

Europe

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Online Publications

New Perspectives on Bulgaria

02.07.2007 Bulgaria formally became a member of the European Union at the start of the year. Could we see a repeat of the success enjoyed by previous EU accession countries? Credit Suisse conducted its third Interactive Field Trip at the beginning of June. Around 25 investors from Europe and Asia were given an in-depth insight into the new Bulgaria.

To much jubilation among their peoples, Bulgaria and Romania joined the European Union on January 1, 2007. In the European Parliament, president of the EU Commission José Manuel Barroso had already welcomed their accession as a historic achievement. Back in Bulgaria, virtually no-one would disagree with his words: All the more so, because the transition from centrally planned economy to democratically run market economy was tantamount to a history-laden obstacle course - one involving a surprise change of administration, record inflation, and corruption scandals. "But this was a new process for all of us. And mistakes were obviously made. Thanks to brilliant people, however, we've achieved some amazing successes in recent years in particular," Simeon Saksokoburggotski - Bulgaria's king from 1943 to 1946, and prime minister from 2001 to 2005 - recently told a group of investors led by Credit Suisse.

Optimistic Finance Minister

After getting off to a bumpy start, the reforms of the last five years have indeed led to a relatively stable economic climate. Real gross domestic product, for instance, has advanced more than 5 percent every year since 2001 (in 2005 and 2006, it even hit 6.2 and 6.1 percent respectively). The inflation rate - having reached a record 2,000 percent at the start of 1997 - is now about 4 percent, while the rate of joblessness has fallen from just shy of 20 percent in 2000 to today's sub-10-percent level. In a meeting with participants on the Interactive Field Trip, finance minister Plamen Oresharski spoke of his real optimism: "From an economic standpoint, our reforms have been a great success. But I think the fact that the reforms are recognized across all parties is just as important. So it doesn't matter who's in charge next - the reforms will be maintained."

Gray, Rather than Black and White

But despite Bulgaria's economic achievements, it would be a mistake to compare its current position to the likes of Poland, Estonia, or the Czech Republic. The country continues to battle against an inadequate judicial system and an often cumbersome administration. Added to that, corruption scandals continue to make the headlines. Perhaps corruption - and the seemingly never-ending war against it - should also be seen in a sociopolitical context: The fact is, Bulgaria's gross domestic product in 2005 was only 3,480 U.S. dollars per capita - almost 6,000 dollars less than the average annual income of the countries included in the latest accession round. All the same, finance minister Oresharski does not shy away from identifying the problems: "It's true that not everything is rosy. In Sofia, we have taxi drivers who used to be nuclear physicists - but they earn more money driving around in a cab. At the same time, a lack of highly qualified labor threatens to impede our economic progress. And even though we've made major strides in the fight against corruption and in bringing in administrative reforms, we've still got further to go."

Like many emerging economies, Bulgaria is a land of contrasts - or perhaps more accurately a land of many shades of gray. Investors such as André Felder from Switzerland, who runs a bicycle factory here with an annual output of 300,000 units, has some tales to tell: From deceitful business partners to institutionally driven quasi-bankruptcies. On the other hand, Felder thinks the position has actually improved considerably in recent years and that he is on safe territory today with his investments in the real estate sector.

Groundwork Has Been Laid

This change for the better is also fueling speculative activity among potential investors. They are drawn by an increasingly solid currency, falling interest rates, a relatively stable political situation, and above all rising stock prices. Assuming all goes well, membership of the European Union will continue to spur things on. In Bulgaria, they're hoping for growing interest on the part of foreign investors, a flourishing of domestic industry due to the outsourcing of labor-intensive manufacturing processes and, last but not least, improvements to the often moribund infrastructure thanks to EU structural and cohesion funds.

The jubilation expressed by the country's people on New Year's Eve is perhaps turning out to be justified - if a little premature. As Plamen Oresharski says: "The population may be slightly overoptimistic when assessing the benefits of joining the EU. But at the end of the day we are a pragmatic people, and we don't expect miracles."

While we are doing all in our power to move forward, we shouldn't forget that our development must be on a sustainable footing. But the groundwork has been laid - and the omens are good."

Credit Suisse Opens Doors

To learn first-hand about the opportunities Bulgaria actually offers, Dr. Arthur Vayloyan, Head of Investment Services and Products at Credit Suisse's Private Banking division, in early June invited a group of about 25 investors from Asia and Europe to the Bulgarian capital, Sofia, for Credit Suisse's third Interactive Field Trip. Extensive research, an intensive exchange with the Swiss Embassy, and talks with the Bulgarian-Swiss Chamber of Commerce, culminated in a densely packed, highly informative program. The destination for the next Interactive Field Trip, in November 2007, is Vietnam.