Financial Market Report
Bulgaria
Country Profile: Bulgaria
Raiffeisen Research. As of April 2019.

Currency: Lev

Gross Domestic Product and Budget

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019e</th>
<th>2020f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth, % p.a.</td>
<td>3.8</td>
<td>3.1</td>
<td>3.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Nominal GDP, €bn</td>
<td>51.6</td>
<td>55.2</td>
<td>58.5</td>
<td>61.5</td>
</tr>
<tr>
<td>Per capita GDP, PPP basis, €</td>
<td>13.300</td>
<td>13.900</td>
<td>14.300</td>
<td>14.500</td>
</tr>
<tr>
<td>Growth in industrial output, % p.a.</td>
<td>3.5</td>
<td>0.8</td>
<td>2.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Consolidated budget deficit, % of GDP</td>
<td>0.9</td>
<td>0.1</td>
<td>-0.5</td>
<td>-0.5</td>
</tr>
</tbody>
</table>

Inflation and Employment

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019e</th>
<th>2020f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobless rate, annual average, %</td>
<td>6.2</td>
<td>5.2</td>
<td>5.5</td>
<td>5.8</td>
</tr>
<tr>
<td>Average monthly gross wage, €</td>
<td>534</td>
<td>579</td>
<td>642</td>
<td>701</td>
</tr>
<tr>
<td>Consumer price inflation, annual average, % p.a.</td>
<td>2.1</td>
<td>2.8</td>
<td>3.1</td>
<td>3.4</td>
</tr>
</tbody>
</table>

Balance of Trade and Current Account

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019e</th>
<th>2020f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods exports, €bn</td>
<td>26.7</td>
<td>28.8</td>
<td>30.2</td>
<td>32.1</td>
</tr>
<tr>
<td>Goods imports, €bn</td>
<td>30.2</td>
<td>32.0</td>
<td>33.9</td>
<td>35.9</td>
</tr>
<tr>
<td>Current account deficit, €bn</td>
<td>3.4</td>
<td>2.5</td>
<td>1.7</td>
<td>1.0</td>
</tr>
<tr>
<td>Current account deficit, % of GDP</td>
<td>6.5</td>
<td>4.6</td>
<td>2.9</td>
<td>1.6</td>
</tr>
<tr>
<td>Foreign debt, % of GDP</td>
<td>63.1</td>
<td>59.3</td>
<td>57.2</td>
<td>59.4</td>
</tr>
</tbody>
</table>

Rates of Exchange and Interest Rates

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019e</th>
<th>2020f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local currency/US$ (average)</td>
<td>1.73</td>
<td>1.66</td>
<td>1.71</td>
<td>1.62</td>
</tr>
<tr>
<td>Local currency/€ (average)</td>
<td>1.96</td>
<td>1.96</td>
<td>1.96</td>
<td>1.96</td>
</tr>
<tr>
<td>3-month money market rate (TRIBOR), average, %</td>
<td>0.02</td>
<td>-0.05</td>
<td>1.00</td>
<td>n.v.</td>
</tr>
</tbody>
</table>

Country Ratings

<p>| | |</p>
<table>
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</thead>
<tbody>
<tr>
<td>S&amp;P</td>
<td>BBB-</td>
</tr>
<tr>
<td>Moody’s</td>
<td>Baa2</td>
</tr>
<tr>
<td>Fitch</td>
<td>BBB</td>
</tr>
</tbody>
</table>

n.a.: not available.
U: unrated.
The Bulgarian Financial Market

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Important:

Despite thorough research and the use of reliable sources, we cannot accept responsibility or liability for the completeness or accuracy of this brochure’s contents. The purpose of this brochure is to give you initial, general information to help you develop business relationships in Bulgaria. The content of this brochure does not constitute any form of advice or offer or invitation to make an offer.

Prepared in cooperation with AUSSENWIRTSCHAFT AUSTRIA at WKÖ (the Austrian Federal Economic Chamber).

Sources:
Raiffeisen Bank International AG
WKÖ: Bulgaria Country Report; Special Reports: Setting up a Company and Taxes in Bulgaria, Property and Receivables in Bulgaria, of the AUSSENWIRTSCHAFT AUSTRIA

Copy deadline: May 2019.
1. The Economic and Political Situation in Bulgaria

Bulgaria has a GDP per capita equivalent to EUR 7,141, which, in terms of purchasing power parity, corresponds to EUR 13,300, which is approximately 40% of the GDP per capita in the Eurozone. Real GDP in Bulgaria grew by 3.6% p.a. in 2017 in comparison to the previous year; this was slightly less than in the previous year, but significantly above the levels of the recession years before that (2009-2014). Strong internal demand and investments were the crucial factors for this growth, with demand in turn being driven by a strong rise in consumer demand (4.5% in comparison to 2016). As a result of these dynamics, imports have increased significantly (7.2% p.a.) and this has led to a negative contribution to GDP growth of net exports for 2017 in conjunction with a relatively poor export growth (4.0% p.a.). We expect an increase in GDP in 2018 and 2019 of 4.0% and 3.8% respectively compared to the previous year. Again, the main factors in this will be investments and the private consumption of goods and services, which will accelerate due to low interest rates and increasing wages. At the same time, a further increase in imports is expected from this rise combined with a moderately higher oil price; this rise in imports will lead to a gap in the commercial balance sheet with continuing poorer export growth.

Average inflation for 2017 was 2.0% compared to the previous year, meaning inflation is significantly above the previous years. We expect inflation to rise again in 2018, which would correspond to the tendency of returning to the long-term trend. The unemployment rate in 2017 was 6.2%. We expect unemployment to fall further during 2018 and 2019, which, in turn, could contribute to increased inflationary pressure. As a reaction to the GDP momentum, unemployment is expected to sink marginally in 2018 to an average of 5.7%, accompanied by an increase in wages and salaries of about 9.1% p.a. in 2018.

As in 2016, only to a slightly lesser degree, the 2017 budget exhibited a surplus of 0.9% of GDP after significant budget deficits in the last few years. However, we expect slight budget deficits again for 2018 and 2019. After reaching an all-time national debt high in 2016 with 29.1%, the debt ratio fell last year for the first time in seven years – to 25.1% of GDP. In view of the above described development in the budget deficit, we expect the national debt ratio to stagnate in the coming years.

Bulgaria’s current account showed a surplus of 3.9% of GDP in 2017. We expect the current account to also exhibit a surplus in the coming years, though at a slightly lower level. Foreign debt amounts to 64.6% of GDP (2017) and has therefore seen a downward trend in the last few years. We also expect the foreign debt ratios to fall in the coming years.

The Central Bank is considered to be highly effective in dealing with the currency regime (Currency Board) and introducing a sophisticated banking supervision system. Nonetheless, the Currency Board regime, which has fixed the Bulgarian lev at 1.95583 to the euro, significantly restricts the Central Bank’s room for manoeuvre when it comes to the monetary policy, thereby neglecting the fiscal policy as an important instrument of economic governance. The Currency Board is stable: in December 2017, coverage of the monetary base with foreign exchange reserves reached 156.4% against a requirement of 100%. The EU Commission considers Bulgaria as the next country to join the Eurozone. However, acceptance into the monetary union should not be rushed and the criteria must be complied with. According to the Commission, Bulgaria fulfils the criteria in an exemplary manner.

The parliamentary elections of 2017 saw the conservative GERB (Citizens for European Development of Bulgaria) emerge as the strongest party under the leadership of Boyko Borisov. The election was hailed as a landmark decision for the future of Bulgarian politics, but arguments within the coalition could cause uncertainty again in the future.
2. Company Law

2.1. Contractual Representation

Commercial representation is regulated by the Republic of Bulgaria’s trade act. A commercial representa-
tive is an independent trader who arranges or effects commercial business for another trader in exchange
for payment. With the exception of a prohibition on competition, and a right to termination benefits, contract
contents are unregulated.

As representative is not one of Bulgaria’s traditional professions, finding a representative is often very dif-
ficult. Sometimes, a foreign company already operating in Bulgaria, whether a commercial firm or another
manufacturer in a related field, can act as representative so as to make better use of its branch in Bulgaria.

2.2. Representative units

Any foreign individual or legal entity with the characteristics of a trader can set up a representative unit
(“representative” or “liaison” office) of his/her/its own. Commercial agencies do not have a legal personality
of their own. As a result, they cannot themselves carry on a business activity (they are dependent branches
without authority to act).

Experience has shown that a representative or liaison office is a very simple way to enter the Bulgarian
market. However, their scope for action is limited. To set up a representative or liaison office, one must
merely register it with the chamber of trade and industry.

It is, of course, extremely important to choose the right office manager, and the choice of office premises
is also very important if the office manager’s home is not suitable for this purpose. Since a representative
unit of this kind does not have a legal personality of its own and cannot carry on a business activity of its
own, it does not have to pay corporation tax. The employment contract can charge personal taxes on to
office managers and any other employees, but not compulsory social security contributions.

In addition, one can also set up a dependent branch with representative powers. It must be registered with
the court.
2.3. Companies

Bulgarian company law is laid down in part three of the second book of the trade act. Because foreigners and Bulgarians must be treated equally, Bulgarian trade law also applies to companies set up by foreigners. Companies can formed as

- general partnerships (Sabiratelno drushestwo, abbreviated as SD – СД);
- limited liability companies (Drushestwo s ograniitschena otgowornost, abbreviated as OOD – ООД);
- limited partnerships (Komanditno drushestwo, abbreviated as KD – КД);
- partnerships limited by shares (Komanditno drushestwo s akzii, abbreviated as KDA – КДА); or
- joint-stock companies (Aktionierno drushestwo, abbreviated as AD – АД).

According to the trade act, only these kinds of company can be formed. However, a consortium of traders can also be set up in the form of a civil law partnership. In contrast to the situation under Austrian law, every company is a legal entity and is subject to corporation tax. Foreign investors can also establish themselves as sole traders (but to do so, they must be legally competent persons established in Bulgaria), and this too is regulated by the trade act.

The Austrian speciality of a company that has a limited liability company as general partner — the GmbH & Co KG — is not provided for in Bulgarian trade law. Although registering one is not ruled out, it would make little sense because of the limited partnership’s liability for corporation tax. Instead, one can set up a partnership limited by shares in which shares are issued to evidence stakes in the limited partner. Establishing oneself as a partnership (sole trader, general partnership, limited partnership or partnership limited by shares) is unusual and entails many risks and other downsides. The normal solution is to enter the market with a representative unit and set up a limited liability company as the scale of the business increases.

Limited liability company

One can set up a limited liability company in Bulgaria with little difficulty much as one can in Austria. As in Austria, its boards and bodies are the partners’ meeting and the manager(s). A supervisory board is not provided for. Memoranda and articles of association usually only contain the minimum contents required by the law, with further details normally being laid down in internal rules of procedure.

At the moment, a limited liability company in Bulgaria must have capital stock of at least BGN 2 which is the equivalent of roughly €1. At least 70% of the capital stock must have been paid in at the time the company is formed. Contributions in kind are valued by three experts appointed by the court. The specimen signature(s) of the manager(s) must be notarized. The partners’ liability is limited to the amount of their shares of the company’s capital stock.

One can also set up a so-called one-man (single-person) limited liability company, where 100% of the
capital stock remains the property of the company’s foreign founder. In this case, an “E” for Ednolitschno ("one-man") is placed before the Bulgarian name for limited liability company (OOD, or Druschestvo ogranichtscha otgovornost). In the case of an EOOD, a deed of formation takes the place of the memorandum and articles of association. The partners’ meeting and manager can be the same person in the case of an EOOD, namely the “managing partner”. A limited liability company gains legal personality upon being registered in the trade register.

**Joint-stock company**

A joint-stock company must have capital stock of at least BGN 50,000 (or approximately €25,565). The minimum capital of joint-stock banking, insurance and health insurance companies is regulated in a special act. At least 25% of the capital stock must have been paid in at the time of registration. “One man” joint-stock companies (“EADs”) can also be set up. When a joint-stock company is set up through contributions in kind (real estate), a notarized declaration of consent from the contributors and description of contributions in kind will be required. The special requirements for the formation and activities of a public joint-stock company are regulated in the act on public offerings of securities. A joint-stock corporation’s boards and bodies are the shareholders’ meeting and, in contrast to Austria, optionally, a single tier consisting solely of a senate of directors or a two-tier structure of supervisory board and managing board. We strongly recommend using an experienced lawyer to deal with the formalities involved in forming and registering the company and to prepare the memorandum and articles of association, and employing a tax advisor to do the accounting and prepare the financial statements. A joint-stock company gains legal personality upon being registered in the trade register.

**Equity investments**

According to the investment promotion act, every form of investment in a Bulgarian enterprise is permissible. It is of course simplest to buy shares, but one can also purchase normal business interests or interests as sleeping partners or shareholders. Investments of 50% or less are not advisable, regardless of whether the company is a public or private one.
3. Taxes and Legislation


The rates of tax listed below are intended as a guide. The exact amounts will depend on numerous individual provisions. Closer examination of the particular case will be needed to calculate them.

3.1. Company Taxation

Taxation of legal entities’ profits is regulated in the Corporate Income Tax Law. There is a standard corporation tax rate of 10% (flat tax). The basis for assessing profit tax is the taxable profit. Companies may carry a loss forward over five years, while banks may carry it forward over ten.

Under Article 184 of the Corporate Income Tax Law, enterprises are wholly exempt from corporation tax if the jobless rate in the municipality in which their production plant is located is 35% or more above the national average of the preceding year. The same applies for contract manufacturing. Once the employment rate rises, this preferential treatment continues for another five years, calculated from the time the requirement ceases to be satisfied.

General prerequisites for the preferential treatment described above:

• The taxable entity shall meet the requirements for government support for regional development as laid down in the EU’s Regulation on de minimis aid and the Act on Government Support, such as claiming tax abatements and/or tax relief for initial investments.
• The enterprise may not owe any tax or insurance contributions to the government.

Furthermore, for the purposes of promoting employment, tax relief is provided when the following types of persons are employed for longer than twelve months:

• Long-term jobless persons (over one year out of work)
• Older jobless persons (over 50 years of age)
• Jobless persons with reduced capacity for work
The tax relief is implemented by deducting the wages paid to the persons in question, and the social security and health insurance contributions that have been paid for them, from the company’s financial income in accounting terms for the first twelve months of the person’s employment. The general prerequisite for this preferential treatment is the satisfaction of the requirements laid down in EC Regulation 2204/2002 (e.g. employment of jobless persons; the jobs created shall be maintained for a minimum period of three years, etc.).

Producers of unprocessed agricultural products also benefit from tax relief (60 per cent).

Further taxes are regulated in the Corporate Income Tax Law’s section on taxing expenditure: social security tax (10 per cent), tax on representative expenses (10 per cent), and tax on car maintenance costs (10 per cent). These outlays and the respective taxes are recognised as business expenses.

In addition, quantity-dependent and turnover-dependent excise taxes (“excises”) are charged on alcohol, tobacco products and similar luxury goods as well as vehicles and energy products under the Law on Excise Duties and Tax Warehouses. Their amount is defined as a fixed sum.

The rates of tax listed in this section are intended as a guide. The exact amounts (e.g. of income tax) will depend on numerous individual provisions. Closer examination of the particular case will be needed to calculate them.

3.2. Value Added Tax/ VAT Number

For the most part, the standard VAT rate is 20% and is regulated in the Value Added Tax Act. Overnight stays in hotels are taxed at 9 per cent. Certain supplies and services are exempt from VAT.

Any person (natural person or legal entity, whether Bulgarian or foreign) who has generated a taxable turnover of more than BGN 50,000 (equivalent to €25,565) in the past twelve months must be VAT registered. Before applying to become VAT registered, the company must be registered under the Tax and Social Security Procedure Code. This process will issue the company with a preliminary identification number.

The application (form) for becoming VAT registered is submitted to the local responsible National Revenue Agency (NAP).

The application is submitted:

• Personally (by natural persons and sole traders)
• By a person who has a legal power to represent (for legal entities and cooperatives)
• By a person who has the power to represent in accordance with the founding contract (applicable to joint-stock companies and social security funds)
• By an accredited representative (tax representative – applicable to foreign persons)
• By a person who is explicitly authorised for this purpose with a power of attorney certified by a notary public
The documents listed below must be enclosed with the application:
1. Information about the taxable turnover per month for the twelve months prior to the current month
2. Information about the total sum of intra-Community earnings in the current year
3. Declaration that the members of company management have not been previously convicted for tax evasion and/or that there are no ongoing criminal proceedings against management for tax evasion.

Additional documents for foreign persons:

4. The foreign person’s certificate of current tax registration abroad, along with a Bulgarian translation
5. Fiscal representation agreement between the foreign person and the accredited representative which has been certified by a notary public (original)
6. Certificate of the accredited representative’s current company registration (if a company) or a copy of their identification card (if a natural person)
7. Certified copy of the company agreement and/or act of foundation (if a legal entity)

The Bulgarian VAT identification number – which is harmonised with the EU – is made up of nine digits and begins with “BG”, for example, BG123456789.

### 3.3. Reverse Charge System

VAT is typically incurred by suppliers and/or service providers. The tax due is transferred to the recipient of performance (B2B) if the supplier and/or service provider is not established in Bulgaria, and supplies the following:

- Natural gas via a transmission pipeline in the EU territory or electricity, heating or cooling energy, if the recipient of performance is VAT registered.
- Goods that are assembled or installed by the supplier or at his or her cost if the recipient of goods is VAT registered and the supplier is established in a different EU country.
- Services (relinquishing/transferring rights to licences, patents, copyrights, trademarks, computer programs, etc.; advertising; services by legal advisors, engineers, accountants, solicitors, etc.; data processing and/or transferring information; hiring staff; banking, financial and insurance services, etc.), if the recipient is liable for taxation.

VAT is typically paid by the recipient of performance for intra-Community supplies. The supplier pays VAT for deliveries to private customers (B2C).
3.4. Excise Tax

When importing, an excise tax ("excise") shall be paid in addition to VAT for certain "luxury goods" such as alcohol, beverages containing alcohol (beer, wine and spirits), and tobacco products. Excises are also due for fuels and electricity. Since 2006, payment of excises can be deferred provided that the goods are stored in a licenced tax warehouse after being imported. An environment tax is collected on car tyre and motorcycle imports. For more details, see the specialist report entitled "Company Foundation and Taxes".

3.5. Double Taxation Treaties

A new double taxation treaty has been in force between Austria and Bulgaria since 1 January 2012. For more details, see the specialist report entitled “Company Foundation and Taxes”.

3.6. Input Tax Deduction

As in all EU countries, input tax deduction depends on certain conditions (e.g. it must concern a commercial activity and/or taxable turnover, have the proper documentation, etc.). You can find detailed information in the specialist report entitled “Input Tax Rebate” or from the Sofia Foreign Trade Centre.

3.7. Rebate Procedure

Submitting the rebate claim on time is an essential requirement for a successful rebate procedure. You can find the exact deadlines and get information about this process from the Sofia Foreign Trade Centre.

3.8. Input Tax Rebate/ Accounting

The VAT rebate procedure for foreign legal entities is stipulated in the Ministry of Finance’s Regulation no. N-9 of 18 December 2009 (in this case, Law Gazette no. 96 of 7 December 2010), which has been in force since 1 January 2010.

Foreign persons who are liable for taxation have the right to a VAT rebate if they fulfill all of the following requirements:

- No place of business or administratvie address, no permanent property, no permanent address and/or common residence in Bulgaria
• No goods supplied and/or services rendered in Bulgaria under the Value Added Tax Act, with the exception of:
  o Supplies at a 0% tax rate
  o Transport services and services associated with international transport within the meaning of Article 30 and 31 of the Value Added Tax Act
  o Goods and services for which the recipient pays the VAT
• Being registered for VAT purposes in the EU country where they are established.
VAT can be rebated for the following goods and services if the requirements listed above are fulfilled:
1. Goods and services that are used by the person in question for taxable supplies to a country where this person is established, and that would have engendered a right to tax credits if these supplies were intended for Bulgaria.
2. Goods and services for the purposes of performing supplies under Article 30 and 31 of the Value Added Tax Act (transport services and services associated with international transport).

Rebates are issued via the standard EU portal for VAT rebates.

3.9. Income Tax

The taxation of individuals (personal taxation) is regulated by the Income Tax Act. Income tax (income of natural persons with a service contract) is 10% (flat tax).

Taxpayers domiciled abroad pay deduction at source of 10% on income from interest, licence fees, rents, services and similar. Deduction at source charged on dividends is generally 5 per cent; however, this provision is not applicable if the foreign person is a resident of an EU or EEA state for tax purposes.

In the case of Austrians, deduction at source may be waived under certain circumstances (following an application to the Bulgarian authorities) in accordance with the double taxation agreement (Federal Law Gazette III 30/2011), which has been in force since 3 February 2011/1 January 2012.
4. Privatization

Privatizations are the responsibility of Bulgaria’s specially created PRIVATISATION AGENCY (Internet: http://priv.government.bg; language for correspondence: English).

The industries that have to date proven to be the most popular targets for privatisation are food and beverages, clothing, certain building materials, timber, metal goods and services. The privatisation process in the manufacturing sector has largely been completed. The energy, environmental and transport sectors appear to be particularly promising targets for privatisation at the moment. See the Privatisation Agency’s website (see above) for up-to-date information about privatisation projects.

We recommend hiring a specialist consulting company if you are planning to invest in a privatisation project. The Austrian trade commission in Sofia will be pleased to provide relevant information.
Bulgaria has ratified the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention). Here, the contracting states undertake to recognise and enforce arbitral awards made in another contracting state.

Consequently, the jurisdiction of the Internationales Schiedsgericht der Wirtschaftskammer Österreich (International Arbitral Centre of the Austrian Federal Economic Chamber), the International Chamber of Commerce (ICC) in Paris or another internationally recognised arbitrator can be agreed in your contract with a Bulgarian counterparty.

Unlike the judgements of state courts, arbitral awards can be enforced practically worldwide. For a dispute to be settled by a court of arbitration, its jurisdiction must have been agreed upon beforehand in writing. It is therefore advisable to include an arbitration clause in the contract with your foreign counterparty.

The Austrian Federal Economic Chamber offers institutional arbitration as a service through the International Arbitral Centre of the Austrian Federal Economic Chamber.

The arbitration clause of the International Arbitral Centre of the Austrian Federal Economic Chamber reads as follows (versions are also available in the languages that are most important for Austrian exporters):

‘All disputes arising out of this contract or related to its violation, termination or nullity shall be finally settled under the Rules of Arbitration and Conciliation of the International Arbitral Centre of the Austrian Federal Economic Chamber in Vienna (Vienna Rules) by one or more arbitrators appointed in accordance with these Rules.’

Useful agreements to supplement this arbitration clause:
• the number of arbitrators shall be ___________________ (one or three);
• the applicable law shall be ______________________;
• the language used during arbitration proceedings shall be _______________________

Detailed information:

Internationales Schiedsgericht der Wirtschaftskammer Österreich
International Arbitral Centre of the Austrian Federal Economic Chamber
Dr. Manfred Heider; Phone: +43-5-90 900-4398; Fax: +43-5-90 900-216.
E-mail: arb@wko.at; Internet: wko.at/arbitration
The fact that you as an Austrian company are a member of the Federal Economic Chamber can in some circumstances be a cause for concern for a strong foreign counterparty. In this case we recommend that you agree on a different arbitral court, such as the one belonging to the International Chamber of Commerce. This has its headquarters in Paris and is represented in Austria by ICC Austria.

Therefore you have the following options:

• If your company has a strong starting position in contract negotiations or if you and your counterparty are roughly equal, we recommend you use the arbitration clause of the Austrian Federal Economic Chamber.
• If on the other hand your company holds a weaker position, or if your counterparty is of equal strength and will not agree to the Austrian Federal Economic Chamber’s arbitration clause, then we recommend that you agree on a different arbitral court, such as that of the International Chamber of Commerce (ICC).

The arbitration clause of the International Chamber of Commerce (ICC) reads as follows: ‘All disputes arising out of or in connection with the present contract shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules.’ This arbitration clause is also available in other languages.

Detailed information:

ICC Austria, International Chamber of Commerce
Dr. Maximilian Burger-Scheidlin; Phone: +43-5-90 900-3701; Fax: +43-5-90 900-3703;
E-mail: icc@wko.at; Internet: www.icc-austria.org.
6. Subsidies and Support

EU cohesion policy / regional policy 2014-2020

Initial situation / status quo
The various regions of Europe, especially Central and Southeastern Europe, exhibit large differences in economic and social development. To strike a balance between the regions, the EU has set the following targets as part of its Europe 2020 strategy:

• Creation of jobs
• Strengthening companies' competitive position
• Promotion of economic growth and sustainable development
• Improvement in EU citizens' life quality

The cohesion / regional policy is aimed at all regions in the EU in order to create intelligent, sustainable and integrative growth. The cohesion policy is defined for a seven-year period (2014-2020). A budget of EUR 351.8 billion, i.e. almost one third of the entire EU budget, is set aside for achieving the above targets in the timeframe mentioned. Within the scope of this budget, funding is granted in the form of non-repayable grants.

Structure of the funding programmes / From EU target to national funding programme
The individual EU member states use the EU targets set under the Europe 2020 strategy to define their national and regional priorities, from which the individual Operational Programmes (OPs) are derived. The Operational Programmes are structured according to region and topic. Within these programmes “priority axes” are defined, which are subject to guidelines approved by the European Commission. The following topics are priorities for the individual countries: Innovation, research & development, job creation, environmental protection, education, SMEs, transport and regional development.

Dedicated national funding agencies (ministries and investment agencies) are responsible for awarding the grants. While grants can be applied for continuously in framework programmes in Austria, they are mostly awarded in the context of “calls” (tender exercises) in Eastern Europe.

For each priority axis mentioned above, tender exercises are held once or twice a year and are open for one to three months. The main assessment criteria for company grants are company size, location, content and impact of the funding project.

How can your company obtain funding?
Clearly defined projects can be submitted during the period when the tender exercise is open. Only complete applications (project description, approvals, budget,...) in the respective national language are accepted. The submitted projects are then evaluated by assessors using a points system based on the guidelines specified/defined in the program. All projects within a “call” take part in a competition. Only those with the highest score are shortlisted for funding commitments.
Getting from the application to the possible disbursement of grants involves going through a complex, time-consuming process. It requires experience in dealing with public authorities and their targets.

**National grants**
In addition to the EU structural funds, companies can also apply for funding from national resources.

The economic importance for the country or region is very important for determining whether the investment project can be funded. The criteria for evaluation are: Minimum investment volume and the number of jobs created as well as the minimum period for which these jobs will exist.

The following investment incentives are possible:
- Tax reductions, tax deferrals and tax exemptions
- Grants
- Loans
- Sureties
- Equity participations
- Discounted land purchases

However, these are subject to the respective national regulations and must be applied for at regional funding agencies.

**Warning:**
- The application must be made before the project begins (= first legally binding obligation).
- The details of the guidelines can change during the tender exercise and must therefore always be kept in view.
- Make contact with the company's bank/funding agency as early as possible.

### Timescale of a project receiving support:

<table>
<thead>
<tr>
<th>Start</th>
<th>Approx. 3 months</th>
<th>Approx. 6 months</th>
<th>Approx. 7 months</th>
<th>Approx. 8 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Wks</td>
<td>2 – 3 Wks</td>
<td>6 – 8 Wks</td>
<td>45 days</td>
<td>45 days</td>
</tr>
<tr>
<td></td>
<td>45 days</td>
<td>30 days</td>
<td>30 days</td>
<td>6 months</td>
</tr>
</tbody>
</table>

**Example: Application & Processing for an Innovative Investment**

- Problem + Analysis
- 1st Project Description
- Clarification of Legal Details + Documentation
- Preparation of Detailed Application + All Enclosures
- Submission of Application + Deadline
- Formal Audit
- Examination of Content + Evaluation
- Support Agreement
- Payment of 1st Instalment
- Interim Report
- Interim Statement
7. Risk Hedging and Financing

Risk hedging of Austria Wirtschaftsservice Gesellschaft mbH (aws, federal funding agency)

Legal framework conditions:

The legal framework conditions of the guarantees issued by aws were redrafted on 1 January 2017. In detail, the regulations are based on the guidelines of the Austrian Federal Ministry of Finance (BMF) for accepting guarantees by aws pursuant to the Guarantees Act 1977, including supplementary conditions for grants.

The aws offers small and medium-sized companies (max. 3,000 employees) with their registered office and operating site in Austria guarantees for loans and lease financing as part of domestic and foreign investments.

Guarantees for national investments:
aws guarantees the financing of economically desirable projects by Austrian companies, i.e.: Construction/expansion investments, modernisation of production facilities, the innovation of processes and procedures, environmental measures or the purchase of, or participation in, companies.

aws guarantees up to 80% (max. EUR 25 m) of the financing amount in the form of a financing guarantee and covers the economic risk of the investor (loan default due to the insolvency of the domestic company) for the bank. In the case of large projects, aws guarantees up to a maximum of one third of the project volume.

Guarantees for international investments:
aws supports Austrian companies (max. 3,000 employees) with direct investments abroad, i.e. establishment of subsidiaries/joint ventures, acquisition of companies/company shares, expansion investments and investments in environmental technologies.

The risk hedging of aws is provided either in the form of a project guarantee or a financing guarantee.

Under the project guarantee, aws hedges the economic risks (insolvency or similar circumstances) of a company’s investment project and undertakes to provide a certain amount of capital up to the maximum guaranteed amount in the event of damage or loss.
aws guarantees up to 50% of the loan used (for large projects up to 1/3 of the project volume). The guarantee fee is dependent on the ratings result calculated when examining the respective project, as well as the term of the guarantee.

Under the international financing guarantee, aws guarantees the financing of Austrian companies for economically desirable projects abroad, i.e.: construction/expansion investments, modernisation of production facilities, the innovation of processes and procedures, environmental measures or the purchase of, or participation in, companies.

aws guarantees up to 80% (max. EUR 25 m) of the financing volume and thereby covers the economic risk of the investor for the bank.

**Conditions of the aws guarantee:**

**National guarantees:**
- Processing fee: 0.25% (one-off) of the assessment basis (max. EUR 30,000)
- Guarantee fee: The guarantee fee depends on the ratings result calculated when examining the respective project as well as the term of the guarantee

**International guarantees:**
- Processing fee: 0.25% (one-off) of the assessment basis (max. EUR 50,000)
- Guarantee fee: The guarantee fee depends on the ratings result calculated when examining the respective project as well as the term of the guarantee.
OeKB (Oesterreichische Kontrollbank AG)

In order to achieve sustainable success in the export business and for investments made abroad, companies need good risk management and attractive financing arrangements. With federal export guarantees and OeKB refinancing packages, the OeKB offers instruments via the respective house banks that strengthen Austrian companies and their partners in global competition. By processing export guarantees, the OeKB acts as the Export Credit Agency (ECA) of the Republic of Austria.

Export guarantees protect the entrepreneur against payment defaults (for economic or political reasons) related to export transactions. In the case of foreign investments, export guarantees provide protection against political risks.

Federal export guarantees also offer an attractive way to access financing for export and investment activities. Export guarantees can be utilised by all large, medium and small companies whose guaranteed transactions have a positive impact on Austria’s current account balance or are in the national interest.

Companies can learn more about the ideal kinds of guarantee from the OeKB Export Service (www.exportservice.at) or from their house bank. OeKB’s export financing process provides the possibility of refinancing exports and equity participations abroad. This export financing process is available as a source of refinancing at domestic and foreign commercial banks and is offered to companies via these banks within the scope of their export business and foreign investments.

The prerequisites for this type of financing are
• A federal guarantee as required by the Export Funding Act (EFA), or
• A guarantee from a credit insurer within the meaning of the EFA
• A guarantee from aws, or
• A guarantee of an international organisation within the meaning of the EFA.

Furthermore, the financing of the underlying supplies/services must bring about a direct or indirect improvement in the Austrian current account balance or be in the Austrian national interest.

ERP fund

The ERP fund is a fund with its own legal personality, which was attached to aws in 2002. ERP loans are reduced-interest loans with multi-year redemption-free periods and multi-year redemption periods, and are collateralised by a guarantee from aws or a bank.

**ERP financing programme**

Companies are eligible to apply which have their registered office and operating site in Austria and which are active in one of the following sectors: industrial or commercial production, research and development services, transport, processing of agricultural products, and trading companies.
The following provides an overview of the available ERP financing programmes:

- ERP - Micro-Credit
- ERP - Technology Programme
- ERP - SME Programme
- ERP - Regional Programme
- ERP - Tourism Programme
- ERP - Transport Programme
- ERP - Forestry Programme
- ERP - Agriculture Programme

**Conditions of ERP loans**

The maximum financing volume is EUR 30 m.

- Term: 6 years (up to 15 years is possible)
- Utilisation period: 0.5 years
- Redemption-free period: 2-3 years, interest fixed at 0.50% p.a.
- Redemption period: 3-4 years, interest fixed at 0.75% p.a.
  - Longer redemption-free and redemption periods are offered for some programmes, i.e.:
    - Future industries, research infrastructure within the scope of the technology programme
    - Infrastructure measures within the scope of the Regional Programme
- Interest rate and redemption costs are anticipatory
- Processing fee: 0.5% - 0.9% of the ERP loan
- The guarantee fee of the guaranteeing bank must be added to these costs.
8. Payment and Account Services at Raiffeisenbank (Bulgaria) E.A.D.

8.1. Cash management products

### Account Services

<table>
<thead>
<tr>
<th></th>
<th>Local Currency (LCY) Current Acc.</th>
<th>LCY Deposit</th>
<th>Foreign Currency (FCY) Current Acc.</th>
<th>FCY Deposit</th>
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</thead>
<tbody>
<tr>
<td>Resident</td>
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<td>✓</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Non-resident</td>
<td>✗</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Credit Interest</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Overdraft Facility</td>
<td>✗</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

### Cash Management local Products & Services

#### Payments, Deposits
- Domestic payments LCY
- Domestic payments FCY
- Foreign payments FCY*
- Domestic direct debits
- Checks
- Check collection
- Cash payments / withdrawals LCY
- Cash payments / withdrawals FCY
- Purchase & Sale of FCY
- Bank cards
- Credit cards
- Money Gram
- Express – M

#### Electronic Banking
- MultiCash
- SWIFT MT940
- SWIFT MT101
- SWIFT MT942 (via MultiCash only)
- EDIFACT (PAYMUL)
- Raiffeisen ONLINE
- E-statements**
- Virtual IBAN
- Virtual POS

#### Liquidity Management
- Overdraft facilities
- Cash Pooling Zero Balancing (within one legal entity in local currency)
- Notional Pooling (within one legal entity in local currency)
- Cash Collection

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* however, restrictions due to the local regulations
** the service “Raiffeisen E-statements” offers access to statements on payment accounts, statements on RaiCARD, VISA and MasterCard, incoming and outgoing SWIFT statements, payment orders, loan advice notes

### Cash Management Group Products & Services

- Cash Management International (CMI)
- CMI@Web
- International Account Reporting
- International Disbursement Service
- Cross-border Target Balancing*
- Cross-border Zero Balancing*
8.2. Legal & Foreign Exchange Regulations

Current Accounts

- In LCY no restrictions.
- In FCY with banks located in Bulgaria - no restrictions; with banks located outside Bulgaria – for individuals no restrictions; corporate and sole traders are required to declare their accounts at the Bulgarian National Bank

Domestic Payments

- In LCY Different declarations should be filled in by the ordering party together with the payment order, as follows:
  - For outgoing payments exceeding the equivalent of BGN 30,000 - Declaration for the origin of the funds in compliance with the law on measures against money laundering
  - For outgoing payments between residents and non-residents equal to or exceeding BGN 100,000.00 equivalent – Statistical form for Bulgarian National Bank, beside the declaration above – when the beneficiary is non resident

- In FCY The purpose for payment should be specified in the payment order; Different declarations should be filled in by the ordering party together with the payment order, as follows:
  - For outgoing payments exceeding the equivalent of BGN 30,000 - Declaration for the origin of the funds in compliance with the law on measures against money laundering
  - For outgoing payments between residents and non-residents equal to or exceeding BGN 100,000.00 equivalent - Statistical form for Bulgarian National Bank, beside the declaration above

For incoming payments exceeding BGN 100,000.00 - Statistical form for Bulgarian National Bank

Foreign Payments

According to foreign currency regulations currently in force – The purpose for payment should be specified in the payment order; Different declarations should be filled in by the ordering party together with the payment order, as follows:

- The purpose for payment should be specified in the payment order;

Different declarations should be filled in by the ordering party together with the payment order, as follows:

- For outgoing payments exceeding the equivalent of BGN 30,000 - Declaration for the origin of the funds in compliance with the law on measures against money laundering; If the outgoing payment is to bank in country outside EU and EEA - documents justifying the reason for payment have to be submitted (e.g. contracts, invoices, etc) in addition.

- For outgoing payments between residents and non-residents equal to or exceeding BGN 100,000.00 equivalent - Statistical form for Bulgarian National Bank, beside the declaration above

- For incoming payments exceeding BGN 100,000.00 - Statistical form for Bulgarian National Bank
8.3. Clearing Mechanisms

**Mechanisms**

- **Description:**
  1) **BISERA** (Banks’ Integrated System for Electronic Payments) is a system for electronic transfer of interbank payments (in BGN only), which is regulated by the Bulgarian National Bank (BNB). BISERA has currently two sessions: the first one involves same day settlement and the second session offers next day settlement.
  2) **Real-time payments via RINGS (Real-time INterbank Gross-settlement System):**
     - RINGS is a system for real-time gross settlement in BNB for execution of final settlement of payments in BGN. Execution of payment through RINGS occurs immediately and individually for each transfer. The system uses SWIFT network and a SWIFT FIN Y-Copy service for interbank flow of payment messages. Bank-to-bank transfers are executed via RINGS. Commercial payments below BGN 100,000.00 are generally executed via BISERA, although they could also be executed through RINGS if the client explicitly instructs the bank to do so.

- **Type**
  - BISERA – netting
  - RINGS – gross settlement

- **Settlement cycle**
  - Remitting bank: 0 – 1 day
  - Clearing centre:
    - BISERA – same day, next day settlement
    - RINGS – same-day settlement
  - Beneficiary bank: BISERA: 0 – 1 day; RINGS: 0 day

**Cash Payments / Withdrawals**

- **In LCY**
  - cash payments: in order to comply with the regulation for implementation of measures against money laundering, for amounts equal to or exceeding BGN 10,000.00 a declaration on the funds origin has to be filled in.
  - cash withdrawals: RBBG’s practice is to require a one day written notice for amounts exceeding BGN 5,000.00.

- **In FCY**
  - cash payments: in order to comply with the regulation for implementation of measures against money laundering, for amounts equal to or exceeding BGN 10,000.00 a declaration on the funds origin has to be filled in.
  - cash withdrawals: RBBG’s practice is to require a two day written notice for amounts exceeding EUR 3,000.00.
### 9. Raiffeisenbank (Bulgaria) E.A.D.

<table>
<thead>
<tr>
<th>Assets, €m</th>
<th>4,119</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branches</td>
<td>146</td>
</tr>
<tr>
<td>Staff</td>
<td>2,589</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shareholder structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raiffeisen SEE Region Holding GmbH</td>
</tr>
</tbody>
</table>

Raiffeisenbank (Bulgaria) EAD was founded in 1994 as the first green field investment on the local banking market. It is a universal bank servicing corporate customers (large, medium and small companies) and providing retail banking services to private individuals, micro companies and entrepreneurs.

At year-end 2018, Raiffeisen had a network of 146 business outlets, which are supplemented by mobile bankers and subsidiaries, offering leasing, asset management and insurance brokerage. The number of customers amounted to more than 610,000 at that date.

The bank is considered a leader in innovation among banks in the market and is constantly aiming at implementing new products and services for its customers via the most relevant and attractive channels.

For three consecutive years in 2016, 2017 and 2018 Raiffeisenbank (Bulgaria) was recognised as “Bank of the Year” by the financial magazine The Banker.

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