90/91 TRADE AND ECONOMIC OVERVIEW

Mission: BELGRADE

Country: BULGARIA

The Bulgarian economy has taken a noticeable downturn in 1989-90. Planned growth had been set at an ambitious 6.1% for 1988, but actual growth appears to be about 2-2.5%.

Over 80% of Bulgaria's trade is conducted with other Comecon members, primarily with the USSR. Of the 18% trade carried out with OECD countries, more than half is done with West Germany. Other major OECD trading partners include, in descending order, Italy, Austria, France, U.K. Bulgaria's appetite for Western goods has been on the increase; in 1988, imports from the OECD increased 4.1% over the previous year. Exports to the West have grown as well, but at a slower rate of about 3.2%.Therefore, Bulgaria's trade deficit with non-socialist countries increased in 1988, to an all-time high of $1.66 billion U.S.

To finance this current account deficit, Bulgaria has undertaken hard currency debt at an ever-increasing rate: an estimate for 1988 puts Bulgarian gross debt at approx. $7.6 billion, a 23% increase over 1987. This rather alarming trend towards over-indebtedness has made Bulgaria a much greater financial risk in the eyes of the Western banking community than in the previous decade when the country enjoyed an almost unblemished credit rating.

In the face of declining trends in the economy, and economic liberalization in the USSR and other Comecon countries, Bulgaria has launched an ambitious program to open up its own economy. In Feb.1989, legislation known as Decree 56 was enacted which, at least on paper, paves the way for price reforms,elimination of export subsidies,establishment of commercial banks, and a substantial change in the forms of ownership of business. Foreign firms are entitled to set up joint ventures with majority ownership and management, or indeed wholly-owned subsidiaries. Profits will be permitted to be repatriated in convertible currency. To date, about 4000 new "firms" have been registered, but almost all of them are 1 or 2-man operations ie.cab drivers,craftspeople,fast food stands,etc. Foreign companies have not beat a path to Bulgaria's door: only a handful of joint ventures have been registered, most of them having existed before Decree 56 in one form or another. Over the next year, we will be better able to judge the true extent of the economic liberalization measures, and foreign business confidence in the legislative protection offered.

The one bright spot on the economic scene this year has been in agriculture. For the first time in 6-7 years,climatic conditions have been virtually perfect, resulting in extremely plentiful harvests of grains,vegetables,fruits,tobacco, oilseeds,etc. Ironically, this harvest coincided with the exodus of almost 300,000 Turkish Bulgarians, many of whom were agricultural labourers. This labour shortage, precisely at harvest time, has meant that some fine produce has overripened or spoiled in the fields. This will almost surely be evident in the consumer market, where "second rate" produce has usually been dumped. There is, however, an abundant supply of first quality tomatoes,tobacco,fruits,etc. to serve Bulgaria's food product export customers.

Canada's trade with Bulgaria has always been rather modest, bouyed only occasionally by grain sales in years of unfavourable harvests. This year, Bulgaria will not be in the market for imported grains, and, in fact, may have quality wheat available for export in small quantities. In 1988, Can-