

*This report has been prepared by the Bulgarian Foreign Investment Agency in April 2002.*

*Substantial support has been provided by the Ministry of Economy, Tourism Department.*

*Parts about the potential investment opportunities in the Bulgarian tourism sector have been also included from the Tourism Sector Study of the Netherlands Economic Institute (NEI B.V.) and CHL International, Ireland, produced in March 2001 under PHARE BG 9805-01-01-03.*



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# INTRODUCTION

Bulgaria is a well-positioned successful international tourism destination.

You will be impressed by the rare combination of natural environment and climatic conditions for year-round tourism:

- kilometres of sandy beaches along the Black Sea coast with temperatures in the mid 20°C during summer
- mountain areas ideal for skiing in winter or hill walking during the summer
- national parks and wildlife reserves for hunting, fishing or study tours
- rich variety of plant and animal species

Other attractions that could not be missed are:

- the numerous sources of healing mineral water in Bulgaria with spas and health care clinics established around
- cultural heritage stretching back to Greek and Roman times preserved in museum towns, monasteries and historical monuments
- old villages turned into architectural reserves with preserved nature, local folklore, customs, traditional crafts and cuisine
- warm, open, friendly people of generous hospitality, complemented by a long tradition of good wine production

Year 2001 was most successful for the Bulgarian tourism sector, which has become a major foreign exchange earner.

Tourism (international and domestic) represents about 12-13% of GDP.

International tourism	2001 USD million	2001 / 2000 % change	2001 % GDP
revenues <sup>1</sup>	1,201.0	+11.8	8.9
net income	632.2	+17.9	4.7

*Source: Ministry of Economy, Tourism Department*

The number of international tourist arrivals in 2001 is 2,755,717, which represents a 17.06% increase compared to year 2000.

<sup>1</sup> Excluding international transport

# BULGARIA'S SUCCESS IN ATTRACTING FDI<sup>2</sup>

The transition of Bulgaria to a market economy began after 1990. Bulgaria has missed the period 1992-1996 when the developed countries extensively invested in the Czech Republic, Hungary, Poland and Slovenia and only 20% of the cumulative 1992-2000 FDI in Bulgaria had been attracted by the end of 1996 whereas, during this period Hungary and Slovenia had achieved 60% and 53% respectively.

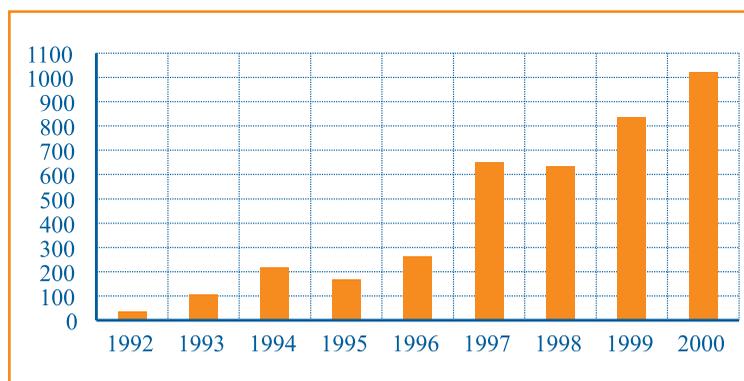
The period 1997-2001 was marked by a new dynamic development of the reform process in Bulgaria, currency board enforcement, financial stabilisation and a sharp rise in the foreign investments. This period accounts for 83% of the total FDI inflow.

For the last 4 years green-field investments have considerably outnumbered privatization investments.

During 2000 for the 1st time FDI reached a level of over USD 1 billion.

The EU countries have generated over 70% of the investment stock. Top investors in Bulgaria (as of end 2001) are Germany, Greece, Italy, Belgium, Austria and the USA.

**Foreign direct investment inflows in Bulgaria by years in USD m.**



*Source: Bulgarian Foreign Investment Agency*

During the period 1992-2001, USD 188.8 million, representing 4.2%, went into tourism.

# REASONS FOR INVESTING IN BULGARIA

Bulgaria relies on the following main factors determining FDI generation:

<p><b>stable socio-political environment</b></p>	
<p><b>macro-economic policies favourable for the business</b></p>	<ul style="list-style-type: none"> <li>• stable exchange rates - Bulgarian Lev (BGN) is pegged to the EUR at a rate EUR 1 to BGN 1.95583</li> <li>• low inflation - CPI, end of 2000 - 11.3%, end of 2001 - 4.8%</li> </ul>
<p><b>favourable legal and regulatory environment for business</b></p>	<ul style="list-style-type: none"> <li>• minimum number of bureaucratic regulations</li> <li>• legal framework upholding private and intellectual property rights</li> <li>• commercial laws conforming to the EU standards</li> </ul>
<p><b>independent judicial system</b></p>	
<p><b>supporting physical and service infrastructure</b></p>	<ul style="list-style-type: none"> <li>• road networks and public utilities significantly improved for the last 5 years</li> <li>• fast developing telecommunications - wireless Internet connections, first optic lines, 3 mobile operators, VoIP systems, etc.</li> </ul>
<p><b>competitive access to markets</b></p>	<ul style="list-style-type: none"> <li>• key EU markets within 2-3 days transport by road</li> <li>• improving transport connections though the Danube River and the Black Sea</li> <li>• flights from Central Europe lasting between 2 and 2.5 hours</li> <li>• free trade with the EU, EFTA, CEFTA, Turkey, Macedonia, Croatia, Israel and Estonia</li> </ul>
<p><b>availability of required inputs</b></p>	<ul style="list-style-type: none"> <li>• high skilled and well educated work force</li> <li>• significantly lower labour cost than in Europe</li> <li>• availability of land - foreigners can buy land by establishing or joining a Bulgarian company</li> <li>• low corporate tax<sup>3</sup> - 15%</li> </ul>
<p><b>pro-business fiscal policy</b></p>	<ul style="list-style-type: none"> <li>• low personal income tax - 20-29%</li> <li>• tax incentives for investments in depressed regions</li> </ul>

<sup>3</sup> the average rate for the EU is 32.53% for year 2002

According to the KPMG foreign investor survey findings<sup>4</sup>, the principal reasons for investing in Bulgaria are:

- customer base in the region 42%
- former business contacts in Bulgaria 40%
- Bulgaria viewed as a promising, emerging market 38%
- strategic geographic location 36%
- relatively low labour and non-labour costs 36%
- skilled labour force 26%

## BULGARIAN TOURISM FDI EXPERIENCE

During the period 1992-2001, USD 188.8 million, representing 4.2%, went into tourism.

### Top foreign investors in the tourism sector

Investor	Country	Sector	Bulgarian company	Year	Volume in USD m
IVAN ZOGRAFSKI	GERMANY	tourism	HOTEL INTERCONTINENTAL SHERATON SOFIA BALKAN	94 96-99	53.1
RUDRET MEHDI ADGAR	TURKEY	hotel hotel trade	TRIMONTZIUM HOTEL KORECOM	98, 2001 99 99, 2001	31.7
MCDONALDS' SYSTEM OF BULGARIA	USA	restaurants	MCDONALDS' BULGARIA	96-2001	22.9
RADISSON SAS		hotel	GRAND HOTEL SOFIA	98, 2000	17.7
ZURICH INVEST	SWITZERLAND	tourism	PAMPOROVO	2001	11.0
C&N TOURISTIC	GERMANY	tourism	ZLATNI PIASATZI	2000	10.6
HILTON INTERNATIONAL	USA	hotel	COMPANIA ZA LUKSOZNI HOTELI (Hilton hotel, Sofia)	99	10.5
SOFIA HOTEL DEV. COMP.	NETHERLANDS	hotel	COMPANIA ZA LUKSOZNI HOTELI, (Hilton hotel, Sofia)	99	10.5
PRINCESS HOLDING GROUP	TURKEY	hotel	TRIMONTZIUM HOTEL	99	5.3
BANQUE NATIONALE DE PARIS	FRANCE	tourism	ALBENA	97	4.6
CLASMAN ENTERPRISES	CYPRUS	hotel	HOTEL LONGOZA	98	1.5
GLOTRACO LTD	CYPRUS	hotel	GLARUS	98	1.3
GOODYS	GREECE	restaurant	GOODYS	97, 2001	2.0

Source: BFIA

There are lots of opportunities for investing in Bulgarian tourism companies. An extensive survey covering Bulgarian companies with foreign participation and companies seeking foreign direct investment was undertaken by NEI and CHL in 2000-2001. (see Appendix 1)

## COMPETITIVE POTENTIAL OF BULGARIAN TOURISM SECTOR

### Trends in Tourist Arrivals

- In spite of the Macedonian political crises and the terrorist attacks of 11 September, year 2001 was more than successful for the Bulgarian tourism sector.
- In 2001 foreign tourists inflow compared to 2000 increased with 17.6%.
- In 2001 the number of tourists from Germany, one of the main destinations, increased with 42.31%.
- In 2001 the number of EU tourists in Bulgaria increased with 26.41%.
- The trend in foreign vacation arrivals from Germany, Greece and Scandinavia is positive for most of the period 1996-2001.
- There is a variation from year to year in the number of tourist arrivals from Benelux and the United Kingdom.
- Since 1999 the trend in tourist arrivals from Russia and Ukraine has been positive. There is a temporary slow-down in the last quarter of 2001 because of changes in the Bulgarian visa regime for these countries, introduced in compliance with the EU requirements.

**Tourist arrivals<sup>5</sup> in Bulgaria by country of residence, 1996-2001**

Market	1996	1997	1998	1999	2000	2001*	2001/2000 change, %
Germany	104,000	194,800	173,216	206,350	263,034	374,323	+42.31
Greece	44,625	138,276	255,467	294,291	**321,652	344,677	+ 7.16
Russia	-	309,264	156,628	52,341	105,622	130,886	+23.92
Scandinavia	33,393	60,326	48,913	61,101	84,389	107,105	+26.92
Ukraine	-	355,549	81,098	51,885	59,279	70,168	+18.40
United Kingdom	32,044	68,249	68,678	53,114	51,973	69,202	+33.15
Benelux countries	13,160	12,881	49,089	24,354	31,919	40,755	+27.68
Other countries**	2,009,314	1,334,557	1,395,815	1,635,601	1,436,183	1,618,601	+12.70
Total	2,191,911	2,335,626	1,973,437	2,084,746	2,354,051	2,755,717	+17.06

\* rank - year 2001

\*\* Includes "shuttle trade" from Macedonia, Greece, Romania, Yugoslavia and Turkey

Source: Ministry of Economy, Tourism Department

<sup>5</sup> Business and VFR visitors are excluded. Children without own passports are excluded for 1998-2001.

### Tourist arrivals<sup>6</sup> in Bulgaria from the European Union

YEAR	1996	1997	1998	1999	2000	2001*	2001/2000 % change
<b>Total number of tourist arrivals from all countries</b>	2,191,911	2,335,626	1,973,437	2,084,746	2,354,052	2,755,717	+17.06
<b>Total from the EU</b>	235,848	506,288	605,743	672,388	797,687	1,008,319	+26.41
<b>Relative share of the EU the EU countries</b>	10.76%	21.68%	30.70%	32.26%	33.89%	36.59%	+2.7
GERMANY	104,000	194,800	173,216	206,250	263,034	374,323	+42.31
GREECE	44,625	138,276	255,467	294,291	321,652	344,677	+7.16
UNITED KINGDOM	32,044	68,249	68,678	53,114	51,973	69,202	+33.15
SWEDEN	8,663	26,188	17,735	26,294	39,998	48,070	+20.18
FINLAND	3,676	14,797	12,948	14,555	19,275	29,178	+51.38
FRANCE	10,376	22,009	17,380	13,052	21,414	27,305	+27.51
AUSTRIA	3,773	3,978	5,233	7,075	8,382	27,253	+225.14
BELGIUM	4,249	4,469	9,302	10,830	17,499	24,946	+42.56
DENMARK	6,573	6,841	8,660	12,022	15,035	19,372	+28.85
ITALY	7,797	11,513	14,658	13,466	16,421	17,318	+5.46
NETHERLANDS	8,911	8,260	13,344	13,340	14,193	15,422	+8.66
IRELAND	n.a.	2,304	4,505	3,952	3,859	5,201	+34.78
SPAIN	1,161	3,917	3,504	3,233	4,046	4,681	+15.69
PORTUGAL	n.a.	535	966	730	679	984	+44.92
LUXSEMBURG	n.a.	152	147	184	227	387	+70.48

\* rank - year 2001

Source: Ministry of Economy, Tourism Department

### Tourist arrivals<sup>7</sup> in Bulgaria by purpose of visit

Year	1998	1999	2000	2001	2001/2000, %
<b>TOTAL</b>	<b>5239691</b>	<b>5056250</b>	<b>4922118</b>	<b>5103797</b>	<b>103.7</b>
<b>Tourism</b>	<b>1973437</b>	<b>2084668</b>	<b>2354052</b>	<b>2755717</b>	<b>117.1</b>
VFR**	32516	34041	35487	25571	72.1
Business	132482	170089	177933	183988	103.4
Others	528537	201917	217607	220408	101.3
Transit	2572719	2565535	2137039	1918113	89.8

\*\*VFR - Visiting friends and relatives

Travels of citizens of Bulgaria abroad	1998	1999	2000	2001	2001/2000, %
<b>TOTAL</b>	<b>2591648</b>	<b>2375749</b>	<b>2336738</b>	<b>2730473</b>	<b>116.8</b>

## Seasonality of Visitor Arrivals (Year 2001)

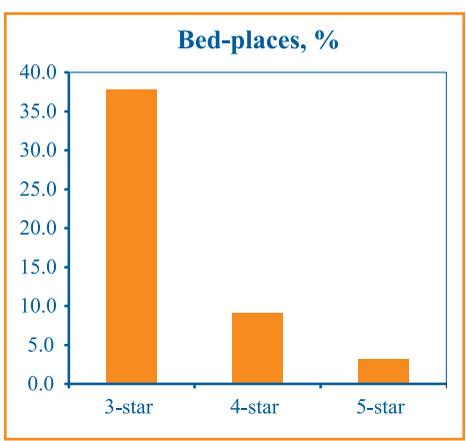
Some 43% of tourists visit Bulgaria during the peak months of July through September. A further 14% come during the winter months of January through March. However, this overall pattern disguises significant variations between markets. For example, the vast majority (96.6%) of German holidaymakers visit Bulgaria from May to October.

## Supply of Accommodation

The capacity of the hotel and restaurant basis in the country as of end 2001 is as follows:

**634 hotels with 120,150 bed-places**

**1,565 restaurants with 39,080 seats**



*Source: Ministry of Economy*

Over the last five years or so, new investment has taken place in the sector, but it has been mainly in small hotels, restaurants and travel agents.

The lack of sufficient new investment to extend the range of the tourism product and the need for re-investment in existing facilities are the main constraints to the development of tourism in Bulgaria.

Some 70% of the hotel bed capacity is located on the Black Sea, 7% in Sofia and a further 7% at the ski resorts (spas are included in the remaining 16%).

# POTENTIAL OF TOURISM PRODUCT SEGMENTS AND FDI PROJECT POSSIBILITIES

Bulgaria's tourism products fall into the following categories:

## Tourism Product Segments

Tourism Product	Main Components
<b>Beach/Recreation Resorts</b>	Albena, Drouzhba, Sunny Beach, Golden Sands, Nessebar, Dunes, St. Constantine and Elena, Riviera, Elenite, Dyuni, Roussalka
<b>Winter Sports</b>	Bansko, Borovets, Pamporovo, Vitosha
<b>Balnelogical / Health</b>	Sandanski, Velingrad, Hissarya, Devin, Kyustendil
<b>Culture/Museum/Towns/Monasteries</b>	Plovdiv, Varna, Veliko Turnovo, Melnik, Rila Monastery, etc.
<b>Nature &amp; Activity</b>	walking, fishing, hunting, mountaineering, golf, etc.
<b>City Breaks</b>	Sofia
<b>Touring</b>	Throughout the country - towns, villages, monasteries, etc.
<b>Conference</b>	Congress Centre, Sofia; Palace of Culture & Sports, Congress Centre, Varna, etc.

The potential of these product segments for project opportunities with a potential of attracting FDI is outlined in considerable detail in Appendix 2.

# TARGETS FOR FDI IN BULGARIAN TOURISM SECTOR

On proposing a project for Bulgaria, foreign companies may consider the following opportunities:

## Identification of Project Possibilities

Product Segment	Project Possibilities	Possible Location
<b>Beach Resorts</b>	<ul style="list-style-type: none"> <li>▪ Greenfield resorts</li> <li>▪ 5* flagship hotels</li> <li>▪ holiday village</li> <li>▪ development/refurbishment of 3* star hotels</li> <li>▪ international standard golf courses</li> <li>▪ casino refurbishment</li> <li>▪ yachting marina/over-wintering</li> <li>▪ water theme park</li> <li>▪ campsites</li> </ul>	<ul style="list-style-type: none"> <li>▪ Shabla, Tsarevo</li> <li>▪ Albena, Dyuni</li> <li>▪ Sunny Beach</li> <li>▪ Black Sea resorts</li>   <li>▪ Albena, Varna</li>   <li>▪ Albena</li> <li>▪ Nessebar</li>   <li>▪ Golden Sands, Sunny Beach</li> <li>▪ Shabla, Tsarevo, etc.</li> </ul>
<b>Winter Sports Resorts</b>	<ul style="list-style-type: none"> <li>▪ acquisition and/or refurbishment of existing properties</li> <li>▪ new ski resort and/or ski lift developments</li> <li>▪ combination of winter and summer tourism (e.g. hiking)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Bansko, Borovets, Pamporovo, Vitosha</li>   <li>▪ Smolyan, Elena, Troyan, Gabrovo</li>   <li>▪ general</li> </ul>
<b>Spas and Health Resorts</b>	<ul style="list-style-type: none"> <li>▪ acquisition and/or refurbishment of existing properties</li> <li>▪ new spa and/or thalassotherapy centres development</li> </ul>	<ul style="list-style-type: none"> <li>▪ Sandanski, Velingrad, Hissarya, Devin, Kyustendil</li> <li>▪ Bankia, Pomorie</li> </ul>
<b>Cultural Product</b>	<ul style="list-style-type: none"> <li>▪ extension and/or refurbishment of existing properties</li> <li>▪ new hotel developments</li> </ul>	<ul style="list-style-type: none"> <li>▪ Plovdiv, Rila Monastery</li>   <li>▪ Plovdiv, Varna, Veliko Turnovo, Melnik, Rila Monastery, Sveshtary, etc.</li> </ul>
<b>Nature and Activity</b>	<ul style="list-style-type: none"> <li>▪ Golf resort development</li> <li>▪ Fishing/hunting facilities</li> <li>▪ Campsites</li> <li>▪ Coach tours (purchase of modern coach fleet)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Albena, Trun</li> <li>▪ to be decided</li> <li>▪ Shabla, Tsarevo</li> <li>▪ to be decided</li> </ul>
<b>City Breaks</b>	<ul style="list-style-type: none"> <li>▪ acquisition and/or refurbishment of 3-star properties</li> <li>▪ possible extension to cities other than Sofia</li> </ul>	<ul style="list-style-type: none"> <li>▪ Sofia</li>   <li>▪ Plovdiv, Veliko Turnovo, Varna, Bourgas, etc.</li> </ul>
<b>Touring</b>	<ul style="list-style-type: none"> <li>▪ Purchase of modern coach fleets</li> </ul>	<ul style="list-style-type: none"> <li>▪ to be decided</li> </ul>
<b>Conference</b>	<ul style="list-style-type: none"> <li>▪ acquisition/refurbishment of existing conference facilities</li> <li>▪ development of additional accommodation plus conference facilities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Sofia, Varna</li>   <li>▪ Sofia, Plovdiv, Varna</li> </ul>

Source: NEI and CHL

In identifying investment project possibilities, the following has been considered:

- the greenfield developments, which have been put forward by the Shabla and Tsarevo municipalities respectively, are seen as unrivalled opportunities for potential investors, and
- the five star hotels are seen as a vehicle for upgrading the image of the Black Sea coast (vid. Majorca example) and for increasing value added
- the growing city-break market is untapped in Sofia and other population centres
- conference/seminar tourism is closely linked to the availability of five star hotels and leisure facilities, particularly spa ("Beauty and Fitness" not medical) and golf facilities
- the activity holiday market, particularly golf and visitor attractions, is not well developed
- significant opportunities exist for extending seasonality in both the Black Sea summer and mountain winter resorts
- health tourism as a luxury leisure activity has yet to be developed in most spa centres with the exception of the Grand Hotel in Varna and the Augusta in Hissarya.

#### FDI Potential and prioritisation by segment - 2000 to 2005

Product Segment	No.	Value (\$ m)	Total Value (\$ m)	FDI %age	Priority* (Probability)	Weighted FDI (\$ m)
Greenfield resort	2	50-100	150.0	75	3.0 (10%)	10
5* flagship hotel	4	35	140.0	50	3.6 (50%)	35
Spa resort	1	30	30.0	90	3.6 (50%)	13
Conference hotels	2	25	50.0	50	3.2 (50%)	13
Golf complex	3	8	24.0	80	3.4 (80%)	16
Thalassotherapy	1	2	2.0	60	1.8 (60%)	1
Marina	2	10	20.0	50	2.6 (60%)	6
Campsite	5	1.5	7.5	100	3.6 (80%)	6
<b>Totals</b>	<b>20</b>		<b>423.5</b>			<b>100</b>

*Source: NEI and CHL*

\* In assigning priorities the following criteria have been applied to the individual projects:

- physical achievability within 5 year period
- economic benefits
- scale of investment potential
- probable interest to foreign investors
- availability of credible Bulgarian partners

# INVESTING IN BULGARIAN TOURISM SECTOR - ADVANTAGES AND CHALLENGIES

## SWOT Framework

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Strategic geographic location</li> <li>• Stable socio-political environment</li> <li>• Business-favourable legal environment</li> <li>• Stable exchange rate</li> <li>• Low corporate tax</li> <li>• Availability of skilled labour</li> <li>• Reliable tourism education system</li> <li>• Relatively low labour and non-labour costs-</li> <li>• Lower level of competition due to the relatively small number of tourism foreign investors</li> <li>• Image of a tourist destination</li> <li>• Wide range of existing and potential tourism products</li> <li>• Competitive access to main tourist-generating markets</li> <li>• Large volume hotel stock on hand which can be offered to FDI</li> <li>• Number of hotel chain brands already in Sofia and Black Sea resorts</li> <li>• No restrictions on acquisition of land by local foreign-owned companies</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Lack of tax incentives or grants</li> <li>• 7% VAT on sales of tourism packages abroad</li> <li>• Predominantly old hotel stock from 60's and 70's with little or no investment in the 80's and 90's.</li> <li>• Shortness of tourism season due to weather conditions (summer and winter)</li> <li>• National carrier not as modernised / advanced or efficient as other CEE carriers</li> <li>• Volume of FDI in general and in particular in the tourism sector is low in Bulgaria in comparison to CEE countries</li> <li>• Limited offering in Bulgaria of tourism products and additional services</li> <li>• Poor quality of supporting tourism and services infrastructure</li> <li>• Lack of management skills</li> <li>• Lack of availability of tourism market research data</li> <li>• Difficult to get independent professional verification of land</li> <li>• No Tourism Development Plan</li> <li>• No National Tourism Board</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Achieve transparency in the accommodation through a new classification system</li> <li>• Proactively seek out potential tourism sector investors</li> <li>• EU membership prospects</li> <li>• Improve financing possibilities, especially for SMEs</li> <li>• Create credit lines and venture capital funds and establish criteria for tourism project funding</li> <li>• Improve the skill training of tourism personnel and management so as to achieve upgrading of service quality</li> <li>• Develop reliable and useful marketing and FDI websites</li> <li>• Develop new tourist products and provision of additional tourist services</li> <li>• Approach specific markets with special products</li> <li>• Develop the domestic market and emerging neighbouring CEE markets</li> <li>• Achieve efficient marketing of the sector through a Tourism Marketing Agency (to be established in 2002)</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Large allocation of promotional funds by neighbouring competitors to marketing and promoting their destinations, i.e. Turkey, Greece, etc.</li> <li>• Loss of market share due to continued lack of promotional and marketing funds; as in the case of Romania and Hungary.</li> <li>• Delay in gaining EU membership</li> <li>• Possibility of increased trans-border pollution - Danube river and Black Sea</li> <li>• Possible renewal of conflicts in the Balkan region</li> <li>• Impact of global warming on snow conditions</li> </ul>

# DOING BUSINESS IN BULGARIA - THE EXPERIENCE OF FOREIGN INVESTORS

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## C&N TOURISTIC

C&N Touristic, the second largest tour-operator on the German market, was set up on 18 December 1997. It is owned by Karstadt and Lufthansa, each holding a 50% stake. C&N Touristic owns the well known in Bulgaria Neckermann Touristic. Lufthansa's subsidiary Condor is under the management of C&N Touristic too, as well as the Aldiana and Terramar brands in the prestigious travels segment. Brands such as Bucher, which is also specialized in last-minute bookings, belong to the cheap travels segment together with Air Martin. Neckermann Touristic is not strictly specialized and offers a broad range of travels in all price levels. Late June 2000 saw the finalization of C&N Touristic's purchase of 100% of the French touroperator Havas Voyages, which has an annual turnover of 6.1 billion French Francs, 380 tourist agencies and some 1.6 million customers. After the acquisition C&N accounts for over 20% of the French tourism market. Another successful deal for the concern was finalized in December 2000. They bought Thomas Cook - the 3-rd largest British touroperator (after Airtours and Thompson Travel) for 1.8 billion marks. The British touroperator will bring along considerable advantages: turnover of DEM 5.5 billion for 1999, airlines (JMC) with 28 aircraft, as well as a chain of tourist agencies. A total of 150 bureaux of Thomas Cook in Germany, however, are owned by Preussag - the previous owner of the British touroperator, because the cartel legislation prohibited the striking of a deal for them.

In late 2000 C&N Touristic earned its reputation of the second biggest tourist concern in Europe. The new giant will have an approximate turnover of DEM 15.1 billion, 15 million tourists will travel with it per year. It will have 30 touroperator brands, 70 aircraft and 3,800 tourist bureaux.

The year 1999-2000 was successful for C&N Touristic. The concern was preferred by 10.9 million tourists (+5% compared to the previous business year), while the turnover, which totaled DEM 9.7 billion grew by 7.3%. The concern's profit before taxation grew by 5%, reaching DEM 220 million. Currently, the concern has 58,000 beds, compared to 37,500 beds in the beginning of this year. The intentions to increase the number of beds were fulfilled through the shared participation of C&N Touristic in the hotel chains IFA and Creativ, which have 24,000 beds in 24 hotels on the Island of Madeira. The next objective to be fulfilled in terms of shared participation in hotels is to reach 100,000 beds by the year 2004.

## Neckermann Touristic in Bulgaria

Neckermann is the traditionally leading touroperator on the Bulgarian market in terms of number of package tours. Over the 30 years during which it has operated on the Bulgarian market more than 1 million German tourists have arrived with its programs. The programs are predominantly designed for family tours, for families with one, two or more children. Neckermann remains unsurpassed with its low fixed

prices for children, especially in the period May-June. The aim is to attract the attention of the families, which do not have to consider the school vacations, to travel in May and June. Hence the attractiveness for this segment of the public. In 2000 Neckermann started tours by bus round Bulgaria, hoping to attract other segments of tourists too.

Neckermann Touristic's strong distributor network in Europe is a favourable factor for Bulgaria. Thus Bulgaria is offered in Belgium, the Netherlands, Austria, and as of 2000 - in Poland too.

After a 5-year break Neckermann Touristic renewed its winter programs for Bulgaria (as of Winter 2000/2001), starting with 3,200 booked beds in 3 and 4-star hotels in the Bulgarian winter resorts, offered through its subsidiaries in Belgium and the Netherlands.

Another interesting aspect in Neckermann Touristic's development is its new image of a touroperator charging the lowest prices. The image of the touroperator changed sharply some 5 years ago, so that today the travels to the club villages and hotels of the company are at the same price with TUI. This new image quite naturally also resulted from the big investments that Neckermann makes every year in order to improve the category of the offered facilities. In 2000 alone Neckermann renovated with its own funds 3,880 beds along the Black Sea coast, raising their category up to 3-4 stars. For this purpose DEM 20 million were invested to also ensure the refurbishment of 3 hotels in the Sunny Beach Resort JSCo, 3 hotels in Albena Resort JSCo, Djuni Vacation Village JSCo, as well as in the Iberostar Obzor Hotel in the Golden Sands JSCo, in which owner of Neckermann Touristic C&N concern holds 40%.

The Iberostar has 39 hotels and 28,000 beds on a world scale. This is an important step since its prestige is world-known and related to some of the most attractive destinations worldwide such as the Caribbean Basin and Mexico, Andalusia, Tunis, Morocco, Cyprus, Turkey and now in Bulgaria. The Iberostar predominantly has high category hotels (4 and 5 star hotels).

For the year 2001 tourist concern C&N plans to invest DEM 60 million in expanding their programs in Bulgaria, which is a unique case in the history of the concern.

Some of the reasons explaining Bulgaria's success are the favourable ratio between advantageous prices and good qualities of the services, clean beaches, security and a very good environment for children.

The long-term successful cooperation with Bulgaria found expression in the awarding by the Ministry of Trade and Tourism in October 1999 of Mr. Herbert Roncevic, Contracting Manager for Neckermann Touristic on the occasion of his 30 years of operation in this country and for his exceptional contribution to the development of the Bulgarian-German relations in the field of tourism.



Sofia's premier business hotel is exceptionally located in the heart of the city, within the South Park, overlooking Vitosha Mountain and is connected with a pedestrian bridge to the National Palace of Culture (Sofia Congress Center).

Hilton Sofia is a state-of-the-art facility with 245 rooms on 8 floors, including 53 Executive Rooms and 17 Suites, equipped with all modern facilities. The guests of the 2 Executive Floors have access to the Clubroom, a special area for relaxation, assistance and business support, where they can enjoy complimentary breakfast, drinks and snacks throughout the day. For conferences and banquets the Hotel offers 450 square meters, including a ballroom, which can accommodate up to 240 delegates and can be divided into 2 sections.

Hilton Hotels Corporation and Hilton International, a subsidiary of Hilton Group plc., have a worldwide alliance to market Hilton, the world's best-known hotel brand. Collectively offering over 2,300 hotels in more than 60 countries worldwide, both companies are recognized as leaders in the hospitality industry. Hilton International currently operates 499 hotels in over 60 countries worldwide, from Africa and the Middle East to Asia Pacific, Europe and North and South America. The brand portfolio includes some of the great names in the industry such as the Hilton Hawaiian Village, the Waldorf Astoria in New York City, the Langham Hilton and London Hilton in London, Cavalieri Hilton in Rome, The Drake, Chicago and the Palmer House Hilton in Chicago. Whether they bear the Hilton name or retain their unique, historic identities, each hotel combines local culture with world-class standards of service.

### **Innovation**

Building on an 80-year legacy of innovation, Hilton is continuously introducing new properties, products and services, in line with the evolving demands of travelers. Indeed, as the world changes and new markets open up, the arrival of a Hilton is often a sign that a country has 'come of age'.

Hilton has introduced many new products and ideas into the hotel business. Some notable 'firsts' include the introduction of amenities such as air conditioning and direct dial telephones into guest rooms and the development of the airport hotel concept. More recently, Hilton Honors, redefined the rules for frequent travelers by becoming the only guest reward programme to allow members to exchange hotel points for frequent flyer miles and vice versa with participating airlines. Hilton continues to be committed to launching new initiatives, such as the testing of Smart Cards or Hilton Sleep-Tight rooms, with a view of potentially adding value to the guest's stay.

## **A Range of Products and Services**

Hilton guests around the world can enjoy classic Hilton hospitality whether they are traveling for business or pleasure. Hotels can be found in convenient airport and city centre locations and at resort destinations around the world.

Hilton has worked hard at making it easy to book a stay. Those already on the road can make a reservation at over 500 Hilton or Conrad International hotels worldwide. Alternatively they can either book a room online at <http://www.hilton.com>, call a professional travel agent or contact Hilton's global reservations service, Hilton Reservations Worldwide.

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## Appendix 1

**Survey of 39 Bulgarian tourism companies and organisations  
with an experience of receiving foreign direct investment  
or  
actively seeking foreign direct investment.**

Type	Name	Location	FDI Status	Comment
1. Group	MG Corp. Balkan Tourist	Sofia	Seeking FDI	The inclusion of MG Corp. as an FDI is misleading in that the company is Bulgarian owned and managed with foreign assets.  Its subsidiary Balkan Tourist was the state tourism organisation prior to privatisation and is still the largest travel agency in the country. It also owns a number of major hotels in Borovets and on the Black Sea. It is seeking FDI for a number of major developments including a new holiday village near Sunny Beach and a possible golf resort development N of Varna.
2. Hotel	Maritza Hotel	Plovdiv	Seeking FDI	Extension to provide additional accommodation and conference facilities
3. Hotel	Takotrans Hotel	Albena	Seeking FDI	New all inclusive resort hotel development
4. Hotel	Hotel Kiparis	Smolyan	Seeking FDI	New green field development
5. Hotel	Hotel Rila	Rila Mountain	Seeking FDI	Cultural tourism, coach tours
6. Hotel	Hotel Riltsi	Dulnitsa	Seeking FDI	coach tours
7. Hotel	Hotel AlenMak	Blagoevgrad	Seeking FDI	business/academic tourism
8. Hotel	Krankow	Sofia	Seeking FDI	5* + conference hotel extension, international chain involvement
9. Hotel	Harmony	Bankia	Seeking FDI	Spa hotel, hydrotherapy centre
10. Hotel	Eros Company	Varna	Seeking FDI	New business hotel by Varna conference centre
11. Hotel	Olympus	Sunny Beach	Seeking FDI	Seeking FDI
12. Hotel	Elena	Elena	Seeking FDI	Upgrade to nature and cultural resort
13. Hotel	Sheraton	Sofia	Korean investment complete	Declined to provide details beyond public information

Type	Name	Location	FDI Status	Comment
14. Hotel	Hilton	Sofia	CIBEX (Vivendi) France	Declined to provide details beyond public information
15. Hotel	Princess	Sofia	Turkish	Declined to provide details beyond public information
16. Hotel	Djerovi	Sunny Beach	Seeking FDI	Refurbishment and modernisation with international chain investment
17. Hotel	Pamporovo	Smolyan	Seeking FDI	Refurbished 5* hotel seeking to extend ski lifts to link hotel to slopes
18. Hotel	Pomorie	Pomorie	Seeking FDI	Spa hotel development to include entertainment
19. Hotel	Rila	Borovets	Multi-Group Investment	3* ski hotel mainly UK clients
20. Hotel	Narcis	Sunny Beach	Seeking FDI	Part refurbished seeking additional investment to upgrade
21. Hotel	Yavor Akatzia	Sunny Beach	Seeking FDI	Partly refurbished via German prepayments. Needs rapid investment to complete works before 2001 season
22. Hotel	Iberostar	Sunny Beach	German/Spanish Investment	Iberostar manages 5 hotels in Golden Sands in concert with Neckermann
23. Coaches	Intertrans	Sofia	Seeking FDI	Purchase of modern fleet
24. Resort	Dyuni	Black Sea	US private investment seeking development funding	5* new resort complex
25. Resort	Sunny Beach	Black Sea	Seeking FDI	Development and infra-structural funding
26. Resort	Golden Sands	Black Sea	Various private investments within the resort complex + BNP equity stake Seeking further FDI	Casino + investment for further refurbishments
27. Resort	Albena	Black Sea	BNP equity stake seeking further FDI	Golf resort development + refurbishment of main hotel? + casino
28. Municipality	Tsarevo	Black Sea	Seeking FDI. French investor interested in campsite	Ecological tourist resort in nature reserve + campsite development

Type	Name	Location	FDI Status	Comment
29. Municipality	Pomorie	Black Sea	Seeking FDI	New spa/hydrotherapy centre on Municipality site - architectural study complete
30. Municipality	Nessebar	Black Sea	Seeking FDI	Marina development and yacht over-wintering on Nessebar island
31. Municipality	Troyan	Stara Planina	Seeking FDI. Training and ski lift development support from Switzerland	New ski resort development
32. Municipality	Elena	Stara Planina	Seeking FDI	Ski, cultural and nature tourism resort development in National Park area
33. Municipality	Shabla	Black Sea	Seeking FDI	Opportunity for new nature themed resort of Centre Parks
34. Construction and Planning	VIG Ltd	Sofia/Black Sea	Seeking FDI	Interested in extending planning and engineering practice into development company with foreign partners
35. Agencies & Associations	BATA	Sofia	Representative	Overview of opportunities and problems experienced by both agents and their clients
36. Agencies & Associations	TASP	Gabrovo	Representative	Association of tourism businesses in Stara Planina Region
37. Activity	Ihtiman Golf Course/hotel	Sofia	Part funded by Bulgarian cargo airline	Further development on hold while membership increases and course matures to a more playable standard
38. Activity	Trun Golf and Leisure complex	Trun - SW of Sofia	New venture seeking FDI	Golf and outdoor activity complex with hotel/restaurants
39. Hotel Services	Expert Software	Sofia	Seeking FDI	Marketing and development of dedicated hotel management systems and export/licensing

*Source: NEI and CHL*

**Appendix 2**

**Analysis of the potential of tourism product segments  
for  
FDI project opportunities in Bulgaria**

<b>Product Segments</b>	<b>Demand Characteristics</b>	<b>Supply Characteristics</b>	<b>Current FDI</b>	<b>Operating Performance</b>	<b>Project possibilities</b>
<b>Beach Resorts</b>	<p>(a) <b>Strengths</b> - increasing demand, growth area, consumer recognition, consumer marketing</p> <p>(b) <b>Weaknesses</b> - highly seasonal, price sensitive, market variation, tour operator dependent</p>	<p>(a) <b>Strengths</b> - a range of facilities, complementary products, good infrastructure, competitive inputs available</p> <p>(b) <b>Weaknesses</b> - largely medium-quality service skills, refurbishment/ renovations needed</p>	very recent (since 1997), few projects (4 enterprises), small investment (less than USD 20 m in total)	limited information, high occupancy in peak months, high gross operating margins (30%) in better resorts	Green Fields Resort development - Dobrich, Tsarevo, 5* flagship hotel complex, casino refurbishment, Albena int'l standard golf course, Albena yachting marina, water theme park, campsites
<b>Winter Sports Resorts</b>	<p>(a) <b>Strengths</b> - stable demand, growth potential, established markets</p> <p>(b) <b>Weaknesses</b> - highly seasonal, price sensitive, narrow market, base tour operator dependent</p>	<p>(a) <b>Strengths</b> - range of products, relatively good infrastructure</p> <p>(b) <b>Weaknesses</b> - largely low quality variable snow conditions impact of global warming refurbishment/ renovations needed</p>	privatisation of some resort properties, little FDI	limited information, relatively high occupancy in peak months	acquisition and/or refurbishment of existing properties - Bansko, Borovets, Pamporovo, Vitosha; new ski resort and/or ski lift developments at Smolyan, Elena, Troyan and Gabrovo; Combination of winter and summer tourism (e.g. hiking)

Product Segments	Demand Characteristics	Supply Characteristics	Current FDI	Operating Performance	Project possibilities
<b>Spa/Health Resorts</b>	<p>(a) <b>Strengths</b> - domestic and CIS demand, consumer recognition in these markets</p> <p>(b) <b>Weaknesses</b> - decreasing international demand, treatments no longer funded by western social security, trade union dependent</p>	<p>(a) <b>Strengths</b> - established reputation, range of treatments, competitive</p> <p>(b) <b>Weaknesses</b> - deteriorating quality, growing competition in CEFTA countries, refurbishment/renovations needed</p>	none	low occupancy	acquisition and/or refurbishment of existing properties e.g. Sandanski, Velingrad, Hissarya, Devin, Kyustendil; new spa/thalassotherapy development e.g. Pomorie, Bankia
<b>Cultural Products</b>	<p>a) <b>Strengths</b> - growth area, range of business all-year round</p> <p>(b) <b>Weaknesses</b> - limited consumer recognition, lack of marketing</p>	<p>(a) <b>Strengths</b> - diversified product, complementary, competitive products</p> <p>(b) <b>Weaknesses</b> - poor infrastructure, lack of organised tours, refurbishment/renovations needed</p>	apart from Plovdiv and Veliko Turnova very small scale investment	limited information, modest occupancy even in peak months	extension and/or refurbishment of existing properties e.g. Plovdiv, Rila Monastery; New hotel developments e.g. Plovdiv, Varna, Veliko Turnova, Melnik, Rila Monastery, etc.
<b>Nature and Activity including touring</b>	<p>(a) <b>Strengths</b> - increasing international demand, potential growth area for Bulgaria, consumer marketing</p> <p>(b) <b>Weaknesses</b> - not known, partly seasonal, market variation</p>	<p>(a) <b>Strengths</b> - range of potential products, inputs available, competitive</p> <p>(b) <b>Weaknesses</b> - existing products of low quality, lack of suitable accommodation e.g. hiking, camping, weak service skills</p>	none (apart from golf and leisure complex at Ihtiman (opened June, 2000))	no information (mostly new products)	Golf resort development e.g. Albena and Trun, fishing/hunting facilities, campsites, coach tours (purchase of modern coach fleet)

Product Segments	Demand Characteristics	Supply Characteristics	Current FDI	Operating Performance	Project possibilities
<b>City Breaks (Sofia)</b>	<p>(a) <b>Strengths</b> - capital city, range of business, stable demand, high growth market, marketing by airlines, all-year round</p> <p>(b) <b>Weaknesses</b> - not promoted</p>	<p>(a) <b>Strengths</b> - range of facilities and things to do, good accommodation base, good infrastructure, competitive</p> <p>(b) <b>Weaknesses</b> - growing number of competitors, weak service skills, lack of good medium-priced accommodation</p>	<p>mostly very recent (since 1997), relatively small number of large projects, large-scale investment (more than USD 150m in total)</p> <p>mostly 5 or 4-star properties</p>	<p>high occupancy rates, high gross operating margins</p>	<p>packaging and marketing by tour operators and airlines, acquisition and/or refurbishment of 3-star properties in Sofia, possible extension to cities other than Sofia e.g. Plovdiv</p>
<b>Conferences</b>	<p>(a) <b>Strengths</b> - stable domestic demand, growth area for regional/international business, marketing by chain-affiliated hotels</p> <p>(b) <b>Weaknesses</b> - mostly seasonal (September to March), price sensitive, market variation</p>	<p>(a) <b>Strengths</b> - range of facilities, good infrastructure at some locations, inputs available, competitive</p> <p>(b) <b>Weaknesses</b> - lack of integrated first-class accommodation, weak management and service skills, some refurbishment/renovations needed</p>	<p>included as part of some hotel developments e.g. in Sofia</p>	<p>limited information</p>	<p>acquisition/refurbishment of existing conference facilities e.g. Sofia, Varna, development of additional conference and accommodation facilities e.g. Sofia, Plovdiv, Varna</p>

*Source: NEI and CHL*

# BULGARIA AND ITS COMPETITORS IN ATTRACTING TOURISM FDI

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Based on the criteria of similarities of product mix, climatic conditions, size and structure of tourism sector and stage of economic development, the following countries have been selected for comparative purposes: Hungary, Czech Republic, Romania, Estonia and Turkey.

## How Does Bulgaria Compare?

### Ownership of Property and Land

All the countries permit land ownership by locally registered companies with up to 100% foreign capital. Estonia and Turkey provide this opportunity also to foreign natural persons. Unlike in Hungary, in Bulgaria companies with foreign participation can own agricultural land.

### Privatisation

Hungary, Czech Republic and Estonia and Bulgaria are far ahead of Turkey and Romania. The recently improved legislative basis in Bulgaria guarantees transparency equal terms of payment for all the investors. As more than 95% of the tourism sector in Bulgaria is private, foreign investors could invest in new projects.

### Banking System

Large foreign banks are operating in all the countries selected. The interest rates appear to be high in most of these markets and capital is not quite accessible for SMEs.

### Bureaucracy & Regulations

All the countries provide national treatment to foreign investors and their business regulations are to a great extent conform to the EU norms. Turkey, Romania and Bulgaria have a relatively high degree of bureaucracy while Hungary, Estonia and to a lesser extent the Czech Republic are less bureaucratic. The corruption is a problem for Turkey and Romania.

## Labour Skills

The selected countries have in general an educated and skilled workforce, mainly in the technical field.

Foreign languages are widely spoken.

Management skills are especially lacking in Romania and Bulgaria.

The wages in Bulgaria are at the lowest level compared to the selected countries.

The level of worker protection is high in Romania and Bulgaria.

## Bankruptcy Laws

The legal framework is now in place in all of the selected countries. Estonia's is most consistent with that in the EU.

## Taxation

Bulgaria's corporate tax rate (15%) is the most favourable compared to the selected countries. Bulgaria's 20% VAT rate is at the mid-range. At present 7% VAT is levied on sales of tourism packages abroad.

The income tax rate in Bulgaria (20-29%) is comparable with that of Czech Republic (15-32%) and Estonia (26%). In the other countries the highest bracket is 40% and above.

The rate for social contributions paid by the employers is at the lowest level in Turkey (22.5-28%) followed by Bulgaria (32%).

## Performance Requirements & Incentives

In all the countries considered, there are no requirements for establishing, maintaining or expanding investments.

As for incentives, due to the restrictions of the agreement with the International Monetary Fund, Bulgaria offers only tax incentive for investment in depressed regions. The other countries are much competitive and flexible on encouraging investors. Hungary even provides grants for investment in tourism.

	Bulgaria	Hungary	Czech Republic	Romania	Estonia	Turkey
Ownership of property and land	<ul style="list-style-type: none"> <li>▪ 100% foreign ownership permitted (except in few strategic industries)</li> <li>▪ Foreigners cannot own land. However, locally registered companies with foreign participation (100% inclusive) can acquire full ownership rights over land including agricultural</li> <li>▪ Still developing cadastre record and unified information system on land market</li> </ul>	<ul style="list-style-type: none"> <li>▪ 100% foreign ownership permitted (except in few strategic industries)</li> <li>▪ only Hungarian natural persons can purchase arable land</li> <li>▪ foreign owned companies that are Hungarian legal entities may acquire real estate, with exception of agricultural land</li> <li>▪ purchases of land (non-agri) restricted to 6,000 m2, may lease 300 ha for up to 10 years</li> </ul>	<ul style="list-style-type: none"> <li>▪ personal ownership of real estate by foreign individuals or companies not permitted</li> <li>▪ Czech legal entities, including 100% foreign owned subsidiaries, may own real estate</li> <li>▪ foreign investors can, as individuals or business entities, establish sole prop's, joint ventures and branch offices</li> </ul>	<ul style="list-style-type: none"> <li>▪ No limit on foreign participation in commercial companies</li> <li>▪ Foreigners cannot own land. However, foreign investors involved with commercial companies, established in Romania, having partial or full foreign capital may acquire land or property necessary for fulfilling or developing the company's corporate goals.</li> </ul>	<ul style="list-style-type: none"> <li>▪ very liberal in regard to foreign ownership by individuals and companies</li> </ul>	<ul style="list-style-type: none"> <li>▪ 100% foreign ownership permitted (except in few strategic industries)</li> <li>▪ very liberal - foreigners can own land</li> <li>▪ companies with majority or 100% participation can purchase property in all parts of Turkey</li> </ul>

<p><b>Privatisation</b></p>	<ul style="list-style-type: none"> <li>▪ Policies on employee retention, technology transfer and environmental liability are not conform</li> <li>▪ Recently improved legislation providing better transparency and terms of payment equal for all the investors.</li> <li>▪ Ambitious privatization program for year 2002</li> <li>▪ At present over 95% of the tourism sector in Bulgaria is private</li> </ul>	<ul style="list-style-type: none"> <li>▪ State ownership is now at a level which corresponds to Western European mixed economies.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Czech language requirement for trade licenses needed for most forms of businesses, can be fulfilled by Czech partner</li> <li>▪ Large number of restitution claims still in process, land and property titles not clear</li> <li>▪ citizens can purchase inexpensive coupon booklets of privatisation points, which can be exchanged for shares in companies</li> </ul>	<ul style="list-style-type: none"> <li>▪ large deals involving government often stymied by vested interests and indecision</li> </ul>	<ul style="list-style-type: none"> <li>▪ during 1991 - 1995 almost all (1,200) small businesses held by the State were privatised</li> </ul>	<ul style="list-style-type: none"> <li>▪ a privatisation law is in place, for the restructuring and privatisation of Turkey's state owned enterprises, which is currently managed by the Privatisation Administration (PA)</li> <li>▪ privatisation projects delayed by parliamentary and judicial procedures</li> <li>▪ 50% of the tourism sector is private</li> </ul>
<p><b>Taxation</b></p>	<ul style="list-style-type: none"> <li>▪ Corporate tax - 15%</li> <li>▪ Municipal tax - 10% (aggregate tax is 23.5%)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Corporate tax - 18%</li> <li>▪ General turnover tax (VAT) up to 25% on business expenses</li> </ul>	<ul style="list-style-type: none"> <li>▪ Corporate tax - 31%</li> <li>▪ VAT 22% for goods and 5% for selected goods and services</li> </ul>	<ul style="list-style-type: none"> <li>▪ Corporate tax - 25%</li> <li>▪ VAT - 19%</li> <li>▪ Income tax 18-40%</li> <li>▪ Employers pay from</li> </ul>	<ul style="list-style-type: none"> <li>▪ Company income tax - 26/74</li> <li>▪ VAT of 18% for most goods and services. 0%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Corporate tax - 30%. With additional levies amounting to 10% of the tax, the aggregate</li> </ul>

	<b>Bulgaria</b>	<b>Hungary</b>	<b>Czech Republic</b>	<b>Romania</b>	<b>Estonia</b>	<b>Turkey</b>
	<ul style="list-style-type: none"> <li>▪ VAT - 20% for most goods and services; 7% for sales of tourism packages abroad</li> <li>▪ Income tax - 20-29%</li> <li>▪ Employers pay 32% of employees' gross salary for social contributions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Income tax - 20-44%</li> <li>▪ Employer social security contribution of 32.5% of gross wage income and 3% of taxable income</li> </ul>	<ul style="list-style-type: none"> <li>▪ Income tax - 15-32%</li> <li>▪ Employers social contribution - 35%</li> </ul>	<ul style="list-style-type: none"> <li>41 up to 48% on employees' gross salary for social contributions</li> </ul>	<ul style="list-style-type: none"> <li>VAT on the sale of tourism services provided in Estonia and the sale of package tours to tourists traveling from Estonia to foreign states.</li> <li>▪ Individual income tax at flat rate of 26%</li> <li>▪ Employers pay 33% social tax.</li> </ul>	<ul style="list-style-type: none"> <li>tax rate becomes 33%.</li> <li>▪ VAT is varying from 1% to 40%, while the general rate applied is 18%</li> <li>▪ Income tax rates vary from 15% and up to 45%</li> <li>▪ Employers pay 22.5 - 28% of employees' gross salary for social contributions</li> <li>▪ no requirements for</li> </ul>
<b>Performance requirements and incentives</b>	<ul style="list-style-type: none"> <li>▪ No requirements for establishing, maintaining or expanding investment</li> <li>▪ tax incentives for investments in depressed regions</li> <li>▪ No specific restriction of</li> </ul>	<ul style="list-style-type: none"> <li>▪ No requirements for establishing, maintaining or expanding investment</li> <li>▪ Incentives to all large investors based on export promotion, reinvestment of profits and job creation</li> </ul>	<ul style="list-style-type: none"> <li>▪ no performance requirements</li> <li>▪ Incentives available for minimum investments of USD 10 mln. or USD 5 mln. in areas undergoing major economic change: - in new</li> </ul>	<ul style="list-style-type: none"> <li>▪ no performance requirements</li> <li>▪ Reinvested profits subject to 50% reduction in profit tax</li> <li>▪ For investments exceeding USD 1 mln. and contributing to the development and</li> </ul>	<ul style="list-style-type: none"> <li>▪ no requirements for establishing, maintaining or expanding investments</li> <li>▪ profits reinvested in all sectors are as an incentive tax free</li> </ul>	<ul style="list-style-type: none"> <li>establishing, maintaining or expanding investments.</li> <li>▪ General Incentive Regime - Exemption from customs duties and fund levies (for machinery and</li> </ul>

	<p>hiring of expatriates but residence permits difficult to obtain</p>	<ul style="list-style-type: none"> <li>■ Tax incentives reward investment to underdeveloped regions</li> <li>■ Interest free loans</li> <li>■ Partial reimbursement for high-tech imports, R&amp;D, quality assurance, trade promotion costs</li> <li>■ Grants for investments in tourism</li> </ul>	<p>manufacturing activities - tax benefits, job-creating grants, re-training grants, opportunities to obtain low-cost land</p> <ul style="list-style-type: none"> <li>■ in services sector - tax benefits, incentives for re-training and job-creation.</li> </ul>	<p>upgrading of the economic infrastructure, the following incentives are provided (Law 332, 2001):</p> <ul style="list-style-type: none"> <li>- Exemption from payment of custom duties for all technological equipment, installations, various equipment, measurement and control devices, automations and software products bought from import, needed for achieving the investment</li> <li>- 20% deduction of the value of the new investments</li> </ul>		<p>equipment);</p> <ul style="list-style-type: none"> <li>- Investment allowance (a corporate tax exemption)</li> <li>- VAT exemption for imported and locally purchased machinery and equipment</li> <li>- Exemption from taxes, duties and fees (subject to realising US\$ 10.000 of exports upon completion of the investment)</li> <li>■ Incentives granted to Small and Medium Sized Enterprises (SMEs)</li> <li>■ Incentives granted to less developed regions</li> </ul>
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	Bulgaria	Hungary	Czech Republic	Romania	Estonia	Turkey
				<ul style="list-style-type: none"> <li>- VAT applied to the goods bought from import or from the country is postponed until the investment is commissioned.</li> <li>- Accelerated depreciation</li> </ul>		
<b>Banking system</b>	<ul style="list-style-type: none"> <li>▪ Privatisation in banking sector has been almost finished</li> <li>▪ More than 20 banks with majority foreign capital or branches of foreign banks are operating on the market</li> <li>▪ No restrictions on transfer of investm</li> </ul>	<ul style="list-style-type: none"> <li>▪ Over two-thirds of banks are fully or partly foreign owned; the market is over-banked and of a large degree of competition</li> <li>▪ Capital reasonably available for businesses, but remain prohibitive for SMEs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Banking operations moving towards EU standards</li> <li>▪ No barriers to the flow of capital out of the country</li> </ul>	<ul style="list-style-type: none"> <li>▪ Large foreign banks operating on the market</li> <li>▪ 100% conversion and repatriation of after-tax profits, however, some procedural delays are common.</li> <li>▪ Limited convertibility of the</li> </ul>	<ul style="list-style-type: none"> <li>▪ The banking sector reached approximately 96% private share in total capital already by end-1997. Rapid improvements in the legal and regulatory infrastructure have resulted in generally sound banking system, comparable to the best</li> </ul>	<ul style="list-style-type: none"> <li>▪ EU practices on capital adequacy</li> <li>▪ The large state banks have been rehabilitated and a large number of insolvent private banks have been taken over by the Savings deposit Insurance Fund.</li> <li>▪ Since January 2002 a new bank support</li> </ul>

	<p>ent-related funds.</p> <ul style="list-style-type: none"> <li>Local currency, BGN pegged to the EUR.</li> </ul>	<p>as lending rates exceed inflation rate</p> <ul style="list-style-type: none"> <li>Foreign investors have equal access to credit on local market but tend to rely on borrowing from their mother companies abroad</li> <li>Right to repatriate all income/profits from investment</li> <li>No foreign exchange requirements</li> <li>Nearly all restrictions on long-term capital accounts removed</li> </ul>		<p>local currency.</p> <ul style="list-style-type: none"> <li>Capital exports generally discouraged.</li> </ul>	<p>international practice.</p> <ul style="list-style-type: none"> <li>the banking market is now controlled by Swedish and Finnish owned banks</li> <li>capital can be freely imported and exported</li> </ul>	<p>scheme has been applied in line with the government program supported by the IMF.</p>
<p><b>Bureaucracy and regulations</b></p>	<ul style="list-style-type: none"> <li>National treatment of foreign investments guaranteed</li> <li>most business regulations have gradually</li> </ul>	<ul style="list-style-type: none"> <li>National treatment of foreign investments guaranteed</li> <li>lack of regulatory and legal</li> </ul>	<ul style="list-style-type: none"> <li>National treatment of foreign investors</li> <li>ambivalent statements about FDI by top govt</li> </ul>	<ul style="list-style-type: none"> <li>National treatment of foreign investors</li> <li>significant resistance to foreign investment from certain parties</li> </ul>	<ul style="list-style-type: none"> <li>National treatment of foreign investors</li> <li>most business regulations are EU conform</li> </ul>	<ul style="list-style-type: none"> <li>National treatment of foreign investment is assured by law</li> <li>business regulations in general</li> </ul>

	<b>Bulgaria</b>	<b>Hungary</b>	<b>Czech Republic</b>	<b>Romania</b>	<b>Estonia</b>	<b>Turkey</b>
	<p>been harmonized with the EU norms</p> <ul style="list-style-type: none"> <li>▪ relatively high degree of bureaucracy</li> <li>▪ improving service</li> <li>▪ some corruption</li> </ul>	<p>transparency but tax, labour, health and safety laws do not distort or impede investment</p> <ul style="list-style-type: none"> <li>▪ most business regulations conform with EU regulations</li> <li>▪ corruption not pervasive or institutional</li> </ul>	<ul style="list-style-type: none"> <li>▪ delays with major investments</li> <li>▪ non-transparent or unethical practice in privatisation process</li> <li>▪ unclear ownership and lack of information on company finances</li> <li>▪ difficulty in protecting rights through legal means</li> <li>▪ slow courts</li> <li>▪ no restrictions on the use of foreign workers but takes several months to obtain relevant permits</li> </ul>	<p>and managers of state-owned enterprises</p> <ul style="list-style-type: none"> <li>▪ uneven implementation of new laws</li> <li>▪ foreign investment must comply with environmental protection, uncertainty as to whether purchasers must pay for clean up of past damage</li> <li>▪ judges lack commercial experience</li> <li>▪ corruption laws rarely enforced</li> </ul>		<p>aim at being conform to the EU regulations</p> <ul style="list-style-type: none"> <li>▪ high level of bureaucracy and corruption especially in the public sector</li> </ul>

<p><b>Labour and skills</b></p>	<ul style="list-style-type: none"> <li>▪ shortage of management skills</li> <li>▪ strong on technical sciences</li> <li>▪ foreign languages, especially English, widely spoken</li> <li>▪ wages are at the lowest level when compared to the other countries;</li> <li>▪ high level of worker protection</li> </ul>	<ul style="list-style-type: none"> <li>▪ high skilled work force, mainly in technical and medicine/ sciences</li> <li>▪ foreign language skills more common among youth</li> </ul>	<ul style="list-style-type: none"> <li>▪ high skilled and well-educated work force, mainly technical</li> <li>▪ Foreign languages widely spoken.</li> </ul>	<ul style="list-style-type: none"> <li>▪ high skilled work force, mainly technical and IT</li> <li>▪ Foreign languages widely spoken</li> <li>▪ shortage of western-trained managers</li> <li>▪ state enterprises maintain first priority is job preservation</li> </ul>	<ul style="list-style-type: none"> <li>▪ has educated and skilled workforce</li> <li>▪ positive attitude towards foreign investment</li> <li>▪ labour costs higher than in most CEE countries</li> </ul>	<ul style="list-style-type: none"> <li>▪ with the population expected to reach 80 m by 2020, the government invests heavily in education and manpower training</li> <li>▪ HRD training emphasis is on training skilled personnel in the fields of health, education, science research, tourism and environment</li> <li>▪ the attitude towards foreign investment is positive</li> <li>▪ the existing workforce is to the greater part educated and skilled</li> </ul>
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	<b>Bulgaria</b>	<b>Hungary</b>	<b>Czech Republic</b>	<b>Romania</b>	<b>Estonia</b>	<b>Turkey</b>
<b>Bankruptcy laws</b>	<ul style="list-style-type: none"> <li>reasonably strong, courts now required to apply laws</li> </ul>	<ul style="list-style-type: none"> <li>strong bankruptcy laws help protect investors in their dealings with Hungarian firms</li> </ul>	<ul style="list-style-type: none"> <li>reasonable bankruptcy laws, but slow and uneven courts</li> </ul>	<ul style="list-style-type: none"> <li>bankruptcy laws generally consistent with western legal standards</li> </ul>	<ul style="list-style-type: none"> <li>the legal standards now in place are generally consistent to those in EU</li> </ul>	<ul style="list-style-type: none"> <li>the legal framework is in place (Law on Bankruptcy No. 2004)</li> </ul>

*Source: NEI, CHL and BFIA*

Useful information for foreign businessmen and tourists

<b>Entering Bulgaria</b>	<p>The EU citizens enter Bulgaria with an international passport that should be valid for at least 3 months of the entrance date.</p> <p>For additional information you may contact the Bulgarian embassy in your country.</p>										
<b>Customs formalities</b>	<p>Personal belongings are imported with no customs fee. As for consumer goods, the following limits are applied:</p> <ul style="list-style-type: none"> <li>• 200 pieces of cigarettes or 250 g tobacco products</li> <li>• 2 litres of wine, 1 litre of alcoholic drinks</li> <li>• 500 g coffee</li> </ul>										
<b>Money exchange</b>	<p>The Bulgarian Lev is pegged to the Euro at a rate Euro 1:BGN 1.95583.</p> <p>You may change cash in banks or in the numerous change bureaus many of which are open on weekends.</p> <p>Euro-checks may be cashed in most of the banks.</p>										
<b>Credit cards</b>	<p>Credit cards are accepted and they can be used for payments of all standard services: hotel accommodation, restaurants, night clubs, shopping, car rentals, plane tickets, etc.</p>										
<b>Transport</b>	<p>Most tourists arrive in Bulgaria by plane. Flights from Central Europe last between 2-2.5 hours.</p>										
<b>Emergency Phone numbers:</b>	<table border="0"> <tr> <td>Emergency</td> <td style="text-align: right;">150</td> </tr> <tr> <td>Fire</td> <td style="text-align: right;">160</td> </tr> <tr> <td>Police</td> <td style="text-align: right;">166</td> </tr> <tr> <td>Road aid for Sofia</td> <td style="text-align: right;">1286</td> </tr> <tr> <td>Road aid outside Sofia</td> <td style="text-align: right;">142</td> </tr> </table>	Emergency	150	Fire	160	Police	166	Road aid for Sofia	1286	Road aid outside Sofia	142
Emergency	150										
Fire	160										
Police	166										
Road aid for Sofia	1286										
Road aid outside Sofia	142										
<b>International hotel brands in Bulgaria</b>	Sofia - Sheraton, Hilton, Kempinski, Radisson SAS, Princess										
	Black Sea coast - RIU, Iberotel, Magic Life (Austria), Iberostar										

## Tourism related contact information

### **MINISTRY OF ECONOMY**

Deputy Minister of Tourism

4 Lege Str.

1000 Sofia

tel: +359 2 980 7483

fax: +359 2 9812515

e-mail: [tourism@mi.government.bg](mailto:tourism@mi.government.bg)

### **BULGARIAN CHAMBER OF TOURISM**

**(BCT)**

8, Sveta Sofia Str.

1040 Sofia

tel: +359 2 987 4059

fax: +359 2 986 5133

### **BULGARIAN ASSOCIATION OF TOURIST**

**AGENCIES (BATA)**

4 Triaditsa Str., floor 5

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tel: +359 2 981 7790

fax: +359 2 981 4580

e-mail: [bata@mail.orbitel.bg](mailto:bata@mail.orbitel.bg)

### **BULGARIAN HOTELLIERS' AND RESTAURANTEURS' ASSOCIATION**

2 Sveta Sofia Str.

1040 Sofia

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### **BULGARIAN ASSOCIATION FOR ALTERNATIVE TOURISM**

"Odiseya Inn"

20 B Alexander Stamboliysky Blvd.

1000 Sofia

tel: +359 2 989 0538

tel/fax: +359 2 980 3200

<http://www.newtravel.com>

### **BULGARIAN ASSOCIATION FOR RURAL AND ECOLOGICAL TOURISM (BARET)**

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