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How to Accelerate Economic Growth in the Euroarea?

Dimitar Chobanov

The impetus for this article is a Budget and Finance Committee with the Bulgarian Parliament inquiry to the IME on the question “How to accelerate economic growth in the Euroarea?” because of participation of Bulgarian deputies in an interparliamentary discussion. The scope of the answer is broader as the proposals are relevant not only for the Euroarea (EA) but also for the European Union (EU) as a whole. For that purpose a short SWOT analysis is made without the claim to be comprehensive.

Strengths of EA and EU economies are the relatively good quality of education and healthcare, the availability of trained human resources, the well-developed infrastructure; and the relatively low energy intensity (188 kg of oil equivalent per 1000 euro produced GDP for the EA, in comparison to the United States – 314 kg, but not to Japan 119 kg).¹

Weaknesses are the multitudes of regulations, the great size of the public sector, and the relatively lower R&D expenditures (1.9 percent of GDP for the EA compared to 2.6 percent in the United States and 3.15 percent of GDP in

Japan). At the same time “Europe” works about 35% less than USA and 40% less than “Japan” (according to Olivier Blanchard’s study). According to the OECD/SIGMA measurements in 2001 the burden of the EU legislation on companies in the member states is about EUR 540 billion per year.² (There are not such comprehensive measurements after 2001 but the different assessments of the Lisbon Strategy admit that the situation is even worse.)

Opportunities for the EU and the EA are discovered, at present, mainly by joining of new members from “New Europe” and by strengthening the relations to Mediterranean and other neighbor countries.

Threats to the economy may arise due to worsening demography; the growing gap in incomes per head and the labor productivity with the United States; budget deficits (they are 2.7 percent of GDP in 2004), the growing government debt, as well as unfavorable development in the international conjuncture.

The following initiatives related to the macroeconomic evaluation aimed at accelerating the growth rate of the European Union and the Euroarea economies are proposed:

² See SIGMA (OECD), Improving policy instruments through impact assessment, Sigma paper No. 31, 17 May 2001, p. 40. This is about 3-4% of EU’s GDP. This burden is 2.5 times bigger in Bulgaria.

¹ Eurostat data.

- The EU should be transformed into a free trade area and the restrictions (tariff and non-tariff) on the trade with non-EU countries should be removed, combined with a full rejection of the competition policy, based on concepts like “social” dumping. Since Adam Smith, the freedom of exchange is acknowledged as one of the main sources of economic growth. The removal of the obstacles to free trade would increase the effectiveness and efficiency of European economies by directing resources to the most productive use.

- Limiting the European Central Bank’s functions by enabling a free competition of currencies in EU borders including those issued by private institutions (banks and large corporations); facilitating the adoption of the euro as a legal tender in countries willing to use this currency. Sound money is a substantial element for the economic growth because it does not allow income redistribution, which is not justified by the market competition; they also reduce the uncertainty about the future prices and costs for planning.

- Refusal of so-called “welfare state”; reforms in pension and healthcare system to increase the share of capital pillar and the saving rate. Systems based on solidarity should be reduced to provide the minimum of a certain service while the main package should be secured by individual accounts in separate capital funds. Pension system deficits become very important in the case of worsening demographic indicators and require faster actions in this direction.

- Reforming education as it should provide human resources and be instrumental in the so-called “knowledge-based economy”. Separating this system from the state, using vouchers and decentralization will provide funding for these educational institutions, which are preferred by the market and will increase the quality. This, of course, is applied in some countries but the good cases should be more.

- Private provision of so-called public services and privatization not only of state-owned enterprises which are relatively large in number but also of the other

existing assets of the state (infrastructure, land, forests and mountains, rivers, water, seaside, underground resources, etc.). According to a Deutsche Bank study from September 2004, investment and projects in this area should amount of EUR 15 trillion by 2015. New member states will gain more by this privatization. This is particularly applicable to Bulgaria where there are greater limitations, the information is less and the de facto protection of local privileged persons from foreign investment has continued longer.

- Lowering the tax burden, stimulating the tax competition among the single member states because the tax rate harmonization is harmful for countries willing to develop faster. The situation in new member states implementing policies of lower and flatter taxes on income and profit indicates that they achieve faster economic growth and attract more investment. Moreover, budget deficits should also be decreased thus reducing the possibility for higher debt burden for the next generations.

- Reforming the common agriculture policy through removal of subsidies for this particular industry as well as others; limiting the government interference in agriculture production market (removal of so-called intervention agencies). Common agriculture policy is a substantial element of the EU budget and works as a redistribution mechanism of income to a particular industry on account of the rest. Free trade and competition as well as the lack of subsidies and market interventions would decrease the prices and force farmers to produce more efficiently.

- Liberalizing labor market, labor migration and working time, reducing the regulations related to hiring and firing workers; reforming the social safety net (reducing the size and duration of aids) and facilitating free movement of people and services. This measure is aimed to decreasing the unemployment ratio in EU, which has grown during the last years. Flexible labor market enables creation of new jobs and higher income and gives incentives to people to work instead of rely on social payments.

Presented measures are directed to the expansion of the economic freedom in the European countries, which in turn is highly correlated with achieving higher rate of long-term economic growth. These actions should be an object of further description and extension but they comprise the main path that should be followed

by the EU. A great number of them may and must be applied in Bulgaria where the expected results would be even larger because of the greater need for reforms in the country.

The Liberalization of the EU Labor Market – a Myth or a Reality?

Veliko Dimitrov

The Treaty of Maastricht³ that established the European Union (EU) divided all EU policies, which had to be carried out into three main areas, called pillars.

- The first or “Community” pillar concerns economic, social and environmental policies
- The second or “Community Foreign and Security Policy (CFSP)” pillar concerns foreign policy and military matters
- The third or “Police and Judicial Cooperation in Criminal Matters” (PJCC) unites the efforts in establishing cooperation in the fight against crime. This pillar was originally named “Justice and Home Affairs”

One of the main elements that constitute the first pillar is the institution of a single market, also called a common market. In fact, out of 16 policy fields, setting up the Community pillar, the single market vision is put on the first place and this not by a mere accident. Having all factors of production (goods, services, capital and labor) move freely in a certain area represents the fourth stage of an economic integration⁴, which completion in the EU-zone has actually been the central objective for almost

half a century. Thus, there has always been a bright recognition that market allocation of resources is not a bad thing, but a desirable aim.

But is it just a paper wish that looks into the distant future or it will be soon a reality?

“Unfortunately”, in order to achieve complete economic integration, and therefore to enjoy all the positive implications on economic growth, employment and finally the standard of living, there is no way around the liberalization of all the national markets, be they for goods, services, labor force or financial instruments. That means not only removing physical barriers (borders) and producing common technical standards (which has already been done), it is much more at skipping national regulations which shelter whole industries and markets. Once the competition is blocked there is no way for resources to find their most proper place on a natural basis (impossible to achieve that artificially – command economies) and thus to perform best. Since the allocation of production factors is not effective, occurring costs are at a higher level, and so are the prices.

Liberalization of markets has a perfect mathematical and economical justification however since decisions are taken by politicians and open markets are not a beloved pre-election instrument that does not mean much, it is always at the people’s expenses.

Within the European Union the free movement of the three main production factors – goods, services and capital – is by largely secured (except for import / export quotas on some products and the like), however the labor market in most of the old member states stands closed or hardly accessible as for workers coming from outside the union as for those coming from the new EU-countries.

Before the last enlargement that took place on May 1 2004, 12 out of 15 old members (exceptions: United Kingdom, Ireland and Sweden) introduced special agreements containing restrictions to labor force from the

³ Formally, The Treaty on European Union was signed on 7 February 1992 in Maastricht between the members of the European Community and entered into force on 1 November 1993, under the Delors Commission.

⁴ The degree of economic integration is usually categorized into six stages: Preferential trading area – Free trade area – Customs Union – Common market – Economic and Monetary Union – Complete Economic Integration

new member states. Except for Spain and Finland, the rest (10 countries) stated they would keep these transitional arrangements until 2009, which means sheltering the labor market for 4 more years. Blocking the natural allocation of the labor force resource is definitely not the right way to prosperity, but still can help counting more votes.

A couple of weeks ago the European Commission (EC) adopted a report listing economic arguments against those restrictions, which is to be handed over to EU leaders at a March summit this year. According to the report “the migration flows following the enlargement have had positive effects on the economies of EU15 member states”. In reverse: any restriction of the labor force migration would limit the favorable impact on the economy or generally intensify the negative trends in labor market in the most of the old member states.

The data in the following table undoubtedly supports the conclusions made by the EC experts:

Table 1: Real GDP growth rate (at constant prices 2000; percentage change on previous year)

	2004	2005
USA	4,2 %	3,5 %
United Kingdom	3,2 %	1,8 %
Ireland	4,5 %	4,4 %
Sweden	3,7 %	2,5 %
EU15	2,3 %	1,4 %

Source: Eurostat**

United Kingdom, Ireland and Sweden are exactly those three countries, which did not introduce any transitional arrangements that would have shut out partially or entirely their national labor market. No wonder that their GDP growth rates are significantly higher than the EU15 average (in fact, the difference is even bigger because their rates pull up the average level)*.

The figure for the USA is just a reference point. The annual real GDP growth rate in America would have never been twice and more than twice as high as the one in EU15 if for instance a teacher or a gardener from Texas gets a better job in California but still can not go there because the State of California is sheltering the labor market and does not allow workers from other states to enter.

If that would have happened there, America would not be America and California would not be California.

Why then is it possible in the European Union?

* That could not be the only reason but is still one of the most important ones.

** See [here](#).

Health Insurance of Emigrants in Bulgaria or How the State Blackmails Its Citizens

Adriana Mladenova

At the beginning of 2005 tens of thousands of emigrants started a campaign against the mandatory health insurance system based on the principle of citizenship, which is legally set in Bulgaria and as such is a precedent for the rest of the world. The great scale of the action results from the large number of the emigrants, but despite the active position of those citizens who directly bear the consequences of the regulation and their propositions for a justified amendment of the law and the analysis provided, there is no result until now. On the contrary, the amendments that have been made in the regulation framework of the health insurance

system are unclear and leave a room for discretion, injustice and inefficiency.

Retrospection of the events

On the first March 2005 *Paris News Edition* initiated a subscription list against the mandatory health insurance payments for the Bulgarian emigrants. They wanted to change the law in such a way that the Bulgarians who live abroad not to be obliged to pay health insurance taxes in Bulgaria during the period of their living outside the country.

In May 2005 there was an amendment of the Law on Mandatory Health Insurance, which allowed a small number of the emigrants to be relieved from the duty to pay health security taxes after 2005. However, these Bulgarians have to pay social security taxes in the country

they live in and they should also pay their accumulated obligation during the period between 2000 and 2005 in Bulgaria.

In an open letter to the president of Bulgaria Georgi Parvanov published on 10 May 2005, Bulgarian emigrants wanted to reverse the law amendment. They cited two main problems:

- First, according to the law, there is a provision for relieving future obligations only in case emigrants pay health security tax in the country they live. This means discrimination of the citizens which is against the Constitution.
- Second, the cumbersome bureaucratic procedures and endless administrative rules. The declarations that should be sent to NOI (National Security Institute) cannot be downloaded from the Internet. The emigrants have to declare that they have not used the state health insurance system for the period they have lived abroad.

Not even a single step forward has been made towards greater efficiency and better functioning of the system in order to facilitate the citizens. Once again it seems that the government heads are led by the presumption that the main activity of the Bulgarian citizens, the emigrants in particular, is to follow closely the laws, to pay for services they have never used, to fight against all bureaucratic obstacles and lose their time meanwhile.

A stress should be laid also on the fact that the law limits the ability of people to choose the set of rules under which to live. Once born in Bulgaria, a man is deprived of the opportunity not to pay mandatory social security even if he decides to live in a country where no such system exists.

What is the result of the open letter and the campaign that has been supported by tens of thousand of signatures? The government not only has not changed the law, but made up new “incentives” for paying the security taxes. Every Bulgarian emigrant who has had the imprudence to choose a GP in Bulgaria and has not changed his citizenship has received a letter by NOI at the end of last year, for the sum he owes, together with the accumulated interest payments. The sums are different for each case, but for a period of 5 years, it is about 1000 leva.

According to data by NOI, only 25 000 people or around 5% of emigrants have not chosen a GP and as such are not liable to pay social security taxes.

If the Bulgarian emigrants do not pay their “obligation” or do not appeal against it, the state has the right to distraint their bank accounts and to confiscate their property. What is more, a discussion is widely spread in Bulgaria for the possibility of the state to be able to take away passports on the boundary of citizens who have not paid their security bills.

Findings

The major finding is that the state acts as an aggressor that uses coercion and does not observe even the basic human rights of movement and private property. The case does not even consider whether the emigrant has ever used or will use the health security service. At the same time, he has no right to reject it as the duty is imposed retrospectively on past periods.

Surely, it may be the case that some percentage of the emigrants has used the state health security system without paying for it but this number cannot be estimated and even so, it cannot be a justification for the existing regulation. We are far away from the belief that even an effort is made for a cost-benefit analysis of the law on health security. Benefits for the state include accumulating of resources from “debtors”, while the costs are: (1) expenses for writing and sending the letters, (2) opportunity costs because a part of the emigrants may prefer to stay abroad or to minimize the period of their stay in the country for a danger of having their passports or even property taken away and thus, they will not spend the money they have saved abroad in Bulgaria.

From a macroeconomic point of view, the emigrants are net lenders for the country and the item “Net Transfers from Abroad” has a positive balance and together with Foreign Investments accounts for much of the positive trends in the balance of payment. According to data from BNB (Bulgarian Central Bank), Bulgarians abroad have returned in the country about 616 million Euro for the first 10 months of 2005. Having in mind the multiplication effect of the money, these resources are an important factor and a catalyst for the upsurge of the Bulgarian economy.

Besides the appeal for a change in the law and the particular paragraphs discussed so far, the general faults of the existing health system should be detected. Its main defect is that fact that it is ruled in a bureaucratic manner by state officials which inevitably leads to inefficiency and decision making based on personal and policy interests and intrigues rather than profit seeking.

The mandatory health insurance is a collective fund that accumulates its assets by taking money away from the citizens in the form of social

security taxes. This way of functioning of the system, without incentives and entrepreneurial approach in managing the fund, is doomed to failure. Blackmailing people as a means of collecting revenues for the state system is impermissible and is a direct result of the faulty design of the health insurance system. Payment for the health services should be made on the base of services used, not on the principle of citizenship.

EU SME Programs: A Quick Overview

Krassen Stanchev

European Union

Six years ago, in 2000 (at the meeting of the European Council in Fiera, near Milan) the EU leaders approved the European Charter for Small Enterprises. It calls the member states the Commission to support and encourage SME policies in ten key areas:

1. Education and training for entrepreneurship,
2. Cheaper and faster start-ups,
3. Better legislation and regulation,
4. Greater availability of skills,
5. Improved on line access [to services and public registries/information],
6. Improved benefit from the European single market,
7. Taxation and financial support,
8. Strengthening technological capacity,
9. Access to successful e-business models and to top-class small business support,
10. Stronger and more effective representation of SME interests at EU and national levels

EU accession countries (in 2002, at a conference in Slovenia) and the countries of the Western Balkans (in 2003, in Thessalonica) endorsed the Charter.

The Logic and Implementation

In principle, the areas 1, 4, 6, 8 and 9 might be provided for on a contractual and market basis. Most of the faster growing EU member states follow this approach. But the charter explicitly requires that countries follow set of policies related to SME's, and in this respect countries also differ from prevailing market to not-so-prevailing market based policies.

It is not quite clear what area 10 would mean on EU level, besides a SME Envoy, a set of directives and other not so binding regulations. On national level, as a rule, there is a government authority responsible to SME policy.

Areas 2, 3, 5 and 7 are very different from country to country.

Most of the countries have simplified business registries, some of them, like Germany in 2004, rather recently and some still have the registration with the courts. With exception of Hungary and Slovenia the business registration in all new member state and Romania is already an administrative procedure. Endorsement of the Charter did not lead simplified registration in none of the Balkan countries except Serbia and Montenegro but reforms are under way in Albania, Bosnia and Herzegovina, Bulgaria and Macedonia.

The regulation is a special case in point: according to some estimates, the cost to European forms of responding to EU and national administrative requirements amounts to 540 billion euros per year (3-4 % of GDP).⁵ For many reasons but most due to the harmonization with the EU law, in new member states these

⁵ SIGMA (OECD), Improving policy instruments through impact assessment, Sigma paper No. 31, 17 May 2001, p. 40.

costs are, perhaps, two times higher, as a share of GDP. (Specific research that corresponds to the OECD/SIMGA data is available for only few countries.) Some countries, like EU have adopted, like United Kingdom and to some extent Ireland, have endorse a practice of regular reviews of policies and regulations in pipeline and ex-post from the point of view of small enterprise. In some new member states, SME authorities or ministries of economy have such mandate. In not-yet member states, Bulgaria, Romania, Croatia and Turkey those authorities are rather mediators of EU programs than reviewers of policies on behalf of SME's

Taxation and financial support (area 7) are also very different. As a rule, taxes are low, close to Former Soviet Union nominal levels, in the new member state and much higher in the old Europe. In the new member states government expenditure are at the level of 35% of GDP, in older member state – at, roughly, 45% of GDP.

Financing SME's

EU financial support (meaning EU funds per se, not those of the individual member states) for SME's is difficult to identify. The problem is that it is dispersed in different programs and the issues require specific research. The program that is specifically designed to boost SME competitiveness is the so-called 6th Framework Program.

It will spend EURO 2.338 billion in 2006-2013, they will be distributed on a competitive basis; EURO 473 million for SME research and development. Other subsidies, agriculture and regional will also benefit SME⁶. Financial guaranties are channeled through different investment arms of the European Investment Bank (European Investment Fund - EIF, Venture Capital and Portfolio Guarantees). In 2002, as stated in the 2003 EIF report to the European Parliament, the total SME portfolio amounted to EURO 7 billion. The EIF 2004 -2006 EIF Operational Plan this level of financing will be roughly sustained.⁷

⁶ In 2005, agriculture subsidies were EURO 49 billion and will remain roughly unchanged in the next three years; 2005 regional funds were EURO 32 billion.

⁷ For 2002 figures see: F.A.W Carpenter, European Parliament Hearing of the Budget Committee on the Financial Instruments for SMEs, European Parliament, 2003, p. 3; EIF Operational Plan is

How effective is this financing? It is difficult to answer. Obviously, the funds available at far below the compliance costs to meet EU requirements.

On the other hand, the funds available for member state and non-member states are impossible to identify without a specialized research. And I doubt whether even a focused effort would be able the exact amount of tax-euros and the process of disbursement. In a contrast US taxpayers' support for SME's in the vicinity of EU is readily available on Internet, at: <http://www.usaid.gov/policy/budget/cbj2006/ee/pdf/> The US President's Small Business Administration website has the current fiscal year report on its front-page of Internet. This is not the case in most of the EU countries.

Efficiency

The strength of EU SME programs is that they presuppose a set of macro conditions in terms of fiscal, trade and macro economic policies to be followed as well standards in the area of the rule of law, property rights and access to justice and it has the sets of instruments to impose those preconditions on accession countries. When countries join the Union these instruments are non applicable, the enforcement tools are more of a diplomatic nature but may also include limiting the access to EU funds.

Some of the weaknesses have been mentioned above. In terms of funding, it is rather difficult to obtain without cumbersome bureaucratic paperwork. The interviewed experts said that roughly 60% of the application time is filling forms, and only 40% is devoted to substance, to designing the project and services; under USAID and WB procurement rules the bulk of the time is spent on substance. This might be a subjective statement, but it is a dominant perception of everyone who has had experience with both types of donors.

The process of the European Union Commission programs (e.g. PHARE, TACIS, CARDS – a program for the so called Western Balkans) to establish the level of preparedness of governments to follow proper macro policy objectives is more complicated: it depends on the status of the country vis-a-vie the Union, on the accumulated knowledge by the research directorate of the Commission, and on the ability

available at: www.eif.org.

or the willingness of a government to fill a project fiche. In general, those programs and budget are scrutinized to a lesser extent than programs of individual donor countries, countries, belonging to programs/departments have never cooperated on concrete project basis, irrespectively the rationale and readiness of/for the cooperation. In terms of transparency, there is a room to desire more. Usually, there is a combined effect of two bureaucracies, on the member country and the EU. In December 2005,

the EU Court of Auditors refused for an eleventh year in row to sign off the EU budget.*

* See comment in: Kevin P. Allen, Inaction in Action: the Court of Auditors, European Commissioners and the Problem of Financial Mismanagement, IME, Economic Policy Review, No 34, October-December 2005, available at: www.ime.bg.org/pr_en/index.html.

Where is Bulgaria Among Others in Terms of Providing Access to Its National Legislation on Internet Free of Charge?

Veliko Dimitrov, Kevin Allen

There is always a need to know what are you paying your taxes for. That means in the first place just to know how is your government (not only the Council of Ministers, but also the Parliament) is doing its job. Thus the government produces regulations and rules and to be able to properly assess the rulers, you have to know these rules, i.e. to have access to them: not using a mediator and/or paying a bunch of money (6 010 lv./year for the electronic version now, which is more than 15 average month salaries), but enjoying free access on the Internet to authentic and functional files. Is that really so

hard? It must be since it has not been done yet. Let us look at some other countries:

Probably not by accident Romania and Bulgaria still have not joined the EU. While it is a bit better in Romania you still need to subscribe and pay there to know what your rights and responsibilities are.

Some better practices:

All EU-member states publish their legislation and official announcements on Internet. In some of the countries there is just one legal paper, called legal gazette, while in others there are generally two types – a legal gazette for the national legislation and an official gazette for all kinds of approved official information.

Country, name, type and Internet address of the official paper	Institution responsible for publishing the official paper	Access on Internet	Texts and date (of the texts)	Official character?	Additions on Internet
European Union – “Official Journal of the European Union” – legal gazette - http://europa.eu.int/eur-lex/	Office for Official Publications of the European Communities	Free of charge	PDF from 1998 TIFF from 1952	No	https://forum.eur opa.eu.int/irc/op oce/ojf/info/data/prod/html/gaz1e u.htm
Belgium – “Belgisch Staatsblad” - legal gazette - http://www.staatsblad.be/cgi/welc ome.pl http://www.moniteur.be/cgi/welco me.pl	Belgisch Staatsblad - part of the Federal Public Service Justice	Free of charge	ASCII and PDF from 1997	Yes, just five copies are published on paper	https://forum.eur opa.eu.int/irc/op oce/ojf/info/data/prod/html/gaz1b e.htm
Czech Republik – “Sbírka zákonů - Sb.” (Collection of Acts) - legal gazette	Ministerstvo vnitra České republiky Odbor	Free of charge	PDF from 4.4.1945	No	https://forum.eur opa.eu.int/irc/op oce/ojf/info/data/

<p>“Sbírka mezinárodních smluv - Sb.m.s.”</p> <p>(Collection of International Treaties) - legal gazette - http://www.mvcr.cz/2003/rady/sbirka_rady.html</p>	<p>komunitárního práva – part of Ministry of Interior</p>				<p>prod/html/gaz1cz.htm</p>
<p>Denmark– “Lovtidende” (Official Journal) - legal gazette - http://www.retsinfo.dk/lovtid/lovtid.htm</p>	<p>Civilstyrelsen (Civil Affairs Agency) – part of Ministry of Justice</p>	Free of charge	HTML from 1995	After adopting an amendment in law, yes + just one paper copy	<p>https://forum.euro.ropa.eu.int/irc/opoce/ojf/info/data/prod/html/gaz1dk.htm</p>
<p>Germany – “Bundesgesetzblatt (BGBl.)” (German Federal Legal Gazette) - legal gazette - http://www.bundesgesetzblatt.de</p> <p>“Bundesanzeiger (BAZ)” (Federal Gazette) - official gazette</p>	<p>Bundesanzeiger Verlagsgesellschaft mbH (Bundesanzeiger Publishing House Co. Ltd.) – private company; The federal government through federal Ministry of Justice holds 35,1 % of the shares</p>	Free of charge	PDF from 1998	No	<p>https://forum.euro.ropa.eu.int/irc/opoce/ojf/info/data/prod/html/gaz1de.htm</p>
<p>Estonia – “Riigi Teataja, RT” (State Gazette) - legal gazette - http://www.riigiteataja.ee</p>	<p>Riigi Teataja Kirjastus (State Gazette Publishing House) – a state owned company</p>	Free of charge	HTML and XML from 2002	Yes , + five paper copies	<p>https://forum.euro.ropa.eu.int/irc/opoce/ojf/info/data/prod/html/gaz1ee.htm</p>
<p>Greece – “Fill Efimerida Tis Kivernisis - F.E.K.” (National Gazette Issues) - legal gazette - http://www.et.gr</p>	<p>Ethniko Typografio (National Printing House of Greece) – under Ministry of Interior, public administration and decentralization</p>	Free of charge		No	<p>https://forum.euro.ropa.eu.int/irc/opoce/ojf/info/data/prod/html/gaz1gr.htm</p>
<p>Spain – “Boletín Oficial del Estado” (Official State Bulletin) - legal gazette - http://www.boe.es</p>	<p>Boletín Oficial del Estado (Official State Bulletin) – independent organization</p>	Free of charge	XML from 1960 PDF from 1998 TIFF from 1875	No , but the electronic version is considered authentic	<p>https://forum.euro.ropa.eu.int/irc/opoce/ojf/info/data/prod/html/gaz1es.htm</p>
<p>France – “Journal Officiel de la République française (JORF)” (Official Journal of French Republic) - legal gazette - http://www.journal-officiel.gouv.fr</p>	<p>Direction des Journaux officiels (Directorate of Official Journals) – a state office under the Secretary-General of the Cabinet</p>	Free of charge	PDF, TIFF, HTML from 1990	Yes , since 1 July 2004.	<p>https://forum.euro.ropa.eu.int/irc/opoce/ojf/info/data/prod/html/gaz1fr.htm</p>
<p>Ireland – “Acts of the Oireachtas and Statutory Instruments Iris Oifigiúil” (Irish State Gazette) - legal gazette - http://www.oireachtas.ie (click on 'Legislation') http://www.irisoifigiuil.ie (secondary legislation)</p>	<p>Office of Public Works Supplies Agency – part of the Office for Public Activities</p>	Free of charge	PDF	No	<p>https://forum.euro.ropa.eu.int/irc/opoce/ojf/info/data/prod/html/gaz1ie.htm</p>

<p>Italy – “Gazzetta Ufficiale della Repubblica italiana” (Official Gazette of the Italian Republic) - legal gazette - http://www.normeinrete.it</p>	<p>Ministero della Giustizia - Direzione della Gazzetta Ufficiale della Repubblica Italiana (Ministry of Justice - Directorate of the Official Gazette of the Italian Republic) – part of Ministry of Justice</p>	<p>Free of charge</p>	<p>ASCII and PDF from 1989</p>	<p>No, but a new amendment will change this constellation</p>	<p>https://forum.eur-opa.eu.int/irc/opoce/ojf/info/data/prod/html/gazlit.htm</p>
<p>Cyprus – “Epissimi Efimeridatis Dimokratias tis Kyprou” (Official Gazette of the Republic of Cyprus) - legal gazette - http://www.cygazette.com</p>	<p>Government Printing Office – part of Ministry of Finance</p>	<p>Free of charge</p>	<p>From 2004</p>	<p>Yes</p>	<p>https://forum.eur-opa.eu.int/irc/opoce/ojf/info/data/prod/html/gazlcy.htm</p>
<p>Latvia – “Latvijas Vēstnesis” (Latvian Herald) - legal gazette - http://www.vestnesis.lv</p>	<p>Latvijas Vēstnesis, BO VSIA (Latvian Herald, Ltd) – a company, owned by the government through, Ministry of Justice</p>	<p>Partially free of charge, partially not</p>	<p>HTML from 1996</p>	<p>No</p>	<p>https://forum.eur-opa.eu.int/irc/opoce/ojf/info/data/prod/html/gazllv.htm</p>
<p>Lithuania – “Valstybės Žinios” (Official Gazette) - legal gazette - http://www.valstybes-zinios.lt</p>	<p>Valstybės informacinių leidinių tarnyba “Valstybės žinios” (The Publishing House of the Parliament of Lithuania “Valstybės žinios”) – state company, owned by the Parliament</p>	<p>Subscription for PDF</p>	<p>PDF + Microsoft Word</p>	<p>No</p>	<p>https://forum.eur-opa.eu.int/irc/opoce/ojf/info/data/prod/html/gazllt.htm</p>
<p>Luxembourg – “Mémorial A” - legal gazette “Mémorial B”, “Mémorial C” - official gazette - http://www.legilux.public.lu/</p>	<p>Ministère d'Etat - Service Central de Législation, éditeur du Mémorial (Ministry of State – Central Legislative Service, Editor of the “Mémorial”) – a government agency</p>	<p>Free of charge</p>	<p>Mémorial A, PDF from 1935 Mémorial B and Mémorial C, PDF from 1996</p>	<p>No</p>	<p>https://forum.eur-opa.eu.int/irc/opoce/ojf/info/data/prod/html/gazllu.htm</p>
<p>Hungary – “Magyar Közlöny MK” (Hungarian Official Journal) - legal gazette - http://www.magyarokozlony.hu</p>	<p>Magyar Hivatalos Közlönykiadó (Hungarian Official Journal Publisher) – a company, owned by the government</p>	<p>Free of charge</p>	<p>ASCII from 1990 PDF from 2000 HTML from 1998 XML from 2002 others from 1996</p>	<p>No</p>	<p>https://forum.eur-opa.eu.int/irc/opoce/ojf/info/data/prod/html/gazlhu.htm</p>
<p>Malta – “Il-Gazzetta tal-Gvern ta' Malta” (The Malta Government Gazette) - legal gazette - http://www.doi.gov.mt</p>	<p>Dipartiment ta' l- Informazzjoni (DOI) (Department of Information DOI) – under the Prime Minister</p>	<p>Free of charge</p>	<p>PDF from June 2003</p>	<p>No</p>	<p>https://forum.eur-opa.eu.int/irc/opoce/ojf/info/data/prod/html/gazlmt.htm</p>

<p>The Netherlands – “Staatsblad” (State Journal) - legal gazette http://www.overheid.nl/op/index.html</p> <p>“Nederlandse Staatscourant” (Dutch State Gazette) - official gazette - http://www.staatscourant.nl</p>	<p>SDU Uitgevers BV (SDU Publishers Ltd) – a company, downed by the government</p>	<p>Free of charge</p>	<p>PDF from 1995 HTML from 1998 XML from 2003</p>	<p>No, however after adopting an amendment in law this would be possible</p>	<p>https://forum.euroopa.eu.int/irc/opoce/ojf/info/data/prod/html/gaz1nl.htm</p>
<p>Austria – “Bundesgesetzblatt” (Federal Law Journal) - legal gazette - http://www.ris.bka.gv.at</p> <p>“Amtsblatt zur Wiener Zeitung” (Official Gazette of the Vienna Newspaper) - official gazette</p>	<p>Bundeskanzleramt, Verfassungsdienst (Federal Chancellery, Constitutional Service) – part of the Federal Chancellery</p> <p>The official gazette is published by the Wiener Zeitung</p>	<p>Free of charge</p>	<p>HTML from 1983 to 2003 PDF from 1999 XML from 2004</p>	<p>Yes, paper copies are not published at all</p>	<p>https://forum.euroopa.eu.int/irc/opoce/ojf/info/data/prod/html/gaz1at.htm</p>
<p>Poland – “Dziennik Ustaw Rzeczypospolitej Polskiej (Dz.U.)” (Journal of Laws of the Republic of Poland) - legal gazette - http://www.isip.sejm.gov.pl/prowo/index.html</p> <p>“Dziennik Urzędowy Rzeczypospolitej Polskiej „Monitor Polski” (MP)” (Official Journal of the Republic of Poland “Monitor Polski”) - official gazette</p>	<p>Rządowe Centrum Legislacji - Redakcja Dziennika Ustaw Rzeczypospolitej Polskiej oraz Dziennika Urzędowego Rzeczypospolitej Polskiej „Monitor Polski”(Governmental Centre for Legislation - Editorial office of the Journal of Laws of the Republic of Poland –a state agency</p> <p>Official Journal of the Republic of Poland "Monitor Polski")</p>	<p>Free of charge</p>	<p>PDF from 1995</p>	<p>No</p>	<p>https://forum.euroopa.eu.int/irc/opoce/ojf/info/data/prod/html/gaz1pl.htm</p>
<p>Португалия – “Diário da República (DR)” (Journal of the Republic) - legal gazette - http://www.dre.pt</p>	<p>Imprensa Nacional - Casa da Moeda, SA (The Portuguese Official Printing Office and Mint) – a company, owned by the government</p>	<p>Free of charge</p>	<p>PDF from 1960</p>	<p>No</p>	<p>https://forum.euroopa.eu.int/irc/opoce/ojf/info/data/prod/html/gaz1pt.htm</p>
<p>Slovenia – “Uradni list Republike Slovenije” (The Official Gazette of the Republic of Slovenia) - legal gazette - http://www.uradni-list.si</p>	<p>Javno podjetje Uradni list Republike Slovenije d. o. o. (The Public Company Official Gazette of the Republic of Slovenia d.o.o.) – the major owner – the state</p>	<p>Free of charge</p>	<p>PDF from 1995 HTML from 1995</p>	<p>Yes</p>	<p>https://forum.euroopa.eu.int/irc/opoce/ojf/info/data/prod/html/gaz1si.htm</p>
<p>Slovak Republic – “Zbierka zákonov Slovenskej republiky”</p>	<p>Ministerstvo spravodlivosti</p>	<p>Free of charge</p>	<p>From 1945</p>	<p>No</p>	<p>https://forum.euroopa.eu.int/irc/op</p>

Abbreviation: Z.z. (Official Journal of the Slovak Republic) - legal gazette - http://www.justice.gov.sk http://www.jaspi.justice.gov.sk	Slovenskej republiky (Ministry of Justice of the Slovak Republic) – part of the Ministry of Justice		HTML and PDF		oce/ojf/info/data/prod/html/gaz1sk.htm
Finland – “Suomen säädöskokoelma / Finlands författningssamling ” (Statutes of Finland) - legal gazette - http://www.finlex.fi/lains “ Virallinen lehti, Virle ” (The Official Gazette) - official gazette	Edita Publishing Oy (Edita Publishing Ltd) – company, owned by the government	Free of charge	PDF from 1995	No	https://forum.euroopa.eu.int/irc/opoce/ojf/info/data/prod/html/gaz1fi.htm
Sweden – “ Svensk författningssamling (SFS) ” (Swedish Code of Statutes) - legal gazette - http://www.lagrummet.se “ Post-och Inrikes Tidningar ” (Swedish national Official, under the responsibility of the Swedish Academy) - official gazette	Granskningsenheten, Justitiedepartementet (Division for Legal and Linguistic Draft Revision, Ministry of Justice) – Ministry of Justice	Free of charge	ASCII PDF HTML	No	https://forum.euroopa.eu.int/irc/opoce/ojf/info/data/prod/html/gaz1se.htm
United Kingdom – Acts of parliament and statutory instruments are published as separate titles and are not published as part of a legal gazette. There are annual bound editions of both, the statutory Instruments and all the acts of parliament produced in a year. These are bound and published in numerical order “ The London Gazette, the Belfast Gazette and the Edinburgh Gazette ” - official gazettes - http://www.opsi.gov.uk/legislation/uk.htm	Her Majesty's Stationery Office	Free of charge	Acts from 1988 Statutory instruments from 1987	Yes	https://forum.euroopa.eu.int/irc/opoce/ojf/info/data/prod/html/gaz1uk.htm

How is it in America?

There exist a number of different resources for the procurement of legal information in the United States. Perhaps the most widely referred to is the Federal Register, which is available through the Government’s GPO Access portal. The Federal Register is a legal newspaper published by the National Archives and Records Administration (NARA) of the United States Government. Its purpose is to provide access to the official texts of federal laws, Presidential documents, administrative regulations/notices, and descriptions of Federal organizations, their programs, and activities. Established in 1935 by the Federal Register Act, it contains most

routine publications and notices from government agencies; classified documents notwithstanding. All executive orders and administrative regulations must be published in the Federal Register if they are to be **legally binding***.

As previously mentioned, the Federal Registry is available through GPO Access. GPO Access is a service provided by the United States Government Printing Office that provides free electronic access to information produced by the Federal Government. The information provided on the site is the official published version and the information may generally be used without restrictions. The service is funded by the Federal Depository Library Program and grew out of Public Law 103-40, otherwise known as the

Government Printing Office Electronic Information Enhancement Act of 1993. Although there are no direct statistics on users who access the Federal Register specifically, there are figures on the number of total documents received. The monthly number of retrievals is evidence alone that the public is taking advantage of the free electronic access. The statistics available on the GPO Access website have tracked the number of retrievals from January 1996 to October 2001. Despite the fact that the most recent numbers are over 4 years old, there is a visible and robust trend of increasing retrievals. For example, the number of total retrievals in January 1996 numbered 1,956,342. By October of 2001 that number had climbed to 36,477,548. The overall numbers suggest that retrieval rates increase by an average of approximately 304,958 per month. In

total, the web page has tracked over 1 billion retrievals between 1996 and 2001**. If retrievals from the Registry constitute only 10% of the total (and this is a completely random estimation) then we can assume that this equates to approximately 100,000,000 retrievals.

When considering that most retrievals are well over 1 page, the costs of materials, printing, and labor pale in comparison to the costs of developing and maintaining the website.

Not so eager to talk about the practice in Bulgaria right now. Actually that is not in the least my fault.

* [University of Rhode Island](#)

** [GPO Access](#)

Zero Tax on Reinvested Profit – the Example of Estonia

Georgi Angelov

Corporate taxation in Estonia

The system of taxation of corporate profits, introduced in 2000 in Estonia, is unique. Under this system *the reinvested profit is not taxed*, only the distributed profit is taxed. Thus, the taxation is shifted from the moment when profits are earned to the moment when profits are distributed to the owners of the capital. This is the reason why the Estonian system of corporate taxation became well known as “zero corporate profit on reinvested profit”.

Corporate tax is applied to all distributed profit irrespective of the way it is distributed, including:

- dividends and other profit distributions
- gifts, donations and representation expenses
- expenses and payments not related to business
- fringe benefits

In 2004 the Parliament of Estonia decided to cut the tax rate from 26% in 2004 to 24% in 2005, 23% in 2006 and to reach a 20% tax rate in 2007. The tax base is the gross distributed profit (including the tax), i.e. the tax rate on the net distributed profit is 23/77 of the amount.

Before the introduction of the zero tax on the reinvested profit in Estonia, there existed depreciation allowances – up to 8% for buildings and 40% for equipment. Because there is no taxation of the profits since 2000, there is no need for depreciation allowances.

Revenues in the government budget

In the first years after the introduction of zero corporate tax on the reinvested profits the revenues from this tax in the consolidated budget decreased nearly twice. In 1999 the revenues were 1638.8 million krooni, in 2000 and 2001 the revenues are 854.5 and 748.3 million krooni /see graph 1/. Part of the explanation for this fall of the tax revenues is connected with a transitory rule, which allows to companies that pay dividends to use tax credit for the profit tax, paid before 2000.

However, the drop of tax revenues is short lasting – only three years later, in 2004, the tax revenues from the corporate tax increased nearly four fold and reached 2522 million krooni. Despite the zero corporate tax on the reinvested profit, the revenues from the corporate tax recovered within a few years.

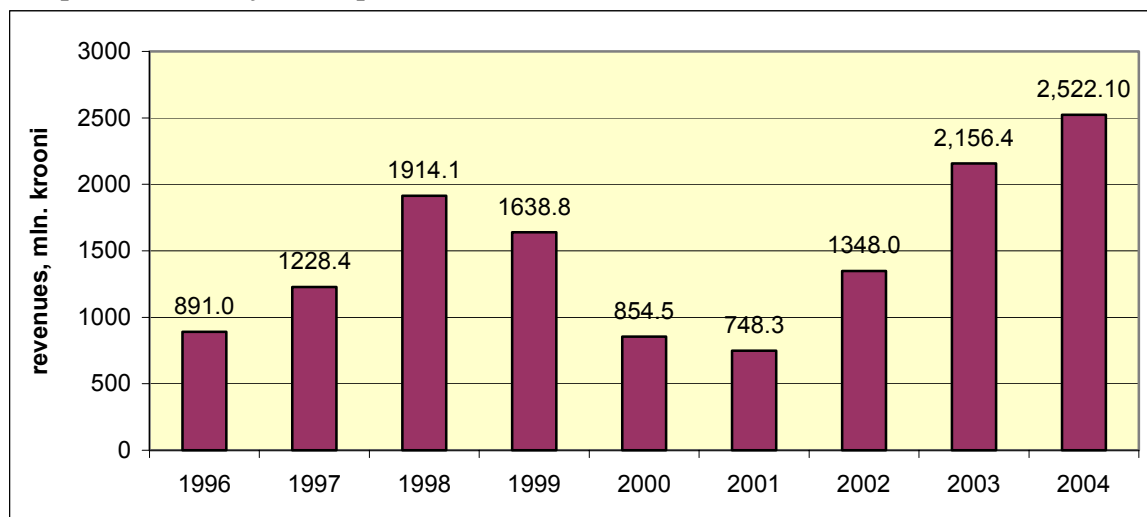
The same tendency can be seen in the corporate tax revenues as percentage of the gross value-added (GDP) /see graph 2/. In the first two years after the introduction of zero corporate tax on the reinvested profit the corporate tax revenues dropped more than two times, but after that rapidly recovered. Moreover, the corporate tax

revenues reached levels higher than the average level for the last nine years.

The introduction of zero corporate tax on the reinvested profit had only a temporary negative effect on the budget revenues, which after that rapidly recovered above the previous levels. The explanation for this phenomenon can be based on the so-called Laffer curve, which shows how the tax cut can lead to higher budget revenues

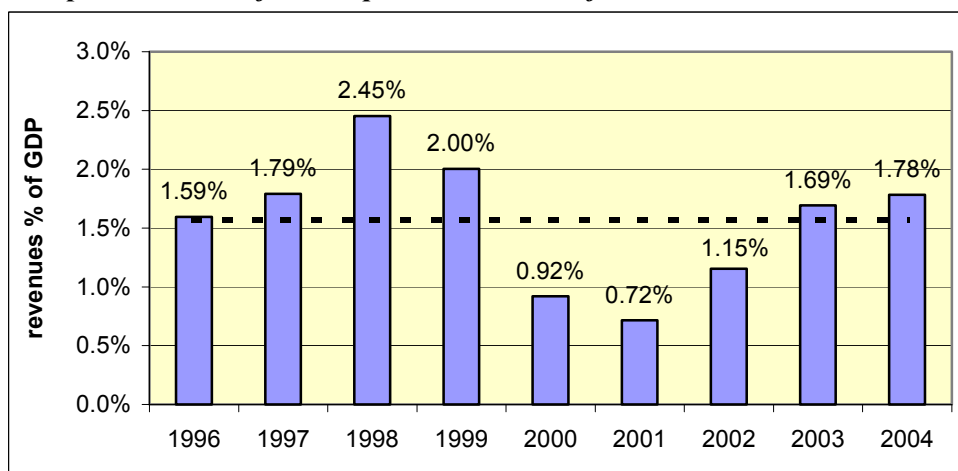
because of dynamic effects – more investments, production and taxable income. This is exactly the conclusion of the Government of Estonia in the “National Report on Economic Reform 2004”: “Estonia’s example is therefore good enough to say that **lower taxes contribute to economic growth while increasing budgetary revenues of the state.**”

Graph 1: Revenues from corporate tax, mln. krooni



Source: Statistical Office of Estonia

Graph 2: Revenues from corporate tax, share of GDP



Source: Statistical Office of Estonia, author’s calculations

Effect on economy

Academic research. In 2001 the Central bank of Finland published a research on the dynamic effects of the introduction of a zero tax rate on the reinvested profit in Estonia.⁸ According to

study “The modeling and calibration results herein strongly support the view that Estonia’s 2000 corporate tax reform should **encourage investment spending**”. A subsequent study in 2005* confirms the positive effects from the introduction of zero corporate tax on reinvested profit – the 2000 tax law leads to higher

⁸ Michael Funke, 2001, “Determining the taxation and investment impacts of Estonia’s 2000 income tax

reform”, Bank of Finland, Institute for Economics in Transition (BOFIT)

investment, including foreign investment, in short, medium and long term.

Foreign investment. In 1999 the foreign direct investments in Estonia were 284 million euro. In the next year, when the zero corporate tax was introduced, they reached 424 million euro, and in 2004 – 838 million euro. Within five years the foreign investment increased three times.

The biggest increase was recorded by the reinvested profit. While in 1999 46 million euro were reinvested, in 2004 this amount reached 573 million euro. It increased 12 times within only 5 years.

The net direct investments, measured as the volume of the foreign investments in Estonia minus the volume of the Estonian investment abroad, also increased considerably. In 1999 they were 205 million, while in 2004 they reached 621 million. The increase is three times greater.

Overall, there is a **significant growth of the foreign investment** in Estonia in the years after the introduction of zero corporate tax on reinvested profit.

Table 1: Foreign direct investment, mln. euro

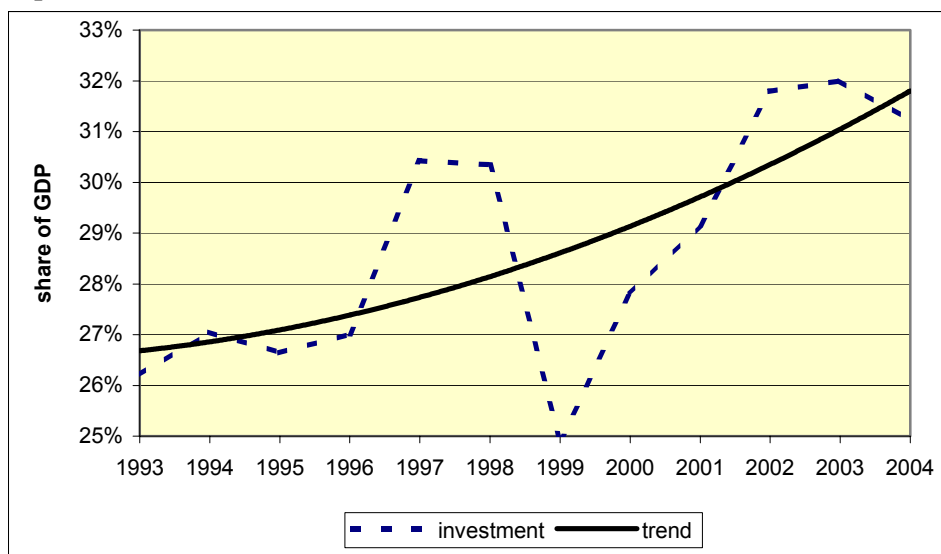
	1999	2000	2001	2002	2003	2004
Direct investment in Estonia	284.3	424.7	602.7	306.8	822.2	838.0
Share capital	163.1	250.9	232.7	52.5	340.6	296.5
Reinvested profit	46.1	116.0	247.9	215.4	409.5	573.0
Other	75.0	50.9	123.1	67.0	94.2	-40.9
Direct investment abroad	-79.2	-66.7	-225.5	-139.9	-137.4	-216.5
Direct investment (net)	205.0	358.0	377.2	166.9	685.0	621.5

Source: Central Bank of Estonia

Total investment. Let's look at development of the total investment, measured by the national accounts methodology /see graph 3/. The investment expenditures are highly variable and depending on many factors, including the business cycle. In order to circumvent this complication, we can examine the trend of the

investment expenditures – the trend will show the direction and magnitude of the change. We can see that, after the introduction of the zero corporate tax on the reinvested profit, **the trend of increase of the share of investment in GDP is accelerating.**

Graph 3: Total investment, 1993 - 2004

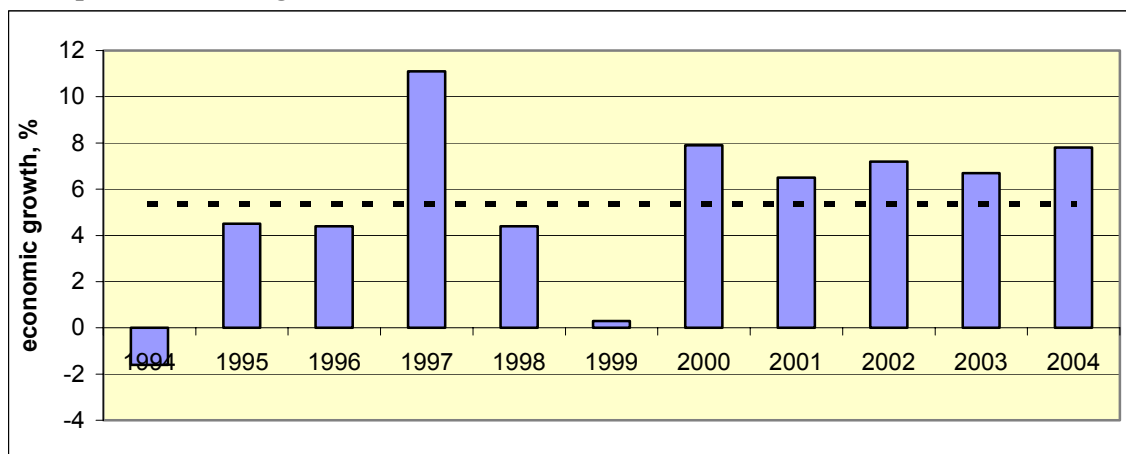


Source: Statistical Office of Estonia, author's calculations

Economic development. The average economic growth between 1993 and 1999 was 3.85%. After the introduction of zero corporate tax on reinvested profit the economic growth nearly doubled and reached 7.22% for the period 2000 – 2004. Each and every year after 2000 the

economic growth is above 6%, and most of the years it is higher than 7%. This shows a **strong increase of the rate economic growth** in the period after the introduction of zero corporate tax on reinvested profit.

Graph 4: Economic growth, 1994 - 2004



Source: Statistical Office of Estonia, author's calculations

Conclusion

The introduction of zero corporate tax on reinvested profit in Estonia in 2000 is an undisputable success. After a short drop, the revenues in the government budget recovered rapidly. The foreign investment increased dramatically. The rate of growth of the total

investment's share in GDP increased. The economic growth almost doubled.

* Michael Funke, Holger Strulik, 2005, "Taxation, Growth And Welfare: Dynamic Effects Of Estonia's 2000 Income Tax Act", Hamburg University mimeo

Landing on Cracked Track

Svetla Kostadinova

State policy on development and management of infrastructure lets us think that either it does not want to "give up" control due to various reasons (lost of influence and the need to reduce considerable part of administration, etc.) or it does not realize the benefits of transferring infrastructure to the private sector. The last is well known by the Ministry of Regional Works and Development since it has variety of information on its website about international experience and the positive impact of private management of airports. All examples are about big airports that have been privatized and the outcome benefits are improved infrastructure, rising of passengers' numbers and their satisfaction.

Airports and Privatization

State failure in airport privatization in Bulgaria is happening because:

- 1) Privatization procedure is highly obstructed (i.e. Varna and Bourgas airports case) that leads to postponing, problems and vitiation of the privatization process in the country. Most of the investors that dare to participate and make long term plans are not sure about the outcome.
- 2) The state protects 'national interest' and sometimes abuses the term 'national security'. The law on privatization and post privatization control contains a special list of enterprises with more than 50% of state shares, privatization of which should be done after approval of the Parliament on suggestion of Council of ministers. This list has been corrected several times and neither its initial version nor its amendments have been grounded. No one really knows how the state would react if a serious

potential investor is interested in one of the listed state companies and wants fast and clear privatization procedure. For information we would say that there are 114 state companies in the list and we assume that all enterprises would need privatization strategy that can be either burdened or meaningless or its creation would last for years.

The list includes big state companies such as airports, harbors, post service, railways, etc. Every attempt so far to privatize some of them has been accompanied by scandals, languishing of investors' interest, enormous budget subsidies, delay of development of attached branches, etc. In recent years state airports were among the few state companies that realized profit and this is the best moment to sell them fast by realizing big fiscal effects for the state.

Sofia Airport – This Month Example

The problems with the collapse of part of the newly built roof and cracked landing-strip of Sofia airport lead us to the following conclusions.

First, the state as investor is a lost cause. In almost all cases when taxpayers' money are spent in the form of subsidies and state-guaranteed loans, the responsibility is common; the interest is not protected as a private investor would do; the control is inefficient and as a result there are grounds for corruption and failure of the project. But most importantly – the responsibility is born by the state which means by all of us.

How much does Sofia airport cost up to now?

Stages of Reconstruction, Development and Enlargement of Sofia Airport Project	Period	Financing (Euro Mln.)	Financing organization	Major contractor
Financial Agreement between EIB and Bulgaria for new passenger terminal	September 1997	60	European Investment Bank	
Construction of new land-trip system	June 1998	41.5	Kuwait Fund for Arab Economic Development	Consortium Mohamed Al-Karafi and Sons – Admak General Contracting Company
Financing of consultancy company for the project	April 1998	7.6	PHARE	
Financing of construction of new passenger terminal	August 2000	50	ISPA	Strabag International
Bulgarian co-financing for new passenger terminal by state budget	December 2000	Not available	State budget	
Total		159.1		

We have not included state administration expenditures or lost benefits from prolonging the project for more than 9 years.

Maybe again to protect the national interest signed contracts with the supervisory company and the contractor are not publicly available. Several newspapers released information about the lack of a clause for “guarantee for good execution” by the supervisor, nor do we know whether in the contract for the new terminal there is possibility for renegotiating prices in case of “rising the price of petrol or steel”. Every time when there is a lack of transparency and publicity of contracts between state and other companies we can expect delays, renegotiating and corruption. It is not clear what the ministry should do to accelerate completion

of the project or how it can terminate the contract. The ministry claims that it will by all means avoid termination of the contract and file a court claim because this can prolong the project for years. How can we be sure however that after new conditions are agreed on there will be no other re-designing and spending of additional state funds?

Second, it should be clear that until the project is completed the state cannot give Sofia airport on concession if it has such intentions. The financing agreements do not allow for concession until these agreements are in force.

To summarize we can say that almost all decisions in relation to Sofia airport are unprofessional and highly politically influenced. Lack of political will for starting and

completing, as faster as possible Sofia airport privatization is the main obstacle and cause for the troubles. It appears that the state “is not ready” to withdraw from its activities and to let private sector do what it best can do – invest, develop and maintain an airport that will provide all clients with good services at competitive prices.

What can be done?

- Full inspection of all stages so far and what is left to be done;
- Request of additional guarantees from the contractor and supervisor of the project for completion until September 2006;
- Receiving of contract forfeit for delays;
- If an agreement is not reached an action against the contractor should be taken – file a lawsuit and after that
- Renegotiating financial agreements with European Commission and EIB that would allow for
- Concession of Sofia airport where the concessionary pays the unused financing so far and the money already spent by current contractor are reimbursed after finishing the court trial;
- Immediate concession of all airports using transparent auction.

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