FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH: THE CASE OF BULGARIA

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Abstract

As economic growth is one of the crucial factors for the development of a country, foreign direct investment is one of the tools for achieving it, especially in small open economies such as Bulgaria. However, there are some additional issues to be taken into account, as the privatization inflows which are a result of transition from central-planned economy before 1990 to a market one. State-owned assets have diminished since then and the question is: are there any substitutes for these inflows today?

The purpose of the paper is to review foreign direct inflows and outflows and to analyze their impact on economic growth and on enhancing economic development. The first part of the paper is focused on foreign direct investment in Bulgaria for the last 25 years, while the second one is on the effect of investments on economic growth.

Key words: *foreign direct investment, economic growth, Bulgaria, transition period*

1. INTRODUCTION

The countries in Central and Eastern Europe have experienced the transition period[1] for the last 25 years. They had a different path for their economic development and achieved various results in restructuring and implementing reforms in order to transform the centrally planned economy to a market one. As a result, they are now on different paths for their economic development, but all of them succeeded in their full membership in the European Union.

As for Bulgaria, FDI had a crucial impact on the transition process and for enhancing economic growth. On the one hand, by investment inflows the restructuring of the economy and different sectors speeded up, although some sectors failed in restructuring and some were liquidated. On the other hand, companies have learnt and implemented new approaches and techniques from the foreign investors.

Small and open economies have a number of opportunities for improving their economic development and living standard, especially through the private sector initiative. Usually, there are three main basics needed for investment inflows in such an economy and they are: foreign direct investment (FDI)[2], governmental resources and resources of the company (equity and liabilities).

The role of the government is crucial for economic growth and the development of a country, on the one hand, through the business climate, and on the other, by actively participating in various initiatives. They may be summarized in one or more of the following: public-private partnership, financing from international financial institutions (IFIs), EU funding and privatization in transition economies.

Thus, the above mentioned elements may contribute to increasing the investment inflows in a country as FDI is part of them or it is used as an offset instrument.

- *Public-private partnership*. It is implemented in practice especially for strategic and enormous projects in different sectors predominantly in energy, construction, and other civil services of importance and for authorities at central government and municipality level.

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[1] When analyzing the transition period in Bulgaria it should be mentioned that it refers to the period from 1990 to 2007. After entering the EU, Bulgaria is considered as a developed country in analyses and statistics of major institutions.
[2] Definition and types of FDI are analyzed in the third part of the paper.

- *Financing from International financial institutions*. As a member of one or more of the IFIs, such as the World Bank Group, the International Monetary Fund, the European Bank for Reconstruction and Development, the Asian Development Bank or another regional organization, for both the investors and governments there is a possibility for negotiating better conditions for ensuring financing, especially in the long run.
- *EU funding*. In case a country is a member state of the European Union (EU), the funds of the EU are another opportunity for adding value to economy. Moreover, the EU funds are applicable for implementing the common policies in different areas. Thus the difference in economic development among the member states may be reduced and even disappear. Of course, certain rules and procedures should be fulfilled for acquiring EU funding.
- *Privatization*. FDI, especially for transition economies, is an ideal resource for restructuring and transforming the centrally planned structure of the economy to a functioning market one. Although, it is a long process with many obstacles and challenges, it can be regarded as an opportunity for attracting FDI. When transition economies started selling the state owned enterprises and the state shares in the various companies, foreign investors were eager to start business in these new markets. However, there was a difference among the privatization period and type in Central and Eastern Europe countries. Thus, the inflows from FDI differ significantly in those countries.

Main obstacles for enhancing investment inflows in a country, are related to the improvement of the *business environment and administrative capacity* of the central governmental agencies and municipalities. But are all investments in various sectors a must in an economy and are they really of great importance to its development? Or is it crucial that the investments should be channeled in production of goods primarily or at least in these sectors that lead to creating sustainability in economic development.

There is another point when discussing the effect of FDI over the economy and it is the share of the investments as a contribution to the GDP of a country. Is there a positive correlation between the two economic indicators GDP and FDI or on the contrary?

Some argue that FDI is a tool of the multinational companies for entering an economy or a company and even they are used for managing with their competitors and for increasing their market share. As most recent data on global trends for FDI show, the mergers and acquisitions take a significant percentage in the investment inflows and outflows. Therefore, attracting more investments should not be the only target for the economic policy rather than achieving sustainable results for growth and preserve them at least in the middle run.

Another crucial issue when discussing FDI is that not all investment inflows are of great importance for enhancing economic development. Some of them are only money transfers and affect more the financial sector rather the economy as a whole. Thus, the structure of FDI is crucial for making the conclusions for its future development.

The purpose of the paper is to review FDI for the last 25 years of the transition in Bulgaria and to analyze their impact on the economic growth and on enhancing economic development. The literature review presents some ideas for FDI discussed and analyzed by various authors. It is significant to point out that FDI is one of the most discussed issues in the field of international economics and finance as it concerns and affects lots of other economic sectors.

The first part of the paper is focused on FDI in Bulgaria during the period from 1990 to 2015 as their structure, trends and institutional sectors which are preferred for investments, are reviewed as well. Three periods are defined in order to analyze the investment flows for the whole period and to present the trends. Finally, the impact of FDI on economic growth in Bulgaria is analyzed as it is crucial for the economic development. The expectations for attracting investments are summarized in the concluding part of the paper.

2. LITERATURE REVIEW

FDI is regarded as a tool used for increasing economic growth in an economy. However, there are certain statements against their supporting impact. How, in fact, FDI affect the growth in the economy, especially in Bulgaria, is a question discussed in various papers in the transition period.

There are authors who analyse FDI structure and origin and thus they suggest the overall impact on the economy. For example, Stoykov and Momchev (Stoykov, I. and S. Momchev, 2009) describe FDI as a reason for improving the business environment and thus affecting the whole economy.

In transition countries, especially those in Central and Eastern Europe, such as Bulgaria, FDI has impact on implementing the reform of the market economy rules by which the market functions. That is something that is crucial for introducing a new way of doing business in these countries as until the beginning of 90s this was a priority for the state rather than the companies, which were 100% state owned.

As the whole region of Central and Eastern Europe was affected by the transition period and almost similar processes have occurred for the last 25 years, a number of authors researched this area concerning FDI and impact on economic growth, such as K. D. Curwin and M. C. Mahutga (2014), C. Jensen (2006) and M. Rădulescu, E. Druică, A. Omran (2012), I. Nikolova (2013).

Another special issue about FDI for countries within European Union is the impact of EU funding. This may result in increasing the economic development by encouraging economic growth through effective and result-oriented absorption (F. Breuss, P. Egger, M. Pfaffermayr, 2010).

The effect of FDI on economic growth in Bulgaria is analysed regarding the EU accession and the restructuring of the economy (D. Bozhilova, 2010), (Bitzenis, A., V. Vlachos, 2013). However, the Bulgarian National Bank is responsible for gathering official data for the investment inflows and outflows and periodically papers are published by different staff members as well.

3. FDI IN BULGARIA IN TRANSITION PERIOD

FDI is one of the important criteria for assessing business environment in a country through the interest of investors. At the same time, an opportunity for economy and domestic companies is given in order to improve their competitiveness by investing in the production of goods or in providing services.

In international practice, *FDI is defined (OECD, 2008)* as an investment which is for or above 10 per cent of the ordinary shares or voting power of an enterprise (direct investment enterprise). However, there may exist different interests when investing in an economy: from expansion of control over the resident company or activities in the domestic country to gaining access to the economy. For instance, the direct investor may enter the economy by subsidiaries in which over 50% of voting power is held, associates with 10 to 50% of the voting power or branches with 100% ownership by the investor.

In most countries and in Bulgaria as well, law does not specify any difference between foreign and domestic investor and only direct investor is recognized. Thus, if there is additional financing for a specific sector or enterprise in an economy, the investor may apply for it or benefit from another services, provided by the central governmental agencies and municipalities.

It is important to point out that in the balance of payments FDI is found in the financial account and is reviewed as inward and outward investment flows and stocks. Flows are regarded as direct investment by a direct investor or a related company in a domestic enterprise. *FDI stocks* are the value of the shares (capital, reserves, reinvested earnings), formed by the parent company and also include debt of its subsidiaries and associates.

FDI flows for associates and subsidiaries consist of net sales of share and loans to the parent company and the reinvested earnings plus net intra-company loans provided by the parent company. As for the branches, the flows are a sum of the increase in reinvested earnings plus net increase in funds received from the parent company. However, in the paper are analyzed FDI in Bulgaria as flows rather than stocks (Figure 1).

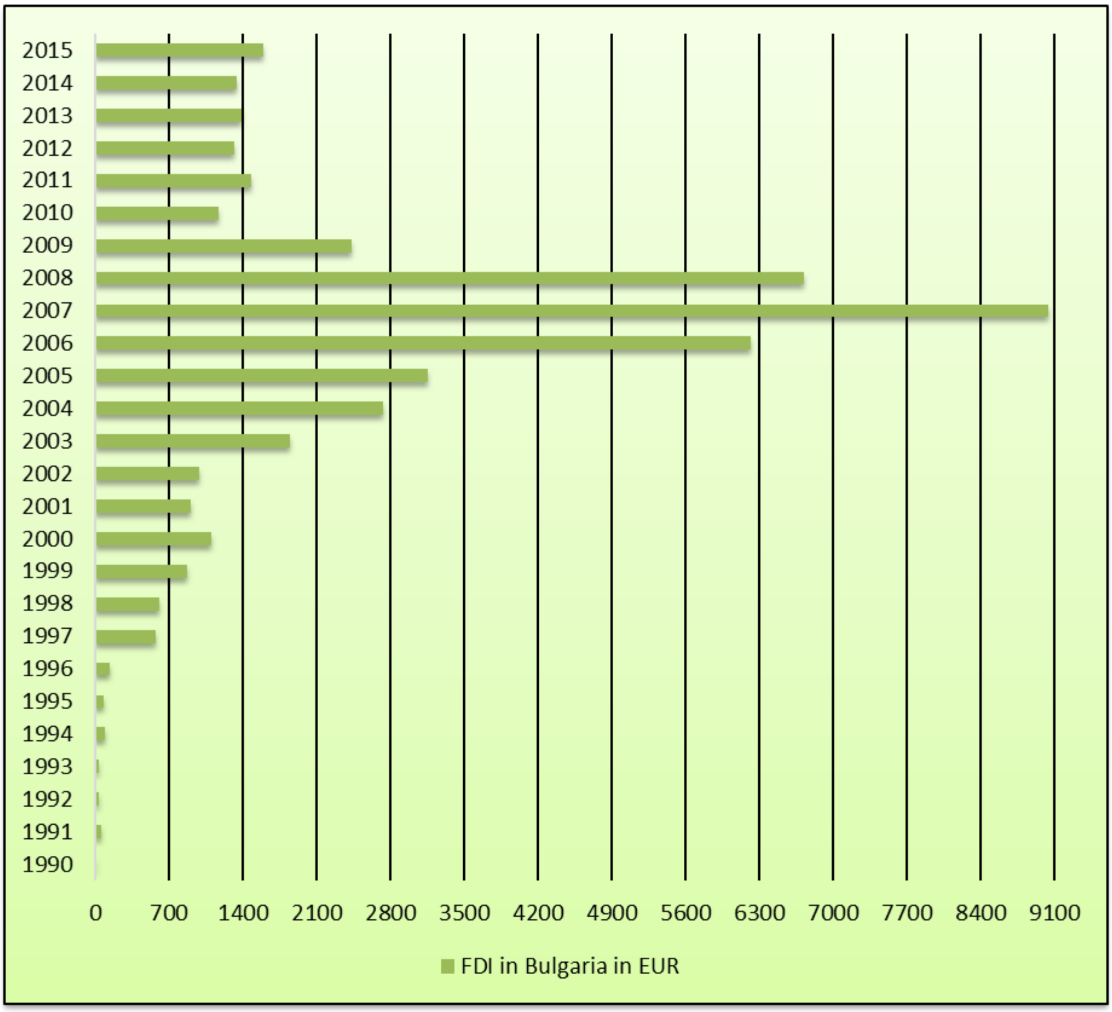
When analyzing the *structure* or different elements of FDI inflows it is usually reviewed as equity capital, reinvestment of earnings and other capital which includes debt instruments. The definition of each of the elements for FDI in Bulgaria is given by the Bulgarian National Bank when publishing the preliminary data of investments (Bulgarian National Bank, 2016). For example, equity includes acquisition shares and equities in cash and contributions in kind by non-residents in capital and reserves of Bulgarian enterprises and payments for real estate deals in the country.

The other element of the FDI is the reinvestment of earnings which consists of foreign direct investors' share in undistributed earnings or loss of enterprises less dividends paid. And the third element is known as other capital or debt instruments which is regarded as the change in net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities. The structure of FDI for Bulgaria during the transition is shown on Figure 2.

In terms of FDI structure leading position has equity capital, followed by the reinvestment of earnings and debt instruments. When the investor acquires a greater share in the domestic enterprise, then the practices of the parent company are applied.

Since end-1989 Bulgaria has been transforming its economy from central planned to a market one and inward investment flows have increased significantly thereafter. As an emerging market the country became attractive to investors later on in late 90s and at the beginning of the new century. However, there were certain trends in FDI in the country for the transition period and afterwards, which should be reviewed.

Figure 1. FDI in Bulgaria, 1990-2015 in EUR million



Source: World Bank, Bulgarian National Bank

When discussing the volume of FDI in the transition period (Figure 1), three different periods may be regarded for explaining the trends and differences: 1. *Beginning of transition* from 1990 to 1996; 2. *Peak in investments* which was during the period 1997-2007; and 3. *Change in investment flows* from 2008 to 2015.

The beginning of transition. In the early 1990s the level of investments expectedly was low as Bulgaria had just appeared as an open economy in Europe. Thus, from 1990 to 1996 FDI were below EUR 200 million. Some factors which should be considered to have an effect on FDI for this period were:

- *The progress in restructuring of the economy of Bulgaria.* In the first years of transition, some laws and acts were introduced in order to facilitate the restructuring of different sectors, such as Commercial Code. However, there was a slowdown in implementing these laws and in transforming the whole economy, especially after 1993. This reflected on the business environment of the country and on the attractiveness of the enterprises to foreign investors as well.

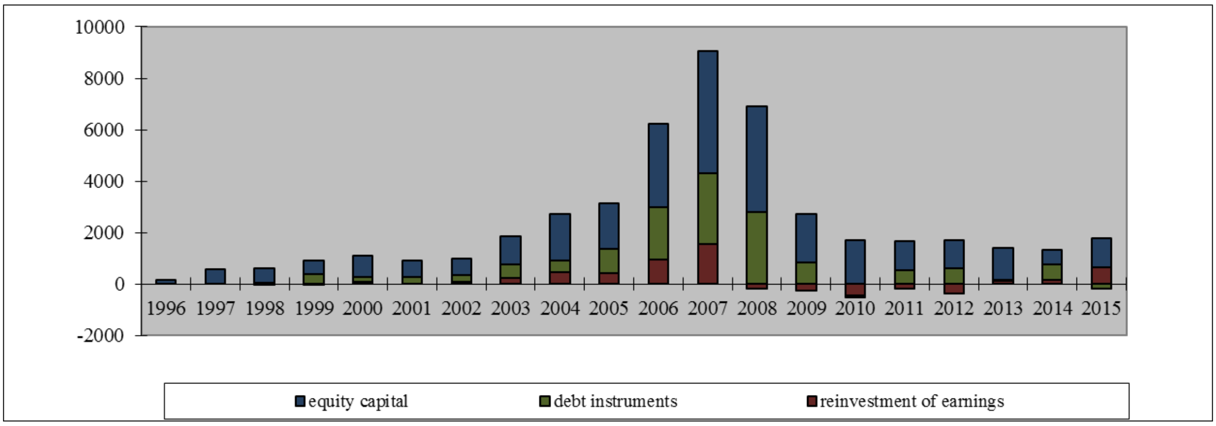
  This slowdown in introducing reforms was due to the hesitation of authorities to which path should the country continue its economic development: either by introducing "shock therapy" (rapid transformation of the economy) as was the case in Poland, Czech Republic, etc., or by gradually implementing reforms. Actually, by hesitating and arguing, the reforms were delayed for mid-90s.

- *Privatization.* As mentioned previously in the introduction, this process was crucial for the transition economies. In Bulgaria, till 1992 there was not law on privatization and the whole process of restructuring of state enterprises was covered by different regulations and recommendations of the central governmental agencies and municipalities. This definitely slowed the process of privatization. However, some separate transactions took place and they were with foreign investors, which was the reason for increasing the investment inflows in the country between 1994 and 1997.

- *Competitiveness of enterprises.* As for the competitiveness of enterprises, most of them had counterparts abroad before 1989 and continued their export and import activities. In first years of transition as restructuring and privatization were implemented on some sectors and on particular entities, state enterprises lost gradually their advantages and competitiveness. There was lack of investments not only in the economy, but in this particular enterprises. So they lost their market share and that affected on the price of enterprises later on. An important issue for the enterprises was their restructuring, which was not implemented for all of them.

However, for this first period of the transition in Bulgaria the legal framework was introduced in order to transform the enterprises that existed and to present the requirements for the newly formed private entities.

Figure 2. Structure of FDI in Bulgaria, 1996-2015 in EUR million



Source: Bulgarian National Bank

Bulgaria became associate member of the European Union and the preparation process for full membership intensified at the end of this period. Later on this process of accession was crucial for the development of the economy and the implementations of reforms in order to improve the synchronization between the Bulgarian and EU law.

Peak in investments. This period started in 1997 and continued for about 10 years with a steadily increasing upward trend. The peak in FDI for the last 25 years, including the transition period in Bulgaria was reached in 2007. As the global financial and economic crisis started in 2007 the investors' intention to enter new markets and emerging economies lowered and they reconsidered their risker projects abroad.

In 1997 FDI increased considerably compared to the previous period due to the intention of the newly elected government to improve the business environment and to implement the reforms in the country. Due to the banking and financial crisis in Bulgaria in 1996 and early 1997, in July 1997 was introduced the currency board arrangement. Thus, the Bulgarian national currency was pegged to the German mark (1 DM was 1000 Bulgarian leva) and later to the euro (1 euro equals 1.95583 new Bulgarian leva).

In 1997 the FDI flows reached about EUR 570 million because of the inflows from privatization in the second half of the year. For comparison, in 1996 FDI amounted only EUR 137 million.

For the period 2001-2007 FDI continued to increase significantly and the investment were directed by foreign investors in different institutional sectors of the economy. However, that remained the main source for fostering the economic growth for these years. For instance, in 2001 the level of FDI is about EUR 903 million and in 2007 reached its peaked with over EUR 9 billion (EUR 9 051 million).

These period characterized by a steady increase in FDI due to some factors:

- *Growth in world economy.* The global economy was in a growth phase and foreign investors were inclined to direct their resources to the emerging markets and transition economies. Thus, investments were directed to Bulgaria as well;
- *EU accession.* As the country started the negotiation process for EU accession, major amendments in the regulations concerning the economic development took place. And the Bulgarian law in the field of investments has been changed. By introducing the Investment Promotion Act in 2004 the foreign and domestic investors were treated the same for the preferences given by the state to A and B class investments;
- *Privatization*. The peak of the privatization in Bulgaria took place between 1998-2001. Majority of state owned enterprises that had not been restructured so far, were object of revision and were either liquidated, restructured or privatized. Thus, larger part of the FDI inflow for the period was due to the privatization of shares in state-owned enterprises and they were predominantly in the form of equity;
- *Other sources of investments.* Except the green field investments which were treated as equity in the structure of FDI, there was a certain rise in the other two elements – reinvestment of earnings and loans. Those kind of investments grew as a result of the economic growth and development and the improvement of business environment.

In 2007 Bulgaria became a member of the European Union. However, the same year the global financial and economic crisis started and actually reflected on the economy in the second half of 2008. Furthermore, the spread of the crisis over the Euro area and the followed debt crisis affected the business environment in the country and as a result of that FDI inflows diminished significantly.

Change in investments. For the period between 2008-2015 privatization incomes lessened, however EU funding[3] opportunities were present. As a new EU member state, Bulgaria got an opportunity to boost its economic growth and to encourage development of different institutional sectors. For the first years of the EU membership the level of absorption was low compared to 2009 and afterwards. Thus,

[3] EU funding through the programs and grants is a tool of the European Union to diminish the discrepancies among the member states.

for the first programming period of Bulgaria, as of end-December 2015 the rate for all the operational programs reached 86.3%.

However, due to the global crisis and in the Euro area, FDI in Bulgaria for this period decreased. In 2008 the decline in investments was gradual and they amounted EUR 6 727.8 million, but in 2009 dropped dramatically to EUR 2 436.9 million. This trend for the period continued and the bottom of FDI was reached in 2010 with a volume of only EUR 1 169.7 million.

In the following years the volume of FDI slightly improved compared to the bottom of investments and in 2011 FDI reached EUR 1 476.3 million. For period 2012-2014 FDI fluctuated around EUR 1 350 million and in 2015 were approximately EUR 1 600 million (EUR 1 593.4 million), rising by 16% from the previous year where the FDI amounted to EUR 1 339.1 million.

As for the FDI structure for the period, a significant downward change was reviewed in debt instruments as their volume diminished and even with a negative value. For instance, in 2008 the instruments were EUR 2 801.5 million and in 2010 dropped to EUR 73.3 million with a negative sign. They slightly improved in the next years but never reached the volumes before the crisis. In 2015 the debt instruments were again with a negative sign EUR 184.5 million.

In the meantime, the equity changed as well, but for most of the years it was the part of FDI that had the most important impact. For example, over 70% of FDI was due to the equity as in some of the years it was even higher. However, the reinvestment of earnings (Figure 2) decreased significantly and even for most of the years after the start of the crisis it was negative. Loans between the domestic companies and their foreign affiliates or parent companies diminished as well, and even there was outflow for 2008-2011.

The equity amounted to EUR 1 133.8 million in 2015 and grew by EUR 556.6 million or 96.4% compared to equity in 2014 with about EUR 577.2 million. Meanwhile, the reinvestment of earnings reached EUR 644.1 million compared with EUR167.1 million in 2014. And the net debt instruments were negative totaling EUR 184.5 million in 2015 in comparison to EUR 594.7 million in 2014 with a positive value.

It is necessary to point out that these changes in investment flows were due to:

- *Start of the global financial and economic crisis from 2007 and later on of the debt crisis in Euro area*. Both the crises changed the investors' attitude and the development of the world economy. That resulted in a slowdown of FDI for the transition economies and for Bulgaria, in particular. Actually those crises affected not only on the investment flows, but on the economic growth and development as well.
- *Restructuring of the economy.* The restructuring from centrally planned to market economy actually finished and only separate transactions for privatization of state shares took place. Thus, the revenue form privatization lessened and reflected on FDI.
- *Mergers and acquisitions of enterprises.* Cross-border mergers and acquisitions are the engine of the FDI at the moment for developed countries and for transition economies. However, there were not much of this kind of transactions for Bulgaria in order to improve the volume of FDI in recent years.
- *Loans between domestic enterprises and the parent companies.* Lending between parent companies and affiliates, subsidiaries and branches assisted in the investment flows for the period. Despite in most cases the loans were not directed into green field investments, they improved slightly the FDI in the country.

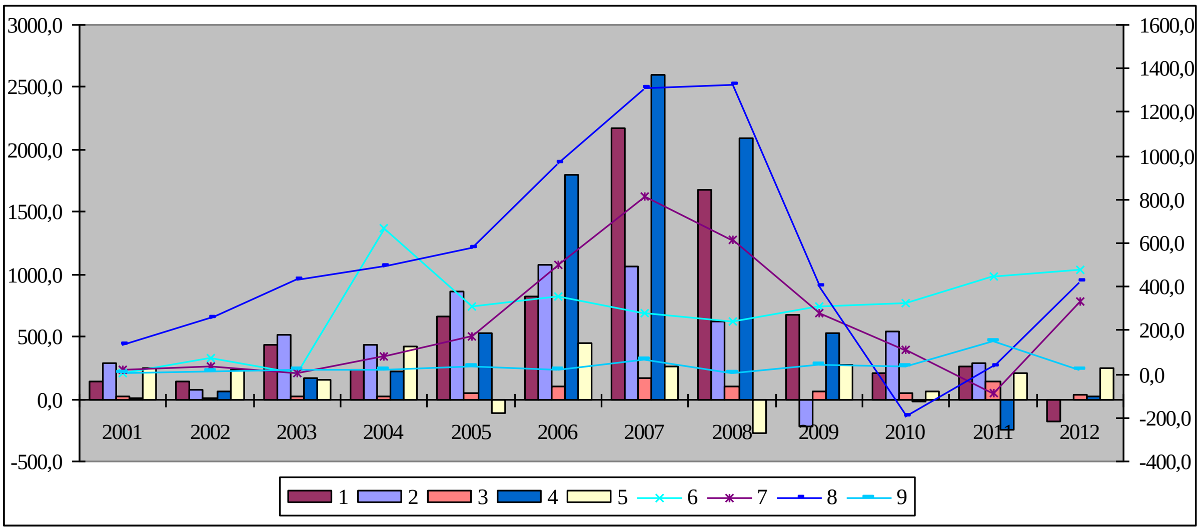
The institutional sectors of the economy in which investments flows are distributed are divided into nine major groups (Figure 3)[4]. Most of the sectors followed the trends of FDI in the country for the presented

[4] The number of institutional sectors, applied by the Bulgarian National Bank is 16, such as education, agriculture, healthcare and social services, etc. However, in the paper are reviewed those which have a significant share in FDI flows.

periods. As a result of the global financial and economic crisis over the Bulgarian economy, in 2008 there was a slowdown in investments in the institutional sectors, which in 2009 turned into a sharp decline.

The sectors with an increase in attracting FDI before the global financial crisis were trade, real estate, financial and non-financial services. As expected the impact of the crisis over the economy reflected with a slowdown in investments in all the sectors, but with a significant decline in manufacturing, transport and construction where a negative value was recorded for the period 2008-2012.

Figure 3. FDI by institutional sectors, 2001-2012 in EUR million



Source: Bulgarian National Bank

In Figure 3 FDI by institutional sectors includes: 1 – financial intermediaries; 2 – manufacturing; 3 – hotel and restaurants; 4 – real estate; 5 – transport; 6 – energy; 7 – construction; 8 – trade; 9 – mining industry.

In recent years in Bulgaria, institutional sectors, attractive to investors were services (transport, financial services, tourism), energy and trade. The rise in FDI in mining industry and manufacturing were a result of specific transactions for the purchase of enterprises and further development in the country of the business. In most cases, the production was export-oriented rather than for the domestic market.

In 2014 FDI in manufacturing reached EUR 8 945 million and in the sector of services, such as trade, transport, tourism, etc.) it leveled EUR 4 576 million. Thus, both the manufacturing and services formed 61.6% of the volume of FDI. There was a slight rise in the construction with about 7% compared to 2013, reaching EUR 994 million.

The expectations for 2016 are for increasing FDI net flows for Bulgaria and for improving the volume of investments in tourism, construction, real estate, manufacturing. However, the external and internal environment are quite dynamic and as a result certain changes in the FDI flows may occur.

4. ECONOMIC GROWTH AND IMPACT OF FDI

One of the targets in an economy is to achieve sustainable economic growth and development. Usually one of the results from such a growth is the increased demand, employment and an improved standard of living.

How does FDI affect the economic growth in Bulgaria? As seen in the previous section, the FDI flows in Bulgaria changed dramatically throughout the whole period of transition and after the EU accession. The figure 4 shows FDI in the country and their share as a percentage of GDP.

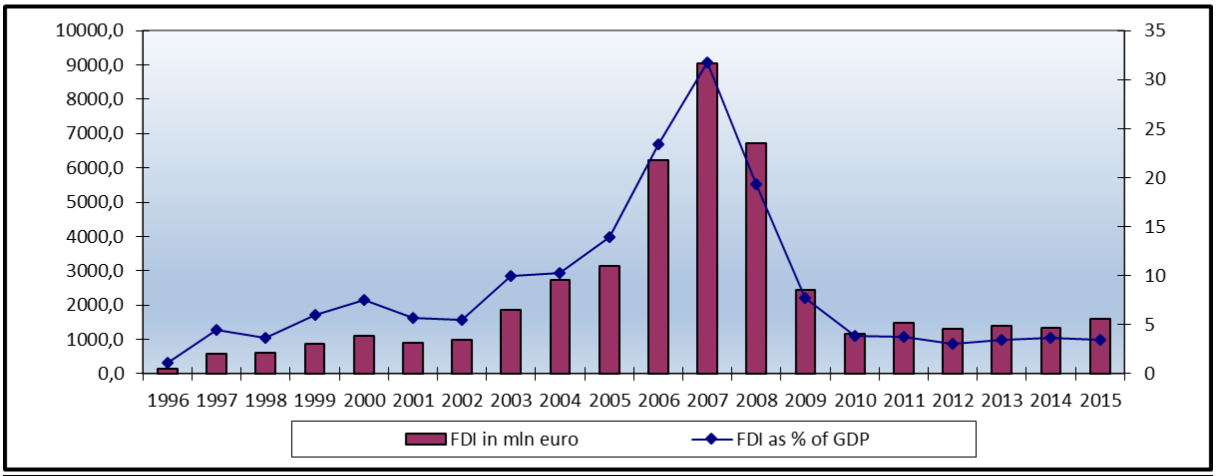
Most of the FDI flows, especially in second period of FDI trends, were a result of the restructuring process and privatization which attracted investors in different institutional sectors. Later on, it was a result of the environment, both external and internal, as a small open economy could not achieve a considerable economic growth when the region was and still is in a crisis. For instance, when Greece entered the debt crisis, the growth in Bulgaria diminished no matter that there were not any significant issues influencing directly.

The impact of FDI on the economy may be reviewed as a two-way process because the economy itself affects the investments inflows and outflows to a country by the business environment. Thus, two major issues should be kept in mind when discussing economic growth and FDI:

- *External environment* for the country;
- *Internal environment* in a country.

External environment. Usually this includes the development of the world economy, investors attitude towards different regions and the role of the multinational companies. Trends in the global economy in terms of investment, such as cross-border mergers and acquisitions, investments in developing countries, affect the ability to attract FDI in the country.

Figure 4. FDI as percentage of GDP, 1996-2015



Source: Bulgarian National Bank, World Bank

Some of the world trends in recent years for FDI flows are:

- ❖ Investment flows in developed countries and economies in transition have continued to decline while those in developing countries are significantly higher;
- ❖ Cross-border mergers and acquisitions increased slightly and together with the reinvestment of earnings are the main factor for the rise in FDI in the world and in some particular regions. For instance, in 2014 the value of the transactions increased by 16% in developed economies and by 66 % in developing and transition economies;
- ❖ Green-field investments have declined in the years after the global crisis which is expected to affect the economic growth in the long run.

As FDI is directed towards other parts of the world (Asia, Africa), Bulgarian companies cannot attract foreign investments without considering the economic development of European Union and the region.

As a result, Bulgaria could be expected to become an attractive destination for investments after the recovery of the Euro area from recession.

Internal environment. The macroeconomic policy and especially the governmental role in increasing FDI flows is considered in the internal environment. However, the frequency in changing the regulatory framework in a country should be taken into account as well.

Firstly, *governmental resources* are regarded as an option for adding value to the economy if they are invested in production of goods and in providing services, especially when these are green-field investments. In which case, they contribute for increasing employment and improving the business climate. Even when invested in education, resources from governmental budget are expected to have impact on middle and long term growth. Of course, the opposite effect appears when the resources are channeled for social expenses only, rather than in one of the above mentioned.

When discussing the role of government through its resources, there are some issues that should be taken into account. One thing is how state should act in economy and what is more, what should be its share in different activities and sectors. In economic theory and in practice, there are different approaches for spending budget resources and surpluses. Still, it is important that they are invested while following a certain strategy for developing a sector or sectors in an economy.

Moreover, a government may support a company or a sector not only with direct financial resources but through law incentives and tax or other fees reduction. Usually, this a way to stimulate the investments in a certain sector or a company, especially when it is a crucial one for the economy.

However, another issue concerning the role of the government is law and different regulations for business. On the one hand, there are some limitations, for example, when in European Union the state regulations limit the support from budget to certain levels per annum. If these levels are exceeded, then it is regarded as state aid and procedures against this member state are started.

On the other hand, the state may apply measure for attracting investments, again through different law incentives. In Bulgaria, the Investment Promotion Act (November 2014), where the governmental support is described, is introduced in 1997 and was last amended in November 2014. It states that companies (or investors) are divided into three groups if they are to benefit from this act:

- Class A
- Class B
- Priority investment project.

There are certain requirements that should be fulfilled in order to attain a certificate A or B or to have a Priority investment project:

- Setting-up a new enterprise; extending an existing enterprise or activity; diversification of enterprise output into new additional products; significant change in production process of existing enterprise or activity;
- Investments should be in industrial or services sector for classes A and B, or in all economic activities for priority investments projects.

Some additional requirements may apply for each of the mentioned category and sector which is related with the specifics of the economic activities.

There should be noted that law does not recognize foreign and domestic investors as a specific category and it gives priority to direct investments only if they meet certain criteria.

The role of government is significant for investors as it defines business environment as well as strategic view for the economic development. Both are of great importance for investors intention, especially when the investments are in the long run.

In order to encourage investment process in companies a state may not recognize a special difference between internal (domestic) and foreign investments (for instance, the Investment Promotion Act in Bulgaria and in other member states as well).

FDI remains the main source of financing activities in the industry sector and non-financial services. In addition, the own resources of the economy are not sufficient for a rapid economic growth and FDI along with the EU funding are the two important investment inflows in Bulgaria.

5. CONCLUSIONS

The impact of FDI on the economic growth and on development is one of the most discussed topics in the field of international economics and finance. Definitely, there is a positive relationship between the economic growth and the FDI flows, especially when the country has no enough resources, such as the transition economies and Bulgaria, in particular.

Of course, there are critics of FDI positive effect on the economic growth as investors may easily change one country for another, in case some threats for their business occur or they find better conditions elsewhere.

When the world economy is in crisis or on the opposite in economic growth, FDI flows are an opportunity for enterprises to implement their business plans. In fact, FDI and EU funding are the only investment inflows for the Bulgarian economy in times of crisis.

However, attracting FDI in Bulgaria depends not only on economic growth in the world and in the region, but on the macroeconomic policy of the country as well. However, the green filed investments are the key for adding value to the economy in the long run.

At microeconomic level, multinational corporations have an important role for domestic enterprises for improving their competitiveness, increasing their market share and production facilities. However, there are some drawbacks, such as losing identity or an easy transfer of investment especially when they are in the services sector.

Major issues in attracting FDI in the country are the business environment and administrative burden of starting and further development of activities of domestic enterprises. The global financial and economic crisis and later the debt crisis in Euro area countries have contributed for the slowdown in the economic growth of the country and even increasing outflows from the country.

The opportunities for attracting more FDI in the economy are related to the implementation of the predictable financial and economic policy at macroeconomic level and stable business environment.

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