shall be liable for the obligations of the Grouping according to the rules applicable to a general partnership, unless otherwise provided for in Regulation (EEC) No 2137/85.

The registered office of the EEIG may not be transferred to another State where the EEIG owns land in the Republic of Bulgaria. This prohibition shall apply conforming to the conditions ensuing from the accession of the Republic of Bulgaria to the European Union.

#### ***European companies (SE)***

A European Company, within the meaning given by Council Regulation (EC) No 2157/2001 on the Statute for a European company (SE) (hereinafter referred to as "Regulation (EC) No 2157/2001"), which has its registered office in the Republic of Bulgaria, shall be incorporated through merger by the formation of a new company or transformation of a joint-stock company, which has its registered office in the Republic of Bulgaria, into a European Company and shall be registered in the Commercial Register.

The seat of the European Company shall be the place where the management of the activity thereof is located.

A European Company, which has its registered seat in another Member State, may not be incorporated through merger by the formation of a new company where the transforming corporation, which has its registered office in the Republic of Bulgaria, owns land. A European Company, which has its registered seat in the Republic of Bulgaria and which owns land, may not transfer its registered seat to another Member State. This prohibition shall apply conforming to the conditions ensuing from the accession of the Republic of Bulgaria to the European Union.

#### ***Joint Ventures***

Two or more persons can conclude a joint-venture agreement in order to combine their efforts for the achievement of a mutual business objective. Joint ventures are not legal entities but unincorporated partnerships. The partners input capital/in-kind contributions, which become joint ownership of all participants. Joint ventures are regarded for separate entities for tax purposes and are subject to corporate income taxation.

### ***Co-operative Societies***

A co-operative society is a voluntary association for business activities of at least seven individuals. The co-operative society is a legal entity the number of members and capital amount of which can vary. It is managed by a General Meeting of Co-operators, Management Board, and a Controlling Board. The cooperative's Chairman, represents it before third parties.

Seven co-operative societies can form a co-operative union.

### ***Consortia***

The Bulgarian Commercial Act defines the consortium as a group of traders united to perform certain activity. A consortium can be organized either as a commercial company (e.g. limited liability or joint stock company), or as a joint venture whereas the civil contractual legislation would apply to the relations between the partners in the consortium.

### ***Holdings***

A holding can be: a joint-stock company, a partnership limited by shares, or a limited liability company purposed to have share participation or manage other companies and without further obligation to perform itself commercial activity. At least 25% of the holding's capital should be invested in its subsidiaries. Subsidiaries are companies in which the holding has or controls directly or indirectly not less than 25% of the shares, or has the power to appoint the majority of the managing body's members.

### ***Branches of Foreign Legal Entities***

Any foreign entity registered under its domestic law with the right to carry out commercial activity can open a branch in Bulgaria. The branch should be recorded with the Commercial Register. Branches are not regarded as separate legal entities.

However, branches of foreign companies are obliged to keep financial books, and prepare separate financial statements. Commercial transactions between foreign entities through their branches in Bulgaria and local persons are governed by the rules applicable to local persons. In 2005 the Commercial Act was amended in order to implement Eleventh Council Directive 89/666/EEC. The amendments detail the requirements for registration of branches in Bulgaria.

### ***Representative Offices***

A foreign legal entity can open a representative office (RO) in Bulgaria. Representative offices are not separate legal entities and have no legal capacity to undertake business activities. ROs can only advertise and promote the activity of the parent company, liaison with possible clients in Bulgaria, etc. ROs should be registered with the Bulgarian Chamber of Commerce and Industry, and are subject to BULSTAT registration. All transactions concluded by the foreign entity with local parties for the purposes of the trade representation are subject to local regulations. ■

# Mergers and acquisitions

The regulation of the reorganisation of commercial companies changed considerably since the amendments in the Commercial Act from June 2003, effective from 1st of January 2004, incorporating the provisions of the Third Directive 78/855/EEC on Mergers and Acquisitions of Joint Stock Companies and the Sixth Directive 82/891/EEC on the Split off of Joint Stock Companies.

## **Forms of Corporate Reorganizations:**

The Bulgarian Commercial Acts regulates the following forms of corporate reorganizations:

- ▶ acquisition - one or more than one existing companies are acquired by another existing company;
- ▶ merger (consolidation) - a new company is created by two or more than two existing companies merging with each other;
- ▶ division - one company transfers its assets and liabilities to two or more than two other companies, whereas the company, which is being transformed is wound-up without liquidation;
- ▶ spin-off - one company, without being wound-up, transfers part of its property to another company;
- ▶ spin-off of a wholly owned enterprise - one company (which is being transformed) transfers part of its assets to one or more than one wholly owned limited liability or joint stock companies, whereas the company, which is being transformed becomes their sole owner;
- ▶ transformation into new legal form corporate entity - a company changes its legal form and the newly formed company takes over the company, which is being transformed, whereas the latter is to be wound-up without liquidation;
- ▶ transfer of property to the sole owner - a wholly-owned company transfers its entire property to its sole owner, provided that the sole owner is registered as sole trader. The company, which is being transformed, is to be wound-up without liquidation.

Since the end of 2007 one new form of multinational reorganization is introduced as a possibility for the companies in Bulgaria. This form of reorganization encompasses mergers and acquisitions where at least one of the companies involved is with registered seat in the European Union or in the European Economic Area.

## **Procedure**

The Commercial Act provides for a very detailed procedure to be followed when corporate entities are being reorganized, which includes the following major phases:

- ▶ execution of a written agreement for reorganization between the participating commercial entities, or preparation of a plan for reorganization in the cases of division and spin off;
- ▶ the managing body of each of the participating companies must prepare a report with detailed legal and economic reasoning for the executed agreement/ plan for reorganization;
- ▶ presenting the agreement/plan and the report of the managing body to the Commercial Register;
- ▶ review and report on the reorganization by a registered auditor;
- ▶ approval of the agreement/plan and all related changes by the general meetings of the involved companies, taken with a certain qualified majority (e.g. 3/4 of the represented capital for joint stock companies);

- registration of the reorganization with the Commercial Register. The reorganisation has legal effect as of the day it is registered with the Commercial Register.

### **Consequences and Principles**

The reorganization results in the legal succession between the transformed and acquiring/newly established companies of all rights and liabilities. The acquisition is based on the following principles:

- The shareholders in the companies retain their share portion, even through monetary equalization.
- The property of the reorganized company would be managed separately from the property of the adopting/newly established company for a six-month period after the court resolution for the reorganisation is published, so that creditors' interests are guaranteed.
- Shareholders whose legal position in the reorganized company would be changed and have voted against the reorganisation at the General Meeting can leave the reorganized company by submitting a notarised notice. The leaving shareholder is entitled to receive the amount of his/her share prior to the reorganisation.

### **Competition Rules in Relation to Mergers and Acquisitions**

If as a result of the reorganization, there is a concentration of control, within the meaning of the Competition Protection Act, the companies have to notify the Commission for Protection of Competition prior to the implementation of the transaction. The obligation for notification arises where the aggregate turnover of the companies - parties to the transaction is more than BGN 25 million for the previous financial year and the turnover of either each of at least two companies involved in

the transaction or of the target company is more than BGN 3 million. Until December 2008 the thresholds were significantly lower and they were increased so as to release from the burden to notify transactions, which do not have significant effect on the competition on the relevant market. If a transaction is not notified the acquiring company faces the risk to be imposed dramatically high sanctions, which may be as much as 10 % of its annual turnover.

### **Involvement of Public Companies in a Merger or Acquisition**

Mergers and acquisitions involving at least one public company must be done in accordance with the Public Offering of Securities Act (POSA), which would be applicable together with the Commercial Act. ■

# Competition

With the new Protection of Competition Act Bulgaria is making one big step ahead in harmonisation of the Bulgarian legal framework with *acquis communautaire*.

In November 2008 the Bulgarian Parliament has adopted new Protection of Competition Act (published in State Gazette No. 102 of 28.11.2008) ("PCA"), which replaced the law existing for more than ten years. With the new act Bulgaria is making one big step ahead in harmonisation of the Bulgarian legal framework with *acquis communautaire*. As a result the Bulgarian Competition Law is currently fully in line with the European competition law standards.

Following this, the Commission for Protection of Competition ("the Commission")

The following practices and agreements are prohibited under the protection of competition:

## **Anticompetitive Agreements and Concerted Practices**

Companies are prohibited from entering into agreements or taking part in practices, which have as their object or effect the prevention, restriction or distortion of competition in the relevant market (e.g. price fixing, market sharing, bid ridding, etc.). The prohibition (Art. 15 of the PCA) almost literally reflects the provision of Art. 81 of the EC Treaty. All agreements or concerted practices between undertakings are prohibited if they have negative effect on the competition and do not fall within the special exemptions provided for by the law. Anticompetitive agreements and practices are forbidden as between competitors in one and the same market (the so called "horizontal agreements") but also between participants in different fields ("vertical agreements", e.g. stipulation between a producer and a supplier). Exemption from the prohibition is provided for agreements with immaterial effect, i.e. concluded between enterprises the total market share of which is not more than 5% in case of vertical agreements and not more than 10%, in the horizontal agreements' case.

The CPC should be notified within three days from the conclusion of agreement, which may impact competition at a certain market. The regulative authority is competent to allow or ban the application of such transactions based on made the competition impact assessment.

## **Abuse of Dominant Position**

Companies are considered of dominant or monopolistic position should their market share, financial resources and business relations allow them to influence competition. Companies with more than 35% market share are presumed to be of dominant position. Such entities are forbidden from activities, which may directly or indirectly impose prices, limit production, urge contracting parties into undertaking additional liabilities, etc. It should be noted that the dominant/monopoly position itself is not prohibited by the law.

## **Concentration of Business Activity**

Concentration of business activity is the acquisition or merger between two independent companies, the acquisition of control over a separate enterprise, the establishment of joint venture, etc. Companies participating in a concentration of business activities should notify in advance the CPC in case that their combined turn-over for the preceding year in the territory of the country exceeds BGN 15 million. The CPC should within one month of the notification perform an assessment of the concentration and issue a decision by means of which to allow or forbid the transaction.

## **Unfair Competition**

The CPC prohibits all actions that contradict the bona fide commercial practice and is intended to damage the interests of competitors. Several examples are listed in the law:

- damaging a competitor's good reputation;
- providing misleading information;
- imitation;
- disclosure of confidential information.

The CPC is the authority assigned to control the observance of the competition rules and to impose sanctions in case violations are identified. The penalties amount between BGN 5,000 to BGN 300,000 for first violation and BGN 100,000 to BGN 500,000 should the violation be committed again.

### **Concession regime**

As of May 2006 there is a new Concession Act (SG 36/2.05.2006, last amended SG 105/22.12.2006) (CA) which harmonizes the legislation in the area with European standards (more specifically with Directive 2004/18/EC). The law introduces a new definition of the term 'concession' which significantly defers from the old one. As per the definition of the CA a concession is the right to operate a facility of public interest, made available by a grantor to a merchant (the concessionaire), in exchange for the latter's obligation to build and/or manage and maintain the facility subject to the concession at his/her own risk.

According to its object, there are three types of concessions - public works concession, service concession, and mining concession. A concession is granted on the basis of a long-term agreement in writing involving a defined material interest, executed between the grantor and the concessionaire.

### **Public procurement**

Public Procurement is regulated in Public Procurement Act (PPA) (SG 28/06.04.2004, last amended SG 79/29.09.2006). As per the law subject matter of public

procurement is supply of goods through purchase, lease, rental with or without option to buy, or hire purchase, as well as all preliminary operations, necessary for the actual use of the products, etc. [Article 3 of the PPA]

Contracting authorities can be state authorities, the President, and other institutions, bodies governed by public law, public companies and any combinations, merchants and other persons which are not public companies, where carrying out one or several of the activities covered by law. The contracting authorities are obliged to conduct a public procurement award procedure when the grounds provided in the law exist.

Any Bulgarian or foreign natural or legal person, as well as any combination of such persons, may participate in a public procurement procedure. Public procurements can be awarded by conducting an open procedure, a restricted procedure, a competitive dialogue and negotiated procedures.

Any decision, action or omission by the contracting authorities in a public procurement award procedure until conclusion of the contract or of the framework agreement is subject to appeal as to the legal conformity before the Commission for the Protection of Competition. ■



A black and white photograph of an abacus, showing rows of wooden beads on metal rods. The focus is sharp on the beads in the foreground, while the background is blurred. A white rectangular box with a diagonal cut is overlaid on the left side of the image.

# Tax system

# Income tax and social contributions

Under the Personal Income Tax Act, Bulgarian residents are subject to income tax on their worldwide income. Non-residents are taxed on their Bulgarian source income only.

## **Personal income tax**

Personal income tax is assessed in Bulgaria in accordance with the provisions of the Personal Income Tax Act which came into force on 1 January 2007 and was amended several times, the last amendment entering into force as of 1 January 2009. Provisions regarding taxation of certain types of personal income can be found also in the Local Taxes and Duties Act, which came into force on 1 January 1998, but since then has been amended many times, the last amendment having been promulgated in December 2008.

Under the Personal Income Tax Act, Bulgarian residents are subject to income tax on their worldwide income. Non-residents are taxed on their Bulgarian source income only. Provisions regarding taxation of certain types of personal income can be found also in the Local Taxes and Duties Act.

Bulgarian residents are individuals, regardless of their citizenship, who:

- ▶ are domiciled in Bulgaria;
- ▶ spend in Bulgaria more than 183 days within each 12-month period;
- ▶ are sent abroad by the Bulgarian state or by Bulgarian organizations/ companies; or
- ▶ have their centre of vital interests in Bulgaria.

The tax year for personal income tax purposes is the calendar year.

## **Taxable income**

### ***Employment income***

Employment income comprises salaries, bonuses, benefits-in-kind and other compensations derived from labour relations. Business trip expenses, such as travel, accommodation – if

properly documented – and per diems up to double the amount of statutory per diems are tax exempt. Further, certain social benefits provided by employers are tax exempt, when taxed at the level of the employer. Directors rendering services under management contracts are taxed in accordance with the rules applicable to employment income. The tax on employment income is calculated on the gross amount of income received in the respective month after statutory deductions, which are as follows:

- ▶ mandatory social security and health insurance contributions for the account of the individual;
- ▶ voluntary pension insurance and unemployment insurance contributions of up to 10 per cent of the gross income amount;
- ▶ life insurance and voluntary health insurance contributions of up to 10 per cent of the gross income amount; and
- ▶ donations to certain institutions listed in the law, up to 5 per cent of the annual taxable base after the above deductions and up to 50 per cent for donations in favour of the Fund for the Medical Treatment of Children.

### **Non-employment income**

Non-employment income comprising income derived by sole traders or freelancers, as well as royalties, rental income, capital gains, etc., is taxed after the following statutory deductions:

- ▶ 40 per cent for income from agricultural, forestry and fishery activities;
- ▶ 40 per cent for royalties and income from works of art, culture and science;
- ▶ 25 per cent for freelance income;
- ▶ 10 per cent for rental income;

- ▶ 10 per cent for capital gains from the sale of real estate;
- ▶ mandatory social security and health insurance for the account of the individual;
- ▶ voluntary pension insurance and voluntary unemployment insurance of up to 10 per cent of the gross income amount after statutory deductions;
- ▶ life insurance and health insurance of up to 10 per cent of the gross income amount after statutory deductions;
- ▶ donations to certain institutions, up to 5 per cent of the annual taxable base after the above deductions and, exceptionally, up to 50 per cent of the annual taxable base after deductions for donations in favour of the Fund for the Medical Treatment of Children.

#### **Income from patent activities not exceeding BGN 50,000**

Individuals operating hotels and restaurants, as well as individuals involved in retail trade, different types of craftsmanship, etc., with an annual turnover for the previous year not exceeding 50,000 Bulgarian leva (BGN) and who are not registered for value-added tax (VAT) purposes, with the exception of registration for intra-Community acquisitions, are liable to a one-off annual patent tax under the Local Taxes and Duties Act. The tax is determined by each municipal council within the limits determined by the law.

#### **Exempt income**

Under the current regime, the following types of income are tax exempt:

- ▶ pensions;
- ▶ child allowances;
- ▶ remuneration paid to foreign diplomats and commercial representatives by their home country;
- ▶ income from rent of agricultural land;
- ▶ gains from gambling, lotteries and games of chance;
- ▶ certain elements of compensation under insurance contracts;
- ▶ income from the sale of motor, air and water vehicles, when sold after one year from the date of acquisition;
- ▶ scholarships;
- ▶ interest on bank and savings deposits in local banks or foreign banks within the European Union/European Economic Area (EU/EEA);
- ▶ capital gains on sales of shares disposed of through the Bulgarian or other EU/EEA stock exchange; and
- ▶ income from the sale of one residential property, regardless of the date of acquisition of the said property, whereas income from the sale of up to two immovable properties, as well as of any number of agricultural and forest properties is not taxable only if more than five years have elapsed between the date of acquisition and the date of sale.

The exemption under the last four bullet points above does not apply to residents of non-EU/EEA countries.

#### **Tax rates**

A flat 10 per cent tax rate applies for all kinds of personal income with the following exceptions:

- ▶ a 15 per cent tax rate applies to income earned as a sole trader;
- ▶ a 7 per cent tax rate applies to income from life insurance maintained for 15 years or more; and
- ▶ a 5 per cent tax rate applies to dividends and liquidation quotas.



## Payment procedures

### Tax on employment income

The tax on employment income is withheld by the employer and is remitted to the state budget on a monthly basis, not later than the 10th day of the subsequent month. The employer acts as a tax collector and is subject to penalties in the case of non-payment of the tax. Individuals that earn employment income only are not obliged to file an annual tax return.

### Tax on non-employment income

Self-employed individuals are liable to make advance payments at 10 percent calculated on the gross amount of the income received reduced by the statutory deductions. When the payer of the income is a legal entity, the advance tax is withheld by the payer.

Self-employed individuals are obliged to report their income by filing an annual tax return and pay, by 30 April of the following year, the difference between the annual tax as per the tax return and the advance payments already made.

### Patent tax

By 31 January of the current year the payers of the patent tax should submit a declaration, stating all circumstances necessary for determining the applicable tax. The tax is paid in four instalments. If during the current year the turnover exceeds BGN 50,000, the individual is liable to personal income tax and the patent tax paid is credited against the personal income tax liability which is assessed as at the year-end and due for settlement by 30 April of the following year.

### Withholding tax

A withholding tax of 10 per cent is imposed on interest income, royalties and rental income paid to foreign tax residents.

A withholding tax of 5 per cent is imposed on dividends and liquidation quotas from Bulgarian sources that are paid to Bulgarian and foreign tax residents.

### Penalties for non-compliance

Outstanding tax liabilities are collected by the tax authorities from the liable person together with default interest. In addition, there is a range of penalties available to the tax authorities which can be imposed upon noncomplying liable employers and individuals:

- ▶ If tax on employment income is not withheld and/or not paid to the tax authorities, the employer must pay a penalty of BGN 1,000.
- ▶ Failure of a taxpayer to submit a tax return within the statutory deadline is subject to a penalty of BGN 500.
- ▶ Failure of a taxpayer to provide information in a tax return which has resulted in a reduction of tax liability is subject to a penalty of BGN 1,000.

### Social and health contributions

Different social security regimes apply to employees and self-employed persons. Social security contributions due from self-employed individuals also vary depending on the activity performed. No distinction is made between Bulgarian residents and non-residents for social security purposes.

Social security contributions are imposed on the gross monthly remuneration (but not less than the minimum amount for the economic activity and the profession, as stated in the Social Security Budget Act for the respective year), the base for calculating social security contributions being subject to a monthly cap of BGN 2,000.

Labour is categorized in three categories, depending on the characteristics of the work performed. Professions involving harmful or risky conditions are included in the first and second categories. The rates of social security contributions due from employers and employees falling within the third category (ie. normal work conditions) are set out in Table 1. ■

**Table 1. Social security and health insurance contributions 2009 (third labour category, all insurance risks)**

| Funds  | Total % of contributions  | Employer (%)  | Employee (%) |
|--|---|---|--------------|
| Social Security Funds  | 22.5 + the percentage for Occupational Accident and Disease Fund        | 12.7 + the percentage for Occupational Accident and Disease Fund        | 9.8          |
| Pension Fund - individuals born before 31 Dec 1959                                   | 18  | 10  | 8            |
| Pension Fund - individuals born on or after 1 Jan 1960                               | 13  | 7.2   | 5.8          |
| Sickness and Maternity Fund  | 3.5   | 2.1   | 1.4          |
| Occupational Accident and Disease Fund   | 0.4-1.1*  | 0.4-1.1*  | -            |
| Unemployment Fund  | 1   | 0.6   | 0.4          |
| Additional Mandatory Social Insurance Fund - individuals born before 31 Dec 1959     | -   | -   | -            |
| Additional Mandatory Social Insurance Fund - individuals born on or after 1 Jan 1960 | 5   | 2.8   | 2.2          |
| Employees' Guaranteed Receivables Fund upon Insolvency                               | 0.1   | 0.1   | -            |
| Health Insurance   | 8   | 4.8   | 3.2          |
| <b>Total</b>   | <b>30.6 + the percentage for Occupational Accident and Disease Fund</b> | <b>17.6 + the percentage for Occupational Accident and Disease Fund</b> | <b>13</b>    |

*Note: \* The contribution for the Occupational Accident and Disease Fund ranges between 0.4 per cent and 1.1 per cent, depending on the group of economic activity the company falls into per the National Classification of Economic Activities.*

# Corporate income tax

Foreign companies are taxed in Bulgaria on their Bulgarian source income and on their profits generated from activities conducted through a permanent establishment in Bulgaria.

## Introduction

Bulgarian companies (ie. companies incorporated in Bulgaria), as well as other Bulgarian legal entities and non-incorporated civil law partnerships which carry out business activities, are subject to corporate tax on their worldwide income. Foreign companies are taxed in Bulgaria on their Bulgarian source income and on their profits generated from activities conducted through a permanent establishment in Bulgaria. For the purposes of taxation of income sourced from Bulgaria, any non-resident, organizationally and economically distinct formation (trust, fund and other) which independently carries out economic activity or performs and manages investments, will likewise be a taxable person where the owner of the income cannot be identified.

Special taxation regimes apply for certain activities, eg. gambling business.

Shipping companies may opt for taxation based on the tonnage of the operated ships applying a 10 per cent tax rate. Once the shipping companies have elected to be taxed on the tonnage, they must apply this taxation regime for at least a five-year period.

## Rate

The corporate income tax rate is 10 per cent.

A one-off tax of 10 per cent is imposed on certain expenses, such as employee-related fringe benefits and representation related expenses, thereby increasing the effective tax rate for companies incurring such expenses.

## Determination of taxable profit

### General

The taxable income is based on annual accounts prepared in accordance with Bulgarian accounting standards or the International Accounting Standards (IAS). However, certain adjustments of the accounting profit are required for tax purposes with respect to items such as accrual for unused paid leave, depreciation and impairment of assets.

### Inventories

All cost methods that are applicable under the International Financial Reporting Standards (IFRS) may be used for tax purposes. For manufacturing entities, expenses for raw material exceeding the usual quantity of raw materials required for the production of a particular unit will be considered tax avoidance and will not be tax deductible.

### Provisions

Impairment of and write-offs of receivables are not deductible for tax purposes until their materialization or the expiration of the five-year statute of limitation period to pursue the claim at court. Provisions for payables are not deductible for tax purposes until their materialization.

### Tax depreciation

Companies must prepare and keep a tax depreciation plan. Bulgarian tax depreciation is applied on a straight-line basis as illustrated in Table 2.

The accrual of tax depreciations of an asset should be discontinued when the said asset is not in use for a period longer than 12 months.



**Table 2. Tax depreciation rates**

| Asset categories |  | Annual depreciation rates (%) *  |
|------------------|--|--|
| I                | Fixed buildings, including buildings held as investment property, facilities, communication devices, electricity carriers, communication lines | 4  |
| II               | Machines, manufacturing equipment and apparatus  | 30 or 50**   |
| III              | Transportation vehicles, excluding automobiles, coverage of roads and aircraft runways   | 10   |
| IV               | Computers, peripheral devices, software and the right to use software, and mobile phones   | 50   |
| V                | Automobiles  | 25   |
| VI               | Intangible and other tangible assets which are legally protected for a limited period of time  | Depending on the period in which the legal protection applies (100/# of years of protection) but not higher than 33 <sup>1/3</sup> |
| VII              | All other depreciable assets   | 15   |

\* No depreciation allowance is available for land, forests, cultural monuments and goodwill.

\*\* The annual depreciation rate applicable for Category II assets shall not exceed 50 per cent, where the following conditions are simultaneously met:

- The assets are part of an initial investment or purchased as part of an energy efficiency project for which certain conditions are met.
- The assets are new and have not been used before their acquisition.



### **Losses**

Losses can be carried forward consecutively in the next five years. Loss carry-back is not allowed. Exceptionally, in cases where the loss originates from a European Union (EU) or European Economic Area (EEA) country in relation to which Bulgaria applies the credit method for the avoidance of double taxation, the loss can be offset against domestic source profits of the same person. If the loss originates from an EU or EEA country in relation to which Bulgaria applies, on the basis of a Double Taxation Treaty concluded with that country, the exemption method for the avoidance of double taxation, then the loss can be offset against domestic profits only if the permanent establishment in the other country, which caused such loss, has ceased to exist.

### **Overseas aspects**

Treaty relief may be available to avoid double taxation on the foreign source income of Bulgarian legal entities. Generally, Bulgaria follows the exemption method for the avoidance of double taxation of income from branches and real estate property located in Treaty countries.

### **Groups of companies**

Bulgaria does not currently have any special legislation for the taxation of groups.

### **Administration**

In all cases, the tax year is the calendar year. All companies (including branches) must submit to the local tax office an annual tax return accompanied by a balance sheet, a profit and loss statement and all other documents comprising the financial statement, as well as a copy of the report under the Independent Financial Audit Act when applicable. The annual

tax return should be filed and the annual tax be paid not later than 31 March of the year following the year to which it relates.

Companies subject to tax must make monthly advance payments of tax. Newly established companies and companies with sales of less than 200,000 Bulgarian leva (BGN) for the preceding tax year are not required to make advance payments. For the period of 1 January-31 March, the tax base for the monthly advance payments is one-twelfth of the company's taxable income for the tax year two years before the current tax year. For the period of 1 May-31 December, the tax base is one-twelfth of the taxable income for the preceding tax year. For the April advance payment, the tax base is onetwelfth of the taxable income for the preceding tax year, adjusted by three times the difference between that amount and the monthly advance payment for the period 1 January-31 March. Depending on whether the taxable income two years ago was lower or higher than the taxable income of the preceding year, the application of this rule may result in an increase or decrease of the tax base. The tax rate for calculating the advance payments is 10 per cent. Companies that generated losses in the preceding year must make quarterly advance payments on the basis of their actual taxable income for the respective quarters. No quarterly payment is required for the last quarter.

Monthly instalments so determined may be reduced by submitting a special declaration in the case where the pre-payments are expected to significantly exceed the anticipated final annual corporate tax liability.

### **Penalties for non-payment or non-reporting**

In the case of non-payment or late payment of tax, default interest of the amount of the Bulgarian National Bank's basic interest percentage plus 10 interest points is due.

Furthermore, any tax liable person who fails to submit a tax return in time, or who fails to state or who misstates any particulars or circumstances leading to an under-assessment of the tax due or to undue reduction, retention of or exemption from tax is liable to a fine in the range of BGN 500 to BGN 3,000. The exact amount is set by the tax authorities based on the merits of the particular case. In the case of repeated violations, the fine will be doubled.

In addition, if the tax liable person who fails to submit any supplement to the annual tax return (eg. financial reports, audit reports) or who states any untrue particulars or circumstances in any such supplement is liable to a fine in the range of BGN 100 to BGN 1,000. In the case of repeated violations, the fine will be doubled.

### **Thin capitalization rules**

Thin capitalization provisions regulate interest tax deductibility on certain types of interest expenses, such as interest on loans from related and nonrelated parties, financial leases from related parties and bank loans from related parties or guaranteed by related parties.

Should the debts of a company to shareholders, third parties and/or to banks of the debtor's group of companies or from bank loans guaranteed by related party exceed three times the company's equity, then thin capitalization related interest tax deductibility restrictions are triggered.

Specifically, tax deductibility of interest expenses exceeding interest income is limited to 75 per cent of EBIT (earnings before interest and tax, ie. the accounting result before interest expenses and interest income). Capitalized interest expenses deducted through the depreciation of the asset acquired are not included in the thin capitalization related add-back.

The thin capitalization add-back is a timing difference and the Bulgarian thin capitalization rules allow for a five-year carry forward of such portion of the interest.

### **Withholding tax on cross-border payments**

A 5 per cent withholding tax is levied upon payment of dividends or liquidation quotas to non-resident persons, as well as resident individuals or resident legal entities which are not merchants, including any municipalities.

However, since 1 January 2009, dividends distributed to companies which are tax resident in EU/EEA countries are exempt from the 5 per cent withholding tax, regardless of the percentage they are holding in the Bulgarian companies and regardless of the period for which this holding has been maintained. In the past, companies receiving dividends from Bulgarian entities had to meet the conditions of the EU Parent-Subsidiary Directive in order to obtain relief from the 5 per cent withholding taxation. With the new law, the conditions relating to the percentage and period of shareholding are being abolished. In addition, any income of a local company resulting from a distribution of dividends by foreign persons who are resident for tax purposes in a member state of the European Community or in another state which is a contracting party to the agreement on the EEA is also not recognized for tax purposes.

Withholding tax of 10 per cent applies to the accrual for payments in favour of foreign persons of income from:

- royalties;
- technical assistance and consultancy fees;
- management services;

- ▶ interest (including interest under a financial lease); however, interest on bonds traded on a regulated Bulgarian or EU member country stock market is tax exempt;
- ▶ rental (including operational leases) or use of movables; and
- ▶ franchising and factoring.

### Capital gains tax

Tax at 10 per cent applies on capital gains from the alienation of immovable property, shares and stakes, securities and financial assets. However, capital gains derived from the sale of shares through the Bulgarian stock market as well as through any stock exchange in a member state of the EU or a state that is part of the agreement for the EEA are exempt from tax. Similarly, losses from the sale of shares through the stock exchange are not tax deductible.

Bulgaria has quite a wide network of Double Taxation Treaties (see Table 2) that may significantly reduce or eliminate the withholding tax burden upon certain of the above items of income. However, treaty provisions may not be automatically applied. The foreign person taxable at source in Bulgaria should follow an advance tax clearance procedure, in order for Treaty relief to apply.

### Transfer pricing

There are anti-avoidance and transfer pricing rules under the Corporate Income Tax Act<sup>2</sup> which require transactions between related parties or between non-related parties to be carried out on an arm's length basis. These rules also apply, mutatis mutandis, to any flows between a permanent establishment

and other foreign divisions of the same enterprise of a nonresident person, conforming to the specifics of the permanent establishment. There are no specific transfer pricing documentation requirements. However, it is the taxpayer and not the tax authorities who must prove that transactions are negotiated at market value.

## Corporate tax holidays

### Tax relief for manufacturing plants in underdeveloped areas

Up to 100 per cent of the corporate income tax for the respective year may be relieved for manufacturers investing in underdeveloped regions, where in the prior year the average national unemployment level is at least 35 percent higher than the average unemployment level for the country and the acquired assets form part of an initial investment carried out within the next three years following the year for which the tax holiday is obtained.

Further requirements that are in compliance with the EC State Aid Rules must be also observed.

### Tax relief for investments in agriculture, manufacturing, high technology and infrastructure

Investors in the sectors of agriculture, manufacturing, including toll manufacturing, high technology and infrastructure will be 100 percent relieved from corporate income taxation for five years provided certain conditions are met, eg.:

<sup>2</sup> promulgated, State Gazette (SG) No. 105 of 22 December 2006, effective 1 January 2007, amended and supplemented, SG No. 52 of 29 June 2007, effective 1 November 2007, supplemented, SG No. 108 of 19 December 2007, effective 1 January 2007, amended and supplemented, SG No. 110 of 21 December 2007, effective 1 January 2008, SG No. 69 of 5 August 2008, effective 1 January 2009, SG No. 106 of 12 December 2008, effective 1 January 2009.

- ▶ the invested amount in each one of the five years exceeds BGN 10 million (€5.1 million); and
- ▶ brand new assets are acquired.

In essence, this new tax holiday provision extends the scope of the currently applicable tax break, which, unlike the proposed one, was limited only to investments in the manufacturing sector realized in regions with a high unemployment rate. However, its applicability will be conditional on the approval of the European Commission.

#### **Tax relief for investment in underdeveloped areas**

Where an investment is made in an underdeveloped area, corporate tax due is reduced by 10 per cent of the value of acquired assets, as long as specific requirements under the law are met. The assets should be part of an initial investment, and the investments must be made in municipalities in which the unemployment rate is at least 50 per cent higher than the average national rate for the preceding year.

#### **Tax relief for investments enhancing the energy efficiency**

Accelerated depreciation of 50 per cent is allowed for machines and manufacturing equipment if the assets are new and are acquired in relation to an investment aimed at enhancing energy efficiency, where additional conditions set out in the Energy Efficiency Act (promulgated, SG No. 98 of 14 November 2008, effective 14 November 2008, amended and supplemented SG No. 6 of 23 January 2009, effective 1 May 2009) must be also satisfied.

#### **Tax relief for hiring of unemployed persons**

Employers are entitled to deduct from their financial result amounts equal to the employment remuneration effectively paid and the mandatory social security contributions borne by

the employer for the first 12 consecutive months with regard to newly employed persons who have been registered as unemployed for more than one year, are over 50 years of age, or have decreased working capacity. The above exemption is subject to certain conditions outlined in the Corporate Income Tax Act.

#### **Other tax incentives**

Collective investment schemes, which have been admitted to public offering in Bulgaria, licensed investment companies of the closed-end type under the Public Offering of Securities Act and special purpose investment companies under the Special Purpose Investment Companies Act are exempt from corporate income tax.

Upon distribution, the profits of the special purpose investment companies are subject to 5 per cent tax; 90 per cent of the profit must be distributed each year.

#### **Treaty withholding tax rates**

Bulgaria has signed tax treaties with several countries (see Table 3). Per these agreements, the rates of withholding tax on dividends, interest and royalties may range from 0 to 15 per cent depending on the criteria set out in the agreement. ■

Table 3. Tax treaties

|                |             |                    |
|----------------|-------------|--------------------|
| Albania        | Indonesia   | Portugal           |
| Algeria        | Iran        | Romania            |
| Armenia        | Ireland     | Russian Federation |
| Austria        | Israel      | Singapore          |
| Belarus        | Italy       | Slovak Republic    |
| Belgium        | Japan       | Slovenia           |
| Canada         | Kazakhstan  | South Africa       |
| China          | Kuwait      | South Korea        |
| Croatia        | Latvia      | Spain              |
| Cyprus         | Lebanon     | Sweden             |
| Czech Republic | Lithuania   | Switzerland        |
| Denmark        | Luxembourg  | Syria              |
| Egypt          | Macedonia   | Thailand           |
| Estonia        | Malta       | Turkey             |
| Finland        | Moldova     | Ukraine            |
| France         | Mongolia    | United Kingdom     |
| Georgia        | Morocco     | United States      |
| Germany        | Netherlands | Uzbekistan         |
| Greece         | North Korea | Vietnam            |
| Hungary        | Norway      | Yugoslavia         |
| India          | Poland      | Zimbabwe           |

# Indirect taxation of corporations

With the new Protection of Competition Act Bulgaria is making one big step ahead in harmonisation of the Bulgarian legal framework with *acquis communautaire*.

## Introduction

Bulgarian value-added tax (VAT) is generally applicable to transactions with goods and services in Bulgaria against consideration, imported goods or distance sales of goods. In addition, VAT may apply to intra-Community acquisitions, services acquired from foreign suppliers, acquisition of new means of transport and excise goods by taxable and non-taxable goods, and free of charge supplies.

## Liable persons

As a rule, persons liable to register and charge VAT are companies and individuals carrying out economic activities in Bulgaria. Importers and persons acquiring new means of transport and excise goods from the European Union (EU) are liable for VAT regardless of their status.

The obligation to charge VAT occurs after reaching a threshold of 50,000 Bulgarian leva (BGN; approximately €25,560) from taxable transactions or exempt financial or insurance services. The threshold for VAT registration for distance sales is BGN 70,000 (approximately €35,790). Non-registered persons acquiring goods from the EU should register when the value of these goods reaches BGN 20,000 (€10,220). Voluntary registration is possible, even if the thresholds above have not been reached.

Taxable persons established in another EU member state and performing taxable supplies of goods to be assembled or installed in Bulgaria by them or for their account should register for VAT purposes in Bulgaria regardless of the taxable turnover.

Non-resident traders can register only through a fiscal representative.

## Rates

The standard VAT rate is 20 per cent. A reduced rate of 7 per cent applies to certain hotel services. A zero per cent rate is applicable to exports of goods and certain services sold to recipients outside the EU.

## Taxable base

The taxable base includes everything which constitutes consideration received or due to the supplier in return for the supply, from the customer or a third party, including subsidies directly linked to the price of the supply.

The taxable base is the open market value in respect of any supplies between related persons or free of charge supplies. Certain items such as default interest and discounts are deducted from the taxable base.

## Taxable event

The taxable event for VAT purposes is the supply of goods and services by a taxable person, intra-Community acquisition, as well as the import of goods.

On the date of the taxable event:

- ▶ VAT becomes chargeable for taxable supplies and an obligation arises for the VAT-registered person to account for it; or
- ▶ a reason for not charging VAT for exempt supplies and supplies with place of supply outside the territory of Bulgaria occurs.

## VAT procedures

### Declarations

Bulgarian taxable persons must file monthly VAT returns by the 14th day of the month following the month to which they refer. Full payment of the positive balance between the VAT on sales and VAT on purchases in Bulgarian leva is required by the same date.

Intra-Community supplies of goods and services to recipients registered for VAT purposes in another EU member state who are liable to account for VAT there shall be included in the monthly VIES declarations (for sales to EU traders).

Persons registered for VAT in Bulgaria who trade goods with other EU countries must complete statistical reports, known as Intrastat, if the value of the goods received/dispatched from/to the EU exceeds certain thresholds. The statutory thresholds for Intrastat declaration for 2009 are BGN 400,000 for dispatches and BGN 250,000 for arrivals. Intrastat returns are submitted monthly in electronic format by the 10th day of the month following the respective month.

## Deductibility and recovery of VAT

A taxable person registered for VAT may recover input tax from output tax if the purchases are related to taxable sales or sales to foreign persons that would have been taxable if performed on the territory of the country. The right to deduct input VAT arises when the VAT becomes chargeable and can be exercised within the same month or during the following three months.

Excess of input over output VAT is offset against VAT payable within three months. If afterwards there is undeducted input VAT, it is subject to refund within 45 days following the submission of a VAT return requesting the repayment. A shorter, 30-day term for refund without obligatory offsetting applies to exporters and major investors.

Under certain circumstances, foreign non-registered persons may also refund Bulgarian VAT. The refund is allowed to businesses that are not established in Bulgaria. For businesses established in the EU, refunds are made under the terms of the EU's 8th VAT Law Directive. For businesses established outside the EU, a refund is allowed under the terms of the EU's 13th VAT Directive if their country allows reciprocal VAT refunds to Bulgarian businesses.

### Incentives

A special incentive applies for major investors allowing them to self-assess VAT on imports (instead of paying it at customs clearance as usual) and to enjoy a shorter (30-day) refund term with no additional three-month deduction. The incentive applies to entities that have obtained prior permission from the minister of finance.

### Penalties

Various penalties apply for breaches of VAT obligations, the most significant one being a penalty equal to the amount of unpaid VAT due, as well as the VAT due.



### Customs duties

Customs duties are applied for the importation of goods from third (non-EU) countries. The customs duty rates are determined according to the Combined Nomenclature applicable in all EU member states. As an EU member state, Bulgaria is a party to the free-trade agreements concluded by the Community. Customs suspensions, quotas or anti-dumping measures introduced by the EU are also applicable in Bulgaria. EU customs legislation is directly applicable by the Bulgarian customs agency. Control is exercised mainly at clearance at the border. However, there are exemptions allowing persons having the status of 'approved economic operator' to be subject to post-clearance control and/or to clear goods at a place chosen by them.

### Excise duties

The following groups of goods are subject to excise duties in Bulgaria:

- ▶ alcohol and alcoholic beverages;
- ▶ tobacco products;
- ▶ energy products and electricity; and
- ▶ motor cars.

The amount of the excise duty depends on the type of goods and can be determined as flat rate based on quantity, proportionally to the value, according to the specifics of the goods (eg. alcohol percentage) or a combination of these. The taxable base is assessed on the specific measures set for each type of excise goods (volume, number, engine power).

Excise duties become due upon the release of the goods for consumption, which is generally the production or the entry of the goods on the territory of the country, unless the goods are covered under an excise duty suspension arrangement. The possibility of applying for a suspension arrangement is open to licensed warehouse keepers.

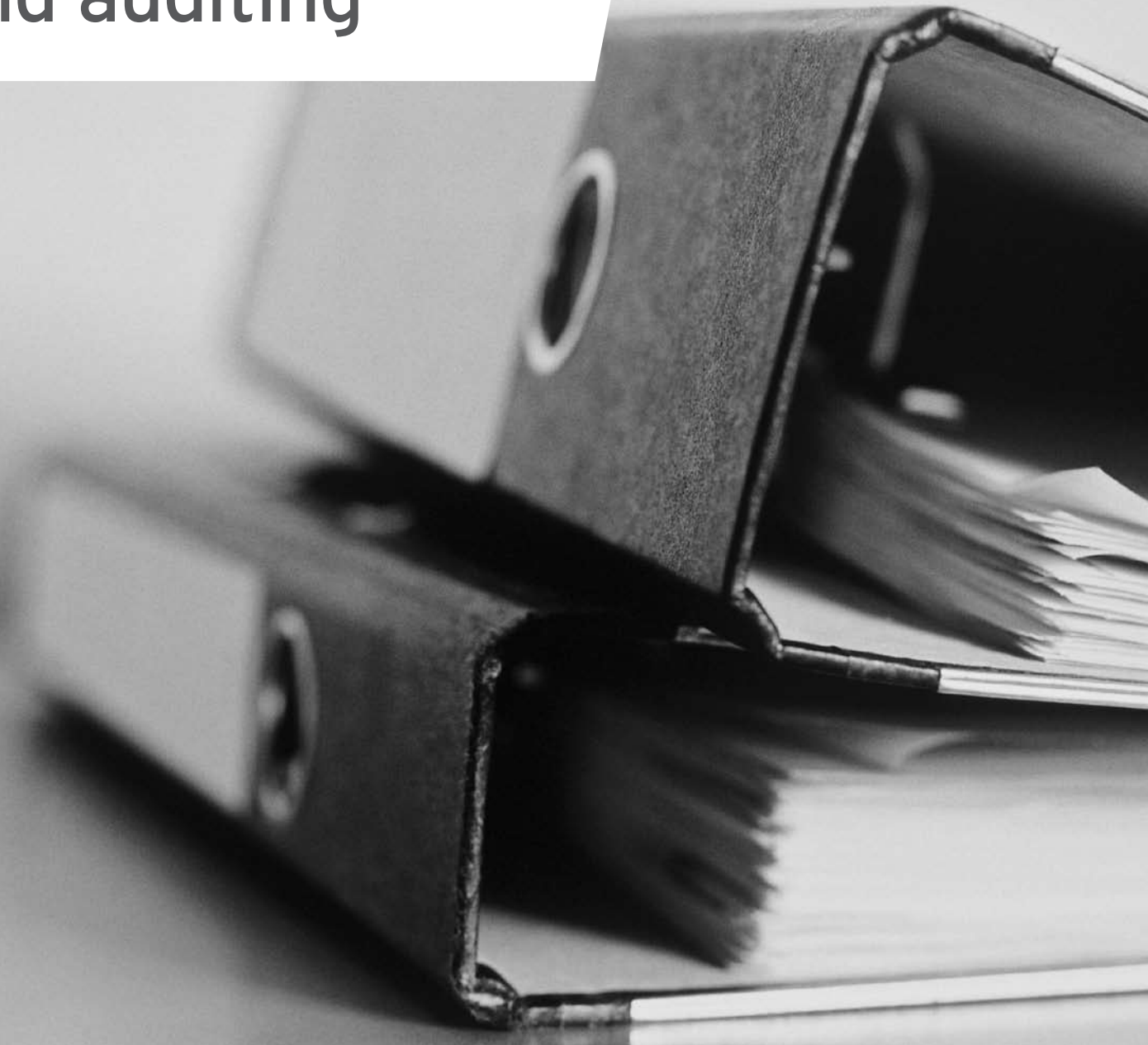
### Product fees

Some ecological liabilities arise for those persons who place on the Bulgarian market goods such as:

- ▶ packed goods;
- ▶ electrical and electronic equipment;
- ▶ batteries;
- ▶ car tyres;
- ▶ motor oil;
- ▶ motor cars, etc.

Targets for recycling and reuse, which are specific to the different types and categories of products, must be met by their producers/importers. They can either meet these targets collectively or individually, or must pay a product fee to the state to take on the responsibility for recycling and reuse. ■

# Financial reporting and auditing



### Method of accounting

Bulgarian accounting and tax legislation are based on the accrual method of accounting. Cash basis is not allowed for accounting and tax purposes.

### Sources of accounting principles

The Accountancy Act provides the legal framework of accounting in Bulgaria. The Law defines the application on the territory of Bulgaria of the International Financial Reporting Standards (IFRS) adopted by the European Union (EU).

IFRS includes:

- ▶ International Accounting Standards (IAS);
- ▶ International Financial Reporting Standards (IFRS) and interpretation on their application (SIC-IFRIC);
- ▶ IFRS includes also subsequent amendments and additional provisions of these standards and the interpretation of their application, future standards and their interpretations by the International Accounting Standards Board (IASB).

The following entities are obliged to prepare and present financial statements (FS) on the basis of IFRS, as endorsed by the EU:

- ▶ credit institutions, insurance and investment undertakings, companies for additional social security and the funds managed by them;
- ▶ enterprises issuing securities as per the Bulgarian Public Stock Offering Act.

The financial reporting framework for Small and Medium-sized Enterprises (SME) is Bulgarian National Financial Reporting Standards for SMEs.

Annual financial statements shall be prepared and presented on the basis of the National Financial Reporting Standards for small and medium-sized enterprises by enterprises which, for at least one of the two preceding years, do not exceed the indicators under two of the following criteria:

- ▶ balance sheet assets as of 31 December: BGN 8 million;
- ▶ net income from sales for the year: BGN 15 million;
- ▶ average number of personnel for the year: 250 persons.

Small and medium sized companies and the newly established companies may choose to prepare and present their financial statements either on the basis of IFRS or on the basis of the National Financial Reporting Standards for small and medium-sized enterprises. An enterprise which has, in one reporting period, prepared and presented its annual financial statements on the basis of International Accounting Standards cannot apply the National Financial Reporting Standards for small and medium-sized enterprises.

### Fundamental concepts

The accounting concepts and principles followed in Bulgaria are: going concern, accrual basis, matching concept, prudence, consistency, substance over form, historical cost, true and fair presentation, non-offsetting of assets against liabilities or income against expenses, unless otherwise expressly prescribed by governing accounting rules.

### Disclosure

The financial year in Bulgaria coincides with the calendar year and ends on 31 December.

Enterprises prepare annual financial statements by 30 June of the following year.

Parent companies shall prepare and present consolidated FS by 31 March of the following year. Accountancy Act and IAS include exemption criteria for preparation of consolidated FS.

Annual financial statements are prepared in a prescribed format for SME. They consist of a balance sheet, an income statement, a cash flow statement, a statement of changes in equity and notes. Enterprises whose financial statements are subject to an audit by independent registered auditors (CPAs or specialised auditing companies - see the section below) should also prepare report by management.

The notes to the financial statements should present information about the basis of preparation of the statements and accounting policies adopted with regard to significant transactions and events. They should also contain disclosures, which are required by applicable financial reporting framework but not included elsewhere in the main financial statements, or which are relevant and necessary for fair presentation of the accounts.

Management reports should present information on development of a company's business, objectives of the company, research and development activities, significant events that occurred after the date of preparation of the annual financial statements about the joint stock companies - the share capital structure and changes during the financial year, the existence of any branches, the financial instruments used by the entity as well as the financial risk management and hedging policies and exposures for price, credit and liquidity risks. The auditors are obliged to opine on the consistency of the management report with the FS.

Special disclosure requirements apply for banks, insurance companies, investment companies and some other entities.

### ***Reporting and filing requirements***

In general, companies are required to submit annual financial statements (together with the corporate income tax return) to the Tax authorities and statistical information in a prescribed format to the National Statistical Institute by 31 March of the following year. Public companies, banks (branches of foreign banks inclusive), insurance companies, pension funds and investment funds should follow special legally defined reporting and filing requirements. For instance, banks are required to submit a number of special reports to the Bulgarian National Bank. They are also obliged to publish balance sheets and income statements in an approved format for half year reporting, in at least one main daily newspaper. Insurance companies should submit annual financial statements to the Financial Supervisory Commission together with annual statements of allocated insurance reserves and additional special format reports. Companies carrying out additional social security activities report to the State Social Security Agency.

Annual financial statements, approved by the shareholders/ owners or the relevant legal body, should be published in the media (i.e. trade register, daily newspaper, relevant magazines or Internet), accompanied by the report from the management and the auditor's report, by 30 June of the following year.

In case financial statements are published only on the Internet, free access to the corresponding Internet site should be available for at least 3 years after the date of publishing.

## Books and records

All companies and sole traders in Bulgaria are obliged by Accountancy Act to keep accounting books and records and to prepare annual financial statements. The Accountancy Act regulates the requirements for the comprehensiveness and reliability of the accounting systems; the contents, preparation and publication of the annual financial statements, the persons who prepare the annual financial statements and their eligibility to perform such a task. The Act defines the accounting documents and the form of accounting and the frequency of the stocktaking process. Chapter six of the Act sets the rules on archiving of accounting information:

- ▶ Payroll registers should be kept for 50 years;
- ▶ Ledgers and financial statements for 10 years;
- ▶ Documentation on tax control up to 5 years after expiry of the prescribed term of paying up the public obligation, certified by these documents;
- ▶ Documentation on financial audit until the conduct of the next succeeding internal audit or an audit by the National Audit Office;
- ▶ Any other records should be kept for 3 years.

## Audit requirements

Unless otherwise provided for by the law, annual financial statements of the following shall be subject to an independent financial audit by registered auditors:

- ▶ joint stock companies and partnerships limited by shares;
- ▶ enterprises which are issuers in the meaning of the Public Stock Offering Act ;

- ▶ (amended, SG No. 108/2006) credit institutions, insurance and investment undertakings, companies for additional social security and the funds managed by them;
- ▶ enterprises for which this requirement is established by a law;
- ▶ all enterprises not mentioned in items (1) through (4) , with the exception of enterprises applying a simplified form of financial reporting and budget-funded enterprises.

“Enterprises applying a simplified form of financial reporting” refers to enterprises which over the current or the previous year do not exceed the indicators under two of the following criteria:

- ▶ balance sheet assets as of 31 December: BGN 1.5 million;
- ▶ net income from sales for the year: BGN 2.5 million;
- ▶ average number of personnel for the year: 50.

## Statutory auditors

The Independent Financial Audit Act (IFAA) provides for:

- ▶ the objectives and principles of auditing;
- ▶ the professional standards on auditing applicable in Bulgaria;
- ▶ the obtaining of CPA certificates;
- ▶ rights, obligations and responsibilities of registered auditors;
- ▶ status of the Institute of Certified Public Accountants (ICPA) in Bulgaria.

The profession of auditors is characterized by self-regulation and independence within the limits set by the law and professional standards.

IFAA provides that an audit should be carried out in compliance with International Standards on Auditing, according to which an auditor should issue an independent opinion on whether the financial statements of a company present fairly, in all material respects, its financial position and the results of operations and changes in cash flows in compliance with Bulgarian accounting legislation.

A statutory audit may be performed by a Bulgarian Certified Public Accountant or by a specialised auditing company registered with the ICPA in Bulgaria. A specialised audit company is a company registered under the Commercial Law in the Republic of Bulgaria, with financial statement auditing being its main object of activities, and which is:

- ▶ a general partnership with more than half of the partners are registered CPAs;
- ▶ a limited partnership with more than half of the unlimited liability partners are registered CPAs;
- ▶ a limited liability company with more than half of the votes in the General Meeting of Shareholders belong to registered CPAs and the manager (the majority of managers) of which is a registered CPA. ■





# Labour law and social security





# Labour law

The labour and social insurance aspects of the employment of foreign individuals in Bulgaria are governed by the domestic labour and social insurance laws unless otherwise is provided for in international treaties to which Bulgaria is party.

The Labour Code (SG 26/01.04.1986, last amended SG 109/23.12.2008) is the backbone of the Bulgarian labour law framework, whereas a large variety of other legislative instruments (ordinances, decrees, regulations) complement it in the regulation of employment relations.

Protection of the Bulgarian labour force and limitation of unemployment among Bulgarian national is contemplated by the authorities; therefore some special requirements apply to foreign nationals intending to do work in Bulgaria. Hence, foreigners must obtain a work permit from the National Employment Agency before they actually come to the country for the respective position. The permit is issued for one year at maximum, and can be extended not more than twice (i.e. total validity of three years). An exception could be made and longer work permit to be issued for high managerial positions and some special cases of installation of foreign equipment, etc. The work permit grounds the issuance of residence permit for the foreign national, which validates his/her physical stay in the country.

The regime for EU, EEA and the Swiss Confederation nationals defers from the above mentioned. A Resolution of the Council of Ministers was adopted at the end of 2006 stating that Bulgaria will open its labour market to the EU in compliance with Council Regulation (ECC) No 1612/1968. Thus, no work permit or similar acts are generally necessary for these categories of non-Bulgarian nationals which, following Bulgaria EU accession, are no longer regarded as “foreigners” within the meaning of the Act on the Foreigners in the Republic of Bulgaria (SG 153/23.12.1998, last amended SG 69/05.08.2008).

Also, it should be considered that the EU Bulgaria Accession Treaty contains opportunity for Bulgarian authorities in case of

restriction measures against Bulgarian nationals to impose such on the basis of reciprocity.

The labour and social insurance aspects of the employment of foreign individuals in Bulgaria are governed by the domestic labour and social insurance laws unless otherwise is provided for in international treaties to which Bulgaria is party.

Employment remunerations can be negotiated in BGN or in a foreign currency. However, the actual payment is usually performed in BGN, i.e. in the BGN equivalence of the stipulated salary, as some imperfections of the social security and tax systems do not allow effective salary payment in foreign currency.

Effective from 1 January 2009, the minimum remuneration of all employees is fixed at BGN 240 for normal working time (i.e. eight hours per day and 40 hours per week), and BGN 1.42 per working hour.

Employment contracts should be concluded in writing and signed by both the employee and the employer. The employer is liable to notify the National Revenue Agency for the conclusion, amendment or termination of an employment relation.

Employment contracts can be:

- ▶ for indefinite period;
- ▶ for trial period - not exceeding six months;
- ▶ for fixed term: in case of seasonal or short-term works;
- ▶ for the completion of specific assignment: when the work is preliminary limited in term and in scope, e.g. on specific projects and programmes;
- ▶ for specific working days within the calendar month.

Employment contracts should stipulate on the following issues:

- ▶ place of work;
- ▶ position (name) and character of the job function;
- ▶ date of execution of the employment agreement and the beginning of its performance;
- ▶ term of the employment contract;
- ▶ the amount of the main<sup>3</sup> and extended paid annual leave and the additional paid annual leaves;
- ▶ termination notice period equal for both parties<sup>4</sup>.
- ▶ the main and the additional employment remunerations of constant nature as well as the period of their payment;
- ▶ duration of the working day or week<sup>5</sup>.

Employment contracts can be terminated only on the grounds explicitly listed in the Labour Code, such as:

- ▶ mutual consent;
- ▶ expiry of term (in case of fixed term employment);
- ▶ objective reasons outside the control of the parties (death, serious illness of the employee etc.);
- ▶ unilaterally upon prior written notice of the employee;
- ▶ unilaterally upon prior written notice of the employer provided that respective causes (as listed in the law) are present<sup>6</sup>;

- ▶ upon initiative of the employer against compensation of not less than four-fold remuneration lastly received by the employee;
- ▶ disciplinary dismissal etc.

The regular termination notice period under the Labour Code is 30 days; the notice period under fixed-term employment agreements is three months but may not exceed the remaining term of the agreement.

The 30 days statutory notice period may be contractually extended in the individual employment agreement to a longer period, up to three months. ■

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<sup>3</sup> not less than 20 working days;

<sup>4</sup> not less than 30 days and not more than three months for indefinite term employment contracts; and not more than three months but not exceeding the validity of a fixed-term contract.

<sup>5</sup> normal working time is 8 hours per day, 40 hours per week.

<sup>6</sup> The Labour Code in principle prohibits the introduction of arbitrary redundancies by the employer for employees under indefinite employment contracts. Thus, redundancies should always be well-grounded and for a cause (eg. closure of the undertaking, objective decrease in the volume of work etc.).

# Social security law

The labour and social insurance aspects of the employment of foreign individuals in Bulgaria are governed by the domestic labour and social insurance laws unless otherwise is provided for in international treaties to which Bulgaria is party.

The Bulgarian social security legislation has been considerably amended during recent years due to the fast development of the economic relations and also in view of the synchronization of the Bulgarian legislation with the European law.

The Social Security Code (State Gazette 110/1999, latest amendments in State Gazette 109/23.12.2008 "SSC") is the main source of regulation in the field of social security. It also includes regulation of statutory and private pension funds. Additional provisions can be found in the Annual Budget of the State Social Insurance Act (ABSSIA), where the specific amounts of the minimum and maximum social insurance income and social security contributions are indicated.

## **Secured Risks and Compensation**

The state social security provides compensation, aid and pensions to secured persons upon occurrence of the following secured risks:

- ▶ Temporary inability to work - such occurs should an employee/assignee be temporarily unable to perform his/her employment obligations due to sickness as evidenced by a medical certificate.
- ▶ Disability - invalidity should be established by a special medical committee assigned to assess the extent to which the secured person has lost his/her ability to work. The compensation or pension from the state social security is based on that assessment.
- ▶ Maternity - mothers receive compensation, granted for a period of 410 calendar days (45 prior to and 365 after the child's birth). Mothers receive monetary compensation for raising a child on a monthly basis until it reaches the age of two years.

- ▶ Unemployment - individuals who have been insured for all insurance risks during at least nine of the 15 months preceding the termination of their employment have the right to be compensated in case of termination. The compensation is calculated per day and amounts to 60 per cent of the individual's average daily income for the nine months preceding the termination. The maximum compensation for unemployment is determined by the Social Security Budget Act on an annual basis (BGN 12 per day for 2009). The compensation is due for a term calculated according to the individual's professional experience, which counts for social security purposes, the maximum term being 12 months in case of over 25 years of eligible professional experience.
- ▶ Old age - individuals acquire the right to pension upon reaching certain age and years of experience.
- ▶ Death - the relatives of an insured individual acquire the right to inherited pension upon his/her death.

## **Social Insured Persons and Social Insurers**

The SSC sets for the following major groups of insured individuals for social security purposes:

- ▶ insured for all social insurance risks - individuals who work under an employment contracts, state officials, military officers, managers, and magistrates;
- ▶ insured for invalidity, old age and death - the free-lancers, sole traders, agricultural producers, assignees under civil law relations.

Insurers are individuals/legal entities in charge with the payment of social security instalments for their employees, assignees, etc. Free-lancers have the combined capacity of insured persons and insurers as they are liable to pay their own social security instalments.

### Social Security Income and Social Security Instalments

Social security income is the income on which social insurance contributions are calculated and includes all remuneration and other income from working activities.

The Budget of the State Social Security Act determines social security related thresholds for payments for each calendar year, namely:

- ▶ the maximum monthly amount of the social security income (BGN 2,000 for 2009);
- ▶ the minimum monthly amount of the social security income for self-insurers (BGN 260 for 2009);
- ▶ the minimum monthly amount of the insurance income per main business activities and groups of professions.

Different regimes and rates apply as regards security instalments.

### Social Security Experience

The professional experience recognized for social insurance purposes ("social security experience") does not necessarily match an individual's years of employment. Social security experience is generally:

- ▶ the time during which an individual has worked under employment contract and social insurance instalments have been due or paid in;
- ▶ the time for which self-insuring individuals have personally duly paid in their social insurance instalments;

- ▶ certain specific categories of time during which no social insurance instalments have been made, namely: paid and unpaid leave for child birth and raising of a child; paid and unpaid leave due to temporary disability; unpaid leave not exceeding 30 working days in one calendar year;
- ▶ the time during which an individual has received compensation for unemployment;
- ▶ the time during which self insuring individuals which pay their insurance fees for all insurance risks except for labour accident, professional disease and unemployment have received monetary compensation for temporary disability, pregnancy and delivery and for raising of a child and the periods of temporary unemployment, pregnancy, delivery and for raising of a child during which they did not have the right of monetary compensation

The cumulated social insurance is taken into account when computing an individual's eligibility to pensioning, right to compensation caused by temporary disability, right to pension due to invalidity, etc. In some cases, individuals are allowed to "buy-off" gaps in their contribution by paying social security instalments for the respective period, e.g. individuals who have reached the age for their pensioning but do not have the required length of social security experience can effect a bulk payment to cover the missing part of the statutory required length of social security experience. ■

# Unemployment law

In order to become a beneficiary of the unemployment related state system and receive monthly compensation for unemployment from the social security fund, individuals should register as unemployed with the local divisions of the National Employment Agency.

The Bulgarian state has undertaken to implement a persistent policy towards the stimulation of occupation and decrease of the unemployment rate. Its policy to this effect is generally ruled by the Stimulation of Employment Act (SEA) (State Gazette 112/2001, last amended SG 23/12.2008). This act determines the state authorities assigned to plan and develop the activities and measures for stimulation of employment and the specific documents in which these should be incorporated. The performance of these activities is financed by the state budget.

The SEA sets out the rights and obligations of individuals seeking for employment, as well as those of employers. In order to become a beneficiary of the unemployment related state system and receive monthly compensation for unemployment from the social security fund, individuals should register as unemployed with the local divisions of the National Employment Agency. Each Bulgarian citizen, as well as each citizen of another Member State of the European Union, of another Contracting State to the Agreement on the European Economic Area or the Swiss Confederation, who is actively seeking a job may register with the competent local division of the Employment Agency. On the other hand, employers willing to take part in the state's programs for stimulation of employment should announce their vacancies to this same agency.

## **Notification in Case of Mass Dismissals**

Employers are obliged to submit at least 30-days advance notice to the respective division of the National Employment Agency and to the employees' representatives within its entity should massive dismissals be planned. The following dismissals, if carried out within a period of 30 days, are construed as "mass dismissals":

- ▶ the dismissed individuals exceed 10 employees in entities where 20-100 employees are employed;
- ▶ the dismissed individuals exceed 10% of the employees in entities where 100-300 employees are employed;
- ▶ the dismissed individuals exceeds 30 employees in entities where more than 300 employees are employed;
- ▶ the dismissed individuals are at least 20 in enterprises, no matter what the number of factory and office workers employed is, and the dismissals are carried out over a period of 90 days.

A new Act on Information and Consultation of Factory and Office Workers in Community-Scale Companies, Groups of Companies and European Trade Companies (SG 57/14.07.2006) has been in force since 1 January 2007. The law regulates the terms and procedure for the establishment and functioning of a European Works Council or a procedure for information and consultation of factory and office workers in Community-scale companies and groups of companies and for involvement of factory and office workers in the affairs of the European Trade Company and the European Cooperative Society. The purpose of the law is to ensure the right of factory and office workers in Community-scale companies and groups of companies and of a European Trade Company or a European Cooperative Society to participate in the management and to have their interests represented by special bodies or according to a particular procedure provided for in the law.

Further to the notification, teams are formed which comprise representatives of the employer, the employees and the National Employment Agency. The purpose of the teams is to develop projects for training and assistance for the dismissed employees. ■

# Pension fund law

Payment of pension instalments and the granting of pensions and compensations are structured on three main benchmarks: statutory pension insurance, additional statutory pension insurance and additional voluntary pension insurance.

According to Bulgarian law, pensions form a part of the general social security system and their regulation is incorporated in the Social Security Code. Payment of pension instalments and the granting of pensions and compensations are structured on three main benchmarks:

- ▶ Statutory pension insurance: all individuals are entitled to pension insurance accumulated in the state's Pension Fund.
- ▶ Additional statutory pension insurance: additional pension insurance is statutory for individuals born after 31 December 1959. Pension insurance contributions are deposited in a universal or professional pension fund and serve for the accrual of additional pension to be received at the time of retirement. Universal or professional pension funds are legal entities incorporated by licensed pension insurance joint stock companies and registered under the Commercial Law or the legislation of another Member State. The shareholders in the licensed pension insurance company should adopt rules for the operation of the universal/professional pension fund to specify the proposed conditions for additional statutory pension insurance, the fees and deductions to be collected by the pension insurance company, the terms and conditions for the payment of pensions and the one-off or deferred payments. Permission for the operation of universal/professional fund is issued by the Deputy-chairman of the Committee for Financial Supervision.
- ▶ Additional voluntary pension insurance: every individual having reached the age of 16 years is allowed to make voluntary pension instalments to a fund for additional voluntary pension insurance. Such insurance would grant the respective individual the right to receive personal pension for old age, or to receive as a one-off payment the amount

accrued. The persons insured under an occupational scheme for who social insurance contributions are no longer made as a consequence of their moving from the Republic of Bulgaria to another member state, preserve the rights to the same extent as for the insured persons in respect of whom social insurance contributions are no longer made but who remain within the Republic of Bulgaria. Payments for any persons insured under an occupational scheme, as well as for any other persons holding entitlement under any such scheme are made in other member states net of the taxes and transactions charges due. Voluntary pension instalments are tax deductible.

## Private Pensions

Individuals who have reached the age of 16 are entitled to make voluntary pension instalments to a private fund for voluntary pension insurance. Such funds should be set up by a licensed pension insurance joint stock company and permission for their operation is issued by the Deputy-chairman of the Committee for Financial Supervision. Voluntary pension insurance funds should be registered under the Commercial Law. The General Meeting of the Shareholders of the pension insurance company should adopt rules for the organization and activity of the fund. ■

# Incentives





# Investment incentives

## **National regime**

The Bulgarian Constitution and the Encouragement of Investments Act provide that foreign investors are entitled to perform economic activity in the country under the same provisions applicable to Bulgarian investors except where otherwise provided by law. The principles cover the entire range of economic and legal forms of activities for accomplishing entrepreneurial businesses. The national treatment of foreign investors extends also to their participation in the process of privatisation and acquisition of shares, debentures, treasury bonds and other kinds of securities.

## **Priority of international treaties**

Bulgaria has concluded Bilateral Treaties for Encouraging and Mutual Protection of Investments with the most WTO member states as well as with other countries. These treaties introduce the principles of the Most Favoured Nation and the principle of the national regime for all investors from the other country. In case of conflict between the provisions of the treaties with the local legal provisions, the treaties' provisions will have priority over domestic law.

## **Forms of investment**

By virtue of the Encouragement of Investment Act, a foreign investment is any investment of a foreign person or its branch in:

- ▶ stock and shares in commercial companies;
- ▶ ownership title over buildings and limited ownership title over real estate. Foreign persons may not own land, including such acquisition through a branch or in a sole trader capacity. The prohibition to ownership of land, however, does not apply to foreign-owned companies, even if these are 100-percent

owned by a foreign person. Foreign persons may freely acquire title on buildings;

- ▶ ownership title and limited ownership title over movable property in case of being considered as long-term tangible assets;
- ▶ ownership title over an enterprise, or a separate business unit thereof with more than 50 per cent state or municipal interest in their capital, within the stipulations of the Law on Privatisation;
- ▶ securities, including debentures and Treasury bonds, as well as their derivative instruments issued by the State, by the municipalities or by other Bulgarian legal persons, with a residual term to maturity not shorter than 6 months;
- ▶ loans, also in the form of a financial leasing, for a term not shorter than 12 months;
- ▶ title over intellectual property - subject to copyright and its related rights, patentable inventions, utility models, trademarks, service marks and industrial design;
- ▶ rights originating from concession and/or management contracts.

The increase in value of the above-mentioned original investments is also considered a foreign investment.

## **Protection against expropriation**

The Bulgarian Constitution allows compulsory expropriation of property in the name of the State or for municipal needs only if effected by virtue of a law provided that these needs cannot otherwise be met, and provided a fair compensation has been ensured in advance.

### **Legal guarantees against adverse changes in the law**

The Encouragement of Investments Act stipulates the principle that foreign investment made before the adoption of amendments in law imposing statutory restrictions only with regard to foreign investments, shall not be affected by these restrictions.

The law provides for guarantees against subsequent legislative changes.

### **Ownership of real estate**

The amendments to the Bulgarian Constitution, relating to country's membership in the European Union provide for a transitional period prior to direct applicability of the "Free Movement of Capital" rules and principles, applying within the EU. Under Part 3 of Appendix VI to The Treaty for Accession of Bulgaria and Romania to the European Union, the above transitional period for acquiring land for second home and land for performing business activity thereon shall be 5 years, commencing January 1, 2007 for individuals - citizens of any EU member state unless being holders of permanent residence permit and for foreign legal entities, established under the laws of an EU member state. As with regard to the agricultural and forest land, the transitional period shall be 7 years, commencing January 1, 2007. Considering the above described legal considerations, we can conclude that foreign legal entities shall not be able to acquire directly land until January 2012.

There are no restrictions against acquisition of land by locally registered companies with majority foreign participation.

### **InvestBulgaria Agency**

The Encouragement of Investments Act allows special institutional help for the investors provided by the InvestBulgaria Agency.

The Agency provides to investors general information and individual administrative services upon request.

## **VAT related incentives**

The Bulgarian VAT Act allows any VAT registered person implementing large investment projects, when importing goods into Bulgaria not to effectively pay VAT on the import if the following conditions are met:

- ▶ obtaining permission from the Minister of Finance;
- ▶ importation of goods (save for goods subject to excise duty) included in a list approved by the Minister of Finance;
- ▶ term of the project fulfilment - up to 2 years;
- ▶ size of investment - over BGN 10 million for a period not exceeding 2 years;
- ▶ creation of over 50 new work places for the purposes of the project fulfilment;
- ▶ proof of the means for the project financing as well as of the capability of the large investor to build and maintain facilities for ensuring execution;
- ▶ the applicant does not have outstanding tax and mandatory social security and health insurance liabilities;
- ▶ the applicant has not been granted a governmental aid over EUR 200.000 for the last three calendar years including the current year;
- ▶ compliance with the conditions of Regulation (EC) No 1998/2006 of the Commission on the Application of Articles 87 and 88 of the Treaty to de minimis state aid.

The permission is granted for a term of up to 2 years.

## Corporate tax holidays

### **Tax relief for investment in underdeveloped areas**

Corporate tax due is reduced by 10% of the value of acquired assets, in case specific requirements under the law are met. The assets should be part of initial investment. The investments must be made in municipalities in which the unemployment rate is at least 50% higher than the average rate in the country for the preceding year.

### **Tax relief for manufacturing plants in underdeveloped areas**

Up to 100 % of the corporate income tax for the respective year may be relieved for manufacturers investing in underdeveloped regions, where in the prior year the average national unemployment level is by 35% or more higher than the average unemployment level for the country and the acquired assets should be a part of an initial investment carried out within the next three years following the year for which the tax holiday is obtained. Further requirements that are in compliance with the EC State Aid Rules must be also observed.

### **Tax relief for newly opened working places**

Companies may deduct from their financial result before tax adjustments double the amount of the mandatory social security contributions borne by the employer with regard to newly hired employees. This relief is provided in the year of the new hires. This relief can be utilized, if the working places are opened in municipalities with unemployment rate at least 50 % higher than the average rate in the country for the previous year. The above exemption is subject to certain conditions outlined in the Corporate Income Tax Act.

### **Tax relief for hiring of unemployed persons**

Employers are entitled to deduct from their financial result amounts equal to the employment remuneration effectively paid and the mandatory social security contributions borne by the employer for the first 12 consecutive months with regard to newly employed persons who have been registered as unemployed for more than one year or are over 50 years of age, or have decreased working capacity. The above exemption is subject to certain conditions outlined in the Corporate Income Tax Act.

This incentive cannot be used cumulatively with the one outlined above.

### **Other tax incentives**

Collective investment schemes, which have been admitted to public offering in Bulgaria, licensed investment companies of the closed-end type under the Public Offering of Securities Act and special purpose investment companies under the Special Purpose Investment Companies Act are exempt from corporate income tax.

Upon distribution of their profit, the special purpose investment companies are subject to 5 % tax; it is mandatory that 90 % of the profit is distributed each year.

## Export incentives

There are no special Export Incentives applicable in Bulgaria.

## Free zones and free warehouses

There are at present six operational “free zones” in Bulgaria that are located on strategic trade rail, road and water trade routes:

- ▶ Vidin - around the port facility of this Danube town;
- ▶ Rousse - around the port facility of this Danube town;
- ▶ Dragoman - near the border with Serbia;
- ▶ Svilengrad - near the Bulgarian / Turkish border;
- ▶ Plovdiv - includes the territory of the Plovdiv International Fair and the industrial zone of the town having a very well developed infrastructure. The Plovdiv International Airport has air connections throughout Europe, the Middle East and Northern Africa;
- ▶ Bourgas - around the facilities of Bulgaria's biggest Black Sea port. The zone includes a cargo terminal at the Bourgas International Port.

The goods entered into a free zone or free warehouse are deemed not to be imported in Bulgaria and hence no customs duties or similar charges are imposed. These exemptions are also applicable for tobacco and alcohol products as well as for manufactured goods that are brought into Bulgaria for processing and subsequent re-export.

Foreign goods may be kept in the free zones and free warehouses:

- ▶ without special permission, as subject to operations designated to storage thereof, to improve their trade image and quality or processing for new delivery or sale;
- ▶ under customs regimes “import”, “temporary import”, “active improvement” and “processing under customs control”.

Bulgarian goods may also be stored in free zones with permission from the customs authorities. Local goods kept in the free zones may be subject only to operations aimed at their storage. These could be subject to other operations beyond storage if they are exported.

Convertible foreign currency may be used, and revenues can be transferred abroad freely without any restrictions.

## Designated technology zones

There are no special provisions concerning Designated Technology Zones in Bulgaria. ■

# Appendices



## Economic performance statistics

The following table presents leading indicators of the Bulgarian economic performance from 2001 to 2008:

|                                     | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    | 2008      |
|-------------------------------------|---------|---------|---------|---------|---------|---------|---------|-----------|
| Real GDP growth (%)                 | 4.1     | 4.9     | 5.0     | 6.6     | 6.2     | 6.3     | 6.2     | 6.0*      |
| GDP (BGN million)                   | 29709.0 | 32335.0 | 34628.0 | 38823.0 | 42797.0 | 49091.0 | 56519.8 | 66096*    |
| Year-end inflation based on CPI (%) | 4.8     | 3.8     | 5.6     | 4.0     | 6.5     | 6.5     | 12.5    | 7.8       |
| Unemployment rate (%)               | 17.3    | 16.3    | 13.5    | 12.2    | 10.7    | 9.1     | 6.9     | 6.3*      |
| Exports of goods FOB (EUR million)  | 5714.3  | 6062.9  | 6668.2  | 7984.9  | 9466.4  | 12011.9 | 13511.9 | 15272.8*  |
| Imports of goods CIF (EUR million)  | 7492.6  | 7940.9  | 9093.8  | 10938.4 | 13876.1 | 17574.1 | 21861.2 | 25327.0*  |
| Trade balance FOB/CIF (EUR million) | -1778.3 | -1878.0 | -2425.6 | -2953.5 | -4409.7 | -5562.2 | -8349.3 | -10054.2* |
| FDI (EUR million)                   | 903.0   | 980.0   | 1850.5  | 2735.9  | 3152.1  | 6005.6  | 6516.9  | 5430.2*   |
| BNB reserve assets (EUR million)    | 4061.2  | 4574.8  | 5308.6  | 6770.4  | 7370.3  | 8926.4  | 11936.6 | 12713.1   |

\* Preliminary data

Source: National Statistical Institute and Bulgarian National Bank

## Exchange rates

The table below provides the average yearly exchange rates of the Bulgarian Lev (BGN) against major currencies from 2001 to 2008.

|                   | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    | 2008    |
|-------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| U.S. Dollar       | 2.18    | 2.08    | 1.73    | 1.58    | 1.57    | 1.56    | 1.43    | 1.34    |
| EUR               | 1.95583 | 1.95583 | 1.95583 | 1.95583 | 1.95583 | 1.95583 | 1.95583 | 1.95583 |
| British Pound     | 3.145   | 3.112   | 2.828   | 2.883   | 2.86    | 2.869   | 2.8597  | 2.4635  |
| Swiss Franc       | 1.2953  | 1.3329  | 1.2866  | 1.2671  | 1.2632  | 1.2436  | 1.1908  | 1.2330  |
| Japanese Yen (10) | 0.1791  | 0.1658  | 0.1494  | 0.1456  | 0.1429  | 0.1341  | 0.1207  | 0.1299  |

Source: Bulgarian National Bank

## Exchange rates

### Corporation tax calculation

|  |             |
|--|-------------|
| Corporate income tax rate (%)            | 10          |
| Capital gains tax rate (%) *             | 10          |
| Withholding tax (%)                      |             |
| Dividends                                | 5           |
| Interest *                               | 10          |
| Royalties from patents, know-how, etc. * | 10          |
| Net operating losses (years)             |             |
| Carry back                               | not allowed |
| Carry forward                            | 5 years     |

\*Applicable only to foreign legal entities

### Branch tax calculation

There are no special provisions concerning the Branch Tax Calculation. A branch of a foreign company is identical with local enterprises for accounting purposes, therefore the general clauses of the Corporate Income Tax Act shall apply.



## Social security contributions

Different social security regimes apply to employees and self-employed. Social security contributions due by self-employed individuals also vary depending on the activity performed. No difference is made between residents and non-residents for social security purposes.

The rates of social security contributions due by employers and employees in the case of employment relationship, for third labour category (i.e. normal work conditions), are set forth in the table below. As of 1 January 2008, the social security contributions burden is set at 20 % for the employer and 13 % for the employee.

Note that the formal distinction of the social security percentages for persons born before 1 January 1960 and after 31 December 1959 does not actually alter the overall social-security burden for the employer and the employee. The distinction is only relevant for the instalment of the additional mandatory pension contribution for the persons born after 31 December 1959 to the respective private pension fund (instead of the National pension system).

The following social insurance contributions (including all instalments due by the employee and the employer under the Bulgarian National Insurance System) are summarised in the tables below.

*The base for the Social security contributions for 2008 is capped at BGN 2000 per month.*

### Employees, III-rd labour category, born before 1 January 1960, all insurance risks

| Funds  | Total % of contributions   | 60% Employer   | Employee 40% |
|--|--|--|--------------|
| Social security funds                                  | 26.5% +<br>the percentage for<br>Occupational Accident and<br>Disease Fund         | 15.9% +<br>the percentage for<br>Occupational Accident and<br>Disease Fund         | 10.6%        |
| Pension fund   | 22%  | 13.2%  | 8.8%         |
| Sickness and maternity fund                            | 3.5%   | 2.1%   | 1.4%         |
| Occupational Accident and Disease Fund                 | From 0.4 to 1.1*   | From 0.4 to 1.1*   | -            |
| Unemployment fund                                      | 1%   | 0.6%   | 0.4%         |
| Additional mandatory social insurance fund             | none   | none   | none         |
| Employees' guaranteed receivables fund upon insolvency | 0.5%   | 0.5%   | -            |
| Health insurance                                       | 6%   | 3.6%   | 2.4%         |
| <b>TOTAL</b>   | <b>33% +<br/>the percentage for<br/>Occupational Accident and<br/>Disease Fund</b> | <b>20% +<br/>the percentage for<br/>Occupational Accident and<br/>Disease Fund</b> | <b>13%</b>   |

\* Note: The contribution for the Occupational Accident and Disease Fund ranges between 0.4% and 1.1% depending on the group of economic activity the company falls into per the National Classification of Economic Activities.

**Employees, III-rd labour category, born after 31 December 1959, all insurance risks**

| Funds  | Total % of contributions   | 60% Employer   | Employee 40% |
|--|--|--|--------------|
| Social security funds                                  | 26.5% +<br>the percentage for<br>Occupational Accident and<br>Disease Fund | 15.9% +<br>the percentage for<br>Occupational Accident and<br>Disease Fund | 10.6%        |
| Pension fund   | 17%  | 10.2%  | 6.8%         |
| Sickness and maternity fund                            | 3.5%   | 2.1%   | 1.4%         |
| Occupational Accident and Disease Fund                 | From 0.4 to 1.1*   | From 0.4 to 1.1*   | -            |
| Unemployment fund                                      | 1%   | 0.6%   | 0.4%         |
| Additional mandatory social insurance fund             | 5%   | 3%   | 2%           |
| Employees' guaranteed receivables fund upon insolvency | 0.5%   | 0.5%   | -            |
| Health insurance                                       | 6%   | 3.6%   | 2.4%         |
| TOTAL  | 33% +<br>the percentage for<br>Occupational Accident and<br>Disease Fund   | 20% +<br>the percentage for<br>Occupational Accident and<br>Disease Fund   | 13%          |

\* Note: The contribution for the Occupational Accident and Disease Fund ranges between 0.4% and 1.1% depending on the group of economic activity the company falls into per the National Classification of Economic Activities.

## Treaty withholding tax rates

The following table shows the withholding rates applicable to dividends, interest and royalties, under double tax treaties with Bulgaria:

| Country        | Dividends (%)     | Interest (%) | Royalties (%)  |
|----------------|-------------------|--------------|----------------|
| Albania        | 5/15 (h)          | 10           | 10             |
| Armenia        | 5/10 (m)          | 10           | 10             |
| Austria        | 0                 | 0            | 0              |
| Algeria        | 10                | 10           | 10             |
| Belarus        | 10                | 10           | 10             |
| Belgium        | 10                | 10           | 5              |
| Canada         | 10/15 (n)         | 10           | 10             |
| China          | 10                | 10           | 7/10 (a)       |
| Croatia        | 5                 | 5            | 0              |
| Cyprus         | 5/10              | 7            | 10 (r)         |
| Czech Republic | 10                | 10           | 10             |
| Denmark        | 5/15 (b)          | 0            | 0              |
| Egypt          | 10                | 12.5         | 12.5           |
| Finland        | 10 (c)            | 0            | 0/5 (d)        |
| France         | 5/15 (e)          | 0            | 5              |
| FYROM          | 5/15 (p)          | 10           | 10             |
| Georgia        | 10                | 10           | 10             |
| Germany        | 15                | 0            | 5              |
| Greece         | 10                | 10           | 10             |
| Great Britain  | 10                | 0            | 0              |
| Hungary        | 10                | 10           | 10             |
| India          | 15                | 15           | 15             |
| Indonesia      | 15                | 10           | 10             |
| Iran           | 7,5               | 5            | 5              |
| Ireland        | 5/10 (s)          | 5            | 10             |
| Israel         | 10/ 7,5 -12,5 (v) | 5/10 (w)     | 7,5 - 12,5 (x) |
| Italy          | 10                | 0            | 5              |
| Japan          | 10/15 (f)         | 10           | 10             |
| Kazakhstan     | 10                | 10           | 10             |

| Country         | Dividends (%) | Interest (%) | Royalties (%) |
|-----------------|---------------|--------------|---------------|
| Kuwait          | 0/5 (*)       | 5            | 10            |
| Korea           | 5/10 (j)      | 10           | 5             |
| Latvia          | 5/10 (b)      | 5            | 5/7 (y)       |
| Lebanon         | 5             | 7            | 5             |
| Lithuania       | 0/10(**)      | 10           | 10            |
| Luxembourg      | 5/15 (h)      | 10           | 5             |
| Malta           | 0 (g)         | 0            | 10            |
| Moldova         | 5/15 (h)      | 10           | 10            |
| Mongolia        | 10            | 10           | 10            |
| Morocco         | 7/10 (q)      | 10           | 10            |
| the Netherlands | 5/15 (i)      | 0            | 0             |
| North Korea     | 10            | 10           | 10            |
| Norway          | 15            | 0            | 0             |
| Poland          | 10            | 10           | 5             |
| Portugal        | 15            | 10           | 10            |
| Romania         | 10/15 (l)     | 15           | 15            |
| Russia          | 15            | 15           | 15            |
| Singapore       | 5             | 5            | 5             |
| Slovakia        | 10            | 10           | 10            |
| Slovenia        | 5/10 (b)      | 5            | 5/10 (z)      |
| Spain           | 5/15 (i)      | 0            | 0             |
| South Africa    | 5/15 (h)      | 5            | 5/10 (z)      |
| South Korea     | 5/10(j)       | 10           | 5             |
| Syria           | 10            | 10           | 15            |
| Sweden          | 10            | 0            | 5             |
| Switzerland     | 5/15 (h)      | 10           | 0             |
| Thailand        | 10            | 10/15 (t)    | 5/15 (u)      |
| Turkey          | 10/15 (o)     | 10           | 10            |
| Ukraine         | 5/15 (i)      | 10           | 10            |
| Uzbekistan      | 10            | 10           | 10            |
| Vietnam         | 15            | 10           | 15            |
| Yugoslavia      | 5/15 (h)      | 10           | 10            |
| Zimbabwe        | 10/15 (k)     | 10           | 10            |

- a. The 7% rate applies to royalties for the right to use industrial, commercial and scientific equipment; the 10% rate applies to other royalties.
- b. The 5% rate applies if the beneficial owner is a company (other than a partnership) holding directly more than 25% of the capital of the payer.
- c. This rate applies to dividends paid from Finland to Bulgaria. The treaty does not provide a withholding rate for dividends paid from Bulgaria to Finland
- d. The 5% rate applies to royalties for specified types of intellectual property. The rate for other royalties is 0%.
- e. The 5% rate applies if the beneficial owner of the dividends is a company (other than a general partnership) that holds directly at least 15% of the capital of the payer; the 15% rate applies to other dividends.
- f. The 10% rate applies if the recipient is a legal person owning at least 25% of the voting shares of the payer for at least six months before the end of the accounting period for which the distribution of profits is made. The 15% rate applies to other dividends.
- g. The rate is 0% for dividends paid from Bulgaria to Malta. For dividends paid from Malta to Bulgaria, the withholding tax is the lower of 30% of the gross dividend or the tax imposed on the profits out of which the dividends are paid.
- h. The 5% rate applies if the recipient is a company owning directly at least 25% of the capital of the payer; the 15% rate applies to other dividends.
- i. The 5% rate applies if the recipient is a company, other than a general partnership, owning directly at least 25% of the payer. The 15% rate applies to other dividends.
- j. The 5% rate applies if the recipient is a company that is the beneficial owner of the dividends and holds at least 15% of the capital of the payer. The 10% rate applies to other dividends.
- k. The 10% rate applies if the beneficial owner of the dividends is a company that holds at least 25% of the capital of the payer.
- l. The 10% rate applies if the beneficial owner of the dividends is a company that holds more than 25% of the capital of the payer. The 15% rate applies to other dividends
- m. The 5% rate applies if the beneficial owner of the dividends has invested at least US\$40,000 or the equivalent in another currency in the capital of the payer. The 10% rate applies to other dividends.
- n. The rate of 10% applies to dividends paid by a Canadian investment company, at least 10% of the voting shares of which are controlled directly or indirectly by a foreign company.
- o. The 10% rate applies if the beneficial owner of the dividends is a company (other than a general partnership) that holds at least 25% of the payer. The 15% rate applies to other dividends.
- p. The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) holding directly at least 25% of the payer. The 15% rate applies to other dividends.
- q. The 7% rate applies if the beneficial owner of the dividends is a company (other than a partnership) holding directly at least 15% of the capital of the payer. The 10% rate applies to other dividends.

- r. These rates are under the treaty with Cyprus effective from 1 January 2001. The 5% rate applies if the recipient is a company, owning directly at least 25% of the payer. The 10% rate applies to other dividends.
- s. The 5% rate applies if the recipient is a company, owning directly at least 25% of the payer. The 10% rate applies to other dividends
- t. The 10% rate applies for interest if a financial institution, including insurance company, receives them. The 15% rate applies to interest in all other cases.
- u. The 5% rate applies for royalties received for the usage or the right to use of each copyright for. The 15% rate applies to royalties in all other cases.
- v. The 10 % rate applies if the dividends are paid by a company, the profit of which is tax exempt or is subject to lower tax rate. In all other cases the dividends will be subject to withholding tax equal to 50% of the tax rate envisaged within the provisions of the domestic law of respective contracting state, but in any case the tax will not exceed 12.5% and will not be lower than 7.5%.
- w. The lower rate applies if the interest is paid by a bank or another financial institution
- x. The applicable withholding tax rate will be equal to 50% of the tax rate envisaged within the provisions of the domestic law of respective contracting state, but in any case the tax will not exceed 12.5% and will not be lower than 7.5%;
- y. The 7% rate applies to royalties received for the use of, or the right to use, copyrights, patents, logos, models, plans, secret formulas or processes. The 5% rate applies to other royalties.
- z. The 5% rate applies to royalties received for the use of, or the right to use, copyrights (except for cinematographic movies) or scientific, commercial or industrial equipment. The 10% rate applies to other royalties]
- \* The 0% rate applies if the beneficial owner is a company other than a partnership, holding directly more than 25% of the capital of the payer.
- \*\* The 0% rate applies if the beneficial owner is a company other than a partnership, holding directly more than 10% of the capital of the payer.

Bulgaria has also concluded a double taxation treaty with USA but this treaty has not entered into force yet.

## Trading partners

The following table shows Bulgaria's major trading partners from 2001 to 2008.

### Exports - FOB (% of total)

| Countries          | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008* |
|--------------------|------|------|------|------|------|------|------|-------|
| Turkey             | 8.1  | 9.3  | 9.2  | 10   | 10.5 | 11.6 | 11.4 | 8.8   |
| Germany            | 9.5  | 9.5  | 10.8 | 10.2 | 9.8  | 9.7  | 10.3 | 9.3   |
| Italy              | 14.9 | 15.4 | 14   | 13.1 | 12   | 10.1 | 10.3 | 8.5   |
| Greece             | 8.8  | 9.2  | 10.3 | 9.9  | 9.4  | 8.9  | 9.1  | 9.9   |
| Belgium            | 4.9  | 4.8  | 6.1  | 5.9  | 6    | 6.6  | 6.2  | 5.9   |
| France             | 5.6  | 5.3  | 5.1  | 4.5  | 4.6  | 4.2  | 4.0  | 4.0   |
| Russian Federation | 5.5  | 4.2  | 0.4  | 1.3  | 1.3  | 1.5  | 2.4  | 3.0   |

\* As of November 2008

Source: National Statistical Institute

### Imports - CIF (% of total)

| Countries          | 2001 | 2002 | 2003 | 2004 | 2005  | 2006 | 2007 | 2008* |
|--------------------|------|------|------|------|-------|------|------|-------|
| Russian Federation | 23.8 | 18.3 | 18.5 | 12.7 | 15.64 | 17.2 | 12.5 | 14.5  |
| Germany            | 15.3 | 14.3 | 14.3 | 14.6 | 13.62 | 12.5 | 12.3 | 11.8  |
| Italy              | 9.6  | 11.3 | 10.2 | 9.8  | 8.99  | 8.8  | 8.7  | 7.8   |
| France             | 6    | 5.6  | 5.6  | 5.3  | 4.69  | 4.1  | 3.4  | 3.3   |
| Turkey             | 3.8  | 4.9  | 6.1  | 6    | 6.05  | 6    | 6.8  | 5.6   |
| Greece             | 5.7  | 6    | 6.7  | 5.7  | 5.01  | 5.2  | 6.2  | 5.4   |
| Belgium            | 1.5  | 1.4  | 1.4  | 1.4  | 1.24  | 1.2  | 1.8  | 1.8   |

\* As of November 2008

Source: National Statistical Institute



## Import and export statistics

The following tables show Bulgaria's principal imports and exports by economic activity groups from 2001 to 2008.

| <b>Imports - CIF</b>   | 2001       | 2002       | 2003       | 2004       | 2005       | 2006       | 2007       | 2008*      |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| Machinery, equipment, transport vehicles                         | 27.5       | 27.6       | 28.7       | 29.5       | 30.65      | 29.01      | 29.50      | 29.19      |
| Processed products   | 19.9       | 20.5       | 21         | 21.6       | 20.16      | 20.1       | 20.59      | 19.54      |
| Fuels and lubricants   | 22.1       | 19.6       | 17.4       | 16.7       | 20.15      | 21.82      | 19.89      | 21.98      |
| Chemical products  | 10.1       | 10.3       | 10.1       | 10.4       | 9.49       | 8.82       | 8.79       | 8.69       |
| Raw, non-food products, excluding fuels                          | 5.5        | 4.5        | 5.5        | 6          | 6.14       | 7.55       | 7.41       | 7.13       |
| Food and live animals  | 4.3        | 4.5        | 4.4        | 4.4        | 3.92       | 3.91       | 4.55       | 5.25       |
| Beverages and tobacco  | 0.6        | 0.6        | 0.4        | 0.5        | 0.35       | 0.37       | 0.83       | 0.98       |
| Animal and vegetable fats and oils and their derivative products | 0.4        | 0.6        | 0.4        | 0.3        | 0.31       | 0.25       | 0.32       | 0.36       |
| Others   | 9.6        | 11.8       | 12.1       | 10.5       | 8.84       | 8.18       | 8.11       | 6.88       |
| <b>Total (%)</b>   | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> |
| In EUR million   | 8,128      | 8,411      | 9,611      | 11,620     | 14,668     | 18,479     | 21,861     | 23,659     |

\* As of November 2008/ Source: National Statistical Institute

| <b>Exports - FOB</b>   | 2001       | 2002       | 2003       | 2004       | 2005       | 2006       | 2007       | 2008*      |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| Processed products   | 23.6       | 22.5       | 24.7       | 27.6       | 26.5       | 30.41      | 29.33      | 26.75      |
| Machinery, equipment, transport vehicles                         | 11         | 12.4       | 13         | 12.4       | 14.22      | 13.47      | 14.94      | 15.73      |
| Fuels and lubricants   | 13.5       | 9.8        | 8.3        | 10.3       | 12.94      | 15.48      | 14.71      | 16.39      |
| Chemical products  | 10.7       | 9.3        | 9          | 7.7        | 7.6        | 6.37       | 7.77       | 7.94       |
| Raw, non-food products, excluding fuels                          | 5.3        | 6          | 6.3        | 6.1        | 6.37       | 7.14       | 6.70       | 6.61       |
| Food and live animals  | 6.2        | 8.3        | 6.7        | 6.8        | 6.79       | 5.71       | 5.58       | 8.14       |
| Beverages and tobacco  | 2.5        | 2.3        | 2.1        | 2.3        | 1.9        | 1.51       | 1.81       | 1.88       |
| Animal and vegetable fats and oils and their derivative products | 0.2        | 0.3        | 0.2        | 0.3        | 0.3        | 0.23       | 0.27       | 0.46       |
| Others   | 26.8       | 29         | 29.7       | 26.6       | 23.36      | 19.69      | 18.89      | 16.11      |
| <b>Total (%)</b>   | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> |
| In EUR million   | 5,714      | 6,063      | 6,668      | 7,985      | 9,466      | 12,012     | 13,512     | 14,327     |

\* As of November 2008/ Source: National Statistical Institute

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