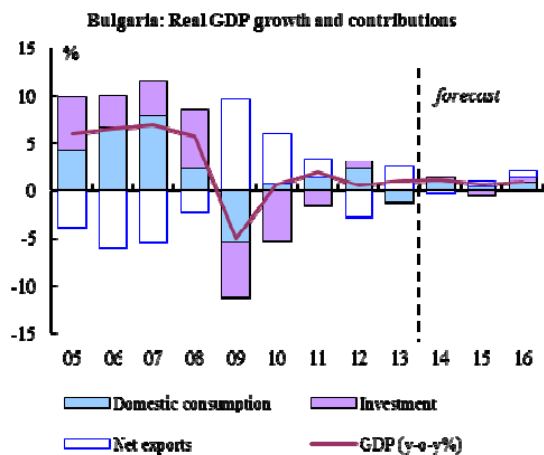


INVESTMENT IN BULGARIA

What is the situation in Bulgaria?

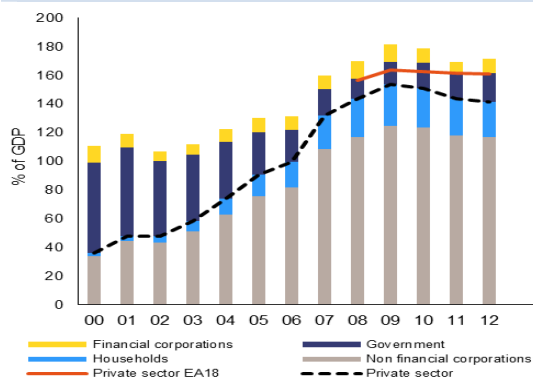


Source: European Commission 2014 Autumn Forecast

The share of Investment in GDP in Bulgaria is in line with other similar economies in the EU, but has declined substantially since the 2009 crisis, from a peak of 33% of GDP in 2008 to only 21% by 2013. This is mainly driven by the drop in private investment which is expected to continue in the coming years. This reflects continuing deleveraging in the economy and low profit expectations. Foreign direct investment (FDI) into the country has slowed to 1-2% of GDP since the crisis. The uncertainty in the country could hamper a recovery in FDI. Public investment, on the other hand, has remained stable, largely driven recently by EU funded projects. However, public investment is set to peak in 2014 and fall significantly by 2016. This is because its yearly growth profile follows the programming cycle of EU funds.

What is the main challenge?

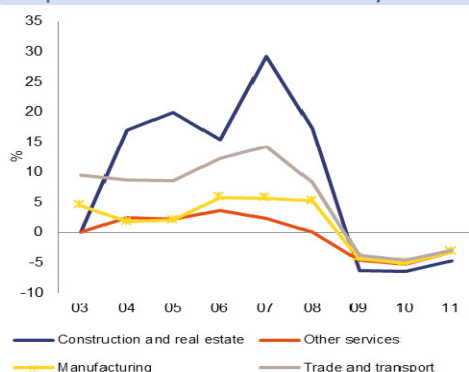
Graph 2. Decomposition of debt by sector



Limited FDI inflows and high corporate sector debt are holding back the growth of private investment in Bulgaria. External debt has come down over several years, but private sector debt remains considerably higher than in other similar economies. Deflationary pressures and low nominal growth puts further pressure on private sector debt going forward with a negative impact on investment. In the light of the recent banking crisis, uncertainties in the banking sector amid a large amount of non-performing loans (NPLs) weigh on both credit expansion and investment. There is also limited demand for credit, mainly due to persistent weaknesses in the business environment.

Opportunities for investment

Graph 3. Net investment rate by sector



Bulgaria has significant investment needs, some of which could be supported by public investment schemes, possibly together with private investment. Bulgaria is the least energy efficient economy in the EU when it comes to industry, transport and housing. There is also a major investment gap in construction: roads, railways and energy interconnectors. In particular, investment in gas networks is needed for improving security of supply and connectivity with EU markets.

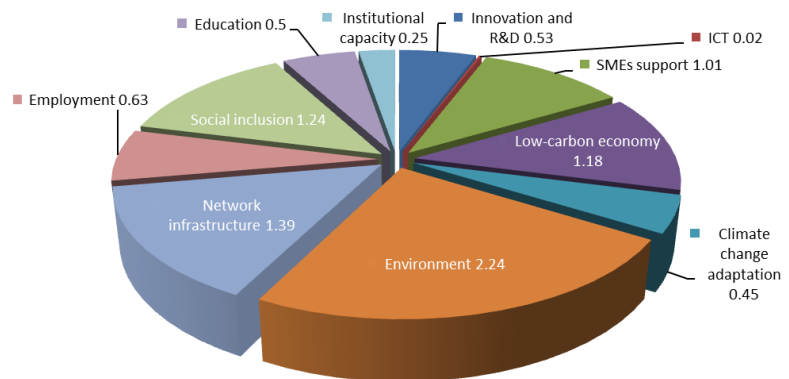
Reforms for investment

In the Country Specific Recommendations for Bulgaria, the European Union recommended:

<ul style="list-style-type: none"> Reinforce budgetary measures to ensure that the medium-term objective is reached Implement a comprehensive tax strategy to strengthen tax collection. Ensure cost-effective provision of healthcare Adopt a long-term strategy for the pension system 	<ul style="list-style-type: none"> Implementation of educational reforms: increase the level and relevance of skills Improve the business environment, especially for SMEs Improve the public procurement system
<ul style="list-style-type: none"> Improve the efficiency of the Employment Agency Scale-up the reform of the energy sector to increase competition, market efficiency and transparency, and energy efficiency. Create a transparent wholesale market for electricity and gas 	<ul style="list-style-type: none"> Accelerate interconnector projects, in particular for gas

EU funding for investment

2014 - 2020
in billion EUR



Source: Partnership Agreement:
http://ec.europa.eu/contracts_grants/agreements/index_bg.htm

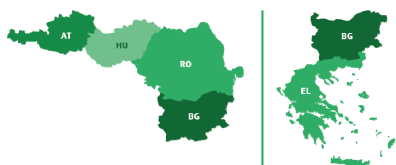
Past or ongoing projects for investment

Gas interconnections

Gas pipeline from Bulgaria to Austria via Romania and Hungary.
Commissioning date: October 2018
(Austria, Bulgaria, Hungary, Romania)

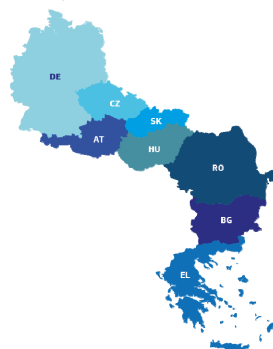
Interconnection [currently known as IGB].
Commissioning date: 2015 (Bulgaria, Greece)

Increase the transmission capacity of the existing pipeline. Commissioning date: 2015 (Bulgaria, Greece)



Transport interconnections

Connecting Europe Facility:
"Orient – East Med" core network corridor:
(Germany, Czech Republic, Austria, Slovakia, Hungary, Bulgaria, Romania, Greece)



Connecting Europe Facility:
"Rhine – Danube" core network corridor
(France, Germany, Austria, Czech Republic, Slovakia, Hungary, Romania, Bulgaria)

