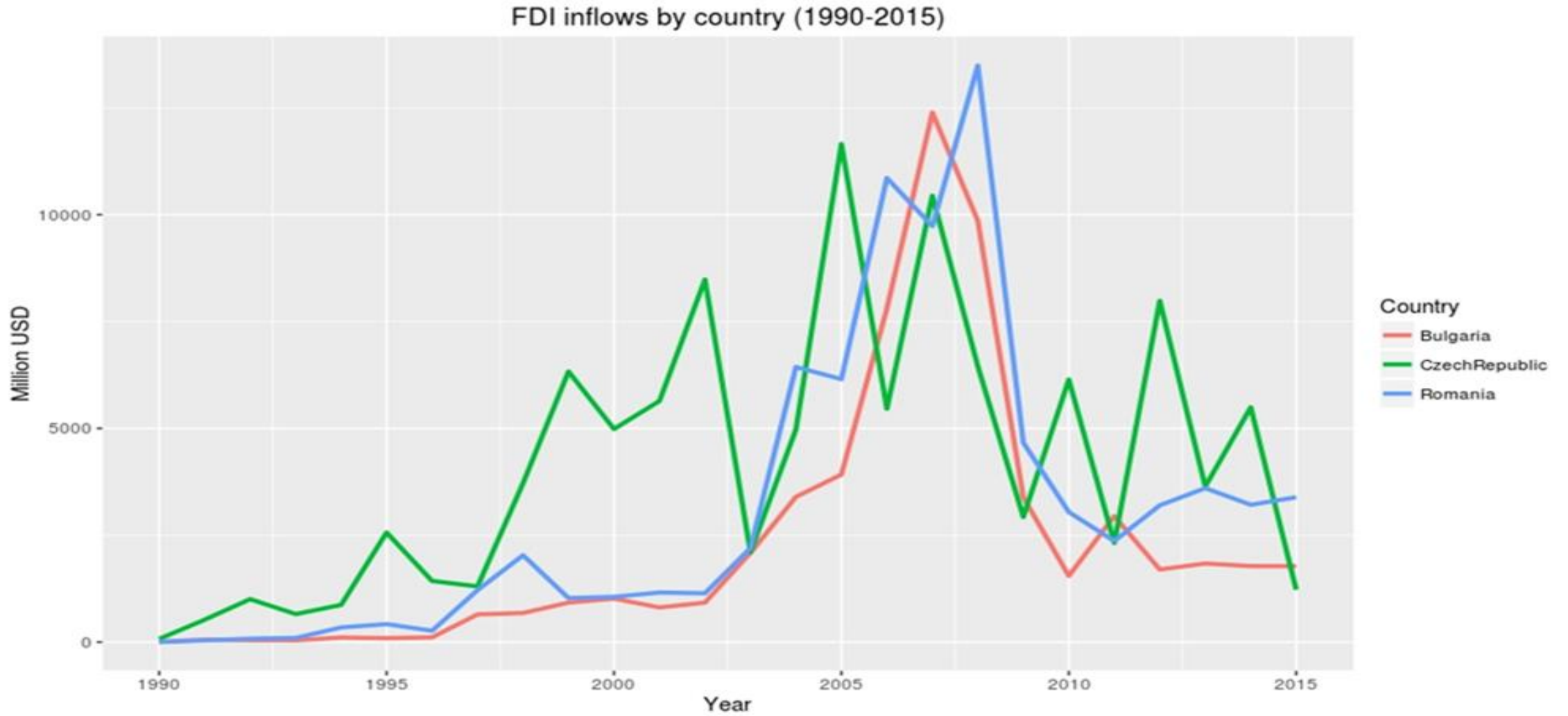


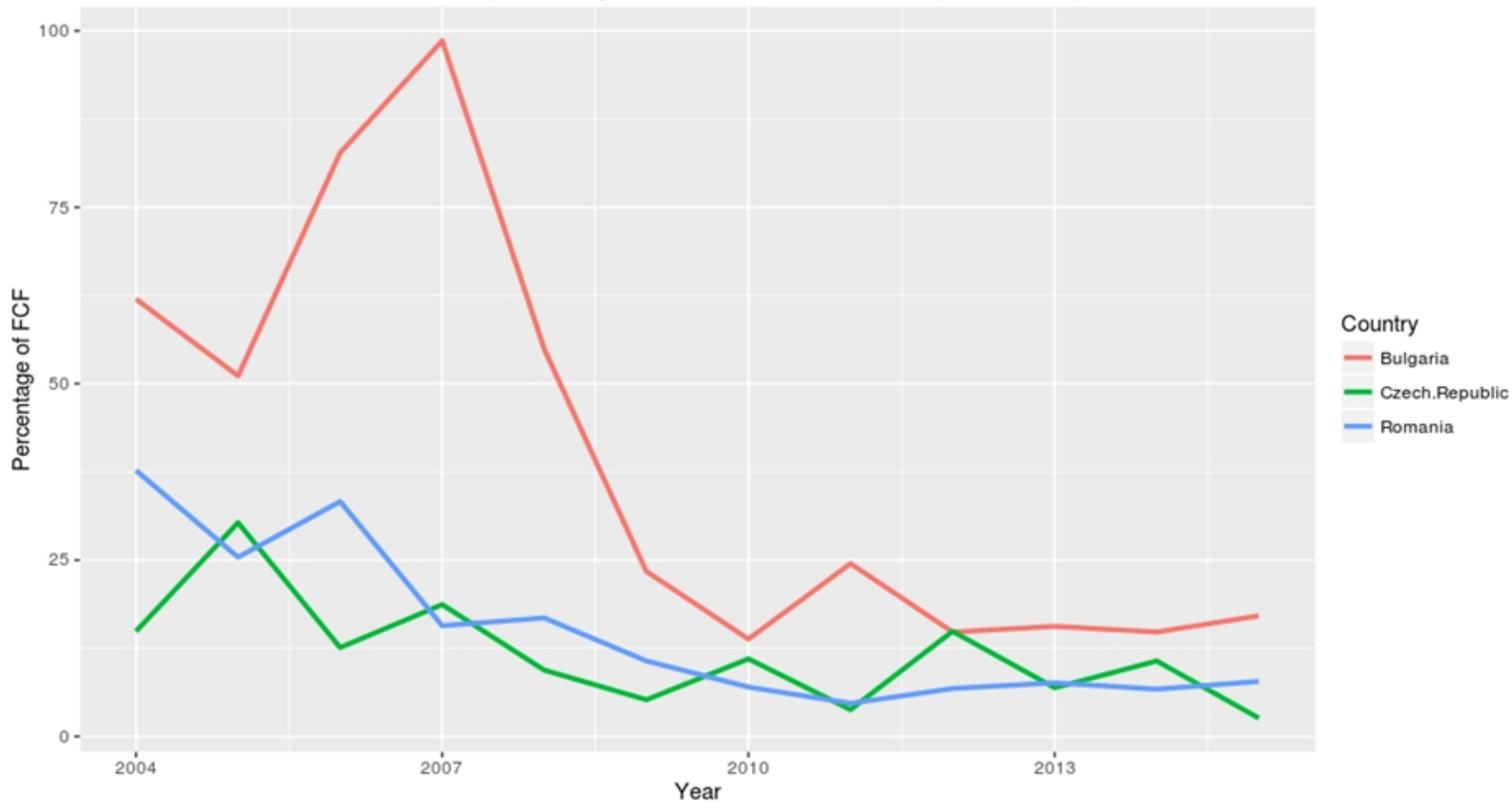
Corruption: economic and fiscal impacts on investment

Dr. Krassen Stanchev, Sofia University and IME (stanchev@ime.bg)

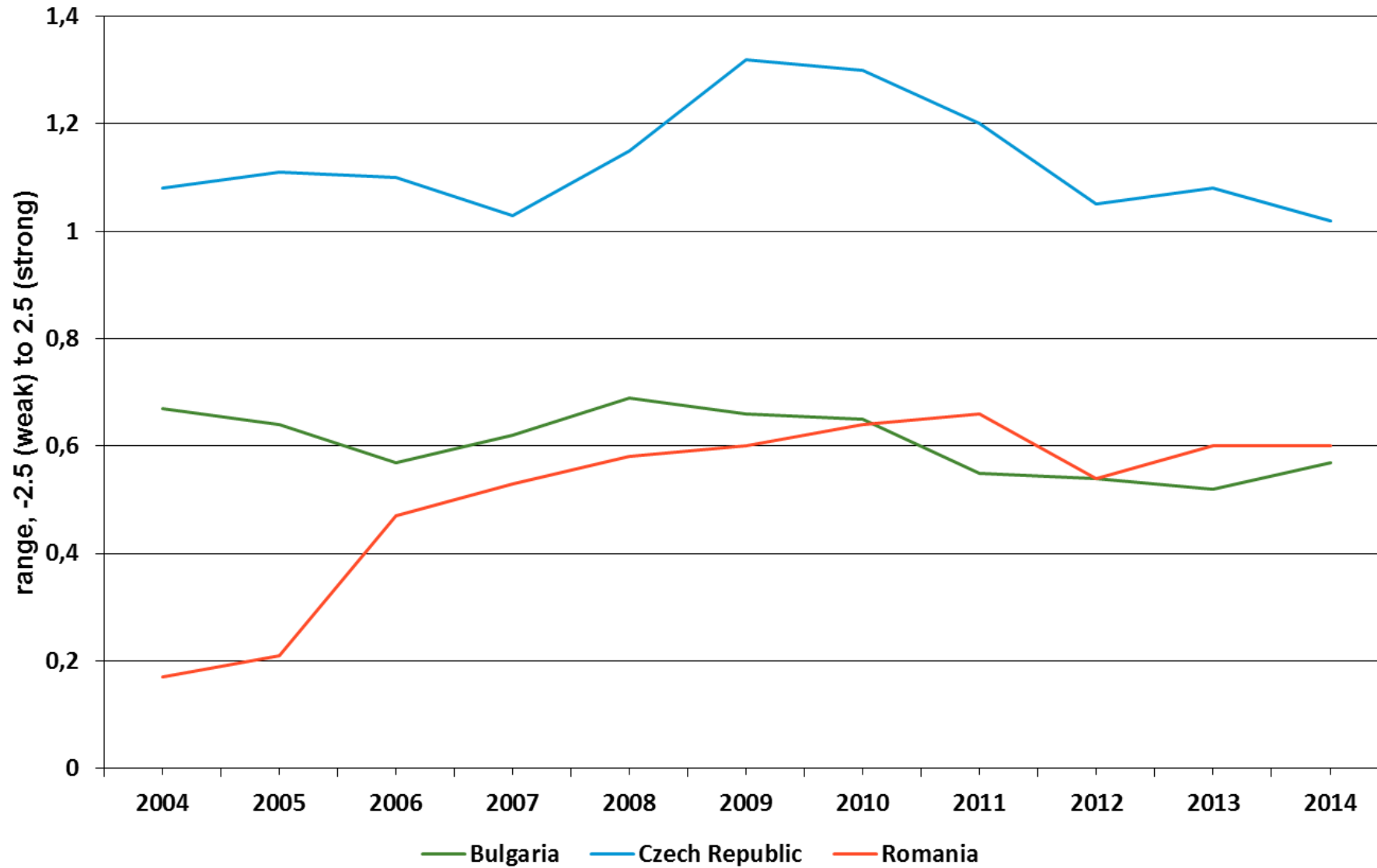
History of FDI since the start of transition (Bulgaria, Czech Republic and Romania)



FDI inflows as percentage of fixed capital formation (2004-2015)



Regulatory quality



The role of courts controlling the executive branch

	2012	2013	2014
Denmark	,92	,92	,92
Germany	,82	,82	,84
United Kingdom	,76	,76	,79
Czech Republic	,68	,68	,65
Georgia	,38	,38	,42
Bosnia and Herzegovina	,51	,51	,51
Croatia	,49	,49	,45
Estonia	,81	,81	,81
Macedonia	,40	,40	,39
Moldova	,34	,34	,32
Romania	,51	,51	,56
Russia	,27	,27	,30
Serbia	,31	,31	,33
Bulgaria	,41	,41	,41
Ukraine	,23	,23	,25
Turkey	,46	,46	,44

Arms-length Implementation of Regulations

	2012	2013	2014	2015
Albania	0.38	0.38	0.40	0.42
Bosnia and Herzegovina	0.47	0.47	0.44	0.40
Bulgaria	0.45	0.45	0.44	0.45
Czech Republic	0.67	0.67	0.77	0.73
Estonia	0.85	0.85	0.89	0.85
Georgia	0.88	0.88	0.84	0.84
Macedonia	0.54	0.54	0.53	0.52
Moldova	0.46	0.46	0.45	0.52
Serbia	0.42	0.42	0.46	0.45

Erosion of the rule of law

- Banks and financial sector risks increased potentially by (indirect and direct) regulations: examples – supervision and attempts to dilute contract enforcement and creditors' rights
- Regulatory redistribution and manipulation of markets
- “Hard” and “soft” takeovers

Takeovers

Hard – judicial and legislative means

Past

- KTB
- Bervedere Group
- Technomarket against Glorient Investment
- 2015 amendments to the Social Insurance Code

Future threats

- AES Galabovo
- Contour Global
- DPM

Soft - legislative

- Mineral water concessions
- Basic concession rules
- Regulating retail chains
- Deposit-waste management
- Regulating the costs of credit
- Amendments to Civic Procedure Code

Current state of affairs

- Bulgaria now performs much worse than peers like Romania or Czech Republic in terms of FDIs;
- Business environment and property indicators stagnate;
- Rule of Law, FDI (inflows and stocks of FDI), FCF, Judicial Independence and Regulatory Uncertainty indicators deteriorate;
- Bulgaria FDIs and FCF deteriorate towards the levels of Western Balkans and/or ex-USSR;
- There are factors that counteract these trends:
 - a. monetary policies,
 - b. tax simplicity and transparency,
 - c. positive impacts of the Common Market and EU monitoring,
 - d. accumulated stocks of FDIs,
 - e. still vibrant public opinion.