

**FOREIGN DIRECT INVESTMENTS (FDI) AND REMITTANCES
FROM THE BULGARIAN LABOR MIGRATION.
POSSIBLE ECONOMIC EFFECTS ON THE DIVERSITY AND
THE DEVELOPMENT OF THE BULGARIAN ECONOMY.**

1. Introduction

The Foreign Direct Investments (FDI) and the increasing international migration are some of the main characteristic features of the modern international economic relations. The globalizing international economic relations give rise to expansion and merging of companies and acquisition of share capital, being the foundation of FDI, as well as of the increasing international migration. This is due to the elimination of some of the restrictions and the intensifying economic activity of the transnational companies (TNC), as well as to the differences in the economic development between the developed and developing countries. It is a fact, that the international production, the capital and labor factors are relocated to countries, with available good industrial facilities, comparatively higher living standard and good remuneration.

The FDI inflow results in setting up and/or developing of new industries or other activities, being of benefit to the economy of the host country. The FDI enable the transfer of new knowledge and technologies, new jobs opportunities and staff qualification. FDI have a positive impact on some sectors of economy, on the region and the economy of the country, receiving FDI. On the macroeconomic level FDI contribute to financing the deficite of the current account of the balance of payments. Thus the impact of FDI goes beyond their economic dimension, entailing changes in social, cultural and demographic aspect, increasing the diversity in the country.

The international migration also adjusts the economic environment of the country, attracting immigrants and of the country of their origin. The international migration influences the economy of the country receiving immigrants as follows: First, at a time of economic activity, the developed countries need staff of lower education degree. Second, the development of new technologies in the developed countries also attract specialists from abroad of higher education degree, because there they acquire better working conditions, carreer and remuneration opportunities. The labor of the immigrants give rise to the general welfare, the economic growth, the generation of additional income. Third, the immigrants come with their traditions, culture and understanding to the host country, thus changing the economic and social milieu, enhancing the diversity.

The following processes are witnessed in the country of origin of the emi-

grants. Large groups of qualified specialists leave the country, depriving the economy and the industries from qualified staff. The outflow of low qualified labor also has a negative impact on the supply of staff on the labor market, aggravating the labor market conditions, shrinking the production and limiting the economic growth respectively.

The economic emigrants in most cases remit money to their home land to finance their dependants. The remittances are a financial flow, moving in the opposite direction of the labor force, i.e. from the industrially developed countries to the developing countries. For some countries, the volume of the funds, remitted by the emigrants, is higher than FDI. It turns out, that the emigrants have a positive impact on the economy of the country of their origin. The remittances by the emigrants are of economic, social and financial benefit for a lot of developing countries, being a part of the external financing of their economies.

In the beginning of 1990^{ies}, Bulgaria opened its market for commodities, services and capitals. The policy aimed at attracting FDI, but they actually stepped up after the year 2000 due to the overall recovery of the economic and financial situation in the country. The accumulation of FDI contributed to the macroeconomic and financial stabilization of the country. Just like many developing countries, a lot of people emigrated from Bulgaria, whereas the number of the qualified specialists, who left the country was considerable. Regardless of the wound-up industries as a result of the economic and financial crisis during the transition period to market economy, the emigration of a high number of specialists had a crucial effect on the Bulgarian economy and the quicker restructuring opportunities. Yet, after the year 2000 the remittances by the Bulgarian labor migration to their dependants in Bulgaria are increasing. Both financial flows: of FDI and of remittances by the emigrants are actually a significant share of the external financing of the country.

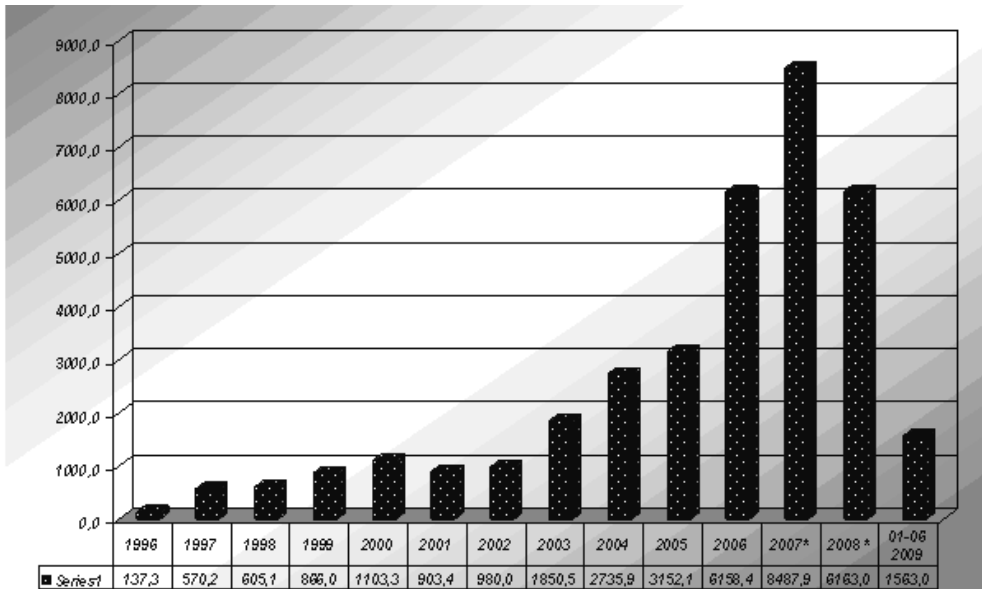
The aim of this article is to explore some aspects of the impact of FDI and remittances by the Bulgarian labor migration on the economy and on the general welfare of the population. The first part analyzes the FDI growth and their impact on the diversity of the business milieu. The second part deals with some aspects of the Bulgarian emigration and the importance of the remittances to overcome the impoverishment of the Bulgarian population as a result of the economic and political disruption, suffered by Bulgaria in the course of the last 20 years of transition to market economy.

3. Impact of FDI on the Bulgarian economy

3.1. FDI growth and structure in Bulgaria

After the end of the war on the territory of former Yugoslavia and the gradual restoration of the peace in the Western Balkan Region and especially after the accession of Bulgaria to the EU (1.01.2007) there was a substantial inflow of FDI in Bulgaria.

Between 1996-2008 the FDI in Bulgaria totaled Euro 33,71 bln. The share capital is the largest investment type, being EUR 19,8 bln. of the total amount,

Figure 1. *Inflow of FDI to Bulgaria between 1996-2009 Q3 in mln. Euro*

Source: BNB

out of other capital types, totaling EUR 10,71 bln., and the reinvested profit is EUR 3,74 bln.. Fig. 1 shows the annual increase in FDI in Bulgaria, whereas more considerable FDI entered Bulgaria after 2000.

The sector-based FDI structure of economy shows, that a large share of FDI are accumulated from purchasing real estates. Most FDI are targeted to financial mediation, domestic trade, construction. The growth of «Greenfield investments» shows the foreign investors' interest in the Bulgarian market, contributing to the construction of new and/or additional facilities in some sectors of economy. Another indicator for the activities of the foreign investors in Bulgaria is the reinvestment of profits from FDI in the Bulgarian economy. The statistics does not allow to estimate the percentage of the purchased private real estates and apartments and the share of the purchased real estates for investment purposes out of the acquired real estates, which is important for the estimation of the impact of FDI on the economy. Fig. 2 shows the accumulation of FDI by sectors for the period 1998-2008 .

A relatively limited share of the total volume of the accumulated FDI was invested in production. In the last few years there was a slow increase in FDI. Most of the FDI were targeted to the steel and textile industry, etc.

FDI are targeted to automation industries (Festo, Germany, Yazaki Bulgaria EOOD), to the production of electrical systems for the automobile industry, to the electronics (Johnson Controls Electronics Bulgaria, Melexis, Belgium, Greenman, UK), to outsourcing i.e transfer of business processes (Software

AG, Germany) etc.

Marketing services in attracting FDI in several key directions are developing in Bulgaria, being perspective for the development of economy – such as: information and communication technologies (ICT), outsourcing, machine-building, electrical engineering, electronics. In the sphere of ICT, there are certain traditions in Bulgaria, having a favorable effect on relocation of some activities to foreign companies in our country. This is a great job opportunity for specialists on the domestic market, hindering a lot of ICT specialists to emigrate from the country. Typical for Bulgaria are the medium-scale foreign investors in the sphere of ICT from the European countries, availing themselves of the comparatively lower salaries of the specialists in our country. According to the data, about 12 large-scale Bulgarian software companies and 200 comparatively smaller companies are present on the market.

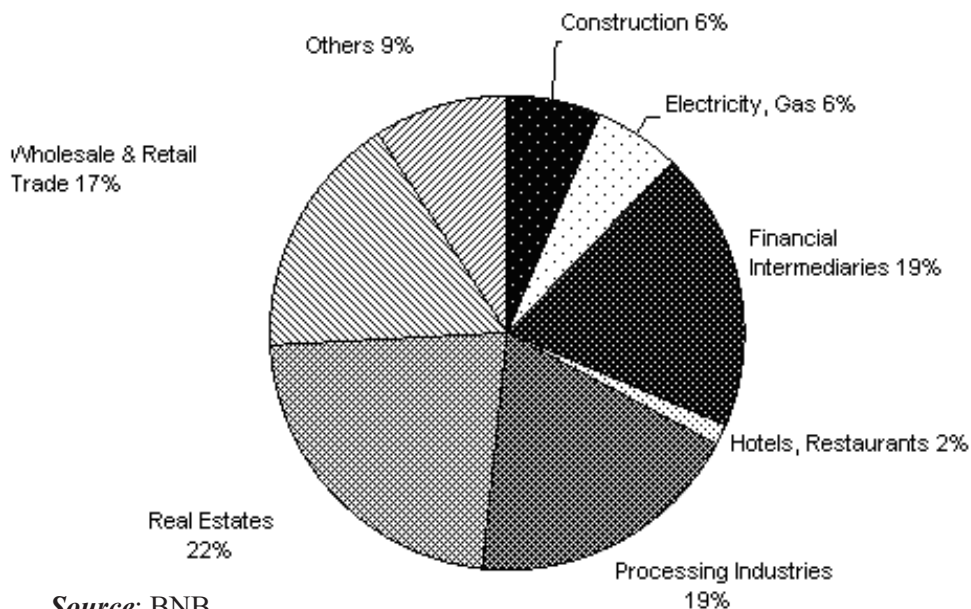
Outsourcing is also expanding, being efficient due to the comparatively lower costs of the offered service. However FDI in outsourcing are too mobile and are transferable from one country to another, making the policy of the foreign companies quite flexible, entailing the risk of eventual relocation of their businesses outside Bulgaria.

Bulgaria has comparative advantages and traditions in machine building, electrical engineering, electronics etc. The new EU member states have made considerable investments in the automobile industry. The automobile manufacturers and their suppliers are some of the first investors in the Czech Republic, Hungary, Slovakia, Slovenia, Poland and other countries. With the investment of the French company „Montupet SA” manufacturing automobile parts, Bulgaria also joined this export network in the sphere of the real sector.

Bulgaria disposes of qualified staff with low labor costs, suitable for development of such industries. The small-scale Bulgarian market in this sphere is not a negative factor, as most of the output is export-oriented. The FDI structure reveals, that most of the foreign capital investments are targeted to non-industrial sectors, and not to sectors, working for export. This FDI structure in Bulgaria is rather vulnerable in case of eventual changes and respectively aggravation of the economic situation worldwide, as it actually occurred in 2008.

Moreover, since the beginning of 2008 the global financial crisis aggravated the business climate and the international investment projects shrank. This change in the TNC projects restricted the investment projects in Bulgaria as well. Therefore, in the beginning of 2009 FDI in Bulgaria gradually dropped down. For the period January-April 2009 FDI were EUR 968,9 mln less compared to the same period of 2008. Another FDI is monitored in certain sectors of economy, such as: real estate demand by foreign individuals, private or corporate. The investment receivables in real estates are EUR 259,6 mln. (58,1%) less compared to January-April 2008, reaching EUR 187,3 mln. (19,6 % of FDI for the period).¹

¹ BNB, Balance of payments of Bulgaria, January-April 2009, 17 June 2009, p. 10-11.

Figure 2. *Sector-based accumulation of FDI, 1998 – 2008 in %*

Source: BNB

Similarly to our foreign trade, being over 50% EU oriented, the foreign investors in Bulgaria come mainly from the EU member states. The main investors in Bulgaria for the period 1996-2008 are TNC, Austria – EUR 5,43 bln., Belgium – EUR 1,58 bln., Cyprus – EUR 1,76 bln., Germany – EUR 2,19 bln., Holland – EUR 3,95 bln.

Between January-April 2009 FDI from Holland accounted for 21,4%, from Germany – 7,8%, from Luxembourg – 13,9%, from Austria-8,0% , and from other countries – 39,9%. From the non EU states, Russia is a considerable investor in Bulgaria with 9,0%.²

The factors, attracting foreign investors are a consequence of the achieved macroeconomic and financial stability, the EU membership of Bulgaria, the low labor costs. Table 1 indicates, that the Bulgarian economy has attained a positive real economic growth. The domestic investments are increasing. Unemployment is decreasing. Inflation is rising, with gradual growth in the average monthly salary. At the same time there are a lot of factors, discouraging the foreign investors and they prefer other countries from the region due to the bad infrastructure, the intransparent judicial system, corruption and other negative practices. By the end of 2008 the long-term growth turned upside down as a result of the economic crisis and in the second quarter of 2009 the economy dropped down by 4,9 % compared to the same period of 2008.

² Same, p. 11.

Table 1. *Macroeconomic indicators in Bulgaria*

	2003	2004	2005	2006	2007	2008	2008Q4	2009Q2
GDP mln. EUR		19850	21882	25238	28898	34117		
Real GDP growth %	5,0	6,6	6,2	6,3	6,2	6,0	3,5	-4,9
GFCF % (1)	13,9	13,5	23,3	14,7	21,7	20,4		
Inflation, end of the year %	5,6	4,0	6,5	6,5	12,5	7,8		
Unemployment %	13,7	12,2	10,7	9,1	6,9	6,3	6,7	7,9
Average monthly salary Euro		149,3	166	184	220	268	280	301
GDP per capita (Euro)		2551	2827	3278	4475			
Cash deficit/surplus % of GDP		1,7	3,1	3,5	3,5	3,0	-4,4	1,2
Current account % GDP	-5,5	-6,6	-12,4	-18,4	-25,2	-25,4	(July 08) -14,2	-7,2
FDI % of GDP		13,8	14,4	24,7	29,7	19,2	19,2	4,5
FDI/deficit of the current account %		209,3	116,5	133,9	118,2	75,7	75,7	60,1

Sources: NSI, BNB

(1). GFCF – Gross Fixed Capital Formation

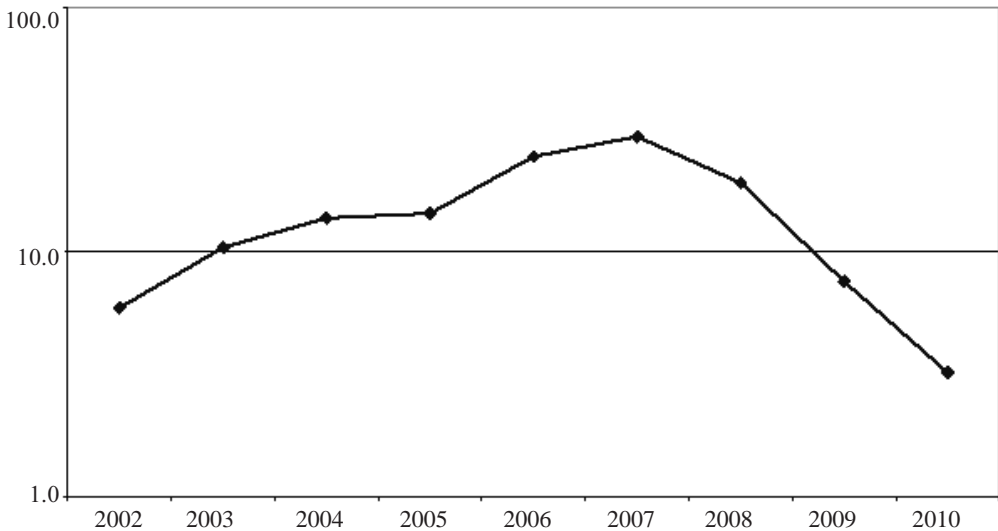
The impact of FDI on the economy could be estimated by means of the FDI indicator in GDP (See Fig. 3). Between 2000-2008 the high rate of FDI in GDP, shows, that the foreign investments have a positive impact on the economic growth. In the last two years, Bulgaria had the highest FDI rate in GDP, compared to other CEE countries. This rate began to rise after 2002, reaching a peak in 2007 – 28,9%, and in 2008 stepped down to –17,0%. By April 30, 2009 FDI accounted for 2.8% of GDP, compared to 5.6% of GDP for the period January-April 2008, corresponding to the above-mentioned trend for decreasing FDI under the conditions of aggravated economic situation.³

The speed of absorption of FDI in the economy is very important for the economic growth. The absorption capacity of the economy means the capability of the country's industry to value and launch new products, to improve the production of certain goods, to increase the quality, to adopt more advanced technologies. The countries absorbing quickly the increased domestic and foreign investments benefit from the economic growth in the short run.⁴

Regardless of some positive trends, in view of FDI in the ICT sector or the development of outsourcing, it is decisive for Bulgaria, that the impact of FDI

³ However this indicator restricts the assessment capacity, as other vital indicators are not considered such as the inhabitants of the country, sectors, where FDI are actually attracted, etc.

⁴ Neuhaus, Marco, The impact of Foreign Direct Investment on Economic Growth: An Analysis for the Transition Countries of Central and Eastern Europe. Inaugural dissertation, Mannheim University, May 2005.

Figure 3. *FDI in Bulgaria – % of GDP*

Source: BNB

on the economy is mainly in non-productive sectors – real estates, financial intermediaries, construction, i.e. sectors of economy, having indirect impact on the development or export-oriented sectors. In this respect Bulgaria is lagging behind its main competitors – the other CEE countries in attracting FDI.

FDI have a macroeconomic effect, because of their contribution to cover the deficit of the current account of the balance of payments, being too high 21,6 % of the GDP in 2008. This is mainly pursuant to the deficit in the balance of payments, as a result of the imported energy sources. Table 1 shows that the ratio between FDI and the deficit in the current account is high, and due to the FDI drop this ratio has stepped down after 2007. Meanwhile the deficit of the current account of the balance of payments has been reduced due to the decreased volume of imports and exports as a consequence of the less economic activity of Bulgaria's main trade partners and especially Germany and Italy due to the economic crisis.

3.2. Contribution of FDI to the growing diversity in the economic sphere

The FDI accumulated in Bulgaria and the FDI structure reveal an activity growth of the foreign companies in Bulgaria on the economic development and the diversity of the economic life. In some sectors of the economy in Bulgaria there are strategic investors. Most foreign companies in Bulgaria are small and medium enterprises (SME), incorporated on the grounds of purchasing share capital or „Greenfield investments”. The main aim of the comparatively smaller companies is to find domestic funding and FDI, opening new opportunities for production and exports. In Bulgaria the medium-sized processing enterprises

and the trading companies have attracted most of the FDI. The foreign investments are targeted also to micro companies, dealing mainly with real estate business.

FDI influence the manufacturing and export structure of Bulgaria, enhancing the diversity in the economic environment. Based on polls and personal interviews, made among the managers and/or the staff of 200 companies from Sofia, Plovdiv, Varna, Burgas, Russe, Shumen, Razgrad, Petrich, Kardzaly, Haskovo, Blagoevgrad since July 2006 the impact of the foreign companies on the economic development in the respective regions in Bulgaria has been estimated.⁵ Most of the monitored companies are SMEs (in 30% of the cases with capital, below EUR 255 646), 10% of the monitored companies dispose of a capital between EUR 255 646 – EUR 511 292 and just 7% of the companies have a capital over EUR 25,565 million.

Most of the monitored companies have less than 50 employees, 18% of the companies employ between 101 – 500 persons, and just 7% employ over 500 persons. They distribute their products and/or services by means of direct sales to the consumers (about 70% of the companies), about 27% thereof have their own distribution network, 19% avail themselves of trade representatives and wholesale representatives. It is an interesting fact, that half of the monitored companies export their products abroad, especially textile clothes, foods, etc. Comparatively smaller-sized companies with foreign capital from Greece, Turkey, as well as Germany, etc have come to Bulgaria. There is a high concentration of foreign capital in the light industry and services, due to the quick return on investments.

A characteristic feature of the foreign small and medium enterprises (SME), is that they are concentrated in the sphere of trade and services, because they do not require considerable investments. The foreign investments in the heavy industry such as metal processing, production of automobile parts, metallurgy, energy are just 10% of the total FDI of the interviewed companies. The same refers to the foreign investors, investing in electronics, telecommunications, informatics. The good news is the FDI growth in informatics by 2007-2008.

The Greenfield investments by the foreign investors is the preferred form of launching on the market (in 67% of the cases). The number of privatizing foreign companies is decreasing (in 11% of the cases) confirming the trend of increasing the «Greenfield investments» after the end of the privatization process in Bulgaria.

About half of the companies with foreign capital occupy 10% of the market niche in their sector, 20% thereof have a market share between 10 – 30%, about 70% of the companies hold 30% of the market of their production and/or service. Just 10% of the companies hold the largest share between 50% – 70%.

The obtained data are indicative for a considerable diversity between the

⁵ Diversified World Development: FDI companies in Bulgaria, Quantitative Study, July 2006, Report, Prepared by Market Links.

businesses in Bulgaria, whereas the companies with foreign capital are integrated on the Bulgarian market. More than half of them sell their products and/or services on the domestic market. The business is increasing, except for SMEs, being not financially stimulated for expansion, for instance the companies, manufacturing customer-made-products in the textile sector and where the foreign investor is attracted mainly by the low labor cost.

The competitiveness is based on efforts to improve the offered product and/or service. About 84% of the corporate managers have stated, that in the last few years, their companies have been successful, whereas the satisfaction of the larger companies is higher. About 70% of the SME have suffered difficulties in the development of their companies in their attempt to increase their competitiveness. The main competitive advantage for 65% of the companies is the higher quality of the offered goods and/or service, whereas 40% of the companies consider, that their advantage is in the lower production costs, the better service, prompt deliveries, the opportunity for them to become familiar with the market and to adapt themselves to it.

The companies with foreign capital are mainly based on the contribution of the foreign investor and mainly by means of transfer of know-how, equipment and providing export opportunities. About 36% thereof are of the opinion, that their technological level is much higher than their main competitors on the market, but 47% consider, that their technological level is on the level of the leading manufacturing companies in this sector. About half of the companies with foreign capitals have already completely reequipped their manufacturing facilities, and 30% – partially. A few companies intend to modify their equipment and some of them declare that they do not intend to renew their outdated equipment. The foreign investors contribute with investments in new technologies in 51% of the cases. The foreign companies also provide access to new markets and opportunities for staff training and qualification. Nearly 88% of the companies with foreign share capital obtain financial and technological support by the mother company, namely: in terms of new capital in 35% of the cases, in 24% in terms of know-how, and opportunities for direct access to the clients in 17%.

The opportunity for access to foreign markets enables most of the companies to expand their export opportunities (in 85% of the cases) with considerably improved exports due to the involvement of the foreign company.

Most of the companies with foreign capital consider, that the Bulgarian market has a growth potential, rising demand, increased purchasing power of the population especially after Bulgaria became a full EU member state.

The main business target of the companies with foreign capital is to enter the markets of the neighboring Balkan countries. One third of the companies registered 30% growth of production over the past 5 years, one tenth thereof increasing the turnover by 50%, and 7% doubling their turnover. A drop was monitored in 6% of the companies.

Taking into consideration the professional and social programs of the staff, applied by the companies with foreign capital, a conclusion could be made, that

the absorption in some sectors of the Bulgarian economy is quite good due to additional qualification of the workers. Two thirds of the companies have elaborated programs for professional training courses, and only one third of the companies do not have such programs. Training courses are organized most frequently. The large companies also offer programs for re-qualification of the staff, making them more flexible. Probably due to restriction of the costs, and due to the fact, that most of the companies with foreign capital are SMEs, sending staff for training at the mother company, and/or the use of foreign specialists is a quite rare practice.

In general the foreign investors have managed to meet their objectives on the Bulgarian market and to implement their localization strategy, maximizing the profits on the basis of low labor costs. The reduced investment risk and the legal framework on the foreign investments influence the orientation of the foreign companies in Bulgaria from market searching – to looking for export orientated companies. The favorable development of the foreign companies, localized on the Bulgarian market does not always mean, that the effect of their presence is positive for the economic development of the country. The data for the remuneration of the staff in the foreign company do not reflect the real market level and the costs per labor unit.

The foreign investors benefit from their localization on the Bulgarian market because of using the lowest remuneration in Europe. They have also accepted the vicious practice to save money from non payment of the social and insurance contributions due to the state and in most cases pay salaries «under the counter». The salary levels are lower in the industrial sector, being at the mean Bulgarian values, (i.e. between EUR 200 – 300), while the salaries of the management staff are much higher. After removal of the quotas for the textile industries, the small companies with foreign capital, working mainly on Customer Made Trade basis and not being important for the economic development were expected to withdraw from Bulgaria. Although their activity helps reducing the unemployment in the border areas in Bulgaria, the labor conditions and the remuneration remain too low.⁶ The establishment of such light industries does not entail economic development.

Therefore attracting strategic investors and investments in modern technologies is of vital importance for the country. The economic development and attracting quality FDI are based on the demand of new competitive advantages for Bulgaria, because the low labor costs are not a sufficient advantage and do not meet the economic and social targets of Bulgaria as an EU member state, aiming to improve the economy, the income level and the standard of living.

Bulgaria is at a stage of manufacturing mainly processed raw materials, plastic articles, chemicals, and a growth in the share of medium and high-tech

⁶ In the beginning of 2007 the largest textile manufacturer, owned by a Greek company was relocated to Serbia, as it would not be possible any more the profit rate to rise on the account of violating the rights of the women, employed therein.

processed products is expected. The entrepreneurship in Bulgaria is as twice as low as the average one in the EU. In general the companies in Bulgaria intend to stay on the market and they have less opportunities to invest in innovations. The relative share of the innovative enterprises is approximately one quarter from the innovations in EU. This is also the reason for the international market and respectively the inflow of FDI to remain the main source of supply of technological innovations. Although most of the companies with foreign capital would invest in new equipment, in practice their entire activity is reduced to import of machines and equipment, not suggesting any economic activity to be carried out. It is indicative, that most of the Bulgarian industries with foreign capital have a low level of technologies and the share of the hi-tech products remains comparatively low. As FDI are concentrated in the larger cities, with available labor, suggesting, that in the smaller settlements FDI can not contribute to overcoming the unemployment and to holding the inhabitants in their places of birth, which undoubtedly affects the migration trend.

4. The rising migration and the impact of the remittances by the emigrants on the Bulgarian economy.

4.1. Some facts regarding the Bulgarian emigration

For the past 20 years Bulgaria has been generating migration. The high migration is due to the political and economic collapse since the beginning of 1990^{ies}. According to the population census in 1992 and in 2001 the number of emigrants accounted to 196 000 persons in that period, while just 19 000 have returned to Bulgaria. According to the data from the National Statistics Institute (NSI) about 22 000 persons have left Bulgaria each year for the period between 1992 and 2001.⁷ Since 1989 about 1 000 000 persons have left the country, and about 750 000 persons were living abroad as at 2007. According to a study made by the International Organization on Migration in 2005 the emigrants accounted for 937 341 persons or 12,1%⁸. Pursuant to unofficial data the Bulgarian diaspora amounts to 1,2 million persons, not considering the previous emigration. Or as at 2008, 15,8% of the Bulgarians live abroad. The emigration is one of the main factors for the decreasing Bulgarian population.

According to the Workforce Review made by Eurostat the total number of emigrants in Europe is comparatively low except for those who have settled in Spain. About 100 000 persons have temporarily settled in Spain, and totally about 200 000 persons are staying in Europe.⁹ Other countries where a colony of Bulgarian emigrants is formed are Greece, Germany, Italy, Holland. (See Table 2)

⁷ Kalchev, Y. Census of Population, Housing Sector and Rural Entities (farms) in 2001, vol. 6 Sample studies, book 3 Territorial Mobility of Population, NSI, 2002.

⁸ A. Chindea, M.Majkowska-Tomkin, H. Maltila, I.Pastor.,2008,Migration in Bulgaria: A Country Profile, Ed. By Sh. Siar, International Organization for migration (IOM), www.iom.int

⁹ Eurostat, Labour Force Survey, 2007, http://ec.europa.eu/employment_social/news/2007/nov/bgro.pdf

Table 2. *Number of Bulgarian emigrants in the different countries*

Country	Number of emigrants	Year	Source
Turkey	480 800	2000	Foreign population according to country of their origin,
Spain	60 174	2006	According to permits to stay, Ministry of Workforce and Social Affairs, Spain, 2006.
Germany	46 818	2007	Federal Statistics Service, Germany, 2008
Greece	24 987 – other official sources: 70 000	2007	Issued permits by Ministry of Interior, 2007.
USA	25 415	2000	Available Bulgarian immigrants, Census in USA, 2000
Italy	19 924	2007	Issued permits for stay, Italian Statistics Service, 2007
Canada	15 955	2006	Statistics Service, Census in Canada, 2006.
Austria	6910	2007	Statistics Austria, 2007
Czech Rep.	4 600	2005	OECD 2007
Holland	2 202	2007	Statistics Service, Holland, 2007

Source: Migration in Bulgaria: A Country Profile 2008, p. 18, Federal Statistics Office of Germany (2008), <http://www.destatis.de>, A. Alexandrov, The Bulgarian immigrants in Greece, 2007 publication under the project Sustainable Development in a Diverse World, (SUS.DIV)

The above data on the Bulgarian migration are based on the official statistics. Pursuant to unofficial information however the number of the Bulgarians residing abroad is much higher. For example the number of the Bulgarians staying for a longer period of time in Greece is about 200 000 persons, whereas 35-40% thereof are residing in Thessaloniki and on the territory of Northern Greece.¹⁰

Certain changes followed after Bulgaria became a full EU member country. There is a trend of increased seasonal (circulating) migration, instead of the permanent migration. This is due to the enhanced temporary mobility of low qualified labor force as a result of Bulgaria's exclusion from the List of Schengen Countries. The growth rate of the labor force with lower education degree from Bulgaria accounts for 5,8% of the total number of emigrants.¹¹

Unlike previous periods, when the Bulgarian labor migration aimed at Germany and USA, in the last few years the temporary emigrants of lower qualifications are going to Greece and Spain. In most cases, the temporary migrants settle down and become permanent immigrants.

The considerable brain drain from Bulgaria is mainly due to economic fac-

¹⁰ A. Alexandrov, Bulgarian emigration in Greece, 2007 Publication under the Project „Sustainable Development in a Diverse World”, (SUS.DIV)

¹¹ World Bank, Development Prospects Group, 2008, Migration and Remittances Factbook, www.worldbank.org

tors, such as the lack of prospects for the young people for career in Bulgaria. Table shows clearly, that the GDP per capita in Bulgaria is low. In 2009 the GDP per capita in Bulgaria is about 40% of the average value of the EU member countries. In addition, the remuneration in Bulgaria is still low and lagging behind the remuneration in the other EU member states. Undoubtedly the migration has an economic dimension due to the drain of specialists and workers from the Bulgarian labor market. Due to the increased economic activity in the period preceding the global financial and economic crisis, it was difficult for some Bulgarian and foreign industries to find specialists and workers and according to some opinions Bulgaria should import labor from abroad.

When Bulgaria became EU member state the expectations were, that the incomes of the population would be increasing and respectively the stimuli for migration would be decreasing. A number of restrictions were abolished for permanent employment of Bulgarians abroad. It means that, considerable number of specialists and workers would prefer to work where their remuneration is higher, if such an opportunity is available. In some professions the labor supply in the country is insufficient. This is another hindrance for to the foreign companies for which one of the key priorities is the employment of qualified labor. It is also possible the lack of qualified workers to delay the FDI growth, which facilitated the high economic growth in Bulgaria in the period before the crisis. Therefore the ratio between FDI and migration is valid for Bulgaria as well.

4.2. Remittances by the Bulgarian emigrants, role to overcome poverty

The recent studies show, that the migration might have a positive impact on the economy of the country of origin of the emigrants. It is due to the effect of three compensatory mechanisms, limiting to a certain extent the outflow of educated and qualified labor from a country with high emigration, (known as brain drain), as well as a tool to avoid poverty. *Firstly*, the circular migration enables the emigrants to be long-term pendlers between their country of origin and their host country. Probably it would be of benefit to the exchange of knowledge. *Secondly*, the formation of diaspora facilitates the development of trade links between the country of origin of the emigrants and the country, where they have settled down. The trade links are intensified, facilitating the transfer of capital and the exchange of technologies. *Thirdly*, the increased remittances by the immigrants back to their country of origin, contributes to decrease poverty and to increase the general welfare, having a favorable effect on macroeconomy.

Out of the three compensatory mechanisms the last two are important for Bulgaria, namely, the movement of temporary emigrants and the transfer of new skills and knowledge, which is not possible to be assessed. For this reason the main consequence is the increasing remittances from the Bulgarian labor migration and their impact on the financial status of a lot of Bulgarian families.¹²

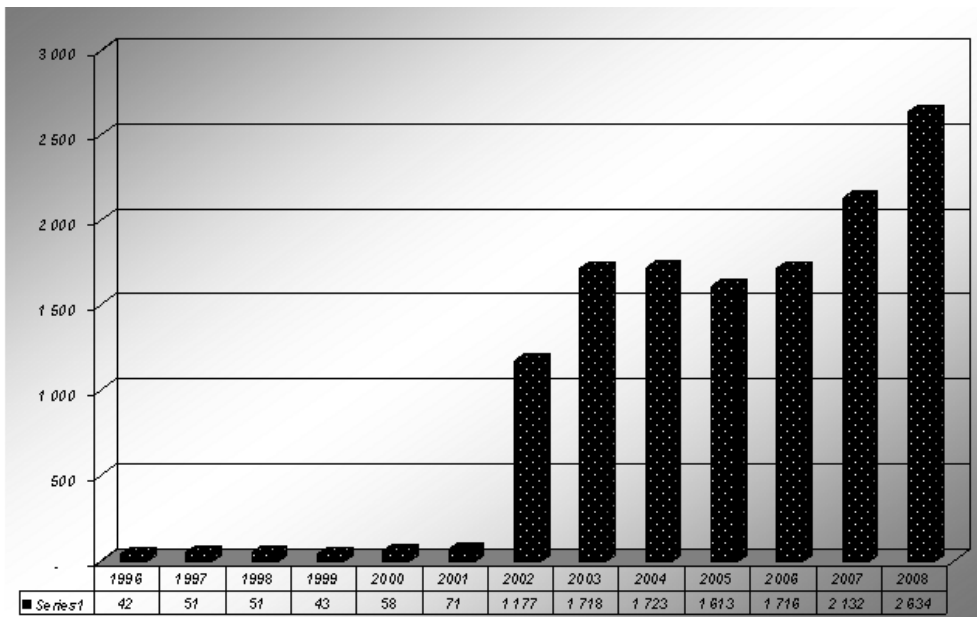
¹² The remittances by the emigrants are the share of the emigrants' income, transferred in form of money and goods back to the home country by the emigrants, mainly to support their remaining families.

The remittances are of vital importance for many Central and Eastern European countries, for many developing countries from Asia and Africa. Pursuant to the estimates of the World Bank, over 10% of the remittances of the emigrants are utilized for education and savings. About 5% are used for investments or support to private businesses. However most of these remittances are spent on food and garments by the households, obtaining considerable support by these funds.

In the past decades the remittances by the Bulgarian emigrants have sustainably stepped up (in nominal and in real extent) being a considerable source of income for a lot of families. (Fig. 4). In the period between 1996-2008, the inflow of funds totaled USD 13,03 bln. This financial flow is not precise, because the statistics account only for the officially registered bank transfers. Significant monetary flows are effected by means of the hidden cash transfers in various ways. According to some estimates, the remittances by the emigrants amount annually the total average contributions paid by the population as utility costs. As a migration effect, after FDI, the remittances by the emigrants from abroad are a vital source of external financing.

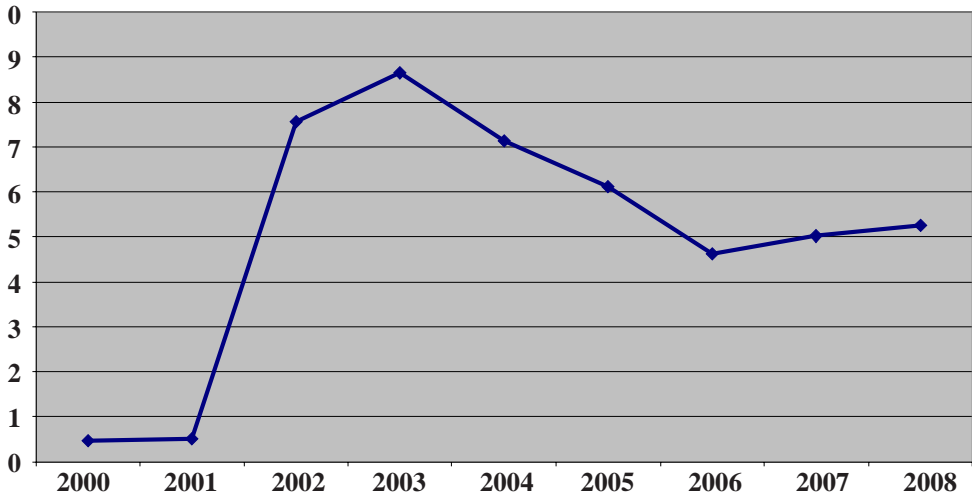
For many countries the remittances made by the emigrants account for increasing relative share of GDP in a lot of countries in South Eastern Europe, as well as in the former soviet republics. The remittances by the emigrants exceed 20% of GDP in Moldova, Bosnia and Herzegovina and exceed 10% in Albania, Armenia, Tajikistan. For Bulgaria this indicator has been also rising, having a

Figure 4. *Remittances by Bulgarian emigrants in bln USD*



Source: World Bank

Figure 5. *Amount of the remittances by the Bulgarian labor migration as % of GDP*



Source: Calculated according to data provided by the World Bank, and www.stat.bg

peak in the period 2002 – 2004 with an average 7,37% of GDP. After this peak the remittances by the emigrants were stabilized to about 5% of GDP.(Fig.5). The remittances by the emigrants are a considerable percentage of GDP affecting indirectly the stepping up economic growth. According to the statistics in 2009 the remittances by the Bulgarian labor migration will probably drop by 7% due to the drop in the economies of the advanced countries, especially Spain and Greece. It is difficult to assess the estimated effect of the remittances by the emigrants on the qualitative changes in economy. The World Bank Review of 2007 points out, that 80% of the Bulgarian emigrants do not make any remittances.¹³ Some of the emigrants, making remittances to Bulgaria transfer 30% of their average income, and 49% thereof transfer money once a month.¹⁴

In general for a lot of Bulgarian families, the remittances are a source of income, contributing to the alleviate their economic and financial instability and to overcome poverty. According to the data from August 2009 – 20% of the Bulgarian population lives close to the poverty line. Since January 2009 the poverty threshold is 97 Euro. The average monthly salary is about 220 Euro, being the lowest in EU. According to the approximate estimates the remittances made by the emigrants from abroad increase the income of about 300 000 Bulgarian families.

¹³ World Bank, 2007, Migration and Remittances – Eastern Europe and the Former Soviet Union.

¹⁴ B. Quillin, C.Segni, S.Sirtaine, I.Skamnolos, 2007, Remittances in the CIS countries: A Study of Selected Corridors, Chief Economist's Working Paper Series, Europe and Central Asia Finance and Private Sector Development Department, World Bank, Vol. 2, No2.

The higher financial opportunities for a part of the Bulgarian population, thanks to the remittances by the emigrants, enhance the opportunities for education and investments. In Bulgaria the remittances by the emigrants are used mainly to purchase real estates, accounted as FDI. In this regard the transfers of the employees abroad are a financial recourse for the Bulgarian economy and are of vital importance for the development of the regions.

The remittances also have certain negative effects on the economy. Probably the flow of fresh money from the emigrants has reduced the incentives for job search. It could be supposed, that the increased remittances by the emigrants have probably reduced the pressure on the labor market for decrease in unemployment. The increased incomes of a part of the Bulgarian population result in more consumption costs, exerting pressure on the balance of trade for import of consumer goods. It results in the total level of the domestic prices and a rise in inflation. The pegged course of the Bulgarian Lev to the Euro prevents taking into consideration the inherent trends of the probable increase in the exchange rate of the national currency and thus assessing the lower competitiveness of the domestic goods and services.

The remittances are less sustainable source of income in foreign currency for many countries and for Bulgaria as well. While the capital flows rise during favorable economic cycles and fall considerably in case of drop in economic activity and/or crisis, witnessed at the time of a global financial crisis, the remittances by the emigrants have an anti-cyclic effect on the countries of origin of the emigrants. Actually in Bulgaria the lower growth rate of the transfers, at least the volume, covered by the banking statistics, is due to the decreased economic activity in the advanced industrial countries, as a result of the global financial crisis. The remittances are comparatively stepping down and shall provide limited financial support to a part of the population. The lower FDI in real estates are due to a great extent to the limited purchases of real estates by Bulgarians, who have settled down permanently abroad.

In the last few years FDI and remittances are considerable financial flows, being of benefit on the macro level, contributing to the economic growth and to the higher employment and incomes of the part of the population. If it hadn't been for the remittances by the emigrants, the poverty in Bulgaria would have been higher.

Conclusions

➤ The international global financial crisis and the economic recession resulted in a lower FDI inflow. The FDI drop resulted in the negative economic growth, which used to be fed by FDI growth in the past. The companies with foreign capitals have also considerably limited their activities due to the difficulties in obtaining credits from the banks.

➤ Regardless of the fact, that the remittances are relatively more sustainable, because despite of the certain drop in the incomes of the Bulgarian labor migration, it is supposed, that they would continue their remittances to their

dependants, the reduced transfers shall affect strongly the solvency of the Bulgarian households. Moreover the unemployment is increasing, whereas since the beginning of the crisis the redundant employees are 297 500 whereas the long-term unemployed are about 80 000 persons.¹⁵ The reduced remittances shall affect the households, especially the households with liabilities to banks and other accrued payments.

➤ The limited FDI inflow is aggravating the competitive struggle among the CEE countries in attracting FDI. It imposes the search of new comparative advantages for Bulgaria, targeted to attract FDI to the development of export-oriented sectors, of infrastructure projects. It is necessary to resume the financial inflow from EU structural funds as a reaction against the reduced external financing.

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