Investment flows from Greece to Bulgaria and the COVID-19 pandemic: is there a trend halt?

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Interregional relations in Europe: will the pandemic result in stronger interdependencies or in increased divergence between regions?

ESPON IRiE (Interregional Relations in Europe)
Background: FDI flows from Greece to Bulgaria

- ESPON IRiE Case Study on **Flows of Capital**: "Investment flows from Greece to Bulgaria and the COVID-19 pandemic: is there a trend halt?"

[https://www.youtube.com/watch?v=LrOX4H6sOJI](https://www.youtube.com/watch?v=LrOX4H6sOJI)
Background: FDI flows from Greece to Bulgaria

- FDI flows from Greece to Bulgaria
- Approx. 37,000 employees
- Approx. 15,000 firms
- Significant number of Greek firms have no personnel
- Significant number of Greek firms are active in Bulgaria through tax havens
Background: The economic situation in Greece and Bulgaria

- steady GDP growth
- low unemployment
- low debt-to-GDP ratio
- low taxation
- stable tax system
  
  *(sources: BNG, authors')*

- GDP decline
- high unemployment
- high debt-to-GDP ratio
- high taxation
- unstable tax system
  
  *(sources: GNB, authors')*
FDI flows prior to the emergence of the pandemic

ESPON IRiE project

- C2C OD matrices
- R2R OD matrices (NUTS II)
- 2010-2018
- Economy-wide
- Sector specific (NACE I)
- Shareholders’ funds

- Sofia region receives approx. the 85% of FDI from GR
- Athens region sends approx. the 82% of FDI to BG
- approx. 12% of FDI from GR goes to BG regions that border GR

(sources: AMADEUS BvD, authors')
FDI flows prior to the emergence of the pandemic

(sources: AMADEUS BvD, authors')
3 Case-Study

- in-depth, in-person and phone, interviews with selected firms (i.e., Greek FDIs) operating in Bulgaria
- 10 research questions
- selection of firms from AMADEUS database
- 21 out of 50 firms responded
- survey continues until 11/21

(source: authors')
Case-Study

Q1 - How many years does your company include GR FDI?

Q2 - What was the primary motivation of the GR investor concerning your firm?
Q3 – What are the main determinants of the GR FDI in your firm? *(grades 8+ in the 1-10 climax; 10=extremely important)*

Q4 - What was the entry strategy of the GR investor concerning your firm?

*no response*
Q5 – Has the GR investor introduced changes to your firm?

Q6 – To what extent the pandemic influenced the FDI from GR? *(grades 8+ in the 1-10 climax; 10=great negative influence)*
Q7 – How did the pandemic affect your firm?
- cancellation of orders
- loss of customers
- insecurity

Q8 – What are the prospects for FDI from GR in the post pandemic era? (grades 8+ in the 1-10 climax; 10=great prospects)
Q9 – Has the pandemic generated new challenges for the BG economy?

Q10 – Are you satisfied with the measures taken by the BG State to counterbalance the negative impact of the pandemic?
The main driver for the Greek investments in Bulgaria is the favorable and effective institutional environment (efficiency-seeking FDIs).

The role of stable tax system, ease-to-do business, knowledge / innovation, geographical proximity with Greece, economic conditions, political stability, and cheap raw materials is proved to be extremely important for the relocation to Bulgaria.

COVID-19 pandemic exerted a great influence on “old” investments (i.e., more than 5 years), and particularly on SMEs located in peripheral areas.

The negative impact of COVID-19 pandemic may summarize in the cancelation of orders, which created serious problems in the production process and the cash flow, and the loss of customers due to the general insecurity of the financial climate created by the constant lockdowns.
Most of the firms responded in the questionnaire survey are rather pessimistic as regards the evolution of the Greek FDIs in Bulgaria even though they believe that the COVID-19 pandemic created new opportunities for the Bulgarian economy (such as the re-structuring of the production model through the emergence and growth of new sectors).

Most of the firms responded in the questionnaire survey are rather satisfied with the measures taken by the Bulgarian State (in cooperation with the EU) to counter-balance the negative impact of COVID-19 pandemic.

Even though it seems that Bulgarian State has taken the “proper” measures, trends of disinvestment and negative prospects may detect. The situation could have been worse if there were not several favorable factors characterizing the Bulgarian economy.

The effects of COVID-19 pandemic may stay for a long period. This implies that policy support should not be withdrawn too soon.
Video Testimonial

https://www.youtube.com/watch?v=VB6eawwJ7cM

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Thank you

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