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Article

The Economic and Politic Relations Between Bulgaria and Germany. A Short Historical Perspective

CES Working Papers

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Suggested Citation: Enea, Sebastian-Florian; Gentimir, Irina-Elena (2012) : The Economic and Politic Relations Between Bulgaria and Germany. A Short Historical Perspective, CES Working Papers, ISSN 2067-7693, Alexandru Ioan Cuza University of Iasi, Centre for European Studies, Iasi, Vol. 4, Iss. 1, pp. 44-59

This Version is available at:

<https://hdl.handle.net/10419/198155>

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THE ECONOMIC AND POLITIC RELATIONS BETWEEN BULGARIA AND GERMANY. A SHORT HISTORICAL PERSPECTIVE

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Abstract: *Members of the European Union, Germany and Bulgaria are united by the same values and expectations. Both countries aim to closer relations in order to insure economic growth and a high competitiveness level. The objective of this article is to present, from a historical approach, the evolution of the economic and political relations between Bulgaria and Germany. The methodological process adopted in the present analyses is of both qualitative and quantitative nature. The article uses data from theoretical and empirical research on the economic and politic relations between Germany and Bulgaria and presents them from a historical perspective. Even though they were hit by the economic crisis, the two member states of the EU continued to maintain their economic relation on a positive trend. The recovering German economy continues to help Bulgaria, which has a hard time coming out of the crisis. The good economic relationship between the two partners will continue to be successful, the trade and investment flows being expected to double until 2015.*

Keywords: Germany, Bulgaria, economic relations, trade flows, foreign direct investments

JEL Classification: F14, F59

INTRODUCTION

Members of the European Union, Germany and Bulgaria are united by the same values and expectations. Germany, founding member, and Bulgaria, member since 2007, aim to closer relations in order to insure economic growth and a high competitiveness level.

The cooperation between the two nations began during the First World War, when Bulgaria, wanting to control more territories, allied itself with Germany, in hope of receiving military help in Macedonia. Germany's defeat in the war meant the loss of some territories for Bulgaria. Regaining them was the determinate factor for entering the Second World War, again as Germany's ally.

The period between the two World Wars was characterized by intense commercial relations among the two nations. During this period, Bulgaria developed itself, some economic sectors recording growth bigger than the European average.

In 1930, Germany absorbed a very big part of the Bulgarian exports, thus increasing Bulgaria dependence to it. The German economy sold industrial goods in soft currency to Bulgaria, assuring the increase of the Bulgarian life standard. The Bulgarian government also wanted to develop

economic relations with France and the United Kingdom, but their lack of interest determined an increased proximity to Germany.

Due to a couple of very important reasons, namely the good economic relations linking the two nations, Germany's promise to help Bulgaria regain its territories and also the future wedding between Tsar Boris the Third with the daughter of King Victor Emmanuel the Second of Italy, Bulgaria entered the fascist alliance.

During the Second World War, being afraid not to offend Germany, Italy or the USSR, Bulgaria renounced its neutrality by becoming Hitler's ally. As a reward, Germany constrained Romania to give the southern part of Dobrogea to Bulgaria.

Although, initially, the relation between the two nations had a military purpose, the idea of a new Europe, united and transformed, changed their main objectives. The economical aspect is the main reason which explains the dynamic and fruitful cooperation involving Germany and Bulgaria.

The commercial exchanges and investment flows are at a very high level. Adding to this the historical bonds between them, started during the First World War, and Bulgaria's wish to learn from the best developed economy in the European Union, all of these imply very close economic relations. Germany's interest in Bulgaria is maintained by the advantages offered by the Bulgarian national economy and also by the degree of openness from the Bulgarian people for a new era of prosperity and economic growth. Thus, Germany supports Bulgaria in developing its economy and becoming more active on a global scale.

1. HISTORICAL PERSPECTIVE

1.1 Bulgaria

The Balkan Wars, started at the beginning of the 20th Century, meant the fall of the Ottoman Empire. The region gained its independence gradually and was considered to be part of the either one of the newly formed Balkan states. It fought to obtain its independence, while the big European nations (France, Germany, Great Britain, the Austro-Hungarian Empire and the Russian Empire) tried to gain more influence in the South-Eastern part of Europe. When Bulgaria wanted to extend its borders by taking Macedonia, it was met with great resistance from its neighboring countries, Serbia, Romania and Greece.

During the Second World War, Bulgaria allied itself with the Axis when it realized that it could not fight the German Wermacht, which was gathering in Romania, but also it refused to

openly declare war on the USSR. Tsar Boris the Third also refused to surrender the 50.000 Jewish Bulgarians to the German Forces. A national resistance was organized by the communists, which were against the interim fascist regime, which was instated after the death of the Tsar and the exile of the Royal Family.

In 1944, the USSR declared war on Bulgaria and invaded it. In September 1944, the fascist regime was replaced with a new interim government, The Patriotic Front – a coalition of parties, including the communists. At the end of 1945, the Front won the first free elections, but the coalition was usurped by the communists, which won the majority in the National Assembly. In September 1946, a new Constitution, with soviet influence, was enacted. The Royal Family, which returned after the War, was forced back into exile.

1.2 Germany

The modern national German state was composed, for a long period of time, from an association of smaller states. After the French Revolution, the German states fought against the invading armies of Napoleon.

Following the Revolutions of 1848, the first German Parliament was created. After the 1871 victory in the French-Prussian war, the German states united in one single national state, thus beginning a flourishing period of political, economic and military development. During this period, Germany became a world power, alongside Great Britain. In the next two decades, the Bismarck System was enacted, with great influences for the German economy and welfare.

At the end of the First World War, Germany's defeat was followed by the fall of the Hohenzollern Dynasty. The winning nations asked, by means of the Versailles Treaty, the division of Germany in two. After the fall of the Hohenzollerns', the country went through a crisis, the Nazi party coming to office. The Nazi leadership lasted for 12 years, being exerted exclusively by Adolf Hitler.

Although the German military power defeated countries such as France, Denmark, the Netherlands, Belgium or Greece, its attack on the USSR failed.

Even though it suffered a very hard defeat in the Second World War, after 1950 Germany recorded a speedy recovery and became the third economical power in the world. Thus, its role in creating the European Union was very important, being one of the founding members.

2. POLITICAL RELATIONS

At the beginning of the 20th century, in an effort to win Macedonia and other territories, Bulgaria engaged in the two Balkan Wars and aided Germany in the First World War. As a result, it suffered greatly.

The start of the First World War found Germany in need of allies. One of the countries which responded to Germany's call to arms was Bulgaria. German diplomats promised the Bulgarian government vast territories if it will join the Central Powers. Bulgaria took part in attack against Romania, after the latter joined the Allies. Although Romania was defeated, the Bulgarian army had to face the Greek, the Serb and the English, on the Greek front.

The downfall of the Austro-Hungarian Empire and the defeat of the Germans on the western front marked the end of the war. Bulgaria was punished by the Allies and constrained to give South-Western Thrace to Greece, a part of Dobrogea to Romania and a part of Macedonia to Serbia, which became the new national state of Yugoslavia. As a result, Bulgaria lost its access to the Aegean Sea.

In 1941, during the Second World War, Bulgaria became again Germany's ally, but decided to protect the Jewish community, which was around 50.000 people, from the horrors of the Holocaust. Like in 1915, the German representatives took advantage of Bulgaria's lack of allies and also of its historical demands of Macedonia. The good economic and political relations between the two nations in the 1930 had a major influence on Bulgaria's decision.

In 1939, Nazi Germany reached an agreement with the USSR, also known as the Ribbentrop – Molotov Treaty. After the fall of France, Bulgaria abandoned its neutrality, and obtained, in 1940, the south of Dobrogea from Romania, receiving help, of course, from the Germans and the Russians.

The war started out very promising for Bulgaria. In 1941 the Bulgarian government signed the Tripartite Treaty together with Germany and Italy. The German Wehrmacht had already dispatched over half a million soldiers in Bulgaria, for Operation Maritsa. These forces occupied Yugoslavia in April and Greece in May. The Nazis then invited the Bulgarian army to occupy Macedonia and Thrace. And, of course, the Bulgarians did exactly that.

Starting with 1942, the Bulgarian forces began to encounter soviet resistance. The pressure from the public and, also, its resources helped Bulgaria to resist the German demands to attack the USSR. But the Bulgarian government, fearing a negative reaction from the public, did not declare

war on Russia. Under these circumstances, the Russian diplomatic representatives could remain in Sofia.

In august 1943, Tsar Boris died mysteriously, a few weeks after returning from a visit in Germany. The Bulgarian people were left without a leader, in a war which was already lost. In 1941, the new government foolishly declared war on Great Britain and the United States. As a result of this, in 1944 the Soviet army attacked Bulgaria and conquered it in a single day.

The economic policies enacted during the war in Bulgaria were almost all developed by the Filov government, but were implemented without full political authority. The German interference and the political opposition both played an inhibitor role. The efforts of the government to include the industrial and the agricultural sector in the military mobilization resembled central planning. These efforts were foiled by the bilateral relations with the German war economy.

Today, the relations between Germany and Bulgaria seem almost perfect, not only from a diplomatic point of view, but also political, economic and social. The Parliaments in both countries have a keen interest in promoting bilateral relations. The new Bulgarian government looks at Germany as a strategic partner in the European Union. Bulgaria has an embassy in Berlin, a general consulate in München and a diplomatic office in Bonn.

The most recent aspect which highlighted the good relation among the two states was the ceremony held on behalf of Chancellor Angela Merkel, during a diplomatic visit in Bulgaria in October 2010. The aim of the action was to award the Chancellor a number of medals and honorary titles and to show the gratitude of the Bulgarian people for the German governments' contribution in freeing the seven Bulgarian doctors, which had been held captive in Libya. Furthermore, President Georgi Parvanov wanted to thank Germany for supporting Bulgaria to become a member of the European Union. Replying, Angela Merkel said that Bulgaria is on the right path to success and that the German government supports their efforts to join the Schengen Agreement.

3. ECONOMIC RELATIONS

3.1 The German Business Environment

One of the biggest economies in the world offers a very stable political environment, and also liberal policies which come to support the commercial and financial flows. The German economic environment is based on a solid and trustworthy legal framework. Being the largest European

economy, Germany is a key member of a number of European economic, political and defense organizations.

The German economy is mainly focused on export, being the second largest exporting country in the world, after China. The key aspect which can explain the large number of exports, which are estimated at around 1.100 billion dollars, are the German firms, national and multinational, which have a very high capacity of developing and implementing new technologies. The national market benefits from a very high level of competitiveness and a very good legal framework. All of the above mentioned aspects contribute to making the German economy a very good destination for FDIs.

Even though Germany was not immune to the recent economic crisis, it managed to recover a lot faster and more efficient than other developed economies. In the competitiveness top for 2010-2011, Germany went up 2 places, from the seventh to the fifth place, mainly because of its macroeconomic stability. In the competitiveness top for 2011-2012, it went down 2 places, back to the seventh place.

3.2 The Bulgarian Business Environment

Bulgaria is one of the biggest European producers of zinc, copper and lead and also the most important exporter of electricity from the South-East of Europe.

The Bulgarian economy is regarded by both the European Union and the U.S. as a functioning capitalist economy. In the last years, it achieved a very high level of macroeconomic stability, all because of a good mix of policies, which were based on modifying the exchange rate, having a firm fiscal approach and stable salaries. As long as the government maintains its position, economic growth is possible.

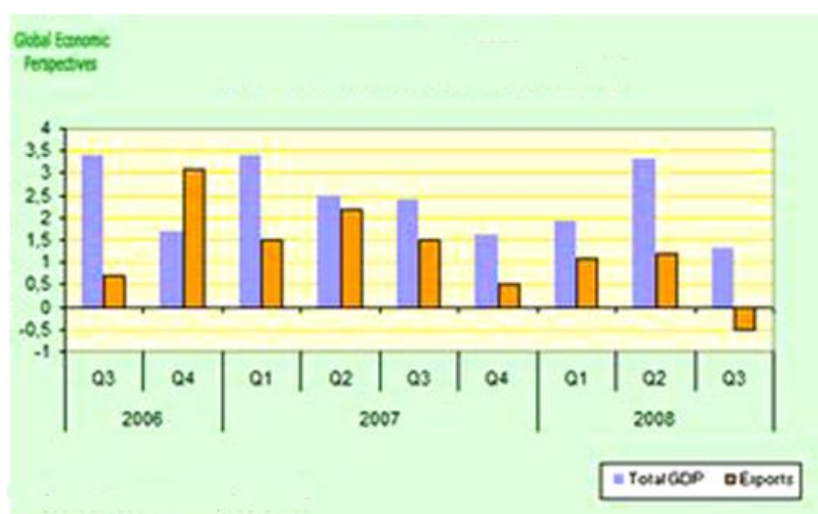
At the same time, Bulgaria's economic growth shows positive trends on areas such as tourism, financial markets and the banking system.

Another advantage Bulgaria has to offer is the qualified work force, competent in using a computer and also quite cheap by comparison to the western European states. The infrastructure has been developed, mostly using financial aid from the EU.

3.3 The economic relations before the crisis

In 2007, when the economic crisis began, the German minister for economy and technology, Michael Glos, announced the triumph of the German economy. Solid public finances, a decrease of the unemployment rate, an income increase for the general population and better opportunities for the national companies helped Germany retain, for one more year, its title as the leading exporter in Europe. Probably this situation explains why 47 % of the German GDP comes from export activities.

Figure 1 - Germany GDP Components (% point contributions to y-o-y GDP Growth)



Source: Federal Statistics Office

At the same time, the German foreign investments continued to grow. Being an opened and emerging economy, Bulgaria could not be overlooked by Germany as commercial and financial partner. What is more, from an economical point of view, Bulgaria has a strategic position in the eastern part of Europe, where Germany has important commercial interests.

In 2007, the Bulgarian exports to Germany were estimated at around 1.39 billion euros, representing an increase of 19.5 % per year. The imports also increased with 19.4 %, adding up to 2.7 billion euro per year. With exports and imports that represent 10.3 % and 19.4 % from the total number, Germany is considered to be the third commercial partner for Bulgaria.

Bulgarian exports consist mainly of clothing items, metal products, chemical and pharmaceutical products. On the other hand, the Bulgarian economy depends on import such as cars, machinery, electric and electronic products etc.

Even though these bilateral relations generate important revenues for both parties, the differences between the import-export activities in the two countries are quite big. For example, the German policy for promoting export was implemented very well, Germany recording a value double to the Bulgarian imports.

The development of the German international commercial activity can be explained by referring to three structures: the German Office for Foreign Trade, the commercial departments within the embassies and the bilateral Chambers of Commerce.

The German ambassador in Bulgaria, Michael Geier, declared that even though there are “big players” on the market, the SMEs are the one which invest the most in Bulgaria. But although they have created jobs in isolated areas of the country, their production is small. That is why Germany is considered to be only the seventh investor in Bulgaria, with around 893 million euro between 1996 and 2007. A closer analysis on this situation shows that investments which are bigger than 100 million euros a year are very scarce. Between 1996 and 2007, only in 2004 and 2006 were there recorded investments bigger than 100 million euro (276 million in 2004 and 110 million in 2006). The yearly average was between 90 and 96 million euro.

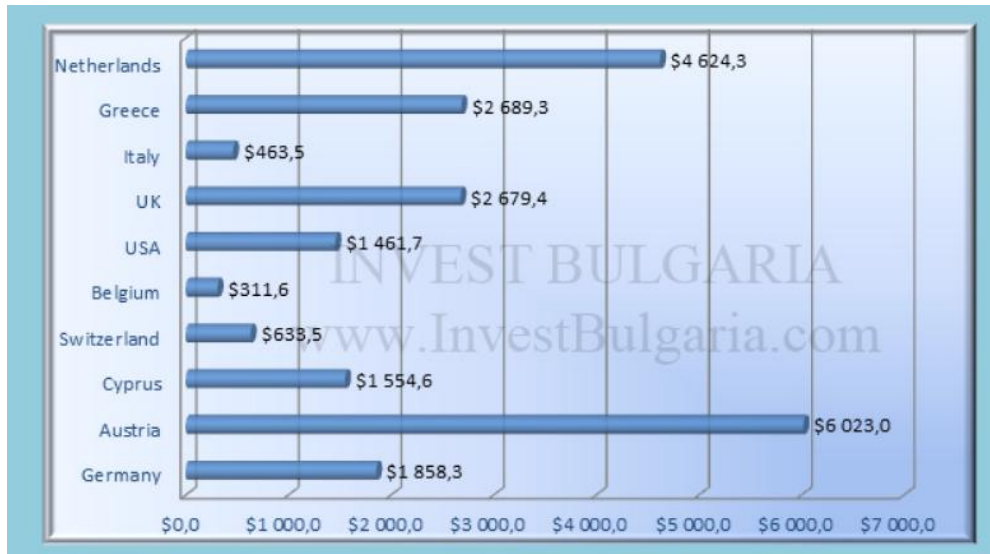
Most of the German investment projects in Bulgaria are considered to be strategic, Greenfield investments being preferred in the majority of cases. Among the biggest investors in Bulgaria one can find the energetic giant E.ON, the media group WAZ, the cement producer Heidelberg Cement, the real estate developers Linder International and ECE Project Management, the retailers Kaufland and Metro and the financial groups Allianz and ProCredit Bank.

Even if the commercial and financial flows are mostly one-way, the interest for doing business is mutual and is maintained through bilateral visits.

3.4 The economic relations after 2008

Due to the evolution of the global economy, in 2009 the trade flows between the two states were estimated at around 3.2 billion Euros, one third less than it was in 2008.

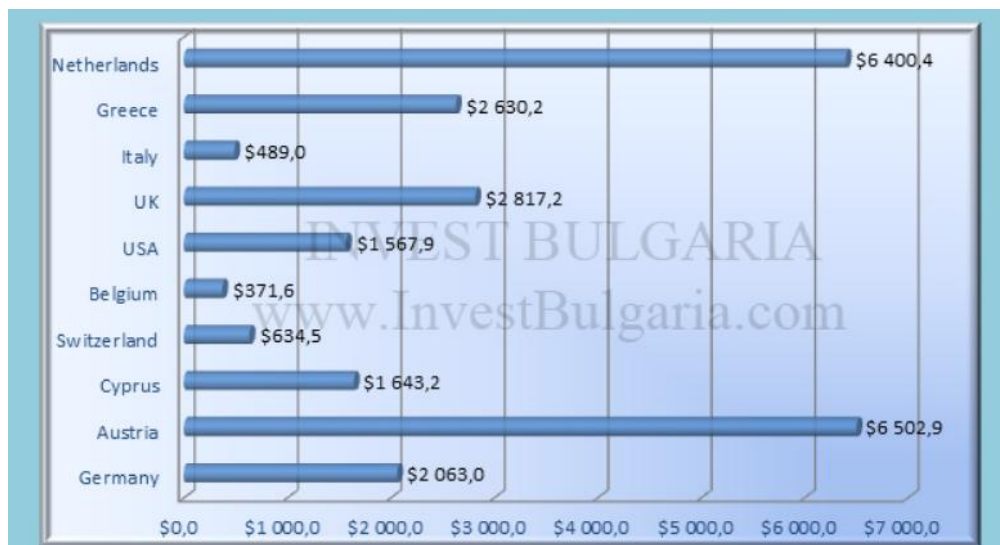
Figure 2 - Foreign Direct Investments in Bulgaria by country of origin in 2008 (millions USD)



Source: www.investbulgaria.com

Germany was the fifth foreign investor in Bulgaria, with 1858,3 million USD, after Austria, The Netherlands, Greece and Cyprus. These investments were made in areas such as trade, transportation, services and the energetic sector.

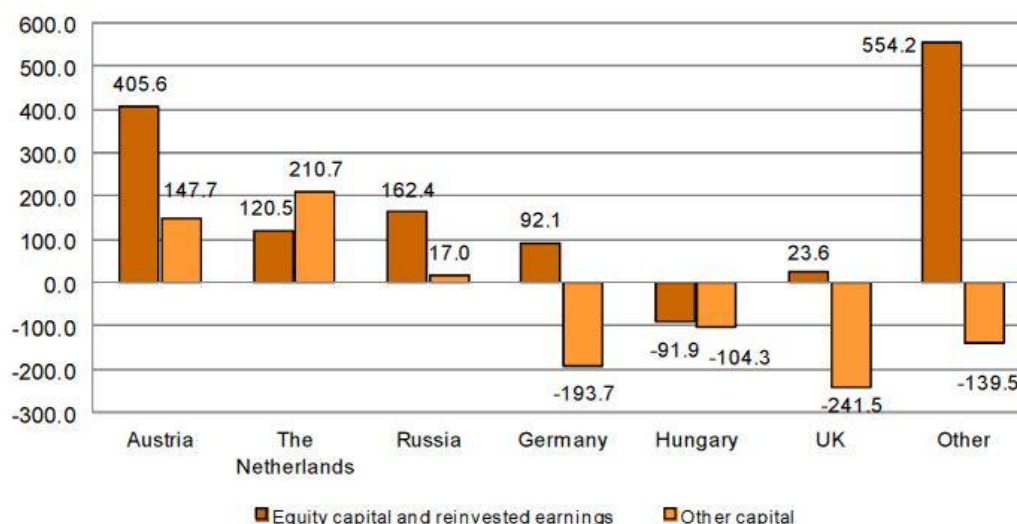
Figure 3 - Foreign Direct Investments in Bulgaria by country of origin in 2009 (millions USD)



Source: www.investbulgaria.com

In 2009, Germany maintained its position as the fifth foreign investor in Bulgaria, with 2063 million USD, again after Austria, The Netherlands and Greece. As it can be seen, the German foreign investments increased by 204.7 million USD, by comparison to the previous year.

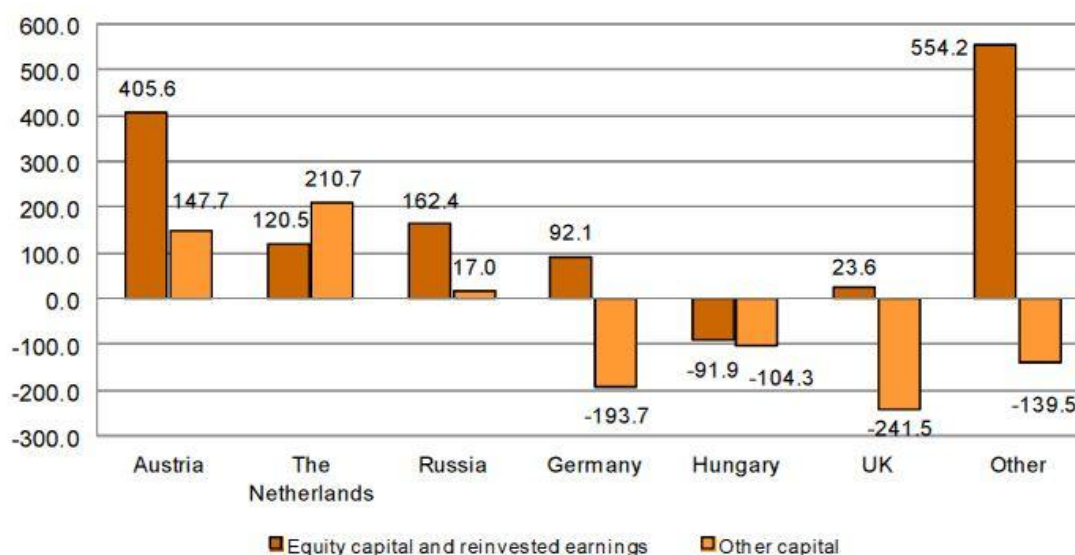
Figure 4 – FDI in Bulgaria by country of origin, 2010 (million EUR)



Source: Bulgarian National Bank Statistics

By country, the largest net direct investments in Bulgaria for the period January – December 2010 were those of the Netherlands (EUR 1,408.5 million), Germany (EUR 159.1 million) and Belgium (EUR 124.2 million). The net payments to Austria, the Netherlands Antilles and the UK amounted to EUR 684 million, EUR 100.4 million and EUR 187.4 million. The higher net receipts from the Netherlands and respectively net payments to Austria were mainly due to transactions associated with revolving intercompany credits.

Figure 5 – FDI in Bulgaria by country of origin, 2011 (million EUR)



Source: Bulgarian National Bank Statistics

By country, the largest direct investments in Bulgaria for the period January – December 2011 were those of the Austria (EUR 553.3 million), the Netherlands (EUR 331.2 million) and Russia (EUR 179.4 million). The largest negative flows for the period were towards Germany (EUR -101.6 million), Hungary (EUR -196.2 million) and United Kingdom (EUR -217.9 million) mainly due to net payments on intercompany credits in accordance with the loan repayment schedules of enterprises.

Table 1 - FDI in Bulgaria from Germany

Year	Value (millions EUR)
2008	783.3
2009	271.4
2010	185
2011	-101.6

Source: Bulgarian National Bank Statistics

As it can be seen, starting with 2009, the investment flows from Germany to Bulgaria began to drop.

Table 2 - FDI in Germany from Bulgaria

Year	Value (millions EUR)
2008	-11.4
2009	-7.2
2010	-3.1
2011	-9.1

Source: Bulgarian National Bank Statistics

A brief explanation for the negative values recorded for the investment flows from Bulgaria to Germany can be the net payments on intercompany credits in accordance with the loan repayment schedules of enterprises.

In 2010, the trading activities generated approximately 3.7 million euro. By comparison to the previous year, this represents a growth by 13%. The Bulgarian exports to Germany increased by 25%, and the German export by 7.47%. Until 2015 it is expected that the trade flows between the two countries will reach a value double to the one recorded in 2009. Also, the same is expected for the investment flows.

The Bulgarian - German Chamber of Commerce and Industry ordered a survey regarding the Bulgarian business environment. The answers given showed that the current business environment is satisfactory, but the Bulgarian economy is still not out of the crisis. The general conclusion of the survey was that there is a positive attitude from the public concerning the Bulgarian business environment. The German and Bulgarian companies which took part in the survey expect an increase in the number of jobs, the investment flows and of the turnover.

The survey also asked about link between the Bulgarian business environment and the investments. For the German investors Bulgaria offers many advantages, such as low taxes and qualified and cheap work force, by comparison to other European countries. In addition to this, the most important aspect of the Bulgarian economy is a good anti-corruption policy, alongside a good infrastructure and security.

A very important aspect in the economical relation between Bulgarian and Germany is tourism. It is estimated that around 550.000 German tourists visited Bulgaria in 2009, most of them choosing the Black Sea resorts.

With over 450 members, the Bulgarian-German Chamber of Commerce and Industry is the most important institution which represent the German economic interests in Bulgaria and also the Bulgarian firms which do business in Germany. Also, it is the biggest bilateral Chamber in Bulgaria and it offers different services to companies and firms.

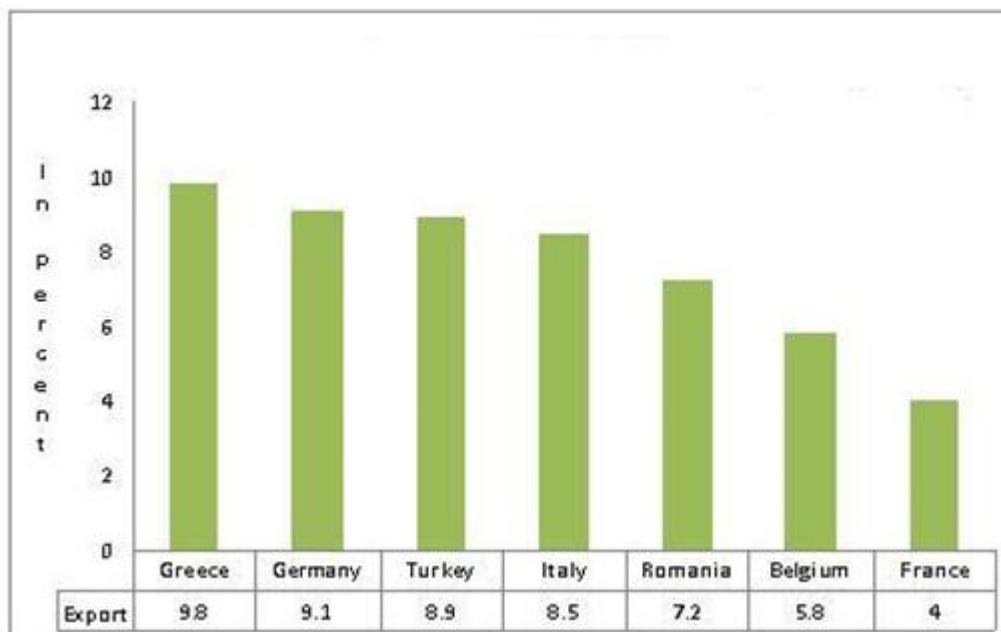
Regarding the Bulgarian EU membership, it is important to point out Germany encouraged the process by supporting the Bulgarian SMEs, the agricultural sector and the public sector. It offered Bulgaria a financial aid of around 200 million euro for the next 15 years.

Germany is a keen advocated for the development of the Bulgarian energetic sector. This sector is regarded as very important by the German investors because of the perspective of efficiency and the renewable resources.

By contrast to the German economy, the Bulgarian economic and industrial sectors seem insignificant. But the proverbial German attention to details, which has put the German economy on the map, can be also found in Bulgaria. It was almost inevitable, taking here into consideration the fact that Germany targeted the central and east European markets before a part of them became members of the European Union in 2004 and 2007. They focused their attention and efforts in this region because of the potential for economic growth, the political and economic stability and the geographical proximity.

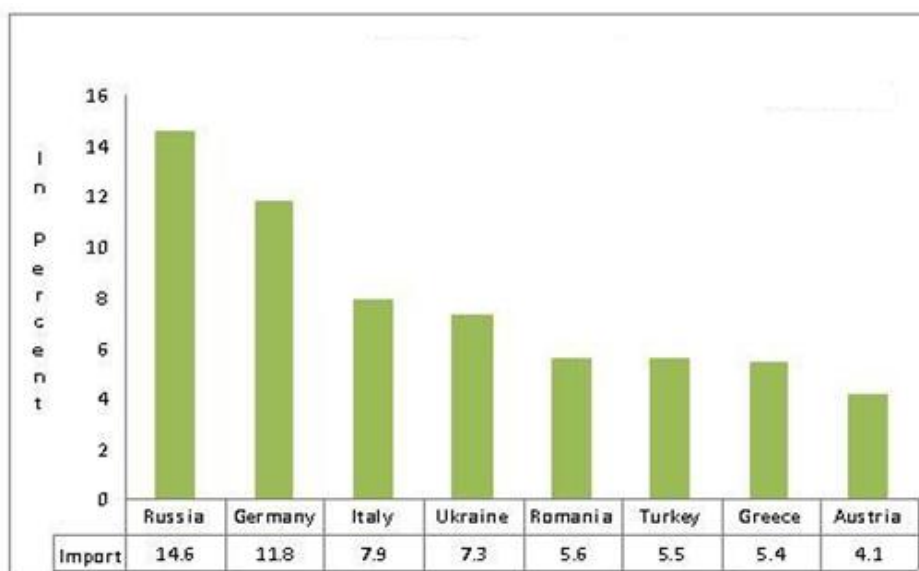
Although the economic crisis slowed down the growth and development in both countries, the commercial relations between them were maintained at a constant level. In 2009, when the two states were in the middle of the crisis, Germany was still Bulgaria's second trade partner.

Figure 6 - Bulgarian exports by country of destination in 2009



Source: Bulgarian Ministry of Economy, Energy and Tourism

Figure 7 - Bulgarian imports by country of origin in 2009



Source: Bulgarian Ministry of Economy, Energy and Tourism

Even though the imports from Germany have decreased with 30.6 % by comparison to 2008, at around 4 million lev, the Bulgarian exports to Germany diminished only with 4.5%, equal to 2.6 million lev. For Germany, Bulgaria was in 2009 the third import source.

Table 3 – Annual value of Bulgarian imports from Germany

Year	Value (millions EUR)
2008	2753.9
2009	1865.4
2010	2004.9

Source: Bulgarian National Bank Statistics

Bulgaria imports from Germany dropped in 2009, from 2753.9 million EUR in 2008, to 1865.4 million EUR, but recovered starting with 2010. Germany is the main Bulgarian import source, with a share of 20,3% of total Bulgarian imports.

Table 4 - Annual value of Bulgarian exports to Germany

Year	Value (millions EUR)
2008	1383.3
2009	1320.4
2010	1658.7

Source: Bulgarian National Bank Statistics

Like the imports, the Bulgarian exports also experienced fluctuation. These dropped in 2009, from 1383.3 million EUR in 2008, to 1320.4 million EUR, but recovered in 2010. Germany is also the main destination of Bulgarian exports, absorbing 17% of total exports.

The signs of recovery from the economic crisis showed by Bulgarian economy starting with the second part of 2010 come to support the good relationship among the two countries.

Bulgaria can improve its business environment by copying a couple of German laws. The Bulgarian-German Chamber of Commerce and Industry suggested 101 amendments to 24 Bulgarian laws, with the purpose of improving the legal framework. The list was presented to Prime Minister Boiko Borisov and his Cabinet, for analyses and further improvement.

A task force composed of members from Chamber of Commerce and representatives of the government analyzed the proposition and presented the Prime Minister the changes which had to be

made within the Bulgarian legal framework. All the changes were made until the Angela Merkel's visit to Sofia in 2010.

Although the proposition targeted areas such taxation, intellectual property laws, banking and vehicle registration, the list also spoke about constitutional amendments for offering better economical assistance to the Bulgarian citizens.

A sector which the BGCCI consider being very important is the energetic one. E.ON is already one the biggest investor, covering the northern and north-eastern part of Bulgaria. RWE was set to begin investing in Bulgaria, with the target to become the second energetic company in Bulgaria, but funding problems prevented this from happening.

Germany plans to relinquish nuclear energy and focus its attention on alternative renewable energy sources. German companies are expected to invest in solar and wind power plants.

CONCLUSIONS

Even though they were hit by the economic crisis, the two member states of the EU continued to maintain their economic relation on a positive trend.

The recovering German economy continues to help Bulgaria, which, alongside Romania, has a hard time coming out of the crisis, this situation being amplified by the sovereign debt crisis in Greece. The good economic relationship between the two partners will continue to successful, the trade and investment flows being expected to double until 2015.

Even if some sectors have recorded decreases in productivity as a result of the crisis, generally speaking the situation is benevolent, the analysts stating that both Germany and Bulgaria are going to continue their good economic exchanges. On the contrary, Germany is investing massively in Bulgaria, although most of the investments are in SMEs. By comparison to the German economy, which is drastic and firm, the Bulgarian legal framework is a somewhat more lenient. If in Germany, to compete on the national market an investor must have good management know-how and durable financial assets, in Bulgaria the business environment is more relaxed. Still the German economy has given, as a model, a number of amendments for Bulgarian legal framework, including the constitution, in order to improve it. It must be said that corruption is one of the biggest problems Bulgaria has to face nowadays, and one step closer to stopping the phenomenon can mean one step closer to political and economic stability.

The good relationship among the two European states can also be viewed in terms of the Bulgarian-German Chamber of Commerce and Industry. Its activity is regarded of being of great

importance and complexity, its members being constantly informed and guided in order to create and implement good and durable businesses, for both parties. The Chamber was opened in 2004, as a result of Germany interest in the Bulgarian business environment.

As a general conclusion it can be stated the Bulgaria's wish to have economic growth, to overcome the crisis, to copy the west-European pattern of economic development and to align itself to the European standards make for a good, durable and constantly developing economic relationship between the two countries.

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