ИКОНОМИЧЕСКИ ИЗСЛЕДВАНИЯ
ECONOMIC STUDIES
ГОДИНА XVIII, 2009, 1

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FOREIGN DIRECT INVESTMENTS IN BULGARIA: DO THEY HAVE AN EFFECT ON THE ECONOMIC DEVELOPMENT OF THE COUNTRY?

The article is trying to analyze the benefits of attracting foreign direct investments (FDI) and the supposed effect on the economic development in Bulgaria. The increase of FDI per capita is important for the penetration and absorption of FDI in the economy, as well as for the creation of new jobs. FDI's accumulation demonstrates the relative increase of the absorptive capacity of the Bulgarian economy. The regressive analysis shows that there is a strong connection between the attracted FDI and the increase of GDP. Despite that FDI are increasing in processing industry and financial intermediation, the last years they are directed to the real estate, building and acquiring industrial, logistic and trade projects or to companies with intermediation or leasing activity. Thought the macroeconomic indicators in Bulgaria are relatively stable, the deficit in the current payment balance is deepening and the attraction of FDI is considered as a source for financial assistance. At present, and regardless of the strong relation between FDI and GDP, it is not possible to affirm that the increase of FDI in Bulgaria is contributing to the development of export-oriented economy. The global financial crisis also is creating an unfavorable economic environment, influencing negatively on the inflows of FDI in Bulgaria and on the economic development.
JEL: F21, F32

1. Introduction

The enlargement of the foreign investments activities of the Multinational enterprises (MNE) has been regarded as one of the characteristics of the world economy and an impetus for economic growth and development. As one of the main form of foreign economic relations**,** FDI has taken place in the context of the promotion of outward looking economic strategies. Hence the developing countries have been undertaking policy shifts from import substitution industrialization models towards more export-oriented economic policies (Narula, 2004). This makes FDI especially attractive for many developing and countries in transition to market

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economy and without doubt for Bulgaria too, as the country experienced a long way of difficult restructuring of the economy during the last two decades.

FDI represents one of the defining features of reshaping the international business environment and there are a lot of studies, examining the changing structure of international production and growth of FDI activities. FDI pave the way for the design of new strategies and policy with the purpose to attain some main goals of the economic growth and development: increase the investment and modernize the economic structure and fulfill the shortage of financing of the economy. Therefore, FDIs entrance helps the host countries because they can obtain a launching pad from where they can make further improvements in the industrial and economic sectors.

This trend has manifested itself in the last years. Any form of FDIs, which is providing capital knowledge and technological resources into the economy has been able to play an important role vis-a-vis the economic development of the recipient countries. These countries have changed their economic stances and have allowed the foreign investors to come in with the expectations to restructure their economies, bringing in new technologies and expertise.

Also, the experience of the last years shows that firms of economic developed countries, on their part, are interested a lot to invest in other countries, through moving some industries outside. This inflow of foreign capital can be channelized into various sectors of the economy. It is normally done on the basis of the awaited profit from this investment of the foreign firm, but in the same time represents a financial assistance for development of the host economy.

The well known Dunning’s classification, explaining why the MNE are investing abroad, has underlined the importance of the foreign firm’s presence on the real sector of the host country. The foreign firms, localized on other markets, realize ownership advantage, what is probably unlike for the local ones. The benefits of the ownership advantages are in the form of knowledge in the area of new technologies, which is a premise for introducing new production and goods, creating new opportunities for improving the management of the company and a successful marketing.

An important effect of FDI is also the spread of indirect effects (spillovers) over the host economies, mainly concerning the influence of foreign branches on the behavior of the local firms. The branch specialization is a main factor for attracting FDI. The foreign firms, specialized in production of certain goods, have decided to invest abroad, because of the presence of similar industries in the host country and qualified labor force. The influence of FDI is horizontal when they are spread in depth at inter-production level, and vertical when they are spread in two different productions. The horizontal distribution is connected with acquiring certain specific knowledge about certain branch, despite the intentions of the foreign investor. This type of FDI gives some advantages to the local producers, concerning qualification of the labor force, production of substitutes of foreign products, etc. The vertical FDI present general and not specific knowledge about the development of the branch and are useful for the firms’ suppliers, as well as for the buyers.

The connection between the foreign and local company is especially significant for the transfer of technologies and for the increase of the labor production. The new technological development of the host country pave the way for approving the intra-industry linkages and increase the knowledge in some definite economic sector, which can have a positive impact on other industries in the host country and overall economic development.

FDI is able to improve the infrastructure of the host country. It is well known that the private sector firms are not always interested in undertaking activities that help in improving the infrastructure of the country, due to the fact that the gains from the infrastructural activities are made only in the long term. There are no short term benefits as such.

The standard of living of the general public of the host country could be improved, as a result of FDI, also some social activities may be ameliorated too. FDI can assist in helping countries with shortage of capital to build their own research and development bases that can bring in new technologies. This is a very crucial contribution as most of the countries are not able to perform these functions on their own. These impacts are important especially in the context of the manufacturing and processing industries and in services of the particular country, that are able to enhance their productivity and ultimately realize a notable economic development.

What is important is that FDI help the creation of new profits on the basis of new comparative advantages in some definite production and give opportunities for development of export-oriented branches. The latter change their policy from productions based on substitutes of foreign (imported) goods to export-oriented productions. The outcome of the mergers and acquisitions is a permanent transfer of manufacturing know-how and management expertise from the foreign company that boost the efficiency and output of local affiliates. These participations have a long term horizon and exercise a significant influence on local management.

The spread of MNC into different sectors of the economy is determined also by the aggressive liberalization of the FDI regimes and of the privatization programs of the host countries. Encouraging “green investments” is also part of the government policy to develop certain production sectors.

At macroeconomic level, FDIs are also contributing to the financing of the deficit of the current account of the balance of payments. It is important to overcome the shortage of finance for the economy, to provide for the macroeconomic stability, to ensure additional funding for the increase of investments, economic growth and employment. Also, FDI, as a source of financing of the deficit of the current account of the balance of payments, do not generate additional debts for the country.

Despite the positive direct and indirect economic and financial effects of FDI, studies of the linkages between FDI and development have produced contradictory results. Some have shown that FDI spurs economic growth in the host country; others do not discern these benefits. Actually for years it has been unclear whether developing countries benefit from their resources to attract FDI. Recent researches tend to point to evidence that spillovers' benefits do exist, but their effect is not widespread. The obtained diverse results are due to differences in the host country, varying in relation with qualification of the labor force, private sector, competition, legal practices and host country policies toward trade and investments. A vast majority of the existing empirical studies indicate that FDI does not always make a positive contribution to either economic growth and factor productivity. This is often because host countries are not able to capture the bulk of benefits associated with FDI without a certain threshold level of absorptive capabilities.

The article tries to define if FDI growth leads to perceived benefits in terms of the injection of capital, technology and knowledge, financial flows. Bulgaria succeed to attract increasing inflows of FDI although do they really turn out to be a connecting-rod for further economic growth and development?

2. Inflows of FDIs and main determinants attracting FDI in Bulgaria

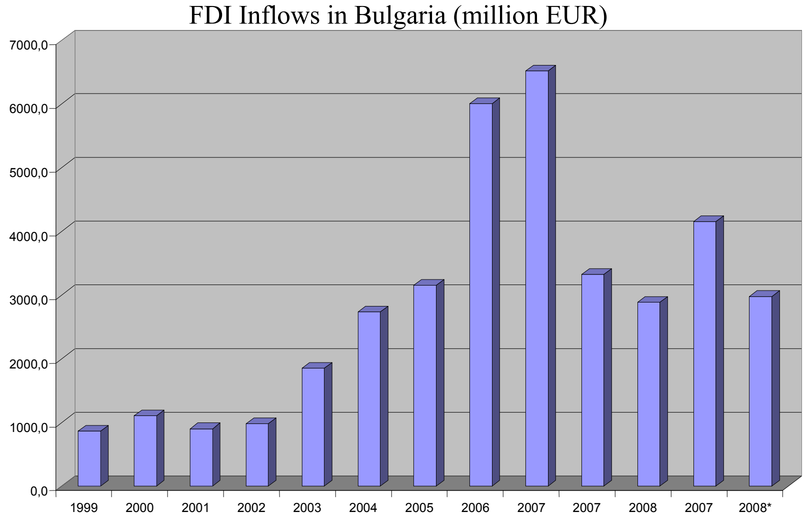
At the country level, growth in FDI can be measured in total value of inward investment and in net flows. The FDIs inflows measure the amount of foreign investments entering a country during a one year period. The FDI stock is the total amount of productive capacity owned by foreigners in the host country. It grows over time and includes all retained earnings of foreign-owned firms held in cash and investments

The total FDI inflows in Bulgaria in the period of 1996-2008 amount to 33.71 billion EUR. From 1996-2000 the FDI flows have increased relatively slowly, but since 2000 they started to rise annually. By type of investments the most important part of foreign investments are coming from equity capital, which amount for the period 1996-2008 to 19.81 billion EUR. The type of foreign investments - other capital is amounting to 10.17 billion EUR. The item "Other Capital shows the inter-firm loans, given by foreign owners of local companies, which also show the intensive development of the foreign firms. The figure demonstrates the evolution and the accumulation of FDI inflows with the relatively slowing of the foreign investments near by the end of 2008 (fig. 1).

The "green investments" are an important item since it shows the number of attracted projects in Bulgaria, compared with other countries in South Eastern Europe. In the period 2001-2005 Romania owns 40% of the market share of FDI with 285 projects, Bulgaria – 25% with 174 projects, after that are Turkey with 20%, Serbia with 9%, Greece with 4%.[2] The Bulgarian Investment Agency (BIA) examines more than 30 "green investments" projects, which apply for certification by the new law stimulating the "FDI of quality". The new law aims to improve the competitiveness of the economy through stimulating investments in certain branches of the real sector where the State considers that they are of primary importance for the economy.

[2] Ernst@Young South East Europe Attractiveness, 2006, Survey 2007.

Figure 1



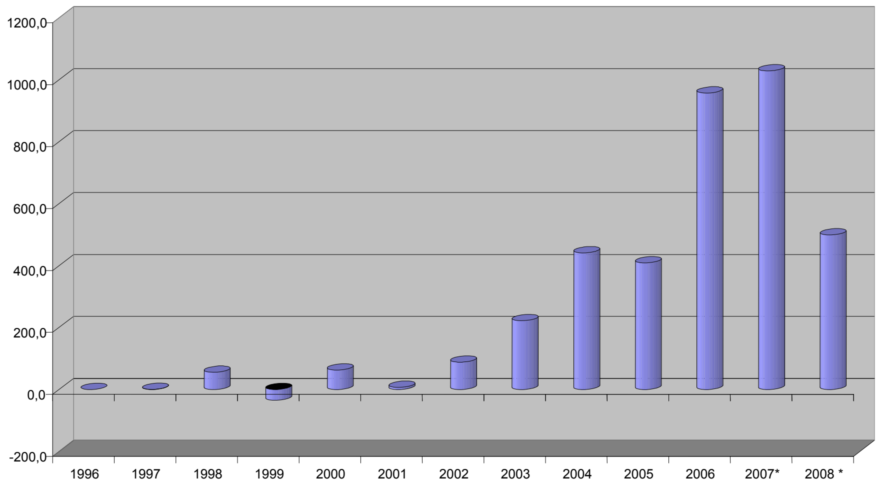
Source: Payment balance of BNB; data from firms with foreign participation, Privatization Agency, NSI, Central Depositary, banks, etc.

Since the statistics in the item "FDI" includes incomes of any character, like foreigners purchasing homes and partial transfers of Bulgarians abroad, only the "reinvested profit" is outlined as the most representative component of FDI. The reinvested earnings are the most important part of FDI. They show the real impact on the economy and its absorption capacity, demonstrating the real effect of FDI on the economy. The reinvested accumulated profit of the foreign companies has appeared in 1997 and increase since 2000. .The reinvested earnings are amounting to 3.74 billion EUR for the period 1996-2008, which illustrates a positive effect for the development of the economy. The reinvested profits of the foreign investors registered a drop in 2007, i.e. when they should increase, due to the adoption of the flat rate of 10% in Bulgaria. Exactly this item should react positively to the decrease of the profit tax, and really stimulates the foreign investments, but there is no substantial increase the low tax stimulates the purely speculative investment with the immediate transfer of the money abroad, and not the long-term investments (see fig. 2).

Figure 3 show that the main part of the accumulated FDI (1998-2007) by economic sectors went to real estate (21%), finance intermediation (19%), manufacturing (19%). In the first three quarters of 2008 these sectors retained their key role, with the shares of real estate operations and business services, financial intermediation and manufacturing accounting for 25.8%, 24.5% and 14.5% respectively. Trends in the foreign investment flows by economic sector show a slowing in FDI to real estate and business services on an annual basis.

Figure 2

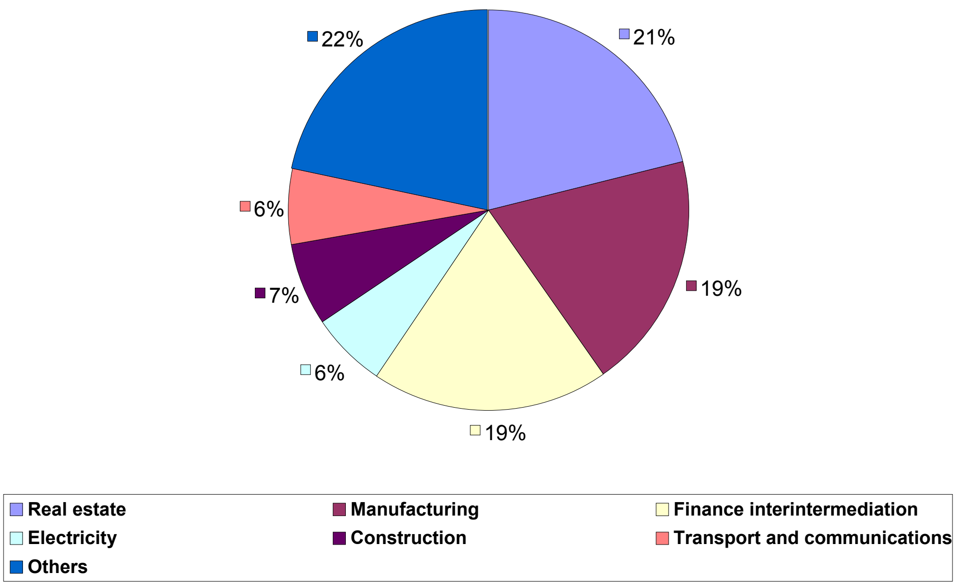
Reinvested Earnings of FDI in Bulgaria (million EUR)



Source: http://www.bnb.bg/statistics

Figure 3

FDI Stock by Sectors, 1998-2007 (%)



Even that the share of FDI in the processing industry increases, we cannot neglect the small ratio of foreign investments in significant branches for the development of the real sector of the economy, like high-technological manufacturing, electronics, education, R&D and others. In branches like manufacturing, electronics and computers, transport and agriculture are invested respectively 1.67, 0.89, 1.18, 0.24% of the total attracted FDI in Bulgarian economy.

FDI have in fact a small contribution to the development of the real sector of the Bulgarian economy, because the ratio of FDI to the internal investments in the real sector is about 27% in the period 1998-2006. This shows again that the Bulgarian economy has not been attractive for the vertical FDI and generally for development of higher technological branches.

We can underline that Bulgaria's industrial sector is in its developing stages and the country is primarily a producer of raw materials, concentrated on low-tech, labor-intensive industries. The sector is also relatively fragmented. However, a steady stream of foreign investment has helped propel sector growth of about 8% per year since 2003. While still relatively small, Bulgaria's mining industry, producing mainly copper, iron, lead, zinc, manganese and coal, has also witnessed substantial growth as privatization efforts have taken effect, with production increasing by 8.5% in 2007 in manufacturing.

A shortage of qualified labor and outdated technology are challenges, which are leading to increased competition from countries such as Macedonia, Romania and Serbia. Other issues to be addressed include Bulgaria's outdated transport infrastructure and technology, and spiraling energy prices. The pharmaceuticals industry is showing good growth, with foreign and local companies bringing new products onto the home market, as well as expanding their presence abroad.

The EU member countries are the main trade partners of Bulgaria, thus the main investors come from these countries too. The Netherlands, Austria, Belgium, Greece, United Kingdom are of the main investors in Bulgaria.

Table 1

Some main foreign investors in Bulgaria for the period 1996-2008 (billion EUR)

COUNTRY	FDI STOCK 1996-2008
Austria	5.427
Belgium	1.577
Cyprus	1.752
France	0.614
Greece	3.070
Germany	2.186
Netherlands	3.949
UK	2.741

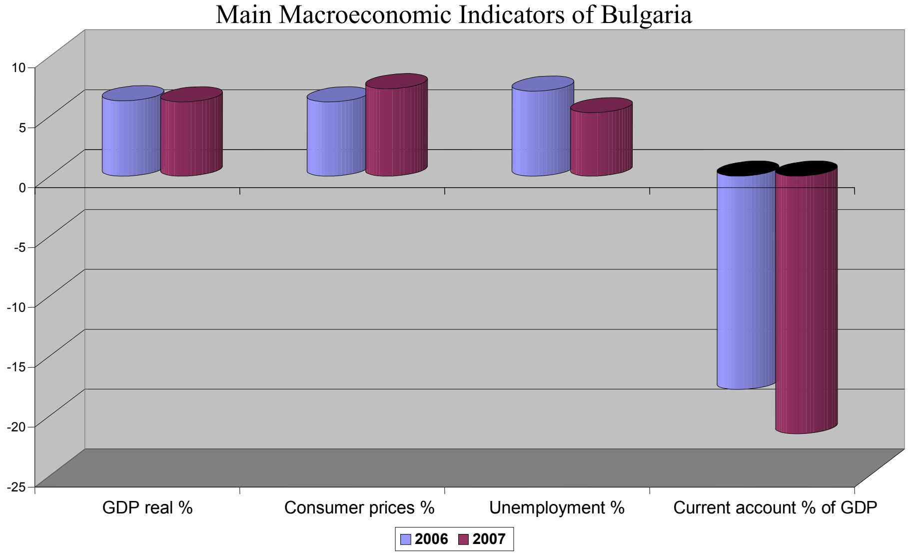
Source: BNB Statistics on FDI.

The determinants that encourage the companies to invest abroad are important for their presence on a certain market. The increase of the FDI inflows in Bulgaria is due to the combined impact of many factors, like privatization, regulating the legal orders, taxation policy, etc., which are part of the traditional determinants (spillovers) of the behavior of the foreign investors, as well as of the economic and financial stabilization of the state. The memberships of Bulgaria in EU were the most important event that changes the foreign investors' behavior towards investing in Bulgaria and increase their presence in the country. Since 1st January 2007 Bulgaria adopts the legal base of EU (acquis communautaire) and reduces the risk premiums of the foreign investors, while the accession to the customs unions decreases the transaction costs.

One of the main arguments is that the macroeconomic indicators in Bulgaria are relatively stable, like continuing trend of positive economic growth continues, decreasing unemployment, increasing inflation higher than EU average, as well as deepening deficit in the current account balance.

Figure 4

Main Macroeconomic Indicators of Bulgaria



One of the main incentives, for the foreign investors in Bulgaria is the low price of the labor force, because the decision for foreign investment is made only when it coincides with the interests of the company and its strategic interests and not because of the impact of other factors.

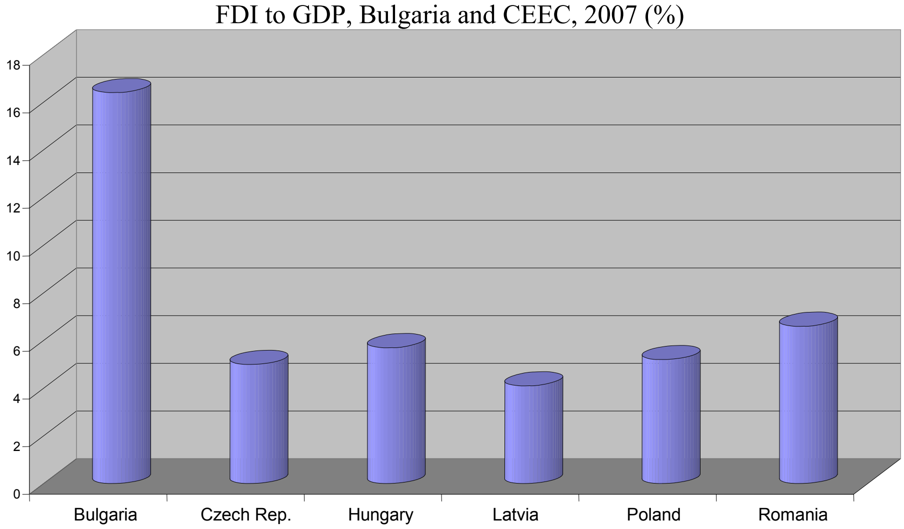
3. Impact of FDI on economic development and the behavior of foreign companies in Bulgaria

Economic development is an all-encompassing conception. It centers on economic and social progress and also entails many different aspects that are not easily quantified, such as economic, social political and others. All this matters contribute to create an economically favorable environment and better way of living. All this variety of elements forming economic development correlates positively with economic growth. As a general rule, countries with higher rate of economic growth have more rapid development and attract much more FDI. FDI has been acknowledged as most crucial factor in enhancing economic development and the standard of living for emerging economies. Studies have found a positive correlation between FDI inflows and economic growth, provided that the receiving countries have reached a minimum level of educational, technological and/or infrastructure development (Hansen & Rand, 2006). South Korea, Singapore, and Taiwan are examples of nations outside the OECD countries that have greatly benefited from FDI and the integration into the global economy. In recent years, China and India have made remarkable progress in attracting FDI and realizing technological and economic success.

FDI related to GDP ratio is an important indicator showing how FDI is influencing the growth of the host economy. The relationship between the two variables FDI and GDP for the period 2000-2007 show that the foreign investments have influenced really the production with a lag of time and have a sizable impact on the size of the economic growth. The share of foreign stock as a percentage of GDP has been high in Hungary, the Czech Republic, Slovenia and Slovakia, In Poland, the share of foreign stock as a percentage of GDP was much lower.The figure is demonstrating that among the Central and East European Economies (CEEE), Bulgaria has the highest percentage of FDI to GDP. It also shows that in the last years in the county entered higher FDI which gave some impetus to the economic growth and increased the GDP. With the relatively slowing of the FDI inflows since 2007 the correlation between FDI and GDP is decreasing. For the period 2007-2008 the correlation FDI to GDP drops from 16.3 to 10.8%. The data show that the countries that have attracted FDI generated high economic growth. *Bulgaria demonstrated a better absorption capability in comparison with other countries of the Southeastern Europe region, with the exception of Romania*

Figure 5

FDI to GDP, Bulgaria and CEEC, 2007 (%)



Source: Bank Austria Creditenstalt.

The regressive analysis also confirms the upper affirmation that there is a strong connection between the attracted FDI and the increase of the GDP. The mentioned eclectic way of reporting FDI, i.e. the high share of real property also contributes to the increase of GDP. However, it will be doubtful to maintain this trend of FDI inflows with the ongoing global financial crisis and recession and the question is rising what will be the main sources for economic growth and development in Bulgaria. It can be underlined that the estimation of this indicator is limited because are not taken into consideration the population and the sectors where FDI have been invested. But, the high percentage of foreign stock in GDP indicates that FDI played a vital role in CEEE and represented one of the most important phenomena showing the CEEEs' insertion in the globalized world economy.

Table 2

Coefficients of Correlation of FDI and GDP

Countries	Information for the model			Model adequacy		Coefficients		
	R	R^2	Std. Error	F	Sig.F	B	T	Sig.T
Bulgaria	0.944	0.892	2.459E9	82.314	0.000	3.184E6	9.073	0.000
Croatia	0.697	0.486	6.541E9	9.449	0.012	7.241E6	3.074	0.012
Romania	0.972	0.944	7.131E9	169.446	0.000	8.207E6	13.017	0.000
Albania	0.918	0.843	9.915E8	53.566	0.000	2.077E7	7.319	0.000
Bosnia and Herzegovina	0.914	0.835	1.263E9	50.645	0.000	1.212E7	7.116	0.000
Serbia	0.755	0.570	6.737E9	13.272	0.005	6.096E6	3.643	0.005

An indicator showing what is the real size of growth of FDI is FDI per capita because it is recognized that investors are selecting countries that are growing and/or are expected to be growing. For example, FDI was coming to the Czech Republic and Hungary even when these economies were not growing, because investors believed in a long time strong growth potential of these countries. Those CEEE experienced fast growth (Hungary and Poland) and tended to attract more FDI. FDI per capita is showing also the rising foreign investors' interest. In Bulgaria the FDI stock per capita is almost two fold less than this of the Czech Republic for example. The data show that FDI stock per capita is higher in Bulgaria, Romania, and Croatia in comparison with the other countries of Southeastern Europe (Albania, Bosnia & Herzegovina, Serbia). The obtained results of this indicator are limited because it has not been taken into consideration some important indicators like population estimates, demographic changes, and regional distribution of FDI.

The foreign companies with their activity contribute to a change of the social-economic climate in different regions, but they cannot attract capital-intensive projects, which require new technologies. The limited in size FDI cannot service specific goals of the economic development and that is why there is a need of attracting FDI in those branches, where there are comparative advantages and perspectives for development.

Table 3

FDI per capita in the Central European and Southeastern European countries

Countries	FDI stock (million USD) 1989-2007	FDI stock per capita (USD) 1989-2007
Czech Republic	63122	6128
Hungary	49480	4915
Poland	97734	2572
Slovakia	23357	4325
Bulgaria	**29444**	**3824**
Croatia	17467	3932
Romania	43050	1984
Albania	2669	834
Bosnia and Herzegovina	4311	1135
FYR Macedonia	2207	1103
Serbia	11995	1599

Source: IMF, Central Banks and EBRD estimates.

According a study examining the profile of 200 firms with foreign capital in Bulgaria, those with less than 50 employees prevail. They are efficiency seekers because they try to improve their production abilities and the quality of their production or service and thus increasing their comparative advantages compared with the main contractors. Most of the foreign investors contribute to the activity of the company with investments in equipment, new technologies, access to new markets, education.

The FDI directed to production of clothes with materials from the client help creating law-skill jobs, as well as decrease the poverty in certain regions. However, without further state policy, conformed to the directions of EU policy concerning the development of the FDI quality, a significant long-term growth cannot be realized.

In some of the case the low wages are determining for attracting investments in production activities with low value added, for example assembling parts. In the period 1998-2006 the low wages attracted in Bulgaria FDI of 269.9 million USD in the tailoring industry (textile), where the investors supply the entire production except the labor force.[3]

After dropping off of the quotas and the accession of Bulgaria into EU, the foreign investors cannot rely on the competitive advantages of the low wages in the mentioned sector, but will have to invest in activities, which require higher value added. The question was whether the foreign firms will be inclined to increase their production costs and to modernize their production in the country or will prefer to export it in third countries with lower wages and thus maintaining their competitive low labor costs, remains open. Probably the relatively small Greek and Turkish firms, which gain competitive advantages based on the unregulated labor and cheap labor force, will close their productions. The improvement of the macroeconomic

[3] Such view is expressed also in World Investment Report. FDI from Developing and Transition Economies: Implications for Development, 2006, Geneva, http://www.unctad.org

and investment environment will push away these firms to neighboring countries like Serbia, Albania and Macedonia.[4]

The increase of the competitiveness and efficiency of the production in the host country also depend on the attracted FDI. First, 65% of the foreign firms take into consideration that the competitive advantages are due to the higher quality of their product or provided service. Secondly, 40% of the foreign investors register indicators, like lower prices, better servicing and speed of supplies, as factors influencing positively on the competitive advantages of their firms. The ability quickly to adapt to the requirements of a certain market is also significant for 1/4 of the investors.

About 1/3 of them (or 36%) considers that their technological level is higher compared with the one of the competitive firms. About half of them (47%) think that their production is comparable with the one of the best producers in the relevant branch. About half of the companies with foreign capital have completely renewed their equipment, while 30% of the firms – partly. Very small percentage of the managers of the foreign companies in Bulgaria state that they have no intention to invest additionally in new equipment.

The foreign investors contribute to the activity of the firm mainly with investments in new equipment – 51% of them, in new technologies, access to new markets, and qualification and education of the labor force. Approximately 88% of the firms consider the mother company a source of providing capitals, know-how and access to new network of consumers.

Another aspect concerning the impact of FDI on the competitiveness and effectiveness of the production is the attracting of quality investments, directed to high-technological branches. Still we cannot state that the increase of FDI in Bulgaria is able to contribute to the development of export-oriented economy, as it is seen in Czech Republic, Hungary and Estonia. The import and export structure in Bulgaria for 2007 shows that the export gradually outruns the import. The positive trend probably is related with a production increase, additional investments, or even contraction of the real sector due to the well-defined outlines of the recession.

Except for few larger companies in Bulgaria, smaller foreign companies are present in the country. While in the beginning they are attracted by the opportunity to participate in the privatization buying at a profit real assets and/or localization in a geographic region allowing access to other markets (i.e. they are market seekers), now they are more efficiency seekers.

The increase of the effectiveness of the production is related with the attraction of FDI in structure-determining branches based on a certain strategy for development

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[4] In the beginning of 2007 the largest tailoring factory, owned by a Greek firm, exported its production in Serbia, since it will not be possible anymore the profit norm to increase on the account of the violated rights of the workers.

of high-technological branches, connected with the information and communication technologies (ITC).[5]

4. FDI as a source for financing the current account

One of the main impacts of FDIs is their capabilities to contribute as a source of financing at macroeconomic level, influencing positively on the balance of payments' current account stance. Figure 6 shows that, in the last years, the FDI increase allows covering the current account, in some years by more than 100%. After 2007 this indicator decreases almost in half, but the increasing foreign currency reserves are an additional instrument for the stabilization of the current account. This statement confirms also by the coefficient of correlation between the FDI inflow and the deficit in the current account in the period 1991-2006, which is -0.69562. The deficit in the current account is due mainly to the negative trade balance during the last years. The FDI inflows can be considered like a buffer for the increasing deficit of the current account. Data from the payment balance in August 2008 show that for the whole period January – August 2008 the balance of payments is positive in the amount of 2.4 billion EUR – almost 50% more than the previous year. In the item current account of the balance of payments, the deficit on the current account in August 2008 is 228 million EUR (compared to 265 million EUR to August 2007). For the whole period January – August the deficit has increased from 11.4% of GDP to 14% of GDP. The increase of the deficit by current account is due to the increase of the deficit of the trade balance and slight exceeding of the import over the export.

For now there is no decrease in the foreign currency reserves and fiscal surplus, which suggests certain macroeconomic stability and opportunities for overcoming problems with financing deficit of the current account, despite the known decrease of FDI.[6] The budget parameters are conformed to the identified main risks for the fiscal policy concerning mostly the high deficit on the current account of the balance of payments, maintaining the domestic demand and economic growth. Maintaining a positive budget position and a significant fiscal reserve insures a buffer and an opportunity for a reaction in case of unfavorable economic development. The foreign currency and fiscal reserves, as well as relying on considerably well

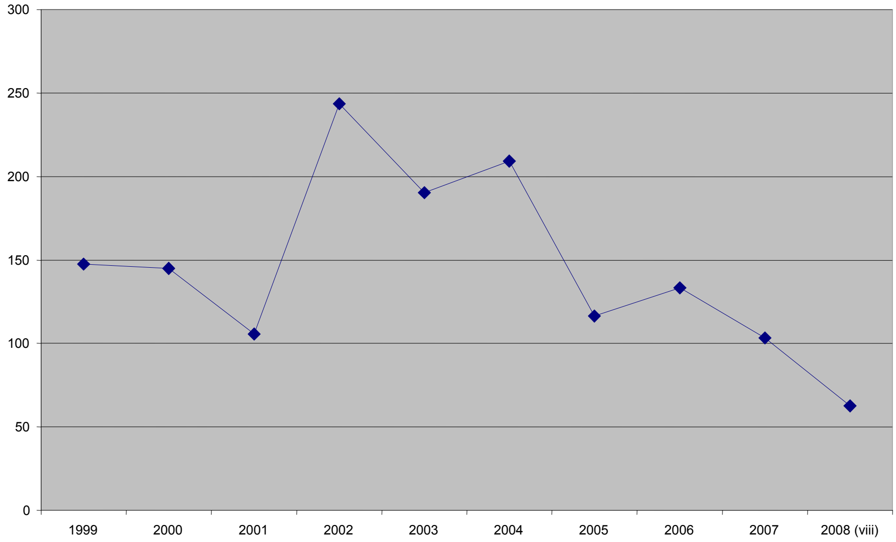
[5] To the moment, Bulgaria occupies 73rd place among 104 countries, classified by the World Economic Forum Global Information Technology Report (2005) by indicators concerning the access to internet and other ITC technologies. Estonia, South Africa and Israel have gone up in the ranking, while Bulgaria and Romania show the lowest percentage concerning use of information services compared with the European countries.

[6] The economic and fiscal policy is directed towards maintaining the achieved macroeconomic sustainability, stimulating the competitiveness of the economy and the quality of the social systems for improving the life standard. The main tools are maintaining the consolidated costs (without the contribution in the common EU budget) up to 40% of GDP and the positive balance of the consolidated fiscal program at least 3% of GDP (counting the influence of the economic cycle) and conformed with the middle-term goals for maintaining positive budget position in the program period, determined in the Convergence program (2007-2010).

capitalized and liquid bank system give certain confidence for maintaining the stability of the Bulgarian economy and compensating the drop of the FDI inflows.

Figure 6

FDI in Bulgaria to Current Account Deficit (%)



Source: http://www.stat.bg/index.html, own calculations.

Despite the set budget parameters, the achievement of these goals remains questionable because of the unpredictability of the collapse of the financial markets, of the effects of the recession in Europe and in Bulgaria of the possible depth of the crisis. This pessimistic version can lead to outflow of financial resource, decrease of liquidity, combined with strong limiting of FDI, which will make the set parameters lacking a real base and hit the overall economic development. The decrease of FDI, however, concerns the withdrawing of significant for the economy investors, which can limit the development of the economy, of the export-oriented branches, of the labor market. The decrease of the FDI inflow can cause difficulties in the financing of the deficit of the current account.

The global financial crisis has without doubt a negative impact on the slowing of the economic development in Bulgaria. The international financial crisis since the middle of 2007 has raised the question whether FDI are stable enough, compared with other capital forms, which are rather influenced on the state of the financial market. The collapse of the market of mortgage credits and the instability of the bank system in USA and the Euro Zone has an impact on the process of merging the enterprises and acquiring joint-stock capital, as main activity of MNC, and limit the intentions and opportunities of the foreign investors to expand their activity in the countries of CEEC and namely in Bulgaria.

The economic recession in EU affect Bulgaria too; still more than 2/3 of the foreign trade is with EU member countries like Germany, Italy, UK, France and Spain. The delay of the economy of these countries will reduce the demand of Bulgarian exported goods. NSI data show that in August 2008 the export of Bulgaria has had the lowest values since February 2008.

The immediate effect of the global crisis is for now relatively weak concerning FDI in Bulgaria. Generally FDI are less sensitive to the current situation on the financial markets, since they are determined rather by long-term strategic priorities. The FDI drop is a fact in 2008. It is obvious that fewer foreigners buy real estate. In the industry there is also a decrease of the transactions due to the recession in Europe. The real estate sector can cause a shock in the economy (from 01.08.2007 to 01.08.2008 drop by 22.4%). The most mobile FDI element – credits, has already stricken the economy. For the first 8 months of 2008, compared with the same period in 2007, the drop is 68.7%, or 83.9% of the total FDI drop for the period.

The FDI decrease undoubtedly will influence on those branches of the economy of Bulgaria, where they are concentrated. The FDI structure shows that they are not evenly distributed in the economy and do not determine investments in branches, requiring higher added value. The crisis affects already the manufacturing sector in Bulgaria. Workers' dismissals and/or their forced leave also started. This concerns companies with foreign participation as well. We can assume that due to decrease of the demand from the European partners, the enterprises discharge the labor force in advance, so they can adapt faster to the challenges of the economic recession. The relative drop of the purchasing ability of the Western Europeans will probably shrink the purchase of properties in Bulgaria; this will lead to a shrink of the construction due to the raise of the costs of the credits. In the processing industry the investments are 804 million EUR. However, Bulgaria has no targeted industrial policy yet, which is probably a reason why the quality FDI will most likely not direct to Bulgaria. The strategic plans of Bulgaria concerning attracting quality FDI in R&D will probably delay.

Some of the FDI in Bulgaria are based on a long-term investment interest and strategy. It can be assumed that this will make them comparatively stable and that they will not be hit by the recession. Apart this, the foreign investments are shrinking due to the insecurity concerning the opportunities for financing and the expectations of economic recession. The import of investment goods, which depends on FDI inflows and on the development of the bank credit, is decreasing to some extent, which will not have a positive effect on the Bulgarian economy. The opportunities for attracting foreign investments in the infrastructure will delay, which will influence negatively on the restructuring and functioning of the economic development of the country.

5. Conclusions

- Besides the large MNC in the area of gas and gas products, chemistry, pharmacy, investments in properties, in Bulgaria there are small in size and capitals foreign companies, and that is why we can assume that they will limit their activity due to lack of enough liquidity and credit lines from their banks. We can expect a decrease of the demand of labor force on the labor market.

- In the future the pressure on the trade balance can be not so significant also due to the relative drop of the prices of the energy sources. The transfer of some of the enterprises with foreign participation from Central Europe to South Eastern Europe, Bulgaria in particular, due to the cheaper labor force is unlikely. However, the transferring of parts of this manufacturing can happen in Romania, which has more significant production base. Romania turns to be an economic center of the Black Sea region.

- Unlike the portfolio investments, which can be converted relatively easier into ready money and be exported from the country, FDI allow production expansion through the reinvested profit and the inter-firm financing, which allows increase of the export opportunities.

- FDI-led growth is not a process that occurs automatically in Bulgaria but is related with the country's absorption capacity. The critical problem for Bulgaria is the unsatisfactory qualification and productivity of the labor force, the low level of living standard, the corruption and the non-performing legal system and other economic, political and social impediments. That is why it is obligatory to invest FDI in R&D, education, high-technology.

- Certain factors outside the situation of the global financial markets can have an impact on the FDI inflows and economic development like the shortage of qualified labor force, corruption, inefficiency of the legal system, the delay in the reforms of key sectors, etc.

- The inflow of private foreign investments will continue to decrease and the means from the European funds would allow the revival of the investments in infrastructure, regional development, agriculture and other sectors. This compensates the weakening influence of the FDI in the sectors, which drove the economic growth in the last years.

- The reduction of FDI can turn into an unfavorable effect on the opportunities for financing the deficit of the current payment balance, if there is also a drop of the foreign currency reserves of the country. Keeping the surplus in the budget also serves as a buffer against unforeseeable declines in the economic situation.

- The possible delay of the economy growth and development can be softened through investments in products and services with high added value, which require high professional qualification. The right way is the public investments in infrastructure, building energy projects, as well as unfreezing the facilities from the operative programs of the European Union.

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