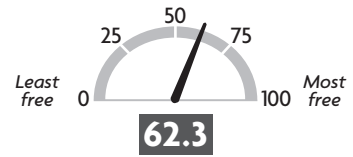


BULGARIA

Economic Freedom Score



World Rank: **75**

Regional Rank: **36**

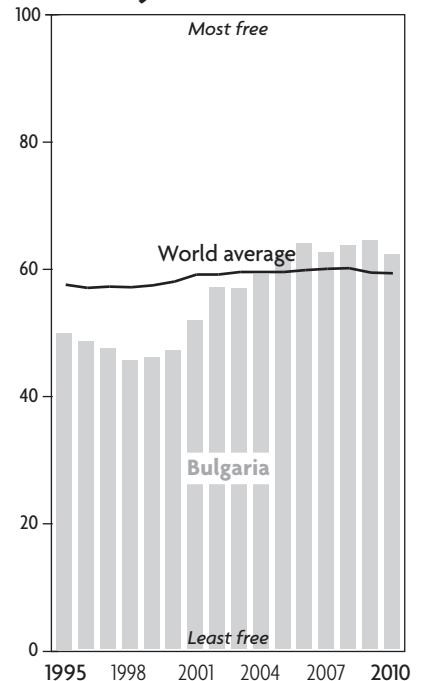
Bulgaria's economic freedom score is 62.3, making its economy the 75th freest in the 2010 *Index*. Its overall score is 2.3 points lower than last year, reflecting losses in investment freedom and freedom from corruption and growth in government spending. Bulgaria is ranked 36th freest among the 43 countries in the Europe region, and its overall score is above the world average but below the regional average.

Bulgaria has made substantial progress toward long-term stability and sustained growth. Comprehensive economic reform and trade liberalization have led to annual growth of over 6 percent over the past five years, supporting considerable increases in investment and job creation. Competitive flat tax rates facilitate dynamic entrepreneurial activity.

Bulgaria's substantially reduced public debt (less than 20 percent of GDP in recent years) is a result of prudent public financial management. However, there are some institutional weaknesses that could hamper macroeconomic stability and retard growth. Weak property rights, lingering corruption, and burdensome bureaucracy continue to reduce economic freedom, and developing a more independent judicial system would appear to be a key area for reform.

BACKGROUND: Bulgaria held its first multi-party election since World War II in 1990 and joined the European Union in January 2007. Tourism, agriculture, and natural resource exports, including exports of coal, copper, and zinc, are important to the economy. Since the signing of an EU accession agreement in 2004, Bulgaria has experienced a vast inflow of capital and high rates of growth, though the economy was contracting in 2009. Sergei Stanishev of the Bulgarian Socialist Party (BSP) has been prime minister since 2005. Relations between the BSP and its main coalition partner, the National Movement for Stability and Progress (NMSPP), remain troubled. Scandals involving the handling of EU funds have hurt the ruling parties, but the governing coalition survived three no-confidence votes in 2008.

Country's Score Over Time



Quick Facts

Population: 7.6 million

GDP (PPP): \$94.5 billion

6.0% growth in 2008

6.2% 5-year compound annual growth

\$12,393 per capita

Unemployment: 5.6%

Inflation (CPI): 12.0%

FDI Inflow: \$9.2 billion

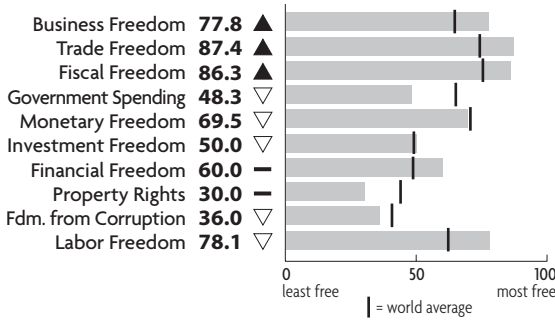
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

BULGARIA'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 77.8

The overall freedom to establish and run a business is relatively well protected under Bulgaria's regulatory environment. Starting a business takes about half the world average of 35 days. Obtaining a business license takes less than the world average of 218 days.

TRADE FREEDOM — 87.4

Bulgaria's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.3 percent in 2008. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Bulgarian policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Enforcement of intellectual property rights and non-transparent government procurement remain problematic. Ten points were deducted from Bulgaria's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 86.3

Bulgaria has low tax rates. The corporate and income tax rates are a flat 10 percent. Other taxes include a value-added tax (VAT), an estate tax, and a vehicle tax. In the most recent year, overall tax revenue as a percentage of GDP was 34.2 percent.

GOVERNMENT SPENDING — 48.3

Total government expenditures, including consumption and transfer payments, are relatively high. In the most recent year, government spending equaled 41.5 percent of GDP. Authorities are trying to keep spending 10 percent below levels set in the 2009 budget.

MONETARY FREEDOM — 69.5

Inflation has been high, averaging 10.5 percent between 2006 and 2008. Privatization of state-owned firms has progressed, and the market determines most prices, but regulation affects the prices of electricity, water, natural gas, and pharmaceuticals. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production,

distorting the prices of agricultural products. Ten points were deducted from Bulgaria's monetary freedom score to adjust for measures that distort domestic prices.

INVESTMENT FREEDOM — 50

Foreign and domestic investors are treated equally. Government approval is required for majority foreign ownership in some sectors. Licensing, regulation, and arbitrary bureaucracy deter investment, as do pervasive corruption, a slow-moving judiciary, and the influence of organized crime in some sectors of the economy. Foreign exchange and capital transactions may be subject to restrictions and require prior registration with the central bank. Foreign ownership of land is permitted if the owners are from EU countries or countries with an international agreement permitting such purchases. There are no legal restrictions on acquisition of land by locally registered companies with majority foreign participation. If public needs cannot be met by other means, expropriation may be undertaken, provided that the owner is adequately compensated.

FINANCIAL FREEDOM — 60

Introduction of a currency board, stronger supervision, and tighter prudential rules have helped to transform Bulgaria's banking sector. Consolidation began in 2004, and privatization of state-owned banks is complete. Combined assets of the 30 commercial banks exceed 100 percent of GDP. The three largest banks account for more than 30 percent of assets. In the domestic credit market, foreign banks account for more than 80 percent of total assets. Credit is generally allocated on market terms. Insurance, with strong foreign participation, is private and expanding. Strong banking supervision and prudential regulations are likely to lessen the impact of global financial turmoil.

PROPERTY RIGHTS — 30

Although the law protects the acquisition and disposition of property, the judicial system does not solve commercial disputes, register businesses, or enforce judgments effectively. The constitution provides for an independent judiciary, but ineffective rule of law limits investor confidence in the enforcement of contracts, ownership and shareholders rights, and intellectual property rights.

FREEDOM FROM CORRUPTION — 36

Corruption is perceived as widespread. Bulgaria ranks 72nd out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Despite advances in laws and legal instruments, organized crime and government and judicial corruption persist. Corruption's threat to the security of the common border is a matter of great concern to the EU.

LABOR FREEDOM — 78.1

Relatively flexible labor regulations enhance employment and productivity growth, although there is room for further reforms. The non-salary cost of employing a worker is high, but the dismissal cost is moderate.