

Bulgaria

RISK & COMPLIANCE REPORT

DATE: March 2018

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

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.

MoneyVal Plenary - 1st June 2017: Fourth round follow-up: Application by Bulgaria to be removed from regular follow-up.

Following the adoption of the 4th round MER in September 2013, Bulgaria was placed in regular follow-up. Since then Bulgaria has submitted two follow up reports (in September 2015 and September 2016 respectively). Bulgaria was invited to submit a further progress report and seek exit from the regular follow-up process at the 53rd Plenary.

The Secretariat analysis of Bulgaria's third follow-up report concluded at the outset that the country had taken positive steps to remedy shortcomings concerning SR.II. However, despite of additional amendments proposed to the Criminal Code, it appeared that the shortcomings identified under SR.II were not yet fully covered. This primarily concerned the criminalisation of the remaining offences as listed in the Annex to the TF Convention, as well as the abolition of the purposive element of the terrorism/TF offence. At the same time, the on-going reform of the Criminal Code also affects the country's compliance with R.3. Despite of these outstanding issues, the Bulgarian delegation stated that significant efforts were undertaken to bring the country to the level of LC with the remaining core and key recommendations. It also pointed to a recent significant increase in confiscated assets which has an impact on the effectiveness of the country's confiscation regime.

Decision taken:

The Plenary took the view that Bulgaria is taking considerable steps forward. However, it found that the country is not yet in a position to exit the regular follow-up procedure. The Plenary also considered that the on-going process of amending the Criminal Code should be awaited, given that further progress is needed in particular with respect to SR.II and R.3. Therefore, the Plenary decided to invite Bulgaria to submit a further progress report and to seek exit from the regular follow-up process at the 55th Plenary in December 2017. Bulgaria was requested to inform Plenary, through the tour de table in September 2017, on the progress with regards to the above-mentioned legislative progress.

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 2016 (introduction):

Bulgaria is classified a Tier 2 Watch List 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, transit and destination country for men, women, and children subjected to sex trafficking and forced labor. Bulgaria remains one of the primary source countries of human trafficking in the EU. Bulgarian women and children are subjected to sex trafficking within the country, as well as in Europe, Russia, the Middle East, and the United States. Several NGOs assert internal trafficking is increasing. Bulgarian men, women, and children are subjected to forced labor in other European states and Israel, predominantly in agriculture, construction, and the service sector. Bulgarian children and adults with disabilities are forced into street begging and petty theft within Bulgaria and in Austria, Greece, Italy, Sweden, and the UK. Romanian girls are subjected to sex trafficking in Bulgaria. Government corruption creates an environment enabling some trafficking crimes, and officials have been investigated for suspected involvement in trafficking.

The Government of Bulgaria does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. Despite these measures, the government did not demonstrate overall increasing anti-trafficking efforts compared to the previous reporting period; therefore, Bulgaria is placed on Tier 2 Watch List for the second consecutive year. During the reporting period, the government designated a chairperson and appointed an executive secretary for the national anti-trafficking commission that drives the government's anti-trafficking efforts, leading to increased inter-ministerial coordination and policy development. The commission also awarded contracts to re-open two publicly funded shelters and an apartment for female trafficking victims. The country's overall capacity to shelter and provide services was minimal relative to the number of victims identified, and specialized services for child and adult male victims of trafficking were nonexistent, although the government took steps to assess the needs of male victims with a view to offer consultation and other suitable services. Law enforcement investigated fewer trafficking cases, continuing a multi-year decline. Efforts to prosecute traffickers, which declined markedly in 2014, modestly improved in 2015 as prosecutors tried more traffickers. However, courts convicted fewer traffickers and issued suspended sentences for most of those convicted. Law enforcement continued to take action against public officials and police officers complicit in trafficking offenses.

US State Dept Terrorism Report 2016

Overview: The Government of Bulgaria continued to extradite suspected foreign terrorist fighters from Bulgaria and launched a trial against three alleged Syrian foreign terrorist fighters as well as two suspected accomplices in the 2012 Burgas bus bombing. The Bulgarian government has worked to enhance its terrorism prevention and enforcement tools by adopting new and comprehensive counterterrorism legislation, and releasing a counter-radicalization strategy and national plan.

The United States and Bulgaria continued to strengthen counterterrorism cooperation through the Bilateral Counterterrorism Working Group established in 2015. The group, comprising representatives of multiple U.S. and Bulgarian agencies, facilitated the signing of a memorandum for continuous training of Bulgarian counterterrorism special forces. In September, Bulgaria presented the United States with a comprehensive list of priorities and projects to enhance bilateral cooperation in the fight against violent extremism and foreign terrorist fighters, and in November both countries signed an Implementing Agreement to the Bulgaria-U.S. Preventing and Combating Serious Crime Agreement, which would make use of

DHS's Secured Real-Time Platform. As part of its bilateral counterterrorism cooperation proposal to the United States, Bulgaria proposed to create a regional research and analysis network on foreign terrorist fighters and radicalization to violence. Bulgaria envisions a network of NGOs, academics, and security services from throughout the Balkans taking part in this effort.

Bulgaria is a member of the Global Coalition to Defeat ISIS and has repeatedly responded to requests for assistance, including providing 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. In 2016, the Bulgarian National Assembly approved new counterterrorism legislation which provides a legal mechanism for a whole-of-government response to terrorist threats. The bill defines three levels of terrorist threat and four levels of response readiness. The Council of Ministers provides overall guidance on counterterrorism activities and adopted a counterterrorism strategy and a national plan. The National Counterterrorism Center (NCTC), which is part of the State Agency for National Security (DANS), will serve as a data hub and will supply all competent agencies with information necessary to prevent and intercept terrorist threats on a 24-hour-a-day basis. The bill also regulates the role of the military forces in counterterrorism activities, and delineates the cooperation between the central and local governments. Amendments to the legislation were adopted providing the military with powers to search individuals, their vehicles, and possessions; to check IDs; to enter homes in the owners' absence; and to arrest or use physical force and arms if needed, to prevent or deal with the consequences of a terrorist act.

The Ministry of the Interior 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, which receive support from a U.S. Special Operations Forces Liaison Element. DANS has intelligence-gathering units responsible for counterterrorism. DANS also houses the NCTC, which is designed and capable of being an interagency body during crisis incidents. Specialized law enforcement units are generally well-equipped and supported with relevant training, but their focus has been primarily on Sofia, while other regional centers lack resources. In 2015, the specialized court for organized crime and its prosecutors' office received jurisdiction to prosecute and try all terrorist cases in the country. The court is working to develop expertise in handling these types of cases.

After the terrorist attacks in Paris (2015) and Brussels (2016), Bulgaria tightened its border control rules and screened all travelers at the border crossings. Within the European Union (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. In February, Parliament passed legislation that provided the legal basis for the establishment of a Passenger Information Unit (PIU). The PIU will collect and share the data an airline receives from a traveler to book and manage travel. The same legislation also obliges air carriers to provide data to the PIU. The government approved funding for the necessary

equipment, and the PIU was in the process of staffing it with analysts from DANS and the Interior Ministry. Bulgaria also received €160 million (US \$166 million) from the EU for border security enhancement.

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 March, the United States provided planning assistance and participated in a city-wide crisis exercise that simulated attacks on public venues and transportation and the specific targeting of U.S. citizens, including U.S. embassy personnel. In May, the Department of State's Antiterrorism Assistance program offered training on interviewing terrorist suspects and, in October, provided guidance to the NCTC on fulfilling its goal of becoming a true interagency counterterrorism fusion center. In May, the FBI provided terrorist screening training to Bulgarian NCTC personnel. Bulgaria has benefited from several Institute for Law Enforcement Administration training programs focused on airport interdiction, law enforcement leadership and development, and personnel and facility security. The United States also conducted a Passport and Visa Fraud training course.

As part of its bilateral cooperation agreements with the United States, Bulgaria sought to acquire facial recognition software, handheld explosives-detection devices, and other resources to expand its capacity to secure its border and detect transiting foreign terrorist fighters.

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

Bulgaria criminalizes terrorist financing largely in accordance with international standards, although current legislation does not cover the full list of offenses. Although adequate legislation is in place, the procedures to implement UN Security Council resolutions 1267 and 1373 remain cumbersome, and border control and customs are not clearly authorized to retain assets upon suspicion of terrorist financing. Since there is no publicly available information on terrorism-related assets frozen or seized, it is hard to assess the effectiveness of Bulgaria's process. In April, the parliament passed amendments to the Measures against the Financing of Terrorism Act, introducing a direct application of United Nations (UN) sanctions made under UN Security Council ISIL (Da'esh) and al-Qa'ida sanctions regime. Since April, Bulgaria has added five new persons (foreign nationals) to its national list of persons subject to counterterrorist financing measures.

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. In 2016, FID/DANS received 22 suspicious activity reports related to terrorist financing from domestic reporting entities and 23 reports from foreign

entities. The information remained under review at the end of the year. There are penalties (administrative sanctions) for non-compliance and enforcement is generally good. Bulgaria requires the collection of Know Your Customer data for wire transfers. All non-governmental organizations are obliged to report suspicious transactions.

International Sanctions

None applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	43
World Governance Indicator – Control of Corruption	51

Corruption is an obstacle to doing business in Bulgaria. A lack of autonomy and transparency in the judicial system has weakened corruption investigations and property rights, encouraged public official impunity, and created an uncertain investment environment. Kickbacks and bribes plague the public procurement sector, eradicating fair market competition and resulting in fewer opportunities for foreign investors. Companies face demands for facilitation payments and bribery when registering businesses or accessing public utilities. The Criminal Code prohibits various types of corruption, including extortion, trading in influence, facilitation payments and bribery of foreign officials. A complex legal framework and weak enforcement, however, hamper the country's ability to effectively combat corruption. **Information provided by GAN Integrity.**

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 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 12.5%, Italy 9.2%, Turkey 8.5%, Romania 8.2%, Greece 6.5%, France 4.2% (2015)

Imports - commodities

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

Imports - partners

Germany 12.9%, Russia 12%, Italy 7.6%, Romania 6.8%, Turkey 5.7%, Greece 4.8%, Spain 4.8% (2015)

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.

Section 4 - Investment Climate

Executive Summary

Bulgaria is seen by many investors as having a favorable foreign investment regime which includes government incentives for new investment and low or flat corporate and income taxes. Bulgaria still offers some of the least expensive labor in the European Union (EU). Domestic business is experiencing a shortage of skilled labor in many sectors due to the migration of many specialists and an ageing population. The IT and back office outsourcing sectors have attracted a number of U.S. and foreign companies to Bulgaria; many have established global and regional service centers. EU funds, including agricultural subsidies, amount to USD 17.5 billion over the current seven year period (2014-2020) and are a key source of capital for numerous projects to develop Bulgaria's environment and water sectors, energy, technical and social infrastructure, public services, and agricultural infrastructure. In Fall 2015, the government awarded two offshore Black Sea projects for oil and gas exploration to several major international companies.

There are no legal limits on foreign ownership or control of firms. With some exceptions, foreign entities are given the same treatment as national firms and their investments are not screened or otherwise restricted. However, foreign investors remain concerned about the rule of law in Bulgaria. They cite other problems impeding investment such as unpredictability due to frequent regulatory and legislative changes, slow judicial system processes, and limited enforcement of intellectual property rights (IPR).

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	69 of 168	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2016	38 of 189	doingbusiness.org/rankings
Global Innovation Index	2015	39 of 141	globalinnovationindex.org/content/page/data-analysis
U.S. FDI in partner country (\$M USD, stock positions)	2015	USD 518	BEA
World Bank GNI per capita	2014	USD 7,620	data.worldbank.org/indicator/NY.GNP.PCAP.CD

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Bulgaria's geographic position places it at the crossroads of Europe, the Middle East, and the former Soviet Union. Promising sectors for foreign investors include: back-office/ process

outsourcing and information technology, telecommunications, environmental technology (including water and waste water infrastructure), healthcare, biomass, and agriculture (including the beverage/processed foods industry). Infrastructure projects that are coming online and may further improve the investment environment include rail, motorways, tunnels, ports, and tourism resorts.

The government oversaw healthy economic growth in 2015 of 2.9 percent – the highest since 2008 - at the cost of new debt and in the absence of new investment and sufficient private demand. The nominal increase of 23 percent of the 2015 FDI was due in large part to counting intracompany debt transfers, company stock acquisition, and real estate operations as FDI. As a member of the EU, Bulgaria has access to significant EU funds, which in the recent years have replaced FDI as a major growth catalyst. EU money in Bulgaria has typically supported the development of human capital, economic competitiveness and innovation, public administrative capacity, road construction, water and waste-water infrastructure; and agriculture sector modernization. Exports are the traditional growth engine; these were diminished in 2015 by negative global trends, including the Russia-Ukraine conflict and the resulting sanctions and the slow recovery of the Eurozone. EU exports nonetheless drove 2.9 percent growth in GDP in 2015, rising by just over 7 percent on the year. Unemployment fell below 10 percent in 2015, but the possibility for new job creation continues to be limited by labor market factors.

At present, there are no general limits on foreign ownership or control of firms, nor is there screening or restricting of foreign investment in Bulgaria. Companies with more than 10 percent offshore participation are banned from doing business in Bulgaria across 28 specific activities, but certain exemptions are available. There are pending amendments to the Offshore Act, which aim to ban companies with more than 10 percent offshore participation from government procurement competition.

In 2016, the government unveiled a list of measures for improving the business climate and attracting new investors. The 85 measures include cutting the time for VAT registration and for real property tax assessment, as well as establishing a one-stop shop for issuing construction permits.

While Bulgaria generally affords national treatment to foreign investors, we have received reports of discrimination against U.S. investors by government officials. Investors more often cite general problems with corruption, rule of law, frequently changing legislation, and weak law enforcement. Transparency International's (TI) Corruption Perception Index for 2015 ranked Bulgaria 69th out of 168 countries surveyed -- the lowest ranked EU member state. Government direct procurement has earned a reputation for concentrating corruption and strong oligarchic interest. The government has professed a commitment to root out corruption and organized crime. In February 2016, the government cancelled several large tenders, citing the need for greater transparency in public procurement.

The IPR regime is challenged by widespread online piracy, through peer-to-peer (P2P) downloading and direct streaming, and inadequate enforcement of laws on copyrights, patents, and trademarks. For this reason, in 2015 Bulgaria remained for a third consecutive year on USTR's Watch List of countries not doing enough to enforce an effective IPR regime. In 2014, the government entered into voluntary agreements with some of the most egregious pirate sites, which marked a step ahead in the fight against online piracy of music and films after many years of little or no results. Together with industry, the government is reducing business software piracy, which, while decreasing, remains high.

Other Investment Policy Reviews

No major international economic organization has conducted an Investment Policy Review of Bulgaria in recent memory.

Laws/Regulations on Foreign Direct Investment

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, providing state financing for basic infrastructure and training new staff, and facilitating tax incentives and opportunities for public-private partnerships (PPPs) with the central and local government. PPPs offer an area with potential for private company involvement in supporting and developing public infrastructure and social programs. The government outlined the procedure for establishing a PPP in the 2016 enacted amendments to the 2013 PPP act. The most common form of PPPs presently is concessions, which include the lease of government property for private use for up to 35 years. A new draft law on concessions intends to increase the period over which public (municipal and central government) property can be leased on concession.

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.

Business Registration

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. Bulgaria has dropped six places in the World Bank's 2015 Doing Business ranking in terms of starting a new business. The report indicates it takes a minimum of 18 days for a new business (a limited liability company) to register, going through four major procedures: company database registration (four days), tax registration (12 days), notary certification (one day) and opening a bank account (one day). Company registration can be done also electronically at:

<https://public.brra.bg/Internal/Registration.ra?0>

Typically, a new business is expected to register an account in the government social security institute and, in some cases, with the local municipality as well. The above procedure applies to local as well as foreign owned business in Bulgaria.

The Invest Bulgaria Agency (IBA), the government's investment coordinating body, provides information, administrative services, and incentive assessments to prospective foreign investors.

The Bulgarian Small and Medium Business (SME) Act defines a company as a medium sized entity when it has less than 250 employees and its annual revenues do not exceed 97.5 million BGN (55 million USD), and/or assets are valued at less than 84 million BGN (47 million USD). Small business is defined as having less than 50 employed workers and annual revenues at less than 19.5 million BGN (11 million USD), and/or its assets are valued at less than 19.5 million BGN. Micro business is defined as having less than 10 employed workers, less than 3.9 million (2.2 million USD) in annual revenues and less than 3.9 million BGN in assets. The government supports SME development by budgeting money for the implementation of national and local SME plans. Article 7 of the law stipulates that the government SME agency should support any foreign or domestic investor interested in Bulgarian SMEs.

Industrial Promotion

Bulgaria typically supports small and medium business creation and development through strategies focused on EU co-funded innovation and competitiveness measures and programs. Export promotion takes priority, allowing the domestic economy to take advantage of its relatively low labor costs. However, the increasing need for technology upgrades and for skilled labor in many sectors could increase costs in the mid-to-long term.

Limits on Foreign Control and Right to Private Ownership and Establishment

Generally, there are no existing limits for foreign and domestic private entities to establish and own a business in Bulgaria. Foreign investors, however, often cite 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.

The 2014 Offshore Company Act lists 28 activities banned for business by companies registered in offshore jurisdictions with more than 10 percent offshore participation. 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).

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. In 2014, the government brokered voluntary agreements between rights-holders and online pirates, and rights-holders reported an increase in the purchase of rights to broadcast legitimate content. Current Bulgarian legislation effectively bans all biotech crop trials and production. Food legislation imposes voluntary standards that restrict the use of soy protein in processed meat products.

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. State-owned military manufacturers can be privatized after approval by Parliament. Municipally-owned property is considered for privatization upon decision by a 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. 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 10,000 Bulgarian Leva (BGN) (USD 5,500) and BGN 500,000 (USD 277,000), 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 277,000), 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. The privatization deals that could attract significant foreign investor interest in 2016 are the sale of the freight division of the Bulgarian Railways company (BDZ) and of the government's minority stake in Plovdiv International Fair. The current Minister of Economy has publicly opposed the sale of the government owned military plant VMZ and arms trader Kintex. The government will likely attract world's top operators to bid for 35-year concession of the Sofia airport, the nation's largest passenger terminal. The proceeds will be used to pay the deficits in the Bulgarian state passenger railways. Pursuant to government plans, the airport in the second largest city of Plovdiv will be bid out on concession in 2016.

Screening of FDI

There is no screening of FDI presently taking place in Bulgaria.

Competition Law

The Commission for Protection of Competition (the "Commission") oversees market competition and enforces the Law on the Protection of Competition (the "Competition Law"). The 2008 enacted 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. Since 2015 the law has prohibited the demonstration of "significant negotiating power" between companies, which is manifested through "*...the unreasonable refusal to supply or purchase goods and services, the enforcement of unreasonably heavy or discriminatory conditions or the unreasonable suspension of contractual relations.*" The minimum penalty set for noncompliance is 10,000 BGN (5,500 USD), but the fine can amount to up to 10 percent of the annual sales of the respective good. Foreign investors have opposed this provision as increasing government control over their business with local suppliers. The Competition 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 according to Art. 33 in the Competition Law, "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 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 Law has been inconsistently applied, and the Competition Commission has been subject to influence, or has overstepped its mandate.

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 11,000) 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 16,850) 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 BGN 100,000 (USD 55,000). Bulgaria operates a Currency Board Arrangement (CBA) whereby the lev (BGN) is fixed to Euro, exchanging EUR 1 for BGN 1.9558. In 2014, United States and Bulgaria signed an intergovernmental agreement that implements provisions of the Foreign Account Tax Compliant Act (FATCA), which targets tax non-compliance by U.S. persons who do business with Bulgarian financial institutions. The Parliament ratified the agreement in 2015.

Remittance Policies

Remittances as personal transfers have become an increasingly important source of financing for Bulgarian families with relatives overseas. Bulgarians work mostly in other countries in the EU, enabled by unrestricted access to the EU labor market. Foreign remittances, defined as all personal transfers between resident and nonresident individuals, amounted to EUR 821 million (USD 912.3 million) in 2014, of which EUR 530 million (USD 589 million) was income earned and transferred from within the EU.

3. Expropriation and Compensation

Private real property rights are legally protected by the Bulgarian Constitution. Only in the 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. In December 2015, Parliament adopted constitutional amendments aimed at promoting judicial independence and transparent selection of magistrates. The results from the implementation of this and other reform efforts are yet to be seen. The government has drafted several comprehensive reform plans but their implementation has been limited. The judiciary continues to be the least trusted institution in the country, with widespread allegations of corruption and undue political and business influence. The busiest courts in Sofia suffer from serious backlogs, limited resources, and inefficient procedures that hamper the swift and fair administration of justice. The government has committed to completing a new building for the country's largest first-instance court in Sofia by end of 2016 which should increase the court's capacity to hear cases and reduce the backlog.

There are three levels of courts. Bulgaria's 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 13,700), excluding alimony, labor disputes, and financial audit discrepancies, or in property cases where the property's value exceeds BGN 50,000 (USD 27,500). 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 rule on the legality of local and national government decisions, with the Supreme Administrative Court serving as the court of final 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 adequate means of enforcing property and contractual rights under local legislation. The government's handling of investment disputes has been slow, and often requires an intervention at the highest level. There are no outstanding investment disputes before Bulgarian courts involving U.S. companies although several property-related challenges exist against a U.S. investor. Investors sometimes perceive that jurisprudence is inconsistent and that national legislation is used to deter competition 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 enterprises (SOEs) established by a special law. The 2005 Insurance Code regulates insurance company failures while bank failures are regulated under the 2002 Bank Insolvency Act and 2006 Credit Institutions Act. The 2014 bankruptcy of the country's fourth largest bank, Corporate Commercial bank, was a test case which showed serious deficiencies in ensuring that bank assets are adequately recovered and preserved during bankruptcy proceedings. In 2016, Parliament approved legislative amendments intended to allow bank trustees to better manage assets while at the same time increasing their accountability.

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 in recent years. 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. 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. A recent case involving a foreign investor revealed a practice of manipulating the random allocation of bankruptcy cases in the country's busiest court in Sofia. It also showed opportunities for judge's discretion in favor of one of the claimants and an overall limited supervision over court-appointed trustees.

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. Bulgaria dropped one place to a ranking of 38 for "Resolving Insolvency" in the World Bank's 2015 Doing Business Report (out of 189 surveyed countries).

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. 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.

Investment Disputes

To execute a judgment on an investment dispute, 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, known as execution agents, seize the assets or ensure the performance of the ordered action. Both private and state execution agents operate in Bulgaria. A Civil Procedure Code, effective since March 2008, streamlined civil procedures, including the execution of judgments. Foreign judgments can be executed in Bulgaria. The execution of the writ 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, general reluctance to seek alternative dispute resolution, and generally low court fees.

International Arbitration

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 located 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 domestic real estate, 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.

ICSID Convention and New York Convention

Bulgaria is a signatory to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York convention) and the 1961 European Convention on International Commercial Arbitration. Bulgaria is a member state to the International Centre for the Settlement of Investment Disputes (ICSID).

Duration of Dispute Resolution – Local Courts

Bulgarian law instructs courts to act on civil litigation cases within three months after the case is filed. However, in practice, dispute settlement can take several months and up to a few years. Courts in Sofia are typically slower than those outside the capital city and may rule on a case several years after the case has been filed. In courts outside Sofia, it takes anywhere from several months up to a year for a case to be completed. Bankruptcy cases are the most complicated and resolution may take years.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Bulgaria has been a member World Trade Organization (WTO) since 1996.

As a WTO signatory, Bulgaria fully adheres to the TRIMs agreement.

Investment Incentives

The 2004 Investment Promotion Act (revised in 2015) stipulates equal treatment of foreign and domestic investors. The law encourages investment in manufacturing, services, and high-technology, as well as in education and human resource development. It creates investment incentives by helping investors purchase municipal or state owned land without tender, provides state financing for basic infrastructure and for training new staff as well as reimbursement of employer's part of social security payments. It also provides tax incentives and opportunities for public-private partnerships with the central and local government and fast-track administrative procedures.

The Invest Bulgaria Agency (IBA), the government's investment coordinating body, provides information, administrative services, and incentive assessments to prospective investors. The Investment Promotion Act (IPA) is the primary legislation providing investment incentives to investors in Bulgaria. The government policy for investment promotion is not applicable to investments in coal mining, steel production, shipbuilding, synthetic production, transport infrastructure, agriculture, and fisheries. In addition, the IPA gives Class A or Class B status to certain investments in manufacturing and services as well as in high-technology activities and also in regions with an unemployment rate equal to or higher than the country average.

The threshold for the certificates may vary between EUR 1 and 5 million (Class A) and EUR 0.5 and 2.5 million (Class B) and depending on the Class of certification the investor may receive different administrative and financial incentives.

Additionally, investment projects that are particularly important for the economy and meet the legal requirement for a minimum investment commitment in the amount of EUR 50 million and for creating 150 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 and B investors, priority investors can acquire limited rights on central or municipal government property at prices below the market ones, receive government grants for research and development (R&D) and education projects, and institutional support for establishing PPPs.

Additional incentives are a two-year valued-added tax (VAT) exemption on equipment imports which applies to investment projects over EUR 2.5 million, provided the project will be implemented within a two-year period and will create at least 20 new jobs. Corporate income tax exemption can also be granted in case of manufacturing projects, which are implemented in high unemployment areas and create at least 10 jobs. The exempted tax amount is to be invested in CAPEX (tangibles and intangibles) within a 4-year period.

Research and Development

N/A

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 government issued only 66 of the so-called "blue cards" to nonresident specialists in 2015. The government's stated goal is to issue at least 1,000 such cards each year, attracting skilled foreign specialists where local skill is lacking. The law regulating gambling imposes other requirements for non-EU investors for organizing games of chance, including foreigners having to obtain an operating license and committing to creating a certain number of new jobs within a year of getting the operating license.

Data Storage

There are no requirements for foreign IT providers to turn over source code or provide access to surveillance, nor are there mechanisms used to enforce any rules on maintaining a certain amount of data storage within Bulgaria.

6. Protection of Property Rights

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. Although

penalties for noncompliance are not being imposed at this stage, the ban remains in place despite the EU's objections. Bulgarian agricultural land was restituted to its private owners with the onset of the transition to market-based economy in early 1990s. In the 2016 Doing Business ranking, Bulgaria ranks 63rd place (out of 189 economies) in terms of the ease with which new property can be registered.

Intellectual Property Rights

Bulgarian patent law has been harmonized with EU law for patents and utility 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 specification (description and claims) into Bulgarian and payment of a fee (starting from BGN 130 or USD 74.30) within three months of the day the EPO makes a publication of the patent grant. 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. However, 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 28.60) to BGN 1,700 (USD 970), depending on the time remaining before the patent expires. Innovations can also be protected as utility models (small inventions). They are registered without novelty examination. 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, chemical formulations and their use, 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, 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.

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.

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 opposition. 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. products. 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 287 and USD 57,100). 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 287) to BGN 1,500 (USD 860) 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 574) and BGN 3,000 (USD 1,720). The fine for repeated offenses is between BGN 1,500 (USD 860) and BGN 3,000 (USD 1,720) for physical persons and between BGN 3,000 (USD 1,720) and BGN 5,000 (USD 2,870) 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 2,870). 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 (USD 2,870) to BGN 8,000 (USD 4,600). 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 trademarks 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. trademark 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 for 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. There is no clear protection and enforceable legislation for trade secrets and trade dress.

Bulgaria remained for a third consecutive year on the USTR's 2015 Watch List as a country not doing enough to enforce IP laws, but none of its P2P sites has been included in the Notorious Markets list which shows all global physical markets and Internet sites offering pirated goods. The domestic market for counterfeit optical disks has shrunk drastically in the last ten years and has been replaced by fledgling Internet piracy. While adequate, copyright laws are not sufficiently enforced, especially with respect to criminal investigation. Several U.S. investors have had court claims against bad-faith registration and administrative decisions of the Bulgarian Patent Office (BPO) in the past. As a relatively small market, Bulgaria is used as a transit country for counterfeit Chinese and Turkish goods bound for Western Europe. Over 400 000 articles were seized and destroyed by the customs office in 2015, for which it was established that they had been manufactured without right holders' consent. According to the EU and local laws, the rights-holder must first inspect the seized goods before customs authorities may destroy the counterfeit goods. Right-holders must, however, pay for the storage and the destruction of the goods, at least for the first twenty days after the seizure.

Resources for Rights Holders

Embassy point of contact: Economic Officer Sally Behrhorst BehrhorstSP@state.gov. tel.:+359-2-937 5212 or Economic Specialist Danko Tonev tonevdt@state.gov, tel.: +359-2-937 5212.

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

7. Transparency of the Regulatory System

In general, the regulatory environment in Bulgaria is characterized by complexity, 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 39 operations that must be licensed, including 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 the regulating authority perform a cost-benefit analysis of any proposed regulation. This requirement, however, is often ignored when Parliament reviews draft bills. With a few exceptions, all draft bills are made available for public comment. Civil society input into the legislative process, however, is inadequate. 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 the exploration, development, and exploitation of natural resources.

8. Efficient Capital Markets and Portfolio Investment

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. The Supreme Administrative Court has decided against a law, which would have required any new majority shareholder in a public company to make a buyout offer to the small shareholders. This court decision created legal uncertainty and an obstacle to many minority investors' sales of stock to the majority investor.

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 indices in addition to the official SOFIX: BG40, BG TR30, and BGREIT. All four BSE indices went down in 2015, with the major SOFIX dropping almost 12 percent on the year in 2015. The small domestic market is served by a large number of domestic investment firms. BSE remains insufficiently capitalized. The total market capitalization diminished by 12 percent compared to 2014, to BGN 8.6 billion (USD 5 billion), or 11 percent of GDP. The Ministry of Finance, which is the BSE's majority owner (50.06

percent), will make another attempt in 2016 to sell BSE to an internationally recognized investor. The remaining BSE capital is allocated among investment intermediaries and commercial banks, and other local and foreign legal entities, natural persons, and institutional investors.

Money and Banking System, Hostile Takeovers

Confidence in the Bulgarian banking system was badly shaken when the fourth largest bank, Corporate Commercial Bank (CCB), collapsed in June 2014. While the bank is currently in liquidation proceedings, the government has adopted special legislation to investigate alleged leakage of assets through companies connected with the bank's former owner. In December 2014, the government infused the deposit insurance fund with BGN 2 billion (USD 1.1 billion) to repay CCB depositors their guaranteed deposits up to EUR 100,000 (USD 110,000). Responding to criticism about insufficient oversight which led to CCB's collapse, the new central bank governor created two new units to deal with commercial bank supervision. Additionally, the prosecution has pressed charges against the bank's former management and the auditors of CCB's books, and Parliament adopted special legislation aimed at speeding up the bank's insolvency procedure. In mid-February 2016, the central bank launched a stress test to see how many of the domestic banks' assets are nonperforming. The test is expected to close in June.

Since 1997, Bulgaria has been operating a currency board regime, which pegs the local currency to the Euro and does not allow the central bank to refinance domestic banks under almost any circumstance. There are presently 28 commercial banks (22 subsidiaries and 6 branches), with total assets of BGN 87.5 billion (USD 51.8 billion) in 2015. Approximately 55 percent of bank assets are concentrated in the top five banks: UniCredit-Bulbank, DSK Bank, First Investment Bank, United Bulgarian Bank and Raiffeisen. Bulgarian banks' liquidity coefficient was 36.7 percent in 2015, and the ratio of non-performing to the overall loans was 10.9 percent in September 2015. At the same time, the ratio of non-performing loans to the overall banking sector's assets was nearly 13 percent. In 2003, Bulgaria completed the privatization of its state-owned banks, attracting many foreign banks as strategic investors. Foreign investors drawn to the Bulgarian banking industry including UniCredito Italiano SpA (UCI), BNP PARIBAS, KBC, National Bank of Greece, Societe Generale, Raiffeisen International, OTP Group, and Citibank. Approximately 75 percent of the banking system is owned by foreign banking groups, both EU and non-EU. 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.

9. Competition from State-Owned Enterprises

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 government postal service still holds a partial market monopoly, but is gradually opening to include a number of privately managed courier companies. Though Bulgaria has separate State-owned enterprises (SOEs) for infrastructure ownership and distribution in both the electricity and gas markets, all of these companies are

owned by the same holding company. While the government has gradually reduced its subsidization of SOEs, it used debt financing to pay for the accumulated arrears in the indebted energy sector. SOE budgets are made public with the budget proposals and, during budget implementation process, with enacted budgets of the respective ministry. The Ministry of Finance posts quarterly financial reports for some SOEs on its website. The respective link in Bulgarian is: <http://www.minfin.bg/bg/page/948>

SOEs are defined as limited liability or joint stock companies solely owned by the state. SOEs can enter into partnerships by selling stakes to other non-state companies. The government treats equally public and private sector companies during public bidding, or other government-controlled processes. SOEs are subject to the same tax regime and government policies as private sector companies. Bulgaria became party to WTO's Government Procurement Agreement (GPA) upon its entry into the EU in 2007. A substantial number of the SOEs are covered by this agreement.

OECD Guidelines on Corporate Governance of SOEs

Bulgaria is not an OECD member. There is a Board of Directors in each SOE that reports directly to the relevant minister. Typically, the Board is comprised of representatives of the political party holding power and its coalition partners. The Board elects an executive body from the representatives of the ruling party and its coalition partners. The Ministry of Finance publishes periodically audit reports of the subsidized SOEs, which may or may not include the exact amount of the annual budget subsidy.

Sovereign Wealth Funds

EU funds and government procurement are two major sources for funding business projects in Bulgaria. Each year the government spends about 7 billion BGN (4 billion USD) on government procurement. The EU will allot 17.5 billion USD in grant funds and agriculture subsidies to Bulgaria in the 2014-2020 period; out of these, 8.3 billion USD will come from seven operational programs (OPs). Bulgaria has sent a list of projects under the new Juncker plan for development, which will fund energy, infrastructure and other projects. In 2015, it elected the executive board of a newly established "super" fund for guaranteeing projects funded by four of the EU operational programs: the OP for growth and innovations, the OP for regional development, the OP for environment, and the OP for human resource development. The fund was established with a total of 777.2 million EUR (873.6 million USD) in initial capital. The government-owned Bulgarian Development Bank has raised one billion BGN through a government backed international loan for the renovation of Bulgaria's old-style apartment block buildings in 2015 and 2016.

10. Responsible Business Conduct

Bulgaria does not have any longstanding traditions in responsible business conduct. Two U.S. power companies have invested heavily in CSR projects over the years, including projects for the disabled, youth sports clubs, foster care, and local cultural events. Bulgaria is presently not a member of the Extractive Industries Transparency Initiative.

11. 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.

12. Corruption

Widespread corruption continues to be one of the most difficult problems in Bulgaria's investment climate. Human trafficking, narcotics, and contraband smuggling channels contribute to corruption in Bulgaria. Bulgaria has laws, regulations, and penalties on the books to combat corruption, but its law enforcement capacity remains limited and the authorities opt for easy-to-prove, low-level cases. As a result, Bulgaria has seen little progress on cases of high public interest, involving alleged siphoning of millions from the state coffers or EU funds, and in particular those involving public tenders for large energy and infrastructure projects. The State Agency for National Security (DANS), the Ministry of Interior, and the independent Prosecution service are the primary institutions responsible for combating corruption. In 2015, the three agencies signed an agreement to launch a joint task-force to target high-level public and judicial corruption.

In September 2015, the Bulgarian parliament failed to approve the government's new anticorruption law, which envisaged the creation of an anticorruption bureau. A revised draft was approved by the government in March 2015. A separate Commission is in charge of investigating complaints against government officials for conflicts of interest. However, its effectiveness has been undercut by limited powers and staffing gaps, and its credibility has suffered from revelations of undue political influence. A government analytical center for curbing corruption-facilitating legal loopholes (BORCOR) was established in 2011, but it has delivered no concrete results, despite the significant resources devoted to the project. In 2015, the government approved a strategy to merge BORCOR and the Conflict of Interest Commission. Internal oversight within institutions is typically understaffed, which contributes to the overall image of an uncoordinated response to what is seen as a systemic problem in 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 or compliance programs to detect and prevent bribery. In the area of public procurement, the lack of a comprehensive electronic system and the complex and ever-changing legislative framework have 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 69th out of 168 countries in TI's Corruption Perception Index for 2015.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

In 1998, Bulgaria was one of the first non-OECD nations to ratify the 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.

Resources to Report Corruption

Organizations or agencies responsible for reporting on or combating corruption:

- Center for Prevention and Countering Corruption and Organized Crime
- 6 Sveta Nedelya Sq., Sofia
- cppkop@borkor.bg
- Transparency International Bulgaria
- 50 Shandor Petyofi Str.
- mbox@transparency.bg
- Transparency International Bulgaria
- 50 Shandor Petyofi Str.
- mbox@transparency.bg

13. Bilateral Investment Agreements

Bulgaria has a Bilateral Investment Treaty (BIT) with the United States, which obligates the parties to uphold national treatment and includes provisions for investor-State dispute settlement through international arbitral bodies. The BIT also includes a side letter on protections for intellectual property rights. Upon Bulgaria's joining the EU 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 2015, Bulgaria has bilateral investment treaties signed with the United States and the following countries: Albania, Algeria, Argentina, Armenia, Austria, Azerbaijan (not in force), Bahrain (not in force), Belarus, Belgium, China, Croatia, Cuba, Cyprus, Czech Republic, Denmark, Egypt, Finland (terminated), France, Ghana (not in force) Georgia, Germany, Greece, Hungary, India, Indonesia (terminated), Iran, Israel, Italy (terminated), Jordan, Kazakhstan, Kuwait, Latvia, Lebanon, Libya, Lithuania, Luxembourg, Macedonia, Malta, Moldova, Mongolia (not in force), Montenegro, Morocco, Nigeria (not in force), North Korea (not in force), Oman (not in force), Pakistan (not in force), Poland, Portugal, Qatar, Romania, Russia, San Marino, Serbia, Singapore, Slovakia, Slovenia, South Korea, Spain, Sudan (not in force), Sweden, Switzerland, Syria, Thailand, The Netherlands (terminated), Tunisia, Turkey, Ukraine, United Kingdom and Northern Ireland, Uzbekistan, Vietnam, and Yemen.

Bilateral Taxation Treaties

As of 2015, 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.

14. Foreign Trade Zones/Free Ports/Trade Facilitation

There are six duty-free zones (FTZs) 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. There has been little interest shown so far in the government's proposal to sell the FTZs in Ruse, Plovdiv, and Burgas. The government provides land and infrastructure for each zone. Foreign individuals and corporations and Bulgarian companies with one percent or more of 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 the 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 technology parks, which are different from duty-free zones in that they do not provide for any form of preferential tax treatment. The government is concentrating efforts to stimulate local business development in the existing industrial zone in Vidin, which is in the northwest region concentrating the highest level of unemployment in the country. The two other fully functioning industrial zones are those in Ruse and Svilengrad. There are several zones that are under construction: Bozhurishte (outside Sofia), Burgas, Varna, Karlovo (near Plovdiv), and Telish (near Pleven). The high technology Sofia Tech Park has joined efforts with the Bulgarian Academy of Sciences, several local universities, and several clusters 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 established a National Industrial Zones Company to support the establishment of industrial zones and technological parks and enable a stable FDI inflow.

15. 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: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$M USD)	2014	\$56.7B	2013	\$55.6B	www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other

U.S. FDI in partner country (\$M USD, stock positions)	2014	\$518M	2013	\$465M	BEA data available at http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
Host country's FDI in the United States (\$M USD, stock positions)	2014	-\$4M	Data not available	Data not available	BEA data available at http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
Total inbound stock of FDI as % host GDP	2014	\$48.2B	2013	\$44.3B	Bulgarian National Bank, data as of Dec 2015. The 2014 FDI data have already been revised. FDI data subject to revision every three and six months as new data come in.

Table 3: Sources and Destination of FDI

The data below is consistent with the host government data. The majority of the FDI from the Netherlands was made by companies incorporated for tax purposes in the country.

Direct Investment from/in Counterpart Economy Data						
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)						
Inward Direct Investment			Outward Direct Investment			
Total Inward	Amount	%	Total Outward	Amount	%	
The Netherlands	7,382	16%	n/a	n/a	n/a	
Austria	6,524	14%	n/a	n/a	n/a	
Greece	2,933	6%	n/a	n/a	n/a	
United Kingdom	2,844	6%	n/a	n/a	n/a	
Germany	2,832	6%	n/a	n/a	n/a	

"0" reflects amounts rounded to +/- USD 500,000.

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
All Countries	5,519	100%	All Countries	1,489	100%	All Countries	4,029	100%
Germany	663	12%	United States	374	25%	Czech Republic	453	11%
United States	549	10%	Luxembourg	333	22%	Germany	422	10%
Luxembourg	523	9%	Germany	241	16%	The Netherlands	374	9%
Czech Republic	466	8%	France	191	13%	Hungary	280	7%
France	411	7%	Ireland	98	7%	Romania	247	6%

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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Gary Youinou

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