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I. Angelov, Ph.D. student
D. A. Tsenov, Academy of Economics

FOREIGN DIRECT INVESTMENTS – DEGREE OF COMMITMENT AND IMPORTANCE FOR BULGARIA'S ECONOMY

I. Ангелів
Господарська академія ім. Д.А. Ценова

ПРЯМІ ІНОЗЕМНІ ІНВЕСТИЦІЇ – СТУПІНЬ ПРИХИЛЬНОСТІ ТА ЗНАЧУЩОСТІ ДЛЯ БОЛГАРСЬКОЇ ЕКОНОМІКИ

Існує зростання відкритості і взаємозалежності країн світу, тенденції збільшення транскордонної економічної інтеграції та глобалізації. У результаті економічних реформ в Болгарії за останні два десятиліття, а також її вступ до Європейського Союзу, економіка країни змінюється у відповідності з цими подіями, що полегшує потік транснаціонального капіталу в Болгарію.

У той же час прямі іноземні інвестиції є одним з основних факторів економічного розвитку і зростання, вони створюють умови для розширення та вдосконалення існуючого виробництва, а також використовуються для створення нових робочих місць і збільшення зайнятості в країні-одержувачі.

У статті зазначається, що прямі іноземні інвестиції мають ключове значення для економіки Болгарії, вивчення та політика щодо них повинна бути цілеспрямованою. Основною метою даного дослідження є з'ясування, якою мірою болгарська економіка залежить від прямих іноземних інвестицій.

Ключові слова: *прямі іноземні інвестиції, національної політики, міжнародного капіталу.*

Существует рост открытости и взаимозависимости стран мира, тенденций увеличения трансграничной экономической интеграции и глобализации. В результате экономических реформ в Болгарии за последние два десятилетия, а также ее вступление в Европейский Союз, экономика страны меняется в соответствии с этими событиями, что соответственно облегчает потоки транснационального капитала в Болгарию.

В то же время прямые иностранные инвестиции являются одним из основных факторов экономического развития и роста, они создают условия для расширения и совершенствования существующего производства, а также используются для создания новых рабочих мест и увеличение занятости в стране-получателе.

В статье определяется, что прямые иностранные инвестиции имеют ключевое значение для экономики Болгарии, изучение и политика в отношении них должна быть целенаправленной. Основной целью данного исследования является выяснение, в какой степени болгарской экономикой зависит от прямых иностранных инвестиций

Ключевые слова: *прямые иностранные инвестиции, национальной политики, международного капитала.*

Introduction. There is a growth in the openness and interdependence of countries worldwide parallel to the trend of increasing of the cross-border economic integration and globalization. As a result of the market and economic reforms in Bulgaria in the last two decades, as well as of its accession to the European Union, which is a supranational institution aiming to converge its Member States; the country's economy is changing in line with these events. This facilitates the transnational capital flow to Bulgaria both within Europe and worldwide.

At the same time foreign direct investments are “one of the major factors of economic development and growth, they create conditions for expanding and improving of the existing production, and are used for creating new jobs and increasing employment in the recipient country.

FDI also contributes to the introduction and dissemination of new technical and scientific achievements in different countries” [1].

The paper **argues** that foreign direct investments are of key importance for Bulgaria’s economy and the study and policy regarding them should be purposeful.

The main **objective** of this study is to clarify the extent to which Bulgarian economy is affected by FDI and what the national policy should be in this regard.

The first part of the paper examines a set of indicators for measuring the degree of involvement of a country’s economy with FDI, and the main body applies empirical data in the form of a comparative analysis between Bulgaria and Ukraine and average values for the EU using the above mentioned indicators. The conclusion presents the respective inferences and recommendations, which can be made thereof.

I. Importance of FDI for Bulgaria’s economy, indicators for measuring the degree of involvement with them.

As mentioned above the political and economic changes occurring in Bulgaria over the last years lead to determining changes in the degree of its openness. The FDI inflows to the country as well as the stock of these are considerably increasing as can be seen in Table 1. This gives grounds to argue that the importance of FDI for the Bulgarian economy grows over time and, respectively, they should be studied purposefully and in more detail.

Table 1

FDI inflow and FDI stock in Bulgaria for the period 2003-2011 /in billion USD/

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011
FDI inflow	2.089	3.397	3.920	7.805	12.389	9.855	3.385	1.601	1.864
FDI stock	6.371	10.108	13.851	23.483	37.936	44.059	49.225	46.874	47.653

Source: UnctadSTAT

One of the main problems is that due to the nature of the published statistical data in Bulgaria for the incoming FDI the scientific studies in this area are limited mainly to their financial aspect. Consequently, FDI are often defined as very important for the country’s economy without really taking into account to what extent it is involved with them, what their effects are depending on their nature and purpose, as well as what the country’s policy for attracting them should be.

In order to clarify the above mentioned issues we present the following set of indicators showing the FDI and the degree of their presence, respectively importance, for a particular country:

1) Ratio of FDI inflow to the GDP in the respective country: a classical indicator for comparison, as the absolute value and the GDP growth rates are crucial for measuring the state of each country’s economy.

2) FDI per capita, or ratio between FDI inflows and the number of the population in the respective country: in this specific case it gives a clearer picture than the absolute values of FDI inflows when making comparisons between several countries since bigger countries generally have a greater FDI inflow; at the same time smaller economies exist with less FDI inflows but are more dependent and influenced by their presence.

3) Ratio of FDI inflow to gross capital formation in the respective country: it gives an idea of to what degree the presence of FDI affects the creation and accumulation of fixed capital. It is also an important indicator, as “the expenditures for accumulating fixed capital are inherently investment. The products and services derived from them are not consumed immediately. They are a source of consumer benefits in the future” [2].

Without claiming to be exhaustive we believe that by providing statistical data for the respective measurements, additional empirical data (presented in the second part) and their analysis, this paper offers a clearer picture of the FDI presence and importance for Bulgaria’s economy.

II. Analysis of the degree of involvement of Bulgaria’s economy with foreign direct investments

In order to give a clearer idea of the importance of FDI for Bulgaria’s economy, in this part of the paper we present and analyze statistical data for a period of ten years in the form of a comparative analysis by means of the indicators, described in the first part. The comparative analysis is to be accomplished by applying data for:

- Bulgaria as a major target entity in this study, and also as a relatively small economy of a

country, member of the EU;

- Ukraine in its capacity of a larger state/economy than Bulgaria is and at the same time is not a member of the EU and
- Average values for the EU according to the corresponding indicators.

Let us study the information for the respective countries and the period reported, applied in tables 2, 3 and 4:

Table 2

Ratio of FDI inflow to the GDP for the period 2003 - 2011

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011
Bulgaria	10.1	13.4	13.6	23.5	29.4	19.0	7.0	3.4	3.5
Ukraine	2.8	2.6	9.1	5.2	6.9	6.1	4.1	4.7	4.4
EU average	4.8	4.1	5.3	9.2	5.1	5.5	5.0	3.6	4.1

Source: UnctadSTAT

What can be seen from the data in table 2 corresponds to the absolute values of the incoming FDI in Bulgaria (table 1) – over the years the percentage of FDI increases in relation to GDP except for a few years (after 2008). This can be explained by the occurrence of the financial crisis that later developed into a global economic crisis. However, it can be seen that the growth in values gradually began to retrieve in 2011. There is a similar tendency in Ukraine as well as in the average values for the EU – a drop after 2008, followed by a gradual retrieval of the increasing trend after 2010.

In order to be accurate when presenting these values we should add that the trend of upward ratio does not result from a drop in GDP in the countries reported, on the contrary - the overall trend is oriented to an increase in the values of GDP in Bulgaria as well as in Ukraine [3].

Table 3

FDI inflow per capita for the period 2003-2011 (in USD)

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011
Bulgaria	266	436	507	1 015	1 622	1 298	449	214	250
Ukraine	30	36	166	120	214	237	105	143	159
EU average	1 078	872	1 268	3 735	-146	2 196	2 720	1 528	2 280

Source: UnctadSTAT

The data in table 3 show something that is interesting to be observed and confirms the statement, mentioned in part one, that the indicator FDI per capita gives a better idea of their importance for a particular economy than the absolute values. As it can be seen, the values in the table are higher for Bulgaria than for Ukraine for each year of the reported period, despite the fact that the absolute values of the incoming FDI in Ukraine for 2005, 2008, 2009, 2010, and 2011 are higher than those for Bulgaria [3]. This indicates a larger dependency of the Bulgarian economy on foreign investments. At the same time, looking at the average values for the EU, it can be seen that 2007 is an exception; according to this indicator Bulgaria falls behind which suggests a more purposeful policy and actions on behalf of the country in this direction.

Table 4

Ratio of FDI inflow to gross capital formation for the period 2002-2010

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010
Bulgaria	31.6	53.2	66.0	52.7	85.1	102.6	56.6	24.1	14.3
Ukraine	8.5	13.8	11.7	41.2	21.1	25.1	22.9	22.3	24.7
EU average	12.2	24.4	22.7	19.0	23.8	42.1	19.8	23.4	26.8

Source: UnctadSTAT

The direction of the trend of the data reported in this table does not differ from the previous tables. The difference is even in the larger figures that show the ratio between the incoming FDI and the gross capital formation in the country. For some of the reported years they exceed those for Ukraine and the average values for the EU many times.

From the data presented in the previous four tables we can conclude that the trend is oriented to increasing of the influence and the importance of FDI for Bulgaria's economy.

A key moment is the country's accession to the EU in 2007 which on the one hand should affect

positively the attraction of foreign capitals to it but on the other hand - a year later the global economic crisis occurred, followed by a debt crisis in the EU which led to a recession in most of the Member States. These events had a negative effect, hindered to a large extent the effect of the country's actions to attract FDI, and led to decreases which can be studied in the statistical data. However, the country's policy in this direction retains its character and aims at attracting foreign investors with the low tax rate, stable financial system and qualified, low-paid workforce.

The high rates of corruption, the low transparency of transactions of various kinds as well as the small local market with predominantly insolvent population are still problematic.

The following table presents data of how the incoming FDI are allocated among industries in 2012, which gives an idea of the effects they have on the country's economy.

Table 5

Share of FDI inflow in Bulgaria by branches of industry for 2012 in percentage

Transport, storage, and communications	27.04%
Mechanical transport services, personal belongings, household goods	20%
Production and distribution of energy (electric, thermal, gas)	24.8%
Construction	9%
Extractive industry	1.4%
Fishing industry and agriculture	0.9%
Others	17.26%

Source: Bulgarian National Bank

The data presented in table 5 show that the basic part of the incoming FDI in Bulgaria for 2012 is focused on the services sector and infrastructure. A considerable part is directed to the energy sector which by nature is a service sector. The extractive industry has attracted only 1.4% of the FDI in the country and fishing industry along with agriculture do not reach even 1% of them. The absolute value for 2012 according to data of the Bulgarian National Bank is approximately 1.819 billion USD.

What the statistics shows is in line with the country's policy over the last few years which is directed principally to the construction of a better transport and communication infrastructure and development of the services sector (mainly the tourist services). As far as this can be justified by the fact that the tourist sector in our country is really of key importance and generates over 15% of the GDP, the fact that the manufacturing sector both in agriculture and in industry falls behind should not be underestimated. On the contrary, country's policy should be oriented to attracting of foreign investors mostly in these branches, as they are connected with the so called 'working investments' - investments with long-term commitment, subsequent production of commodity parts or finished goods, opportunity to gain experience, patent rights, know-how, etc.

Conclusion. In conclusion, as a result of the discussed issues, the presented arguments and the empirical data applied in this paper, the following inferences can be made:

- Foreign direct investments undoubtedly are and will continue to be of decisive importance for Bulgaria's economy as can be seen from the statistical data. This leads to the necessity of directing additional efforts to study them as well as determine and implement the national policy in relation to them.

- Despite the decreases during some of the reported years the overall trend is oriented to an increase in the inflows and stocks of FDI in the country. The expectations for the future are that the gradually increasing trend in the values will continue.

- As a Member State of the EU and at the same time a small economy, Bulgaria is dependent on and strongly influenced by the events in the union. In addition to the individual interests of the country, the national policy regarding FDI should be conformable to what is happening at a supranational level.

- The policy to attract FDI in Bulgaria should be focused on attracting more 'working investments'. For this purpose a lot of work must be done at a national level to increase the country's attractiveness as a destination for the implementation of foreign direct projects. At the same time, however, the future results will be strongly dependent on the interests of the other countries as well as on the macroeconomic trends within the EU and the world as a whole.

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