

Bulgaria

RISK & COMPLIANCE REPORT

DATE: January 2017

Executive Summary - Bulgaria

Sanctions:	None
FATF list of AML Deficient Countries	No
Medium Risk Areas:	Non - Compliance with FATF 40 + 9 Recommendations US Dept of State Money Laundering Assessment Weakness in Government Legislation to combat Money Laundering Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score)
Major Investment Areas: Agriculture - products: vegetables, fruits, tobacco, wine, wheat, barley, sunflowers, sugar beets; livestock Industries: electricity, gas, water; food, beverages, tobacco; machinery and equipment, base metals, chemical products, coke, refined petroleum, nuclear fuel Exports - commodities: clothing, footwear, iron and steel, machinery and equipment, fuels Exports - partners: Germany 10.4%, Turkey 9.1%, Italy 8.7%, Romania 8.2%, Greece 7.3%, France 4% (2012) Imports - commodities: machinery and equipment; metals and ores; chemicals and plastics; fuels, minerals, and raw materials Imports - partners: Russia 20.9%, Germany 11.3%, Italy 6.7%, Romania 6.6%, Greece 6.1%, Turkey 4.6%, Spain 4.5% (2012)	

Investment Restrictions:

Bulgaria has a favorable foreign investment regime, including low, flat corporate and income taxes. Promising sectors for foreign investors include: information technology, telecommunications, environmental technology (including water and waste water infrastructure), biomass, agriculture (including beverage/processed foods industry), and other sectors related to infrastructure development.

There are no general limits on foreign ownership, or control of firms, nor means of screening or restricting foreign investment in Bulgaria.

Current Bulgarian legislation effectively bans all biotech crop trials and production, and imposes restrictions on soy or other plant proteins in meat products.

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Section 1 - Background

The Bulgars, a Central Asian Turkic tribe, merged with the local Slavic inhabitants in the late 7th century to form the first Bulgarian state. In succeeding centuries, Bulgaria struggled with the Byzantine Empire to assert its place in the Balkans, but by the end of the 14th century the country was overrun by the Ottoman Turks. Northern Bulgaria attained autonomy in 1878 and all of Bulgaria became independent from the Ottoman Empire in 1908. Having fought on the losing side in both World Wars, Bulgaria fell within the Soviet sphere of influence and became a People's Republic in 1946. Communist domination ended in 1990, when Bulgaria held its first multiparty election since World War II and began the contentious process of moving toward political democracy and a market economy while combating inflation, unemployment, corruption, and crime. The country joined NATO in 2004 and the EU in 2007.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Bulgaria is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Bulgaria was undertaken by the Financial Action Task Force (FATF) in 2008. According to that Evaluation, Bulgaria was deemed Compliant for 13 and Largely Compliant for 19 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 3 of the 6 Core Recommendations.

Key Findings from latest Mutual Evaluation Report (2006):

The report on the Core recommendations shows that numerous developments have occurred which address major issues raised by the evaluators and which are improving effectiveness of money laundering criminalization and the implementation of CDD measures. The Penal legislation still needs to be completed with regard to some designated categories of predicate offence and criminal liability of legal persons is also still to be addressed.

The Customer Due Diligence is being actively addressed by the Bulgarian authorities, with a focus on awareness-raising, training, risk assessment and practice. Serious training and awareness raising programs have been developed and implemented by the FIU and other supervisory authorities. However, the legal obligation to perform full CDD for terrorist financing is not still implemented but should be provided for with the amendments to the Law on Measures against Financing of Terrorism (LMFT).

Regarding the SRII and SRIV (rated LC and PC in the 3rd round MER) the desk review notes the progresses designed in the draft new legislation, but also a potential inconsistency between the proposed definition of financing of terrorism for reporting purposes in the LMFT and the definition of the financing of terrorism crime, in that the reporting obligations are wider. That might lead to a situation where a reported suspicious transaction, subsequently disseminated by the FIU to law enforcement authorities, might fall out of the scope of financing of terrorism crime. This inconsistency should be avoided.

There is a welcome progress and developing jurisprudence in respect of ML criminalization. Bulgaria is encouraged to continue challenging the courts with the more difficult (third party) laundering cases, particularly where there is evidence from which a court can draw the necessary inferences of either the underlying predicate criminality or of knowledge that

relevant property is of criminal origin. In this way the jurisprudence should become more clearly established.

As a result of the discussions held in the context of the examination of this second progress report, the Plenary was satisfied with the information provided and the progress being undertaken and thus approved the progress report and the analysis of the progress on the core Recommendations. Pursuant to Rule 41 of the Rules of procedure, the progress report will be subject of an update in every two years between evaluation visit (i.e. April 2013), though the Plenary may decide to fix an earlier date at which an update should be presented .

US Department of State Money Laundering assessment (INCSR)

Bulgaria was deemed a Jurisdiction of Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Bulgaria's geo-strategic location as an entry point into Europe and persistent problems with the rule of law make the country a significant source of money laundering. This is exacerbated by the large, cash-based gray economy and high levels of corruption. Other activities connected to money laundering in Bulgaria include tax and custom offenses; fraud; usury; cybercrime, especially ATM and credit card fraud, and increasingly, phishing and social engineering fraud; and the smuggling of migrants and contraband goods, such as cigarettes, alcohol, and fuel.

Industries that Bulgarian criminals use for money laundering include tourism, gaming, retail, construction, healthcare, and energy. Within these sectors, small businesses are created to hide laundered funds, increasingly in offshore territories where ownership is difficult to trace. The businesses most frequently used for this purpose are casinos, hotels, nightclubs, car dealerships, shopping centers, pawn shops, media outlets and metal scrap collectors. Investments in Bulgarian sovereign bonds are increasingly being used as a money laundering tool.

A significant facet of the gray economy in Bulgaria is large-scale tax evasion, particularly of value-added tax (VAT) and excise duties. Proceeds from VAT fraud are significant and are largely transferred to foreign accounts held by offshore companies in tax havens or in countries with tight bank secrecy regimes. They are then returned to Bulgaria and declared as loans, thus creating a legal origin for future use. Evasion of social security payments, through unreported income and informal employment arrangements, continues to be widespread.

The flow of remittances sent home by Bulgarians working abroad is difficult to measure, but according to official statistics continues to increase.

Bulgaria's banking sector is dominated by foreign-owned banks. Domestic banks, which account for around one quarter of the sector, are more vulnerable to money laundering than their international competitors due to less oversight and the need to hold riskier portfolios to compete.

The six free trade zones in Bulgaria operate under outdated and permissive legislation, which allows firms to avoid paying customs fees on taxable goods, such as gas derivatives and cigarettes sold within Bulgaria.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: List approach

Are legal persons covered: criminally: NO civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: YES

KYC covered entities: Banks, money exchangers, insurance companies, investment funds, notaries, gaming businesses, securities dealers, real estate brokers, political parties, sports clubs, nonprofit organizations (NPOs), lawyers, auditors, and accountants

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 2,284 in 2014

Number of CTRs received and time frame: 225,994 in 2014

STR covered entities: Banks and money exchangers; insurance companies; investment funds; gaming businesses; securities dealers and company service providers; real estate brokers; political parties, professional organizations, and trade unions; sports clubs; NPOs; dealers of autos, arms, petrol, and petrochemical products; accountants, notaries, and lawyers

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 28: January 1 – September 30, 2015

Convictions: 18: January 1 – September 30, 2015

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: NO Other mechanism: YES

With other governments/jurisdictions: YES

Bulgaria is a member of the Council of Europe Committee of Experts on the Evaluation of Anti- Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a FATF-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Bulgarian AML/CFT legislation is generally in line with international standards. However, some deficiencies remain, particularly concerning the list of predicate offenses for money

laundering, which does not cover all categories of piracy, market manipulation, insider trading, or certain aspects of terrorism financing.

The Financial Intelligence Directorate (FID), the country's financial intelligence unit, has primary responsibility for AML/CFT measures for all reporting entities. Reporting by non-bank institutions, such as gaming entities, investment intermediaries, notaries, NPOs, and leasing companies has again increased slightly. FID's resources remain limited, particularly with respect to performing onsite inspections in non-banking institutions, but it does conduct joint inspections with other oversight agencies. Despite improvements in data collection, publicly available information on persons who own, control, or direct the activities of NPOs is still not consistently maintained.

The Bulgarian National Bank (BNB) has a Special Supervision Directorate to investigate banks for AML/CFT compliance. The 2014 bankruptcy of Bulgaria's fourth-largest bank, Corporate Commercial Bank (CCB), and a run on the third-largest bank, First Investment Bank, exposed serious flaws in the accounting and auditing of bank transactions as well as bank supervision, which appears to have been subject to political influence. In addition to the CCB bankruptcy proceeding, there are pending investigations of the bank's owner, for embezzlement, and of three BNB officials, including two consecutive BNB deputy governors, for dereliction of supervisory duties with respect to CCB.

The national Strategy for Combating Money Laundering (2011-2015) remains in place. Implementation of non-conviction-based asset forfeiture legislation, which allows investigation and seizure without criminal conviction, began in 2014. The first actual seizure under the new law was confirmed by a court in September 2015, and several other cases were pending at yearend. The government did not identify, freeze, seize, or forfeit any terrorism-related assets.

Financial crime enforcement capacity is limited. Aggressive prosecution of money laundering cases is hampered by the lack of financial expertise within law enforcement and the Prosecution Service, and by the limited pool of independent experts. Slow introduction of e-government initiatives, especially for public procurement, has created opportunities for fraud and impeded law enforcement efforts. Other limitations include reluctance of key witnesses to testify against organized criminal groups and lack of incentives for prosecutors to pursue complex cases. The authorities generally opt to pursue easy-to-prove, low-level corruption and related money laundering cases. These investigations rarely go deeper into the target's tax history and affiliation with political patrons.

In November 2013, prosecutors launched a money laundering investigation into an influential Bulgarian politician who resigned as Deputy Speaker of Parliament days before being formally charged with a crime. Prosecutors ultimately dropped money laundering charges, and in December 2015, a first instance court acquitted him of charges of tax evasion and failure to report income. Several claims are pending against him in civil courts for recovery of ill-gotten assets.

The Government of Bulgaria should empower the FIU, criminal investigators, and prosecutors to devote time and resources to long-term and complex money laundering cases, particularly those linked to official corruption. While Bulgaria undertook steps against the smuggling of contraband goods, it should better control its borders to guard against

smuggling of all types and investigate and prosecute its link to organized criminal groups. Expertise should be developed to combat trade-based money laundering and value transfer which is linked to customs and VAT fraud.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Bulgaria does not conform with regard to the following government legislation: -

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

EU White list of Equivalent Jurisdictions

Bulgaria is on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Bulgaria is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2015:

Bulgaria is strategically situated along the Balkan Route for illicit drugs and other contraband trafficked from Southwest Asia into Western Europe. International drug trafficking organizations continue to traffic cocaine, heroin, synthetic drugs, and increasingly chemical precursors through Bulgaria into consumer countries in Western Europe.

In 2014, drug trafficking organizations with ties to Africa and the Middle East continued to partner with Bulgarian organized crime networks to transport cocaine and heroin into Europe from South America. Domestic production of illegal drugs continues to be confined primarily to cannabis cultivation—which is mainly for local consumption—and synthetic drugs such as amphetamines, which are manufactured in small laboratories for both personal use and local sales.

An institutional restructuring of law enforcement services in 2013 led to several months of inactivity and generally slowed investigative work. The division of duty between the Ministry of Interior and the State Agency for National Security remained unclear into 2014, which further fragmented drug law enforcement efforts. The Customs Agency (BNCS), under the Ministry of Finance, has authority to investigate drug trafficking along Bulgaria's borders. Internal restructuring within the Agency and prioritization of taxable contraband (i.e. cigarettes) has resulted in relatively low drug seizures in recent years, but in 2014, successful interagency joint operations led to the interdiction of several hundreds of kilograms of drugs, including quantities of heroin seven times higher than what was confiscated in 2013. Authorities also continued to seize many new psychoactive substances, including popular synthetic cannabinoids.

There has not been significant research into drug addiction within Bulgaria since 2009 when authorities estimated that the country had approximately 30,000 regular drug users. Marijuana is the most widely used drug, followed by synthetic drugs and heroin. According to government statistics, while the number of regular drug users has not fluctuated much in recent years, poly-drug use has increased and presents a challenge for traditional methods of treatment.

Bulgarian law enforcement agencies continue to collaborate closely with the U.S. Drug Enforcement Administration on counternarcotics issues and investigations. An extradition treaty is in force between the United States and Bulgaria, but only a partial mutual legal assistance treaty exists as a protocol to a broader U.S.-EU agreement on the subject.

US State Dept Trafficking in Persons Report 2014 (introduction):

Bulgaria is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Bulgaria is a source and, to a lesser extent, a transit and destination country for women and children who are subjected to sex trafficking and men, women, and children subjected to forced labor. Bulgarian women and children are subjected to sex trafficking within the country, particularly in Sofia, resort areas, and border towns, as well as in Austria, Belgium, Cyprus, France, Germany, Greece, Italy, Macedonia, the Netherlands, Norway, Poland, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. Bulgarian men, women, and children are subjected to forced labor in Belgium, Cyprus, the Czech Republic, Germany, Greece, Israel, Italy, Lithuania, the Netherlands, Norway, Spain, Sweden, the United Kingdom, and Zambia, predominantly in agriculture, construction, and in restaurants. Ethnic Roma men, women, and children represent a significant share of identified trafficking victims. Some Bulgarian children are forced into street begging and petty theft within Bulgaria and also in Greece, Italy, Sweden, and the United Kingdom.

The Government of Bulgaria does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. During the reporting period, the government increased funding for two state-owned trafficking shelters and provided assistance for more women and child victims. However, shelter capacity for female victims was insufficient relative to the number of victims identified, and the government lacked specialized services for male victims. Authorities investigated and prosecuted more labor trafficking cases, yet the overall number of cases remained low. Law enforcement efforts were hampered by sentences for convicted traffickers that were inconsistent with the gravity of the crime. Law enforcement action against public officials and police officers complicit in trafficking offenses remained limited.

US State Dept Terrorism Report 2016

Overview: The Government of Bulgaria continued to deport people it considered national security risks, and increased extradition of suspected foreign terrorist fighters from Bulgaria. The Bulgarian government has worked to enhance its terrorism prevention and enforcement tools by criminalizing foreign terrorist fighters, developing a new counterterrorism strategy, enhancing operations of its National Counterterrorism Center, and announcing plans to draft a comprehensive law on measures against terrorism.

The United States and Bulgaria launched a new Bilateral Counterterrorism Working Group to bolster bilateral cooperation. The group members represented different agencies in the Bulgarian government and include the Deputy Minister of Interior, who co-chairs the group, as well as the Ministry of Foreign Affairs Counterterrorism Coordinator and representatives of the information services.

Bulgaria is a member of the Global Coalition to Counter the Islamic State of Iraq and the Levant (ISIL) and has repeatedly responded to requests for assistance, including in March, when the Ministry of Defense provided weapons and munitions to the Iraqi Kurdistan Region's Peshmerga.

Legislation, Law Enforcement, and Border Security: Bulgaria prosecutes terrorism under several general provisions of the Penal Code, which has been amended multiple times since it was first enacted in 1968. In 2015, the National Assembly adopted amendments to the

Penal Code that provide for the prosecution of individuals, including foreign terrorist fighters, who support, plan, and facilitate the commission of terrorist acts in Bulgaria and abroad. The Ministry of the Interior (MOI) has operational units responsible for deterring, detecting, and responding to terrorist incidents, including the Specialized Unit for Combating Terrorism, Security Police, and Special Police Forces. The State Agency for National Security (DANS) has intelligence-gathering units responsible for counterterrorism. DANS also houses the National Counterterrorism Center, an interagency coordination body responsible for building a common operating picture of terrorist threats. Specialized law enforcement units are generally well-equipped and supported with relevant training, but the focus has been primarily in Sofia, and they lack resources in other regional centers. As of July, the specialized court for organized crime and its prosecutors' office received jurisdiction to prosecute and try all terrorist cases in the country. The court personnel do not have expertise in handling these types of cases, however.

After the November terrorist attacks in Paris, Bulgaria tightened its border control rules and screened all travelers at the border crossings. Within the EU, Bulgaria shares Advanced Passenger Information appearing on the biographical data page of passports. Based on bilateral police cooperation agreements, Bulgaria also shares this type of information with non-EU countries for law enforcement purposes on an as-needed basis. Bulgaria was in the process of establishing a Passenger Information Unit (PIU) that will collect and share the data an airline receives from a traveler to book and manage travel. At year's end, legislation was pending in the National Assembly that would require air carriers to provide data to the PIU. The Department of State's Antiterrorism Assistance program supported Bulgarian participation in a series of border security-related courses aimed at addressing foreign terrorist fighter travel.

Law enforcement cooperation between U.S. agencies and their Bulgarian counterparts has been historically strong. However, consecutive structural changes and reorganization of key police units, and the resulting reassignment of personnel and imposition of new rules, slowed joint casework and harmed law enforcement morale.

U.S. government agencies continued to work closely with Bulgarian counterparts through a variety of counterterrorism programs aimed at enhancing Bulgaria's capacity and capabilities. The Department of State partnered with Bulgaria to implement key programs in the areas of border security, aviation security, and interagency cooperation. In October and December, Bulgarian legal and investigative experts participated in workshops on countering Hizballah's terrorist and criminal activities.

Countering the Financing of Terrorism: Bulgaria belongs to the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, a Financial Task Force-style regional body. Bulgaria's Financial Intelligence Directorate (FID) of DANS has primary responsibility for anti-money laundering measures for all reporting entities and is a member of the Egmont Group. The Bulgarian National Bank also has a Special Supervision Directorate to investigate banks for compliance with money laundering and terrorism financing requirements.

The government did not freeze, seize, or forfeit any terrorism-related assets in 2015. However, it did identify some funds as potentially terrorism-related and further investigation is underway.

Bulgaria criminalizes terrorism financing in accordance with international standards. Since there is no publicly available information on terrorist-related assets frozen or seized, it is hard to assess the effectiveness of Bulgaria's process. Thirty-one reporting entities, including banks, real estate brokers, and financial and exchange houses, are required to file regularly with FID currency transaction reports for all transactions valued at more than US \$17,000. There are penalties for non-compliance (administrative sanctions), and enforcement is generally good. Bulgaria requires the collection of Know Your Customer data for wire transfers. All NGOs are obliged to report suspicious transactions.

Countering Violent Extremism: On December 30, a new government strategy and action plan on countering radicalization to violence and terrorism were approved by the Council of Ministers. The strategy aims to strengthen existing government counterterrorism efforts by involving all possible agencies and by optimizing interagency coordination. The strategy spells out mechanisms for improved cooperation with civil society, business organizations, local communities, and religious leaders.

The Grand Mufti of Bulgaria issued a statement with the National Council of Religious Communities in Bulgaria condemning the Paris attacks in January and November. The Grand Mufti has been a voice of tolerance and moderation, and has stressed that government efforts must complement community CVE efforts.

According to Bulgaria's draft action plan on the strategy on countering radicalization and terrorism, the government will have a national program by 2020 for members of violent extremist groups to disengage, de-radicalize, and be rehabilitated.

International and Regional Cooperation: Bulgaria is a member of and active contributor to counterterrorism initiatives at the UN, EU, NATO, Council of Europe, OSCE, and Organization for Black Sea Economic Cooperation.

International Sanctions

None applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	41
World Governance Indicator – Control of Corruption	49

Corruption and Government Transparency - Report by US State Department

Widespread corruption continues to be one of the most difficult problems in Bulgaria's investment climate. Well-established human trafficking, narcotics, and contraband smuggling channels that contribute to corruption in Bulgaria still exist. Law enforcement capacity remains limited and the authorities opt for easy-to-prove, low-level corruption cases. As a result, progress on cases of high public interest, involving alleged siphoning of millions from the state coffers or EU funds, such as cases involving public procurements for big infrastructure projects, have not generally been pursued.

The Prosecution service, the State Agency for National Security, and the Ministry of Interior are the primary institutions responsible for combating corruption. A government analytical center for curbing corruption (BORCOR) was set up in 2011 but it has shown no concrete results, in spite of the resources which have been devoted to the project. Bulgaria has laws, regulations, and penalties to combat corruption. However internal oversight within institutions is often weak which contributes to the overall image of uncoordinated response to what is seen as a systemic problem throughout the public administration. Bribery is a criminal act under Bulgarian law for both the giver and the receiver. Individuals who mediate and facilitate a bribe are also held accountable. Penalties range from one to fifteen years imprisonment along with possible confiscation of property depending on the circumstances and seriousness of the case. In the most egregious cases, the Penal Code calls for prison terms of 10 to 30 years. Bribing a foreign official is also a criminal act. The government does not require companies to establish internal codes of conduct nor compliance programs to detect and prevent bribery. In the area of public procurement, a complex and ever-changing legislative framework has made it even more difficult to create a culture of objectivity and rigor.

Bulgaria has an NGO sector that monitors corruption and organized crime, including a local chapter of Transparency International (TI). Bulgaria ranks 77th of 177 countries in TI's Corruption Perception Index for 2013, down one place from 2012.

In 1998, Bulgaria was one of the first non-OECD nations to ratify the OECD Anti-Bribery Convention and is a participating member of the OECD Working Group on Bribery. Bulgaria has also ratified the Council of Europe's Convention on Laundering, Search, Seizure, and Confiscation of Proceeds of Crime (1994) and Civil Convention on Corruption (1999). Bulgaria has signed and ratified the UN Convention against Corruption (2003); the Additional Protocol

to the Council of Europe's Criminal Law Convention on Corruption; and the UN Convention against Transnational Organized Crime.

Section 3 - Economy

Bulgaria, a former Communist country that entered the EU on 1 January 2007, averaged more than 6% annual growth from 2004 to 2008, driven by significant amounts of bank lending, consumption, and foreign direct investment. Successive governments have demonstrated a commitment to economic reforms and responsible fiscal planning, but the global downturn sharply reduced domestic demand, exports, capital inflows, and industrial production. GDP contracted by 5.5% in 2009, and has been slow to recover in the years since. Despite having a favorable investment regime, including low, flat corporate income taxes, significant challenges remain. Corruption in public administration, a weak judiciary, and the presence of organized crime continue to hamper the country's investment climate and economic prospects.

Agriculture - products:

vegetables, fruits, tobacco, wine, wheat, barley, sunflowers, sugar beets; livestock

Industries:

electricity, gas, water; food, beverages, tobacco; machinery and equipment, base metals, chemical products, coke, refined petroleum, nuclear fuel

Exports - commodities:

clothing, footwear, iron and steel, machinery and equipment, fuels

Exports - partners:

Germany 10.4%, Turkey 9.1%, Italy 8.7%, Romania 8.2%, Greece 7.3%, France 4% (2012)

Imports - commodities:

machinery and equipment; metals and ores; chemicals and plastics; fuels, minerals, and raw materials

Imports - partners:

Russia 20.9%, Germany 11.3%, Italy 6.7%, Romania 6.6%, Greece 6.1%, Turkey 4.6%, Spain 4.5% (2012)

Banking

Although Bulgaria is still predominantly a cash economy, the use of debit and credit cards is increasing. Development of services for consumers, such as credit cards and e-banking, was boosted within the last couple of years, while personal checks are almost unknown and unused as a method of payment for locals. The number of POS terminals in the country and the share of the non-cash transactions grew significantly in the past years.

The Bulgarian National Bank (BNB) operates independently of the government and reports directly to Parliament. The BNB regulates the banking system, however under the Currency Board Arrangement has no discretion in setting monetary or exchange rate policy. The Bulgarian Currency is exchanged at a fixed rate of Euro against the Bulgarian Lev (1 EUR = 1,95583 BGN).

There are 30 commercial banks in Bulgaria; twenty-four are fully licensed and authorized to engage in international transactions and six are branches of foreign banks in Bulgaria. Foreign banking capital is largely predominant on the market.

Stock Exchange

Since 1997, the Bulgarian Stock Exchange (BSE) has operated under a license from the Securities and Stock Exchange Commission (SSEC). The 1999 Law on Public Offering of Securities regulates the issuance of securities, securities transactions, stock exchanges, and investment intermediaries. The 2002 comprehensive amendments to this law establish significant rights for minority shareholders of publicly-owned companies in Bulgaria. In addition, they create an important foundation for the adoption of international best practices for corporate governance principles in public companies.

The BSE's infrastructure has substantially improved in recent years, including the establishment of an official index (SOFIX), an internet-based trading system, and a growing number of brokers. Investors access the BSE to trade corporate stock, government bonds, corporate bonds, Bulgarian Depositary Receipts, municipal bonds, and mortgage-backed bonds.

Executive Summary

Bulgaria has a favorable foreign investment regime, including government incentives for new investment and low and flat corporate and income taxes. Bulgaria still offers the cheapest labor in the European Union (EU). The IT and business process outsourcing sector has attracted many U.S. and foreign companies to Bulgaria and many have set up global and regional service centers here. In this sector, several U.S. companies have expanded operations in late 2013 and early 2014. EU funds, which will amount to USD 20 billion over the next seven year period (2014-2020), are a key source of funding for numerous projects to develop Bulgaria's environment and water sectors, energy, technical and social infrastructure, public services, and agriculture. There are no general limits on foreign ownership or control of firms. However, in April 2014 Parliament overcame a Presidential veto to pass legislative changes that restrict foreign purchase of Bulgarian agricultural land, making it subject to five years permanent residency of the buyer. That would result in new discrimination against foreign investors who otherwise generally are not denied the same treatment as national firms, nor are their investments screened or otherwise restricted. Under the new Offshore Company Act, which came into effect January 1, 2014, offshore companies are banned from doing business in Bulgaria across 28 specific activities, but certain exemptions are available. Other problems that foreign investors have raised include unpredictability due to frequent regulatory and legislative changes, a slow judicial system and limited enforcement of intellectual property rights (IPR) that can hamper the investment process. Moreover, the mounting debt of the National Electricity Company (NEC) has brought the state energy sector to a near financial collapse and raises concerns about the government's ability to service payment obligations to foreign investors in this sector.

1. Openness To, and Restrictions Upon, Foreign Investment

Bulgaria has a favorable foreign investment regime, including government incentives for new investment and low and flat corporate and income taxes. Promising sectors for foreign investors include: information technology, telecommunications, environmental technology (including water and waste water infrastructure), healthcare, biomass, and agriculture (including the beverage/processed foods industry). Planned infrastructure projects which are coming online and may further improve the investment environment, including rail, motorways, tunnels, ports, and tourism resorts. As a new member of the EU, Bulgaria has access to significant EU funds, which support numerous projects and contribute to the growth of the economy. EU integration has opened new markets for Bulgarian-produced goods and services. Bulgaria's workforce is generally well-educated, and the cost of labor is the lowest in the EU. At the same time, however, the judicial system suffers from high caseloads and frequent delays. The IPR regime is challenged by widespread online piracy and inadequate enforcement of laws on copyrights, patents, and trademarks. At present, there are no general limits on foreign ownership or control of firms, nor means of screening or restricting foreign investment in Bulgaria. Foreign firms are not denied national treatment and there are no significant reports of discrimination against foreign investors. There are no requirements that nationals own shares of foreign investment and no laws authorizing firms to limit foreign investment. The country's geographic position places it at the crossroads of Europe, the Middle East, and the former Soviet Union. A stable U.S. ally, Bulgaria is a member of NATO, the EU, and the WTO. Although the government has stated a desire to root out corruption

and organized crime, in fact Bulgaria's corruption record remains problematic according to Transparency International (TI). TI's Corruption Perception Index for 2013 ranked Bulgaria 77th out of 177 countries surveyed, down two places compared to 2012, but still putting Bulgaria only ahead of Greece among EU members for perceived corruption. In late 2013, the state-owned National Electricity Company (NEC) established a repayment plan to liquidate its arrears to power producers, including those owned by foreign investors, but while NEC has made regular payments against that plan it has not managed to stay current on its regular payments to these companies. In 2014, the government initiated a procedure to revoke the licenses of the three private foreign-owned electricity suppliers, explaining this unprecedented decision with the suppliers' indebtedness to NEC which in turn was a result of the NEC's failure to pay required compensations to these companies for their obligation to purchase all green power produced in the country whether it is needed or not. The state has continued pushing for the renegotiation of long-term power purchase agreements that were signed more than ten years ago. Bulgaria has constantly revised renewable energy policies and gradually reduced state compensations for private renewable energy producers, causing many foreign investors' concern about an unpredictable regulatory environment. In 2013 Parliament passed a new 20 percent fee on revenues from production of solar and wind power.

Attitude Toward FDI

Generally sound economic performance and relative political stability have enabled Bulgaria to attract leading foreign investors. Gradual convergence with the EU common market, fiscal prudence, and a national currency pegged to the Euro have provided stability and incentives for increased trade and investment. After several years of solid growth, the global financial crisis caused a rapid decline in new foreign direct investment (FDI). Since 2010, the volume of new FDI dropped to very low levels: from 9 billion Euros (USD 12.4 billion) in 2007 to only 1.1 billion Euros (USD 1.5 billion) in 2012 and 2013. The economy posted 0.9 percent growth in GDP in 2013, higher than the 0.5 percent growth reported in 2012, but domestic demand remains weak while export volumes are slowly catching up with the Eurozone's demand. In 2013, Bulgaria made considerable progress in absorbing EU structural funds under the 2007-2013 programming cycle. The EU has reimbursed Bulgaria for approximately 50 percent of the USD 9.2 billion of funds available under seven operational programs (excluding the OPs for rural development and farmer subsidies) during this cycle, while 100 percent of the funds have been contracted. A recent IMF study recommended that Bulgaria enhance its administrative capacity further in order to maximize the absorption of EU funds, which remains one of the lowest among the EU-27. In 2014, Bulgaria will focus on the new seven-year cycle of EU assistance for: developing its human capital and improving labor productivity and skills, raising the economy's competitiveness and innovation potential, enhancing public administration's capacity and good governance, developing Bulgaria's backward municipalities and rural regions, rebuilding obsolete road, water and waste-water infrastructure, and modernizing agriculture. The total EU program funds and farmer subsidies for the new seven-year period are USD 20 billion. In 2013, the government sealed the first contracts with World Bank experts for the project design and implementation of large infrastructure projects in the water sector. In 2014, the Bank will expand its services to include providing expertise on healthcare funding.

Other Investment Policy Reviews

Public-Private Partnerships (PPPs) offer an area with potential for private company involvement in supporting and developing public infrastructure and social programs. The government has expressed a desire to revoke the existing PPP Act, which leaders say is too restrictive. They plan to replace it with a new law that will serve as a departure point for the implementation of a PPP strategy that includes cooperation with the private sector to build new parks, parking lots, stadiums, and other public works, as well as to improve healthcare, education, prisons, and other public services.

Laws/Regulations of FDI

The 2004 Investment Promotion Act stipulates equal treatment of foreign and domestic investors. The law encourages investment in manufacturing and high-technology, as well as in education and human resource development. It creates investment incentives by helping investors purchase land, provides state financing for basic infrastructure and for training new staff, and provides tax incentives and opportunities for public-private partnerships with central and local government.

The most common type of organization for foreign investors is a limited liability company. The required minimum for registering a limited liability company is one Euro. Other typical corporate entities include joint stock companies, joint ventures, business associations, general and limited partnerships, and sole proprietorships.

Foreign investors must comply with the 1991 Commercial Code, which regulates commercial and company law, and with the 1951 Law on Obligations and Contracts, which regulates civil transactions.

The 2003 Law on Special Purpose Investment Companies (SPIC) allows for public investment companies in real estate and receivables, essentially real estate investment trusts (REITs). Since a SPIC is considered a pass-through structure for corporate income tax purposes, at least 90 percent of its net income must be distributed to shareholders as taxable dividends. A SPIC must apply for an operational license from the Financial Supervision Commission within six months of registration.

The 2014 Offshore Company Act list 28 activities banned for business by companies registered in offshore jurisdictions. The law, however, allows those companies to do business if the physical owners of the parent company are Bulgarian citizens and known to the public, if the parent company's stock is publicly traded, or if the parent company is registered in a jurisdiction with which Bulgaria enjoys a treaty for the avoidance of double taxation (such as the United States).

Industrial Strategy

Bulgaria typically supports small and medium business creation and development through strategies focused on EU co-funded innovation and competitiveness policies. The current government has revived efforts to sell some previously-closed communist-era factories in the mining and chemical industries, viewing this as a way to reindustrialize the Bulgarian economy while attracting private money and new management in these enterprises.

Limits on Foreign Control

Foreign investors often encounter the following problems: a sluggish government bureaucracy, poor infrastructure, corruption, frequent changes in the legal framework, lack

of transparency, and pre-determined public tenders. In addition, a weak judicial system limits investor confidence in the courts' ability to serve as an enforcement mechanism.

U.S. music, software, pharmaceutical, and other industries report continuing intellectual property rights (IPR) concerns in Bulgaria, particularly with respect to internet piracy, ineffective prosecution of IPR cases, and delays and conflicts of interest in enforcing trademark and patent protection. Current Bulgarian legislation effectively bans all biotech crop trials and production. Food legislation imposes voluntary standards which restrict the use of soy protein in processed meat products.

A previous seven-year ban on the purchase of Bulgarian agricultural land by foreigners expired in 2014. However, in April 2014 Parliament passed legislative changes that impose a new five-year residency requirement for non-EU foreign citizens before they may purchase Bulgarian agricultural land. Parliament is also considering a bill introduced in March 2014 that would require that the Competition Protection Commission approve any draft contract between a company with reported sales income above BGN 50 million and its suppliers. If passed, this law could limit the freedom of international retail chains to conclude certain contracts with their local suppliers. Foreign investors in Bulgaria have raised concerns that these pieces of proposed legislation, combined with the Offshore Companies Act and the new 20 percent fee on revenues from renewable energy production (a sector in which most investments have been by foreign companies) aim at limiting competition from foreign investors with certain Bulgarian business interests.

Privatization Program

Bulgaria completed its major privatizations in the 1990s and early 2000s. All state-owned property is eligible for privatization, with the exception of a specific list of companies including water management companies, state hospitals, and state sports facilities. Municipally-owned property is considered for privatization upon decision by the municipal council, or authorized body and upon publication of the municipal privatization list in the State Gazette. Privatization methods include: public auctions, public tenders, and public offerings. Foreign companies, including state-owned ones, may purchase Bulgarian state-owned firms and the privatization process is generally fair and transparent. The 2010 Privatization and Post-Privatization Act created a single Privatization and Post-Privatization Agency which makes privatization decisions regarding: hospitals; equity and shares in companies 50 percent or more owned by the state; state-owned property valued at between BGN 10,000 (USD 7,000) and BGN 500,000 (USD 352,000), following approval from the Minister of Regional Development and Public Works and the Minister of Finance; and state-owned property valued at over BGN 500,000 (USD 352,000), following approval from the Council of Ministers.

The Privatization and Post-Privatization Agency also oversees the implementation of privatization contracts and ensures that non-price privatization commitments (employee retention, technology transfer, environmental liability, and investment) in the privatization selection criteria are honored. In 2012, the government completed the sale of its minority interest in the three regional foreign owned electricity distributors. In April 2014, the State Energy and Water Regulatory Commission began a procedure to revoke these companies' licenses due to their alleged indebtedness to the NEC (which in turn was due to the NEC's indebtedness to the companies); a third hearing in this case is scheduled for May 12. The privatization of the arms factory VMZ-Sopot was halted in 2013 due to the change in government in May. The current government has listed for 2014 privatization: 50.05 percent of

the capital of the Bulgarian Stock Exchange, 43.7 percent the Central Depository, 49.63 percent of the International Fair in Plovdiv, and 30 percent of the Bulgarian Maritime Fleet. Additionally, the government has plans to put for sale 100 percent of the capital of Diplomatic Properties Agency (ADIS) and the Free Trade Zone in Plovdiv. The expected 2014 privatization revenues have been estimated at USD 216 million.

Competition Law

The 2008 Law on the Protection of Competition (the "Competition Law") is intended to implement EU rules which promote competition and consumer protection. The Competition Law forbids monopolies, restrictive trade practices, abuse of market power, and unfair competition. Companies are prohibited from: direct or indirect abusive pricing practices, distribution of market shares and supply sources, limiting manufacturing development to the detriment of consumers, discriminatory treatment of competing customers, tying contracts to additional and unrelated obligations, and use of economic coercion to cause mergers. The law prohibits certain forms of unfair competition: damaging competitors' goodwill; misrepresentation with respect to goods or services; misrepresentation with respect to the origin, manufacturer, or other features of goods or services; use or disclosure of someone else's trade secrets in violation of good faith commercial practices; and "unfair solicitation of customers" (i.e., promotion through gifts and lotteries). Monopolies can only be legally established for certain categories of activities: railway and postal services, atomic energy, production of radioactive materials, and weapons production. The Competition Commission defines market concentration of 15 percent or more as potentially damaging to competition. It also defines market concentration of 25 percent or more as potentially damaging to competition if the companies involved are operating in different markets (and are not competitors).

In practice, the Competition Protection Act has been inconsistently applied. In one case, the Competition Committee charged with implementing the law ruled that it did not need to review the sale of Bulgaria's tobacco monopoly, Bulgartabac, to an unknown purchaser and also that the identity of the purchaser did not need to be revealed before the transaction. As of March 2014, Parliament was considering an amendment to the Competition Protection Act that would require stores with "substantial market power," which is defined in a way that applies mainly to retail chains, to seek approval from the Competition Commission for their contracts with suppliers.

Investment Trends

TABLE 1: The following chart summarizes several well-regarded indices and rankings.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	(77 of 177)	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's	2014	(61 of 177)	http://www.heritage.org/index/ranking

Economic Freedom index			
World Bank's Doing Business Report "Ease of Doing Business"	2014	(58 of 189)	http://doingbusiness.org/rankings
Global Innovation Index	2013	(41 of 142)	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	USD 6,840	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Foreign Exchange

Foreign exchange is freely accessible. The 2011 amendments of the 1999 Foreign Currency Act stipulate that anyone may import or export up to EUR 10,000 (USD 13,700) or its foreign exchange equivalent without filling out a customs declaration. The import or export of over EUR 10,000 or its equivalent in BGN or another currency across the border to or from a third country must be declared to the customs authorities. The import or export of over EUR 10,000 or its equivalent in BGN or another currency across the border to or from an EU member state must be declared if requested by the customs authorities. Exporting over BGN 30,000 (USD 21,100) in cash requires a declaration about the source of the funds, supported by documents certifying that the exporter does not owe taxes. No tax certificate is required for foreigners exporting the cash equivalent of BGN 30,000 or greater provided the amount is equal to or less than the amount declared when imported. Bulgarian law requires all international payments over BGN 30,000 to be executed via bank transfer with supporting documentation detailing the purpose of the transaction. The central bank and commercial banks record every international transaction that is equal to or more than 100,000 BGN (USD 70,400).

3. Expropriation and Compensation

Private real property rights are legally protected by the Bulgarian Constitution. Only in a case where a public need cannot be met by other means, the Council of Ministers or a regional governor may expropriate land provided that the owner is compensated at fair market value. No taxes are levied on the expropriation transaction. Expropriation actions of the Council of Ministers can be appealed directly to the Supreme Administrative Court on the legality of the action itself, the property appraisal, or the amount of compensation. A regional governor's expropriation can be appealed in the appropriate local administrative court. In its Bilateral Investment Treaty (BIT) with the United States, Bulgaria committed itself to international arbitration in the event of expropriation and other investment disputes.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The 1991 Constitution serves as the foundation of the legal system and creates an independent judicial branch comprised of judges, prosecutors, and investigators. Continued reform efforts have led to some improvements, particularly in the smaller courts. The busiest courts in Sofia, however, lack adequate resources and as a result suffer from serious backlogs and inefficient procedures that hamper the swift and fair administration of justice. Corruption remains a serious problem. The judiciary consistently scores among the least trusted institutions in the country with widespread allegations of nepotism, opaque selection procedures, and political and business influences.

There are three levels of courts. The 113 regional courts exercise jurisdiction over civil and criminal cases. Above them, 29 district courts (including the Sofia City Court and the Specialized Court for Organized Crime) serve as courts of appellate review for regional court decisions and have trial-level (first-instance) jurisdiction in serious criminal cases and in civil cases where claims exceed BGN 25,000 (USD 17,600), excluding alimony, labor disputes, and financial audit discrepancies, or in property cases where the property's value exceeds BGN 50,000 (USD 35,200). Six appellate courts review the first-instance decisions of the district courts. The Supreme Court of Cassation is the court of last resort for criminal and civil appeals. There is a separate system of 28 specialized administrative courts which rules on the legality of local and national government decisions with the Supreme Administrative Court serving as appeals instance. The Constitutional Court, which is separate from the rest of the judiciary, issues final rulings on the compliance of laws with the Constitution.

Bulgaria has effective means of enforcing property and contractual rights under local legislation. The government's record of handling investment disputes is generally slow and bureaucratic, but usually the issues are resolved. There are no outstanding investment disputes before Bulgarian courts involving U.S. companies. However, legislation is a constantly moving target that is sometimes used to eliminate competition, including from foreign investors.

Bankruptcy

The 1994 Commercial Code Chapter on Bankruptcy provides for reorganization or rehabilitation of a legal entity, maximizes asset recovery, and provides for fair and equal distribution among all creditors. The law applies to all commercial entities, except public monopolies or state-owned companies established by a special law. Bank failures are regulated under the 2002 Bank Insolvency Act and 2006 Credit Institutions Act; while, the 2005 Insurance Code regulates insurance company failures.

Non-performance of a monetary obligation must be adjudicated before the bankruptcy court can determine whether the debtor is insolvent. There is a presumption of insolvency when the debtor is unable to perform an executable obligation under a commercial transaction or public debt or related commercial activities, has suspended all payments, or is able to pay only the claims of certain creditors. The debtor is deemed over-indebted if its assets are insufficient to cover its short-term monetary obligations.

Bankruptcy proceedings may be initiated on two grounds: the debtor's insolvency, or the debtor's excessive indebtedness. Under Part IV of the Commercial Code, debtors or

creditors, including state authorities such as the National Revenue Agency, can initiate bankruptcy proceedings. The debtor must declare bankruptcy within 30 days of becoming insolvent or over-indebted. The 2010 amendments to the Commercial Code increased protection for creditors in bankruptcy proceedings by prohibiting a debtor from falsifying the date of insolvency to avoid claims after a certain date. Despite this, cases involving bankruptcy frauds, including through transfer of capital to U.S.-registered shell companies, have increased recently. The application for bankruptcy submitted by the debtor is published in the Commercial Register, thus providing all creditors and contractual partners with information about the bankruptcy proceedings. Should any creditor or contractual partner file a request for bankruptcy in court, such a claim is heard in the presence of both the creditor and the debtor.

Once insolvency is determined, the court appoints an interim trustee to represent and manage the company, take inventory of property and assets, identify and convene the creditors, and develop a recovery plan. At the first meeting of the creditors, a trustee is nominated; usually this is just a reaffirmation of the court appointed interim trustee.

Bankruptcy proceedings supersede other court proceedings initiated against the debtor except for labor cases, enforcement proceedings, and cases related to receivables securitized by third parties' property. Such cases may be initiated even after bankruptcy proceedings begin. Third parties with securities seeking protection against a debtor's unfair activities may appeal the court decision to initiate a bankruptcy proceeding when securities have been entered in public registers before the date of the claim which started the bankruptcy procedure.

Creditors must declare to the trustee all debts owed to them within one month of the start of bankruptcy proceedings. The trustee then has seven days to compile a list of debts. A rehabilitation plan must be proposed within one month after publication of the list of debts in the Commercial Register. The 2010 amendments to the Commercial Code limit the application of the rehabilitation plan to debts approved up to the moment of submission of the rehabilitation plan.

After creditors' approval, the court endorses the rehabilitation plan, terminates the bankruptcy proceeding and appoints a supervisory body for overseeing the implementation of the rehabilitation plan. The court must endorse the plan within seven days and put it forward to the creditors for approval. The creditors shall convene to discuss the plan within a period of 45 days. The court may renew the bankruptcy proceedings if the debtor does not fulfill its obligations under the rehabilitation plan. June 2003 legislation required examinations for individuals applying to become trustees and obliged the Ministers of Justice and Economy to organize annual training courses for trustees. In June 2005, the ministries of Justice, Economy, and Finance published a regulation on the procedure for appointment, qualification, and control over the trustees.

The methods of liquidating assets were also revised by the June 2003 legislation to establish a legal framework for selling assets that accounts for the character of bankruptcy proceedings, thus avoiding the need to apply the Civil Procedure Code. The regime includes rules requiring publicity for asset sales.

Investment Disputes

To execute a judgment, a final ruling must be obtained. The court of first instance must then be petitioned for a writ of execution (based on the judgment). On the basis of the writ of execution, a specialized category of professionals, execution agents, seize the assets or ensure the performance of the ordered action. Both private and state execution agents operate in Bulgaria. A new Civil Procedure Code, effective since March 2008, streamlined civil procedures, including the execution of judgments. Foreign judgments can be executed in Bulgaria. Execution depends on reciprocity, as well as bilateral or multilateral agreements, as determined by an official list maintained by the Ministry of Justice. The United States does not currently have reciprocity with Bulgaria; Bulgarian courts are not obliged to honor decisions of U.S. courts. All foreign judgments are handled by the Sofia City Court, which must determine that the judgment does not violate public decrees, standards, or morals before it can be executed.

Voluntary mediation was first introduced in Bulgaria in 2004 with the adoption of the Mediation Act. The Bulgarian Chamber of Commerce and Industry and the American Chamber of Commerce (AmCham) opened commercial mediation centers with USAID-trained mediators. Several courts, including the biggest trial level court in Sofia, have established mediation centers where cases can be settled with the help of trained mediators. Judges are increasingly referring cases for mediation; however, it is still not widely used due to limited public awareness and general reluctance to seek alternative dispute resolution.

International Arbitration

Pursuant to its Bilateral Investment Treaty (BIT) with the United States, Bulgaria has committed to a range of dispute settlement procedures starting with notification and consultations. Bulgaria accepts binding international arbitration in disputes with foreign investors.

The most experienced arbitration institution in Bulgaria is the Arbitration Court (AC) of the Bulgarian Chamber of Commerce and Industry (BCCI). Established more than 110 years ago, the AC hears civil disputes between legal persons, one of whom must be seated outside Bulgaria. It began to act as a voluntary arbitration court between natural and/or legal persons domiciled in Bulgaria in 1989.

Arbitration is regulated by the 1988 Law on International Commercial Arbitration, which is based on the United Nations Commission on International Trade Law (UNCITRAL) Model Law. According to the Code of Civil Procedure, not all disputes may be resolved through arbitration. Disputes regarding rights over real estate situated in the country, alimony, or individual labor disputes may only be heard by the courts. In addition, under the Code of Private International Law of 2005, Bulgarian courts have exclusive competence over industrial property disputes regarding patents issued in Bulgaria.

Regarding arbitration clauses that select a foreign court of arbitration, the Code of Civil Procedure mandates that these clauses are only valid if at least one of the parties maintains its residence abroad. As a result, foreign-owned, Bulgarian-registered companies having a dispute with a Bulgarian entity can only have arbitration in Bulgaria. However, under the Law on International Commercial Arbitration, the arbitrator could be a foreign person. Under the same act, the parties can agree on the language to be used in the arbitration proceedings. Arbitral awards, both foreign and domestic, are enforced through the judicial system. The party must petition the Sofia City Court for a writ of execution. Having obtained a writ,

however, the creditor then must execute the award using the general framework for execution of judgments in the country. Foreclosure proceedings may also be initiated.

Bulgaria is a member of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the 1961 European Convention on International Commercial Arbitration. Bulgaria is also a signatory of the 1996 Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

ICSID Convention and New York Convention

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5. Performance Requirements and Investment Incentives

Investment Incentives

The Invest Bulgaria Agency (IBA), the government's investment coordinating body, provides information, administrative services, and incentive assessments to prospective foreign investors. The 2004 Investment Promotion Act (IPA) is the primary legislation providing investment incentives to investors in Bulgaria. Foreign investments over BGN 20 million (USD 14.1 million) are deemed to be priority "Class A" investment projects. At the request of investors receiving Class A investment certificates, IBA can recommend that the competent authorities grant them free real estate (either state or municipal property). Class A investments are also eligible to apply for state financing for critical infrastructure deemed necessary for the investment plan's implementation. Additionally, IBA represents "Class B" investment projects (over BGN 10 million, or USD 6.8 million) before government authorities, and assists with processing all administrative documents. The government policy for investment promotion is not applicable to investments in coal mining, steel production, shipbuilding, synthetic production, agriculture, and fisheries. In addition, the IPA gives Class A or Class B status to certain investments in high-technology manufacturing and services and in regions with an unemployment rate equal to or higher than the country average. A two-year valued-added tax (VAT) exemption on equipment imports applies to investment projects over EUR 5 million (USD 6.7 million), provided the project will be implemented over a two-year period and creates at least 50 new jobs.

Additionally, investment projects that are particularly important for the economy and meet the legal requirement for a minimum investment commitment in the amount of BGN 100 million (USD 70.5 million) and for creating 200 new jobs are classified as priority projects. Such projects can be implemented in all sectors of the economy. In addition to the incentives granted to Class A investors, the priority investors can acquire limited rights on central or municipal government property at below market prices, receive government grants for projects on R&D and education, and institutional support for establishing PPPs.

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Performance Requirements

Bulgaria does not impose export performance or local content requirements as a condition for establishing, maintaining, or expanding an investment. Employment visas and work permits are required for most expatriate personnel from non-EU countries. Permanent residence permits are often difficult to obtain. Private companies cannot exceed a 1:10 ratio of non-EU residents to Bulgarian employees. The law regulating gambling imposes other requirements for non-EU investors for organizing games of chance, including foreigners having to obtain an operating license.

Data Storage

Responding to long-standing industry concerns, the Bulgarian government included a provision to provide data exclusivity (i.e., protection of confidential data submitted to the government to obtain approval for market pharmaceutical products) in its Drug Law. Bulgaria grants supplemental protection certificates for pharmaceutical products and plant protection products under EU regulations. This protection is similar to that provided in the United States.

6. Right to Private Ownership and Establishment

Article 19 of the Constitution states that the Bulgarian economy "shall be based on free economic initiative." Private entities, both foreign and domestic, can establish and own business enterprises engaging in any profit-making activities not expressly prohibited by law. Bulgaria's Commercial Code guarantees and regulates, for both foreign and domestic entities, the free establishment, acquisition, and disposition of private business enterprises. Competitive equality is the standard applied to private enterprises in competition with public enterprises.

7. Protection of Property Rights

Bulgarian law protects the acquisition and disposition of property rights. The Bulgarian legal system protects and facilitates acquisition and disposition of all property rights, such as land, buildings, and mortgages.

Although Bulgarian intellectual property rights (IPR) legislation is generally adequate – and in some cases stronger than in other EU countries – industry representatives believe effective IPR protection requires stronger enforcement, including stricter penalties for offenders. The Law on Copyright and Related Rights, the Law on Patents and Registration of Utility Models, the Law on Marks and Geographical Indications, the Law on Industrial Design, and the Penal Code were all harmonized with international standards in 2006. Bulgaria is a member of the World Intellectual Property Organization (WIPO) and a signatory to key international agreements, including WIPO Internet treaties and the TRIPS Agreement.

The United State Trade Representative (USTR) placed Bulgaria back on the Special 301 Watch List in April 2013, noting the little progress made in fighting online piracy. In view of the few available legitimate platforms for purchasing licensed digital content, the illegal download of music and films stands out as the greatest enforcement issue for the relevant Bulgarian authorities and IP rights holders. The software piracy rate for end-users and businesses was 64 percent in 2012, according to the Business Software Alliance. The Bulgarian legal system has not kept pace with new internet-based technologies. Bulgaria's Penal Code and Copyright Law lack deterrent effect on Internet pirates and there has been little political will to adopt the necessary changes, or to cooperate with private stakeholders. As a result, Bulgarian courts have never successfully prosecuted Internet pirates, except in one case when the court imposed small (USD 600) administrative fines on four site operators, but the offenders eventually were acquitted by a higher instance court which ruled that the statute of limitations had expired before sentencing. Bulgaria has neither legal requirements nor voluntary agreements holding advertisers, Internet service providers, and payment service providers accountable for supporting or doing business with pirate sites.

Real Property

There are no legal restrictions against real property acquisition by locally-registered, majority foreign-owned companies, which is the method most foreigners use to purchase property in Bulgaria. A requirement for five-year residency in the country for foreign purchase of Bulgarian agricultural land was approved by Bulgarian Parliament in May 2014.

Intellectual Property Rights

The 1993 Law on Copyright and Related Rights protects literary, artistic, and scientific works. Article 3 provides a full listing of protected works including computer programs (which are protected as literary works). The use of protected works is prohibited without the author's permission, except in certain instances. Since 2000 the law has undergone major revisions to comply with EU and international legislation, including major changes in March 2011, which introduced government arbitration for contract negotiations between rights users and rights collection societies.

For films and other audio-visual works, copyrights are protected during the lives of the director, screenplay-writer, cameraman, or author of dialogue or music (if the music was created for the film) plus 70 years. Pursuant to 2014 Copyright Act amendments, the term of protection for producers and performing artists was extended to 70 years, starting from the day of the first recording or making the work first known to the public. However, Bulgarian law limits the duration of contracts on the use of copyrighted works to no more than ten years. Rights owners may file civil claims to terminate infringing activity and seek confiscation of equipment and pirated materials. The Copyright Office in the Ministry of Culture is responsible for copyright and related rights matters in Bulgaria. It is not adequately staffed. Bulgarian legislation provides for criminal, civil, and administrative remedies against copyright and related rights violations, but because of the small number of court judgments, administrative remedies enforced, and sentences, law enforcement is still inadequate.

Bulgarian patent law has been harmonized with EU law for patents and patent protection. However, in patent procedures, there are reports of conflicts of interest and delays in decision-making and informing patent holders. These issues, coupled with a lack of accountability of the Bulgarian Patent Office, have weakened patent protection in the country.

Bulgaria joined the Convention on Granting of European Patents (European Patent Convention) in 2002. Bulgaria is a contracting state of the European Patent Office (EPO), whereby a patent recognized by the European Patent Convention must immediately take effect in Bulgaria after validation, which includes a process of translation of the entire patent documentation into Bulgarian and payment of a fee (starting from BGN 130 or USD 92) within three months of the day the EPO issues the patent. Bulgaria has also signed the London agreement for facilitating the validation process, which allows rights holders to submit only a translation of the patent claim and not of the whole patent. But, Bulgarian law has still not been amended to correspond to this agreement. Bulgaria is also part of the Patent Cooperation Treaty (PCT). Bulgaria grants the right to exclusive use of inventions for 20 years from the date of patent application, subject to payment of annual fees, which range from BGN 50 (USD 35.20) to BGN 1,500 (USD 1,056), depending on the time remaining before the patent expires. Innovations can also be protected as utility models ("small inventions"). The term of validity of a utility model registration is four years from the date of filing with the Patent Office. It may be extended by two consecutive three-year periods, but the total term of validity may not exceed 10 years.

Inventions eligible for patent protection must be new, involve an inventive step, and be capable of industrial application. Article 6 of the Law on Patent and Utility Model Registration lists items not regarded as inventions and Article 7 lists the exceptions to patentability. With regard to utility models, no registration is granted for methods and objects in the field of biotechnology. There is no accessible database for the registered and valid patents and utility models in Bulgaria.

Located in the Ministry of Economy, Energy, and Tourism, the Patent Office is the competent authority with respect to industrial property rights (including patent matters). The Patent Act describes patent application procedures and the examination process. Patent applications are submitted directly to the Patent Office and recorded in the state register. Compulsory licensing (allowing competitors in the market despite a valid patent) may be ordered under certain conditions: if the patent has not been used within four years of filing the patent application or within three years from the date of issue, if the patent holder is unable to offer justification for not adequately supplying the national market, or in the case of a declaration of national emergency. Disputes arising from the creation, protection, or use of inventions and utility models can be heard and settled under administrative, civil, or arbitration procedures. Disputes are reviewed by specialized panels convened by the President of the Patent Office and may be appealed to the Sofia Administrative Court within three months of the panel's decision. The Customs Office conducts border seizures when there is reason to believe that the goods are infringing either a patent, a supplementary protection certificate (SPC), or a registered utility model. The regime is in compliance with Regulation 608/2013/EC.

Pursuant to the 1996 Protection of New Plant Varieties and Animal Breeds Act, the Patent Office can issue a certificate which protects new plant varieties and animal breeds for between 25 and 30 years. In 1998, Parliament ratified the 1991 International Convention for the Protection of New Varieties of Plants. In addition, all new types of plants registered by the EU's Community Plant Variety Office are considered effective in Bulgaria.

In 1999, Parliament passed a series of laws on trademarks and geographical indications, industrial designs, and integrated circuits in accordance with TRIPs (WTO's Trade Related Aspects of Intellectual Property) requirements and the EU Association Agreement. The Trademarks and Geographical Indications Act (TGIA), as amended in 2005 and 2006 to

comply with EU standards, regulates the establishment, use, suspension, renewal, and protection of trademarks, collective and certificate marks, and geographic indications.

The right for marks (trademarks, service marks, and collective and certificate marks) is acquired through registration and is valid from the date of filing the application. The right of registration belongs to the first applicant. Co-ownership of marks is allowed.

With amendments to the TGIA that entered into force in March 2011, all applications which comply with the basic requirements of the law are published. Interested parties then have three months from the date the application is published in the national gazette to file an objection.

Bulgaria is a member of the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration.

Right of priority with respect to trademarks that do not differ substantially is given to the application that was filed in compliance with Article 32 of the TGIA. Right of priority is also established on the basis of a request made in one of the member countries of the Paris Convention for the Protection of Industrial Property or of the WTO. To exercise the right of priority, the applicant must file a request within six months of the date the other party files.

A trademark is normally granted within eighteen months of filing a complete application. Refusals can be appealed to the Disputes Department of the Patent Office. Decisions of this department can be appealed to the Sofia Administrative Court within three months of the decision. The right of exclusive use of a trademark is granted for ten years from the date of submitting the application. Extension requests must be filed during the final year of validity and can be renewed up to six months after its expiration. Protection is terminated if a trademark is not used for a five-year period.

Trademark infringement is a significant problem in Bulgaria for U.S. cigarette and apparel producers, and smaller scale infringement affects other U.S. brands. Bulgarian legislation provides for criminal, civil, and administrative remedies against trademark violation. Civil legal infringement actions may be conducted, including seizure and destruction of the infringing products and compensation for damages. The claimant may request compensation ranging from BGN 500 to BGN 100,000 (USD 352 and USD 70,500). In addition, the claimant may request possession of the infringing articles and compensation for expenses incurred in destroying the articles. All civil actions are heard by Sofia City Court.

Bulgaria has no simplified border control procedure for the destruction of seized fake goods without civil or criminal trial.

The TGIA imposes a fine of BGN 500 (USD 352) to BGN 1,500 (USD 1,056) on any physical person who is selling goods or services that bear a sign that is identical or similar to a registered mark without the proprietor's consent. Legal entities are fined between BGN 1,000 (USD 700) and BGN 3,000 (USD 2,112). The fine for repeated offenses is between BGN 1,500 (USD 1,056) and BGN 3,000 (USD 2,112) for physical persons and between BGN 3,000 (USD 2,112) and BGN 5,000 (USD 3,520) for legal entities. The Criminal Code prohibits use of a third person's trademark without the proprietor's consent, punishable by imprisonment of up to five years and a fine of up to BGN 5,000 (USD 3,520). If the act is repeated or significant damages result, the punishment can be extended up to eight years of imprisonment and a

fine between BGN 5,000 to BGN 8,000 (USD 5,634). In practice criminal court rulings are rare and sentencing is lenient.

In Bulgaria, trademarks, service-marks, and rights to geographic indications are only protected pursuant to registration with the Bulgarian Patent Office or an international registration (under the Madrid Agreement and the Madrid protocol) designating Bulgaria; they do not arise simply with "use in commerce" of the mark or indication. Bad faith registrations of well-known international marks are increasingly common in Bulgaria. In the past year, there have been at least two cases in which the Bulgarian Patent Office has upheld the rights of the bad-faith registrants with enforcement procedures against original U.S. mark holders.

Legal entities cannot be held liable under the Criminal Code. Criminal penalties for copyright infringement and willful trademark infringement are limited compared to enforcement mechanisms available under U.S. law.

Under Bulgarian law, industrial designs which are new and original can be granted certificates from the Patent Office and entered in the state register. The term of protection is 10 years, renewable up to 25 years. Bulgaria is a contracting state of The Hague Agreement Concerning the International Deposit of Industrial Designs. With respect to third parties, an international registration shall have effect in Bulgaria as of the date of expiration of the six-month period under Article 8 (1) of the Hague Agreement. Enforcement of industrial design is similar to trademarks enforcement.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: Robin Brooks BrooksRS@state.gov or Danko Tonev tonevdt@state.gov

Local lawyers list: http://bulgaria.usembassy.gov/list_of_lawyers_in_bulgaria2.html

8. Transparency of the Regulatory System

In general, the regulatory environment in Bulgaria is characterized by complex regulations, lack of transparency, and arbitrary or weak enforcement. These factors create incentives for public corruption and, as a result, foreign investors may experience a cumbersome investment climate.

Bulgarian law defines 38 operations that must be licensed and includes registration and permit regimes. The law requires all regulations to be justified by defined need (in terms of national security, environmental protection, or personal and material rights of citizens), and prohibits restrictions incidental to the stated purposes of the regulation. The law also requires that the regulating authority perform a cost-benefit analysis of any proposed regulation. In addition, the law eliminates bureaucratic discretion in granting requests for routine economic activities, and provides for "silent consent" when the government does not respond to a request in the allotted time. While the law creates a ground-breaking normative framework, implementation and consistent enforcement are still lacking. Local companies in which foreign partners have controlling interests may be requested to provide additional information or meet mandatory requirements in order to engage in certain licensed activities including production and export of arms and ammunition; banking and insurance; and exploration, development, and exploitation of natural resources.

9. Efficient Capital Markets and Portfolio Investment

Money and Banking System, Hostile Takeovers

Since 1997, the Bulgarian Stock Exchange (BSE) has operated under a license from the Securities and Stock Exchange Commission (SSEC). The 1999 Law on Public Offering of Securities regulates the issuance of securities, securities transactions, stock exchanges, and investment intermediaries. The 2002 comprehensive amendments to this law established significant rights for minority shareholders of publicly-owned companies in Bulgaria. In addition, they created an important foundation for the adoption of international best practices for corporate governance principles in public companies. Since 2007, Bulgaria has aligned its regulation of securities markets to EU standards under the Markets in Financial Instruments Directive (MiFID) that seeks to integrate trading, clearing, settlement and depository functions of the EU securities markets.

The BSE is the only trading venue in Bulgaria. Its infrastructure has substantially improved in recent years, including the establishment of an official index (SOFIX), an Internet-based trading system, and a growing number of brokers. Investors access the BSE to trade corporate stock, government bonds, corporate bonds, Bulgarian Depositary Receipts, municipal bonds, and mortgage-backed bonds. The stock exchange operates three other indexes in addition to the official SOFIX: BG40, BG TR30, and BGREIT. The small domestic market is served by a large number of domestically oriented investment firms.

Total market capitalization only increased slightly to 12.67 percent of GDP in 2013, from 12.54 percent of GDP in 2012. The liquidity of the market remains relatively low. Annual trading turnover increased notably, from 9 percent of total market capitalization in 2012 to 15 percent in 2013. The majority of BSE's equity is still owned by the Ministry of Finance (50.05 percent) and by investment intermediaries and commercial banks (33 percent). The remaining BSE capital is allocated among other local and foreign legal entities, natural persons, and institutional investors. The government confirmed plans to sell its majority stake in BSE in 2014.

The Bulgarian banking system has undergone considerable transformation since its virtual collapse in 1996 and now demonstrates both high predictability and client and investor confidence. There are 30 commercial banks (24 subsidiaries and 6 branches), with total assets of BGN 85.7 billion (USD 60.4 billion) in 2013. Approximately 55 percent of bank assets are concentrated in the top five banks: UniCredit-Bulbank, DSK Bank, First Investment Bank, United Bulgarian Bank, and Corporate Commercial Bank.

In 2003, Bulgaria completed the privatization of its state-owned banks, attracting some strong foreign banks as strategic investors. Foreign investors drawn to the Bulgarian banking industry include UniCredito Italiano SpA (UCI), BNP PARIBAS, KBC, National Bank of Greece, Societe Generale, Raiffeisen International, OTP Group, and Citibank. Approximately 72 percent of the banking system is owned by foreign banking groups.

Bulgaria's banking system is well capitalized. The average capital adequacy ratio (capital base to risk-weighted credit exposures) for the banking system has steadily declined from 43 percent in 1998 to 16.8 percent in 2013, but still remains above the Bulgarian National Bank's requirement of 12 percent. Domestic banks have responded to the global financial crisis by reducing risk exposure through increased interest rates on both deposits and loans. Non-performing loans (those over 90 days overdue and written off) were 11 percent of banks'

total loan portfolios in 2013. The Bulgarian government finances some of its expenditures by issuing bonds in capital markets. Commercial banks and private pension funds are the primary purchasers of these instruments. EU-based banks are eligible to be primary dealers of Bulgarian government bonds.

In order to acquire Bulgarian government bonds, a foreign bank must register with the Ministry of Finance and open a "custody account" in Bulgarian Leva.

The Investment Promotion Act defines securities, including treasury bills, with maturities over six months as investments. Repatriation of profits is possible after presenting documentation that taxes have been paid.

10. Competition from State-Owned Enterprises

OECD Guidelines on Corporate Governance of SOEs

Upon EU accession, Bulgaria was recognized as a fully operating market economy, in which the majority of the companies are private. The state's monopoly in railway infrastructure is among the few exceptions. The state-owned Bulgarian Postal Service still holds a partial market monopoly, but the local market for postal services has been increasingly de-monopolized to include a number of privately managed courier companies. Though Bulgaria has separate state-owned companies for infrastructure ownership and distribution in both the electricity and gas markets, all of these companies are owned by the same state-owned holding company.

11. Corporate Social Responsibility

OECD Guidelines for Multinational Enterprises

There is a growing awareness of corporate social responsibility among both producers and consumers, but it is not always clear that expectations are as high for domestic firms as for foreign investors.

12. Political Violence

There have been no incidents in recent years involving politically-motivated damage to projects or installations. Rather, violence in Bulgaria is primarily criminal in nature.

13. Corruption

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Widespread corruption continues to be one of the most difficult problems in Bulgaria's investment climate. Well-established human trafficking, narcotics, and contraband smuggling channels that contribute to corruption in Bulgaria still exist. Law enforcement capacity remains limited and the authorities opt for easy-to-prove, low-level corruption cases. As a result, progress on cases of high public interest, involving alleged siphoning of millions from the state coffers or EU funds, such as cases involving public procurements for big infrastructure projects, have not generally been pursued.

The Prosecution service, the State Agency for National Security, and the Ministry of Interior are the primary institutions responsible for combating corruption. A government analytical center for curbing corruption (BORCOR) was set up in 2011 but it has shown no concrete

results, in spite of the resources which have been devoted to the project. Bulgaria has laws, regulations, and penalties to combat corruption. However internal oversight within institutions is often weak which contributes to the overall image of uncoordinated response to what is seen as a systemic problem throughout the public administration. Bribery is a criminal act under Bulgarian law for both the giver and the receiver. Individuals who mediate and facilitate a bribe are also held accountable. Penalties range from one to fifteen years imprisonment along with possible confiscation of property depending on the circumstances and seriousness of the case. In the most egregious cases, the Penal Code calls for prison terms of 10 to 30 years. Bribing a foreign official is also a criminal act. The government does not require companies to establish internal codes of conduct nor compliance programs to detect and prevent bribery. In the area of public procurement, a complex and ever-changing legislative framework has made it even more difficult to create a culture of objectivity and rigor.

Bulgaria has an NGO sector that monitors corruption and organized crime, including a local chapter of Transparency International (TI). Bulgaria ranks 77th of 177 countries in TI's Corruption Perception Index for 2013, down one place from 2012.

In 1998, Bulgaria was one of the first non-OECD nations to ratify the OECD Anti-Bribery Convention and is a participating member of the OECD Working Group on Bribery. Bulgaria has also ratified the Council of Europe's Convention on Laundering, Search, Seizure, and Confiscation of Proceeds of Crime (1994) and Civil Convention on Corruption (1999). Bulgaria has signed and ratified the UN Convention against Corruption (2003); the Additional Protocol to the Council of Europe's Criminal Law Convention on Corruption; and the UN Convention against Transnational Organized Crime.

14. Bilateral Investment Agreements

Bulgaria has a Bilateral Investment Treaty (BIT) with the United States, which guarantees national treatment for U.S. investments and creates a dispute settlement process. The BIT also includes a side letter on protections for intellectual property rights. The Governments of Bulgaria and the United States exchanged notes in 2003 to make Bulgaria's obligations under the BIT compatible with its EU obligations, and finalized the process in January 2007.

As of 2012, Bulgaria has bilateral investment treaties signed with the United States and the following countries: Albania, Algeria, Argentina, Armenia, Austria, Azerbaijan, Bahrain, Belarus, Belgium, China, Croatia, Cuba, Cyprus, Czech Republic, Denmark, Egypt, Finland, France, Georgia, Germany, Ghana, Greece, Hungary, India, Indonesia, Iran, Israel, Italy, Jordan, Kazakhstan, Kuwait, Latvia, Lebanon, Libya, Lithuania, Luxembourg, Macedonia, Malta, Moldova, Mongolia, Montenegro, Morocco, Nigeria, North Korea, Oman, Pakistan, Poland, Portugal, Qatar, Romania, Russia, San Marino, Serbia, Singapore, Slovakia, Slovenia, South Korea, Spain, Sudan, Sweden, Switzerland, Syria, Thailand, The Netherlands, Tunisia, Turkey, Ukraine, United Kingdom and Northern Ireland, Uzbekistan, Vietnam, and Yemen.

Bilateral Taxation Treaties

As of 2012, Bulgaria has signed bilateral double taxation treaties with the United States and the following countries: Albania, Algeria, Armenia, Austria, Azerbaijan, Bahrain, Belarus, Belgium, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, India, Indonesia, Iran, Ireland, Israel, Italy, Japan, Kazakhstan, Kuwait, Latvia, Lebanon, Lithuania, Luxembourg, Macedonia, Malta,

Moldova, Mongolia, Montenegro, Morocco, North Korea, Norway, Poland, Portugal, Qatar, Romania, Russia, Serbia, Singapore, Slovakia, Slovenia, South Africa, South Korea, Spain, Sweden, Switzerland, Syria, Thailand, The Netherlands Turkey, Ukraine, United Arab Emirates, United Kingdom and Northern Ireland, Uzbekistan, Vietnam, and Zimbabwe.

15. OPIC and Other Investment Insurance Programs

In 1991, the Overseas Private Investment Corporation (OPIC) and the Bulgarian government signed an Investment Incentive Agreement, which governs OPIC's operations in Bulgaria. OPIC provides medium- to long-term funding through direct loans and loan guarantees to eligible investment projects in developing countries and emerging markets. OPIC also supports a number of privately owned and managed equity funds, including a regional fund for Southeast Europe created in 2005 for investments in companies in Bulgaria and other Balkan countries. OPIC's Small- and Medium-Size Financing is available for businesses with annual revenues under USD 250 million. OPIC's structured financing focuses on U.S. businesses with annual revenue over USD 250 million and supports large capital-intensive projects such as infrastructure, telecommunications, power, water, housing, airports, technology, and financial services.

OPIC offers U.S. investors insurance against currency inconvertibility, expropriation, and political violence. Political risk insurance is also available from the Multilateral Investment Guarantee Agency (MIGA), which is a World Bank affiliate, as well as from a number of private U.S. companies.

Bulgaria is a signatory to the Convention Establishing the Multilateral Investment Guarantee Agency.

16. Labor

As of 2013, Bulgaria's workforce officially consisted of 3,371,200 men (53.3 percent) and women (46.7 percent), many of whom are skilled in sciences, information technology, customer service, and foreign languages. Officially registered unemployed were 11.8 percent of the labor force in December 2013, and the number increased to 12.2 percent in each of the first three months of 2014. About 25 percent of all youth are presently reported as unemployed, which poses a serious labor market issue that has prompted government to enact a set of measures addressing specifically youth unemployment.

The official adult literacy rate in Bulgaria is 98.3 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 a shortage of professionals with Western management skills as well as of highly-skilled manual laborers. The aptitude of workers, the relatively high number of those who speak English, and the relatively low cost of labor are considerable incentives for foreign companies, especially those that are labor-intensive, to invest in Bulgaria. In recent years, many foreign investors have increasingly complained of the deteriorating quality of Bulgarian university education and the fact that it is training graduates for specialties that are not in line with the real labor market needs. In an attempt to reverse that trend, Bulgarian government is considering legislative changes that would introduce a vocational training track for some Bulgarian high school students. If this legislation is adopted, certain students would receive professional qualification while at school, but forego some of the humanities and social science prerequisites for a regular university education after graduation.

Another concern frequently raised by investors regards difficulties finding the appropriate skilled local laborers, because many well-trained Bulgarians, enabled by the generally unrestricted access to EU labor market, still choose to leave the country in pursuit of better paid jobs. However, the global financial and economic crisis has caused some the low skilled emigres such as Bulgarian construction workers working in other EU countries to temporarily return to Bulgaria. Meanwhile, the development of Bulgaria's digital technologies sector has provided opportunities for many local IT specialists to start working for large IT corporations from home.

The Bulgarian Constitution recognizes workers' rights to join trade unions and organize. The National Council for Tripartite Cooperation (NCTC) provides a forum for dialog among government, employer organizations, and trade unions on issues such as cost-of-living adjustments. An established practice of negotiating the so-called "social security thresholds" between trade unions and the employers organizations each year helps determine the formula for calculating the relative amount of employer and employee social security contributions.

Bulgaria has two large trade union confederations represented at the national level, the Confederation of Independent Trade Unions of Bulgaria (CITUB) and the Confederation of Labor "Podkrepa" ("Support"). As of 2012, estimated trade union membership was 300,000 for CITUB and over 150,500 for Podkrepa.

There are very few restrictions on trade union activity, but employees in smaller private firms are often not represented by trade unions. In addition, there are four nationally recognized employer organizations currently in Bulgaria that target different industry and company membership.

Under the Bulgarian Labor Code, employer-employee relations are regulated by employment contracts. The framework of the employment contracts can be shaped through collective bargaining. Collective labor contracts can be concluded at the sectoral level, enterprise level, and municipal level. The Labor Code addresses worker occupational safety and health issues, mandates a minimum wage (determined by the Council of Ministers), and prevents exploitation of workers, including child labor. It clearly delineates employer rights. Disputes between labor and management can be referred to the courts, but resolution is often subject to delays. Neither foreign companies nor majority foreign-owned Bulgarian companies are exempt from the requirements of the Labor Code.

Over the last ten years, the Labor Code has been amended to address labor market rigidities and bring labor legislation into compliance with EU requirements. In 2008, the Parliament passed changes in the labor legislation to increase fines to BGN 15,000 (USD 10,560) for Labor Code violations. The minimum annual paid leave is 20 days. The minimum wage is BGN 340 (USD 239.4) per month. In 2012, rules regulating the status of temporary workers and temporary employment agencies were introduced.

The National Institute for Conciliation and Arbitration (NICA) developed a framework for collective labor dispute mediation and arbitration. NICA includes representatives from labor, employers, and government. NICA-sponsored collective labor dispute resolutions are still few in number. Several of the appointed mediators received basic mediation skills training from the U.S. Federal Mediation and Conciliation Service. There are 31 appointed mediators and 30 arbiters, proposed by social partners and approved by NICA's Supervisory Board.

17. Foreign Trade Zones/Free Ports

There are six duty-free zones in Bulgaria: Ruse and Vidin ports on the Danube; Plovdiv; Svilengrad (near the Turkish border); Dragoman (near the Serbian border); and Burgas port on the Black Sea. They are all managed by joint stock or state-owned companies. The government provided land and infrastructure for each zone.

Foreign individuals and corporations, and Bulgarian companies with one percent or more foreign ownership may operate in a duty-free zone. Thus, foreign-owned firms have equal or better investment opportunities in the zones compared to Bulgarian firms. All forms of legal economic activity are permissible in duty-free zones. Foreign, non-EU goods delivered to the duty free zones for production, storage, processing, or re-export are VAT and duty exempt. Bulgarian goods may also be stored in duty free zones with permission from the customs authorities. With Bulgaria in the EU, the duty-free zones no longer apply tax and duty exemptions to exports from Bulgaria to other EU countries.

EU integration has encouraged regional authorities to attract outside investors to spur local economic development. In partnership with the private sector, they provide resources (i.e., land, infrastructure, etc.) for the development of industrial zones and technological parks, which are different from duty-free zones in that they do not provide for any form of preferential tax treatment. There are several industrial zones under construction in: Bozhurishte (outside Sofia), Burgas, Varna, Karlovo (near Plovdiv), and Telish (near Pleven). The high technology Sofia Tech Park has recently joined efforts with the Bulgarian Academy of Sciences in what is expected to become the largest center for high level R&D and incubator for high technology international and local business in Bulgaria. The government has established a National Industrial Zones Company to support the establishment of industrial zones and technological parks and enable a stable FDI inflow.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (Millions U.S. Dollars)	2012	52, 760	2012	50,970	http://www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international		USG or international

			statistical source		Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (Millions U.S. Dollars, stock positions)	2012	1,841	2012	1,459	IMF
Host country's FDI in the United States (Millions U.S. Dollars, stock positions)	2012	73.4 million	2012	70 million	Eurostat
Total inbound stock of FDI as % host GDP (calculate)	2012	101.1	2012	87.2	IMF

TABLE 3: Sources and Destination of FDI

Data on inward direct investment reported by Bulgaria are shown side-by-side against data on outward direct investment reported by the counterpart economy. This allows reported data to be easily compared and to identify reporting inconsistencies. Bulgaria, 2012

From Top Eight Sources/To Top Eight Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	44,443	100%	Total Outward	26,618	100%
The Netherlands	8,875	20%	Netherlands	6,094	23%
Austria	6,663	15%	Austria	5,600	21%
Greece	3,464	8%	Greece	2,578	10%
Cyprus	2,738	6%	Cyprus	c	
United Kingdom	2,576	6%	United Kingdom	183	0.7%
Germany	2,376	5%	Germany	2,964	11%
Russia	1,876	4%	Russia	2,835	11%

United States	1,459	3%	United States	c	
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Source: <http://cds.imf.org>

Local contact for FDI statistics: "Balance of Payments and External Debt" Department, Bulgarian National Bank (www.bnb.bg)

The Bulgarian National Bank ranks top eight investor countries in the same order as the table above, with the Netherlands listed as number one and the United States listed at number eight.

TABLE 4: Sources of Portfolio Investment

Bulgaria, 2012

Portfolio Investment Assets								
Top Eight Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
All Countries	44,443	100%	All Countries	30,131	100%	All Countries	14,312	100%
Netherlands	8,875	20%	Netherlands	1,985	7%	Netherlands	6,889	48%
Austria	6,663	15%	Austria	5,646	19%	Austria	1,017	7%
Greece	3,464	8%	Greece	3,186	11%	Greece	278	2%
Cyprus	2,738	6%	Cyprus	1,753	6%	Cyprus	985	7%
United Kingdom	2,576	6%	United Kingdom	2,372	8%	United Kingdom	205	1%
Germany	2,376	5%	Germany	1,936	6%	Germany	440	3%
Russia	1,876	3%	Russia	1,469	5%	Russia	406	3%
United States	1,459	3%	United States	1,045	3%	United States	415	3%

Source: <http://cpis.imf.org>

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chiefs of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

Civil law

International organization participation:

Australia Group, BIS, BSEC, CD, CE, CEI, CERN, EAPC, EBRD, EIB, EU, FAO, G- 9, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IFC, IFRCs, IHO (pending member), ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), MIGA, NATO, NSG, OAS (observer), OIF, OPCW, OSCE, PCA, SELEC, UN, UNCTAD, UNESCO, UNHCR, UNIDO, UNMIL, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO, ZC

Section 6 - Tax

Exchange control

For further information - <http://www.bnb.bg/?toLang= EN>

Treaty and non-treaty withholding tax rates

Bulgaria has concluded more than sixty double tax treaties which provide for a tax relief or a reduced tax rate.

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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