

**СТРУКТУРА И ЗНАЧЕНИЕ НА ПРЕКИТЕ ГЕРМАНСКИ  
ИНВЕСТИЦИИ ЗА ИКОНОМИЧЕСКОТО РАЗВИТИЕ НА  
БЪЛГАРИЯ**

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**STRUCTURE AND MEANING OF THE DIRECT GERMAN  
INVESTMENTS  
FOR THE ECONOMIC DEVELOPMENT OF BULGARIA**

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**Abstract**

*The topic for the meaning of the foreign investments in Bulgaria is broadly discussed and it is provoking varied assessments. (Kolev, Investor.bg) Beside the opinions for the negative effect on the local business and the destroying of working positions, there are such that distinguish their meaning. An identical answer of this question is difficult because no consent exists regarding, which factors to be applied on the analysis of their meaning for the Bulgarian economy. Some negative tone has also the structure of the direct investments in Bulgaria, which is only partly in the manufacturing sector that is connected with the creation of new working positions. Despite the negative examples, the structure of the direct investments is changing in the time: „One third of the direct foreign investments are already directed to manufacturing, another one third to the energy sector, and the remaining part is divided among the trade, the transport, the construction and the agricultural sector.”(Vesti.bg, 2014) That has a number of positive aspects as well for the Bulgarian economics as transfer of knowledge, creation of new working positions, direct investments in the economics and increasing of the attractiveness of Bulgaria for other foreign investors.*

**Keywords:** *German Investments, Foreign investments, economic development of Bulgaria*

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**1. Introduction**

A lot of analyses have been published for the meaning of the foreign investments on the occasion of the 10<sup>th</sup> anniversary from the acceptance of Bulgaria in EU: „Without

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the membership of Bulgaria in the EU, significantly less foreign businesses would have entered in the country than in the moment. Their positioning in the country is among the basic microeconomic developments during the recent years. The reason is that they offer new business practices, ethics, models, established as successful in other countries and enriching the internal economic opportunities. An aspect of considerable importance of that development is the fact these types of businesses are significantly more successful in opposing vicious and economically ineffective business practices that were adopted during the years of the Transition by a lot of Bulgarian entrepreneurs.

Here it is important to note the double role of the import of specific business practices and models in Bulgaria. On the one hand, it is obvious that “modernization” represents competition for the Bulgarian manufacturers and traders as some of them experience difficulties to adapt and improve their own organization models. But on the other hand, separate Bulgarian manufacturers and traders perceive it as a stimulus for improvement of their own manufacture, organization and market behavior. In numerous occasions the new business models offer considerably more facilitated and regulated access to the Bulgarian manufacturers meeting the requirements not only to the entire Bulgarian market but also to markets beyond Bulgaria where these models operate... “ (Center for Liberal Strategies, 2017).

For the meaning of the foreign investments, speaks also the chief executive officer of UniCredit Bulbank, who pays attention to the change of their structure. However, their meaning to the economics is confirmed: „... in the past, the foreign investments were a source for financing of the countries, in which the internal savings were limited, including Bulgaria. Today, a tendency of change of the role of the direct foreign investments as a source of know-how, new technologies and new managing practices is already seen“ (Vesti.bg, 2017).

These tendencies are noticed at the German investments in Bulgaria as well. That is notable both from the volume of the investments and the trade balance between the two countries. Both of them register a considerable growth around and after the admittance of Bulgaria in the EU (German-Bulgarian Industrial Chamber of Commerce and Industry, 2017).

The data on the web page of the German Foreign Ministry as those on the web page of the German Embassy in Bulgaria illustrate more and more intensive economic relationship between the two countries. The data from the web page of the Ministry of Economy indicates narrow economic contacts as well: „For 2016 the export for Germany is amounting to 3.216 billion euro (13.6% from the total export and growth from 11.2%). The import from Germany is amounting to 3,422 billion euro (13.1% from the total import and growth from 0.8%). During 2017, the export for Germany is amounting to 3,591 billion euro (13.4% from the total import and growth from 11.7%). The import from Germany is amounting to 3,703 billion euro (12.2% from the total import and growth from 8.2%).“ (Ministry of Economy, 2018) These data show a relative balance of

the export and import to/from Germany, which in other destinations such as China is strongly disrupted.

The membership of Bulgaria in the EU has a key meaning for the positive development of the economic relationships with Germany. During this period the trade exchange between the two countries has increased seven times and during 2016 it reached 7 billion euro which is a record of its own. In the same time, the imbalance in the trade between Bulgaria and Germany decreases as well. The level of the exported from Bulgaria goods and services for Germany is already only with 25% less than that of the countering import from Germany (Tsekov, 2017).

For a positive effect from the membership of Bulgaria in EU, tells as well the Ministry of Economy of Bulgaria that „renders positive influence on the bilateral trade because of the harmonization of the procedures and the facilitation of the import and the export.” (Ministry of Economy, 2018).

Of interest is also the overview to the structure of the export of Bulgarian products in Germany. Thus, it can be answered to the question whether the trade balance is equalized. According to the Ministry of the Economy, in the recent years the biggest is the export of textile products and clothing, machines, electronics, base metals and their products and others. According to the Ministry of Economy, the biggest percent participation regarding the export from Bulgaria comes from unrefined copper; copper anodes for electrolytic refining, followed by ores of precious metals and their concentrates. Regarding the import from Germany, leading role has machines and apparatuses, textile products and clothing, electronics, transport and vehicular means and equipment chemical and pharmaceutical products and others (Ministry of Economy, 2018). As total sums the balance is equalized but the differences in the trade is perceivable. Whereas Bulgaria exports mostly products for processing, the import consists of highly technological goods. One of the goals of the Bulgarian institutions can be the attraction of investments exactly in this sector so that Bulgaria exports products with high added value instead of importing them.

The institutions that develop the German-Bulgarian economic relations are different and they focus both on the economic cooperation and on the joint projects in the politics and the culture. Next to German-Bulgarian Chamber of Industry and Commerce and the German Embassy in Sofia such are the Agency for Technical Cooperation – GTZ (in 2011 DEG, In Went and the Agency of International Cooperation – GIZ join together) as well as the German Bank for Development KfW (Embassy of FRG in Sofia, 2017).

For the meaning of the direct German investments in Bulgaria tells the fact among the 107<sup>th</sup> biggest investors 28 come from Germany (Bulgarian Agency for Investments, 2017). „ By their nature, the direct foreign investments (FDI) represent financial means invested for: buying of fixed tangible assets, patents, trademarks, know-how, securities, creation of new, reconstruction and broadening of existing fixed tangible assets and others.“ (Grigovora, 2007).

In contrast with the capital investments, the direct investments are connected with considerable uncertainty and risk because of their long-term character. These risks originate from the size of the necessary investments, their long-term engagement and the risk from significant change in the regulations. The frequent and abrupt amplitudes create insecurity in the planning of the separate companies – particularly, if clear motivation and preliminary analysis of their effect lack.

Despite the more intensive trade relations and the presence of global German concerns in Bulgaria such as „Liebherr”, „Lufthansa Technik”, „Aurubis”, the direct investments from Germany, which structure is explained below are dynamic occurrence which can't still establish stable positive trend: „The maxim that the trade with Bulgaria is more profitable and secure enterprise than the investments in the Bulgarian industry is fully applicable. Something more – for the moment it is something as a tacit rule for the business community in the Federal Republic.“ (Tsekov, 2017).

A more long-term analysis of the amount of the direct investments of German companies in Bulgaria also matters. In this way it can be traced whether a constant trend is observed in one or another direction or certain inconsistency prevails. (Ministry of Economy, 2018) The following graphics generalizes the yearly direct investments of German companies in Bulgaria for the period 1996-2017 in millions euro.

*Table 1. Amount of the direct German investments in Bulgaria between 1996 and 2017*

1996: 13,4	1997: 44,0	1998: 23,6	1999: 43,3	2000: 42,3	2001: 75,3	2002: 90,8	2003: 96,1
2004: 253,0	2005: 107,1	2006: 268,0	2007: 386,5	2008: 783,3	2009: 271,4	2010: 80,8	2011: -45,7
2012: 78,8	2013: 80,8	2014: - 17,6	2015: 157,3	2016: 293,4	2017: 130,17		

*Source:* own table by data of Ministry of Economy, <https://www.mi.government.bg>

The total value of the German direct investments in the period 1996-2017 is 3,26 billion euro by data of Ministry of Economy of Bulgaria. Even without deep analysis, a strongly expressed level of alterations is apparent which can be explained difficultly with external macro-economic factors such as the financial crisis during 2009-2011. Therefore, it is necessary to be paid deeper attention to the business environment of Bulgaria and to the German investors who are already present on this market. A main accent will be placed on the changes in the legislative framework as a basic factor in the creation of a predictable environment; of some cases which for a long time cast shadow on the German investments in Bulgaria; as on the regular research of German-Bulgarian Chamber of Industry and Commerce among its members and partners in Bulgaria.

The structure of the direct investments in Bulgaria is also interesting. According to GBCIC share capital prevails, followed by reinvested earnings and on the last place the debt instruments.

According to Ministry of Economy and Bulgarian Agency for investments, German investors are among the biggest in the country with long-term engagement and added value to the GDP: „The German companies are reliable investors as they engage for long term. The investments are allocated evenly by industries and regions in the country, more than half of them are „on green” by creation of subsidiary or affiliate which leads to the conclusion that German investors assess the conditions for business in Bulgaria as attractive. By preliminary data of BNB, for the period 1996 – 2017 the direct foreign investments /FDI/ from Germany amounts to 3,256 billion euro. During 2017 the investments from Germany are amounting to 130.7 million euro (Ministry of Economy, 2018).

By data of BIA, quoted by Ministry of Economy, around 30% from the 100 biggest investors in Bulgaria are German or with German participation. Leading German investors:

- Aurubis -
- Lufthansa Technik GmbH -
- Schneider Electric -
- Witte Automotive –
- ABB -
- SAP -
- Festo –
- Liebherr Hausgeräte -
- Sparky –
- Grammer -
- Linde Gas -
- Rollmann & Partner -

Leading German investors which in consequence sell the investment to other company are:

- Heidelberger Zement -
- E.ON -
- WAZ -
- Ivan Zografski -
- Lindner International -

On the one hand, this overview shows the presence of big German companies in Bulgaria. However, on the other hand, it becomes also clear that big German investors have withdrawn from the country. It is not a part from one academic work to speculate about the possible and decisive reasons. Rather, it is proper to pay attention to the actual moods among the investors, to their needs, worries and feedback so that eventual external

contribution to their withdrawal from the country can be minimized. The polls that are quoted on other places in the current work give actual reference point on these questions. According to data of Ministry of Economy, a perspective for future investments is the interest shown by German companies to the sphere of: transport infrastructure, energetic, coal mining and communal economy, telecommunications, chemical industry, machine building (including the manufacturing of automobile parts and details), electronics and electrical engineering, food industry and others. These could be as well themes for eventual media work in Germany and among potential investors. The observations of GBCIC are similar as well. According to the Chamber, during the last years Germany invests actively in Bulgaria, particularly in the processing industry, the energetic, and the manufacturing.

The meaning of the German investments for the Bulgarian economy is expressed both in the creation of new work positions and as a part of GDP. From the following graphics of the GBCIC it is apparent that the number of the employed people in the companies with German capital is constantly growing. For 2016, the working in the non-financial sector with German participation from 10% to 100% are 55 373 people. The data of GBCIC show the influence of the direct German investments also as part of the GDP.

*Table 2. Part of the German investments from GDP of Bulgaria*

	2013	2014	2015	2016	2017
The German direct investments in Bulgaria as percent part from GDP of the country	0,2%	0,0%, Because of withdrawal of investments from Bulgaria	0,3%	0,6%	0,3%

*Source:* German-Bulgarian Chamber of Industry and Commerce, Yearbook 2018

In the same time, more and more attention is paid to so the so called “dual education” which is a combination of theoretical and practical preparation. In a number of Western European countries, among which Germany and Switzerland, it has a serious contribution in the fight against the youth unemployment. In Germany, during the last two years of the professional education, the school curriculum includes two days theory in the school and three days of practice in a particular company as is apparent from the bulletins of the Bulgarian Economic Chamber.

The dual education is gaining momentum in Bulgaria as well. Here a few German companies already introduce the dual education through their own centers for professional education. For example, such companies are „Balkan Star” which prepares automobile mechanics, „Rollmann & Partner” which trains dress makers as well as

„Liebherr Hausgeräte Maritsa” which train qualified workers for their production of refrigeration systems. The dual education is set in the German-Bulgarian Chamber of Industry and Commerce as well, which has a particular coordinator regarding these questions. It is not excluded for the business to have a contribution to the faster imposing of this type of professional education on law basis which would be of immediate benefit for other companies as for the economics of the country as well.

A State Enterprise also exists – „Bulgarian-German Center for Professional Education” (BGCPE) with registered office at Sofia and with branches in the cities: Pazardzhik, Pleven, Stara Zagora, Tsarevo and Smolian. The main subject of BGCPE is realization of training for obtaining of professional qualification of persons over 16 years old, training for obtaining of key competence and professional orientation. BGCPE is licensed by the National Agency for Professional Education and Training /NAPET/ for organization and conducting of qualified courses (State Enterprise, 2018).

Next to the training and investments in a number of sectors, including the commercial sector, the presence of German companies in Bulgaria gives an opportunity for a more massive export of Bulgarian goods in Germany. Here can be mentioned different examples of the company for trade „Lidl”. From specific benefit for Bulgarian economics are also the new working positions, created, for example, in economic zone of „Thrace”, as well as the existence of joint German-Bulgarian companies helping for the transfer of knowledge and technologies. Among the leading non-profit making organizations is the so called Automobile cluster Bulgaria which is characterized with considerable German expertise as well.

During the his participation in economic forum in Germany, the President of Bulgaria Rumen Radev synthesized the following benefits from the German investments in the country: „These investments which are invested so far in Bulgaria, as a net dimension of money, are not the most important. The most important is that together with these investments enters a new model of public relations in Bulgaria, a model of irreconcilability with imperfections which decreases our threshold of tolerance to corruption, which creates in us a vision how should look one modern European community.“ (<https://bit.ly/2Q3OO3Y>, 2017).

## **2. Conclusions**

As a whole, the discussions for the role of the FDI in Bulgaria are often politicized and synthesized in a rather simplified way as type of export of the capital outside Bulgaria. What matters if in the overview of the role of FDI for the economics of the country are as the phases of economic development of the separate economies (developed in contrast with developing ones), as the specifications of the separate industries. Different authors measure the influence on different components as well. Some of them

reach to the conclusion that: „... a strong reverse dependency exists between the flow of direct foreign investments and the level of unemployment in Bulgaria. With the growing of the flow of FDI the number of the unemployed decreases, by other equal conditions... By the macroeconomic indicators of Bulgaria now it is particularly important this connection to be used with the objective to achievement of economic stability, recovery after the global financial crisis and decrease of the norm of unemployment. Without a flow of external capitals it is impossible for the country to achieve the high rates of growth preceding the crisis. The Government must continue to impose strict fiscal policy and to perform the planned structural reforms so that Bulgaria can be distinguished with stability in the region of Central and Eastern Europe.“ (Nikolaev, Stancheva, 2017).

It follows the discussion to be lead less on that whether they are useful or not and more on the industries from key meaning for the Bulgarian economics where additional investments to be attracted. The first step is the most difficult – it is a strategy to be marked with clearly defined goals and target groups. The operative measures can include both constant improvement of the investment climate and more intensive communicational policy in Germany. In this way, Bulgaria can define the messages that are published for her and not transform into a passive object of media coverage as were the tendencies in the beginning of the Presidency of EU during 2018.

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