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I. CONDITION, DEVELOPMENT AND PROSPECTS OF THE TELECOMMUNICATIONS MARKET

1. CHARACTERISTICS OF THE TELECOMMUNICATIONS SERVICES MARKET

1.1. World Development and Macroeconomic Indicators

The worldwide crisis in the development of the telecommunications sector continued in 2002 manifested in great financial losses, bankruptcies and enormous debts for the telecommunications companies. At the same time it exerted a minimum influence upon the development of the telecommunications markets in Central and Eastern Europe (CEE).

As a whole, in the previous year the macroeconomic indicators of the CEECs and countries in transition confirmed the tendency to a sustainable growth shown in the period following 1999. Table 1 systemizes the basic macroeconomic indicators, which characterize the economic condition of the developed countries (EU countries, USA, Canada, Japan, Australia, New Zealand, Israel, Iceland, Cyprus, Norway, South Korea, Singapore, Taiwan and Hong Kong), the countries in transition (the CEECs, the former USSR countries, Mongolia) and Bulgaria.

Table 1

Indicators:	Developed countries		Transition countries		Bulgaria	
	2002	2001	2002	2001	2002	2001
GDP growth	1,8%	0,9%	4,1%	5,1%	4,8%	4,1%
Savings as a GDP percentage	19,7%	20,6%	24,1%	23,9%	25,36%	24,57%
Investments as a GDP percentage	20,0%	20,7%	23,3%	23,2%	3%	6%
External debt as a GDP percentage			42,3%	46,0%	70,5%	78,3%
Terms of trade	0,4%	0,4%	-0,2%	0,9%		
Inflation (growth of consumer prices indices)	1,5%	2,2%	11,1%	16,3%	3,8%	4,8%

Source: *World Economic Outlook. International Monetary Fund, April 2003, National Statistical Institute /NSI/*

Gross Domestic Product

As compared to the previous year, the growth of the Gross Domestic Product (GDP) is by 2.9% in the CEE countries, by 4.1% in the countries in transition, by 0.8% in the Euro zone and the total of 1.8% in the developed countries.

In 2002 the National Statistical Institute (NSI) registered a GDP growth of 4.8% in Bulgaria. The GDP growth in 2001 was 4.0%, as compared to the previous year.

Savings

In 2002 there was a growth in savings percentage in the countries in transition attaining a rate of 24.1% of GDP (compared to 23.9% in 2001). There is a decrease down to 21.3% of GDP with this indicator in the Euro zone countries (compared to 21.4% in 2001).

Investments

In 2002 there was a growth in the investments percentage for the countries in transition attaining a rate of 23.3% of GDP (with 23.2% in 2001). There is a decrease of 0.8 % of GDP with the ratio between the general investments and the Gross Domestic Product (GDP) in the EU countries reaching a rate of 20.1% (compared to 20.9% in 2001).

External Debt

There is a decrease in the ratio between external debt and GDP for the countries in transition going down from 46.0% in 2001 to 42.3% in 2002 and its servicing costs decreased from 7.3% to 7.1% of GDP.

Terms of Trade

In 2002 the terms of trade in the countries in transition aggravated by 0.2% (compared to the increase of 0.9% in 2001). In 2002 the terms of trade in the developed countries improved by 0.4% (as compared to the same increase of 0.4% in 2001).

Word Prices in USD

In 2002 there is an increase of 3.1% in the prices of the finished products (as compared to the decrease of 2.1% in 2001), an increase of 2.8% in the prices of crude oil (as compared to the decrease of 13.9% in 2001) and an increase of 3.8% in the prices of other raw materials, excluding crude oil (as compared to 5.4% in 2001).

This tendency towards raise in the prices of all the designated types of goods in US currency is expected to continue in 2003 as well.

Word Prices in EUR

In 2002 there is a decrease of 2.2% in the EUR prices of the finished products (as compared to the increase of 1.0% in 2001), a decrease of 2.4% in the prices of crude oil (as compared to the decrease of 11.2% in 2001) and a decrease of 1.6% in the prices of other raw materials, excluding crude oil (as compared to 2.4% in 2001).

Inflation

The consumer prices increased by 1.5% in 2002 in the developed countries (as compared to 2.2% in the previous year) and by 11.1% in the countries in transition (as compared to 16.3% in 2001).

The growth in 2001 was 2.4% in the Euro zone countries. The inflation in the CEE countries fell from 9.7% in 2001 down to 5.6% in 2002. The International Monetary Fund registered a growth of the consumer prices in Bulgaria of 7.5% in 2001 and 5.8% in 2002.

This macroeconomic framework has an effect upon the development of the telecommunications market in Bulgaria.

1.2. Structure and volume of the Bulgarian telecommunications market.

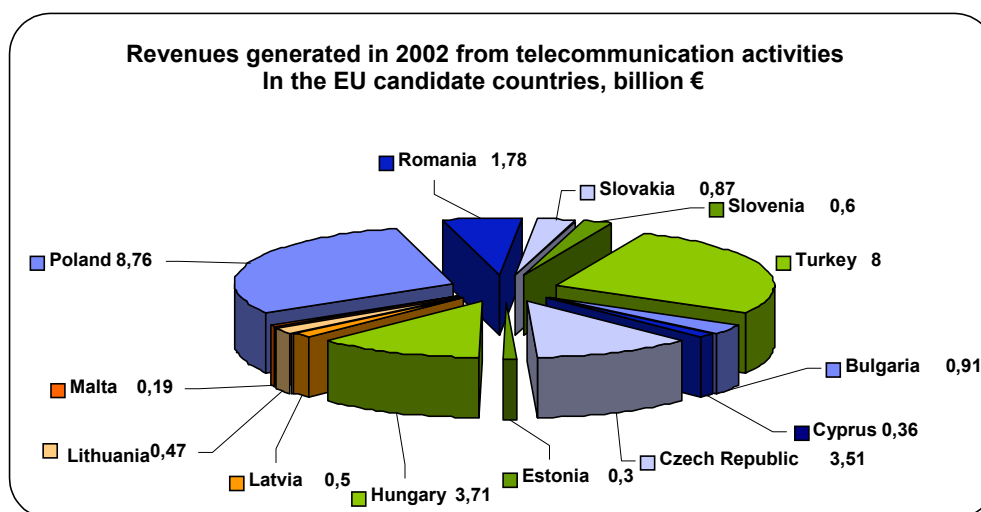
It should be noted that there is a difference in the approach for calculation of market volume and structure and the approach employed by the State Telecommunications Commission (STC) at the end of 2001. In order to attain compatibility of the data in this analysis, the market volume and structure for the previous year have been recalculated.

As stated in the expert evaluation made by the Communications Regulation Commission (CRC) with respect to the volume of the telecommunications market, during 2002 the telecommunications operators gained revenues equal to 6% of GDP and 11% of gross value added in the services sector.

In connection with preparation for the EU expansion, the European Commission (EC) is carrying out a project for assessing the condition and development of the telecommunications markets in the EU candidate countries¹. Six-month reports related to the basic aspects of development and extent of compliance with the European requirements for the telecommunications sector in the CEE countries (Bulgaria, Cyprus, Czech Republic, Estonia, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia and Turkey) are published on the basis of the information about the markets in the different countries, gathered with a set of parameters. According to the European monitoring methodology, the telecommunications market includes four major segments – a fixed telephone service, an Internet access (dial-up access to the Internet through a fixed telephone network), mobile telephone services, provision of leased lines and data transmission.

¹ Monitoring of EU Candidate Countries – Telecommunications services Sector

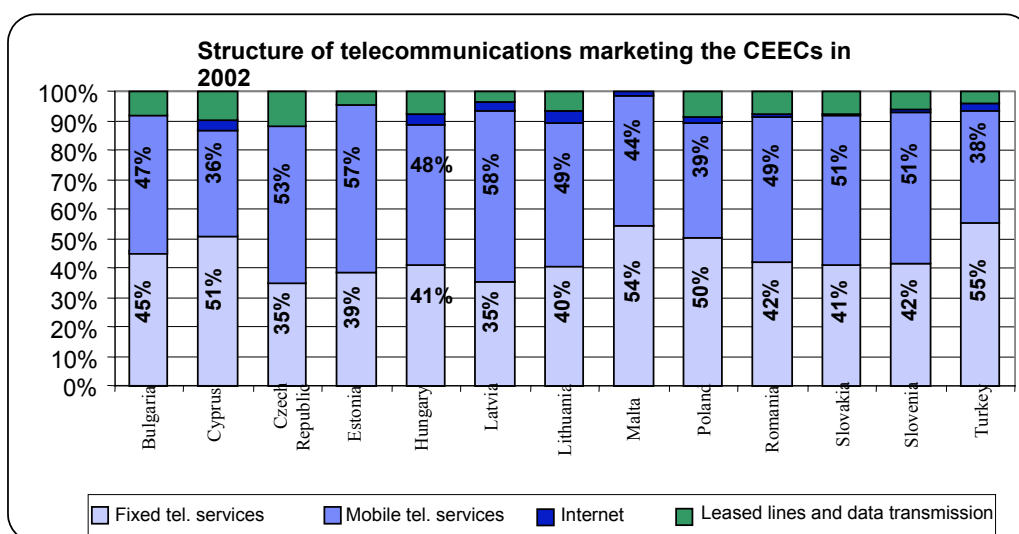
Having such a structure the market volume of the 13 countries applying for EU membership increased in 2002 by approximately 20% in comparison with year 2001 and amounted to 30 billion Euros. The reason underlying such an increase is the growing share of the segment of mobile telephone services. The Bulgarian telecommunications market represents about 3% of the total revenues raised from telecommunications activities in the EU candidate countries.



Source: CRC, IBM Business Consulting Services, 3rd Report on Monitoring of EU Candidate Countries /Telecommunications services sector/

Fig.1

Figure 2 shows the structure of the telecommunications market in the CEE countries²



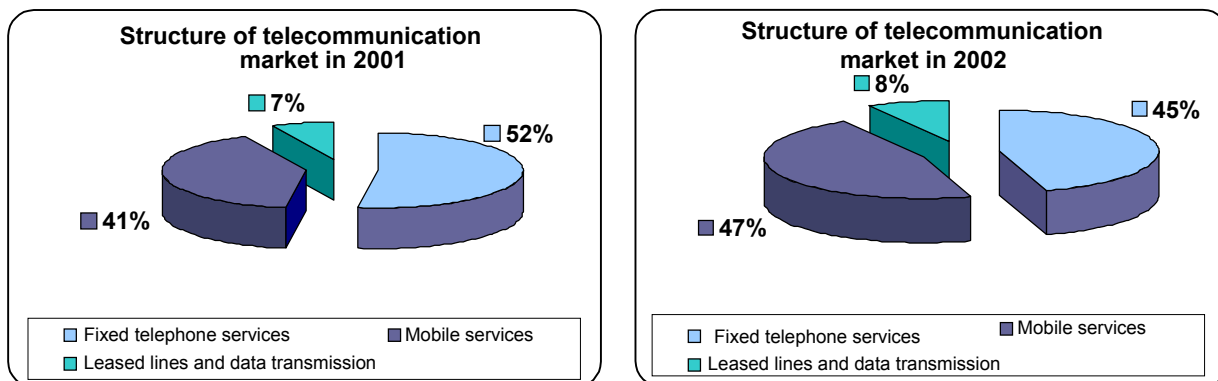
Source: CRC, IBM Business Consulting Services, 3rd Report on Monitoring of EU Candidate Countries /Telecommunications services sector/

Fig.2

Following the methodology of European monitoring, the share of revenues from dial-up Internet access through a public switched telephone network (PSTN) cannot be represented in the structure of the Bulgarian telecommunications market. The dial-up Internet access is included in the total share of fixed telephony.

² The revenues from Internet access are included in the fixed services segment for Bulgaria and in the segment of data transfer for Lithuania. Data transfer is contained in the fixed services segment for Malta. The data for Estonia, Cyprus and Czech Republic are forecast or from 2001

Figure 3 shows the structure of the Bulgarian telecommunications market based on the revenues at the end of 2001 and 2002. The share of mobile services keeps on growing both in absolute value and to the detriment of the percentage of fixed services in the total market structure. As at the end of 2002 the mobile services have already taken a greater market share than the fixed services do.

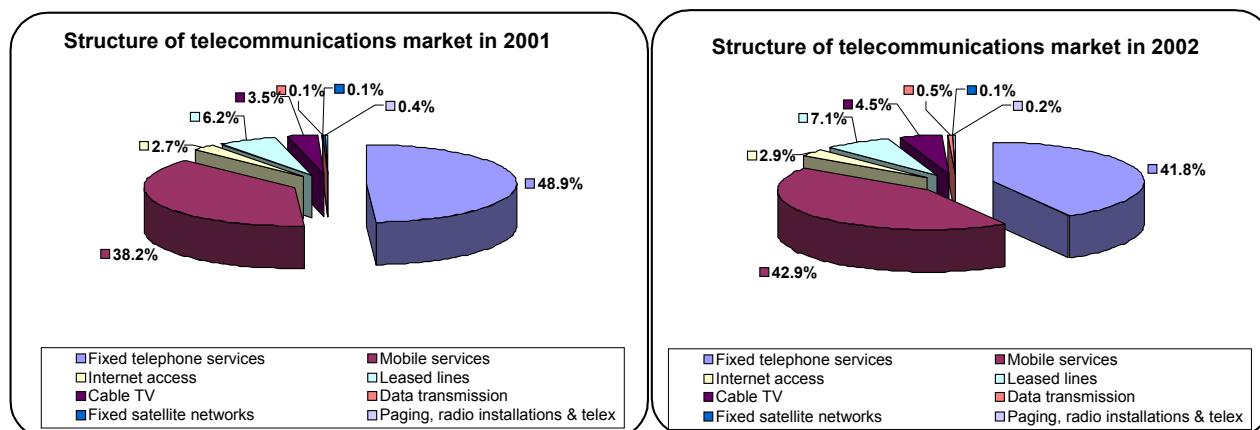


Source: CRC

Fig.3

In order to make a more comprehensive analysis and more realistic assessment of the Bulgarian telecommunications market volume, the Communications Regulation Commission (CRC) also examined market segments such as cable TV, fixed satellite networks, paging services, dialed-up and leased line Internet access, etc.

The segments "Internet" and "Cable TV" are calculated on the grounds of expert evaluation. The approach applied differs from the approach employed by the State Telecommunications Commission (STC) when the market analysis for 2001 has been prepared.



Source: CRC

Fig.4

The volume of the Bulgarian telecommunications market in 2002, as calculated on the basis of the total revenues from the separate telecommunications activities, increased by 12.9% in comparison to 2001 thus amounting to 1.934 billion BGN. The data show that the growth in this sector is 2.7 times greater than the growth of the Bulgarian GDP in 2002. In 2002 the volume of the revenues gained from mobile telephone services exceeded for the first time the revenues from provision of fixed telephone services. The market development is quite in line with the general trends effective in the CEECs. Moreover, there is a definite decrease in consumers of fixed telephone services in Bulgaria which gives rise to an increase in the consumers of mobile services. In 2002 the share of households, which have an access to fixed telephone services, fell down to 79.3% (as compared to 83% in 2001) when the penetration of mobile telephone services increased from 19% in 2001 to 33% in 2002. The reduction of the income from provision of fixed telephone services is by 7.1% as a percentage share and by 3.5% in the absolute value. In 2002 the third national mobile operator Cosmo Bulgaria Mobile enlarged its market presence. The intense competition created prerequisites for almost doubling the number of subscribers to mobile cellular networks in comparison

with the previous year. The mobile service market developed as well. As a result, there was an increase by 26.7% in the income raised from provision of mobile services.

There is also an increase of 27.7% in the volume of leased lines segment and a fourfold increase in data transmission and fixed satellite networks. In 2002 the number of operators increased and accordingly the volume of the revenues from those activities. This tendency will preserve in 2003 too. These are relatively new market segments and their growth with respect to the development of the new technologies is still imminent.

The segment of cable networks and services undergoes a process of development and restructuring. The trend to business mergers kept on in 2002 as well. This is a favorable condition for expansion of the investment capacity, improvement of service quality and increase of operators' efficiency. The total of 155 new licenses were issued that year. The increase of 47% in the revenue volume in 2002, as compared to that in 2001, is a result mainly from the increase in the monthly subscription fees.

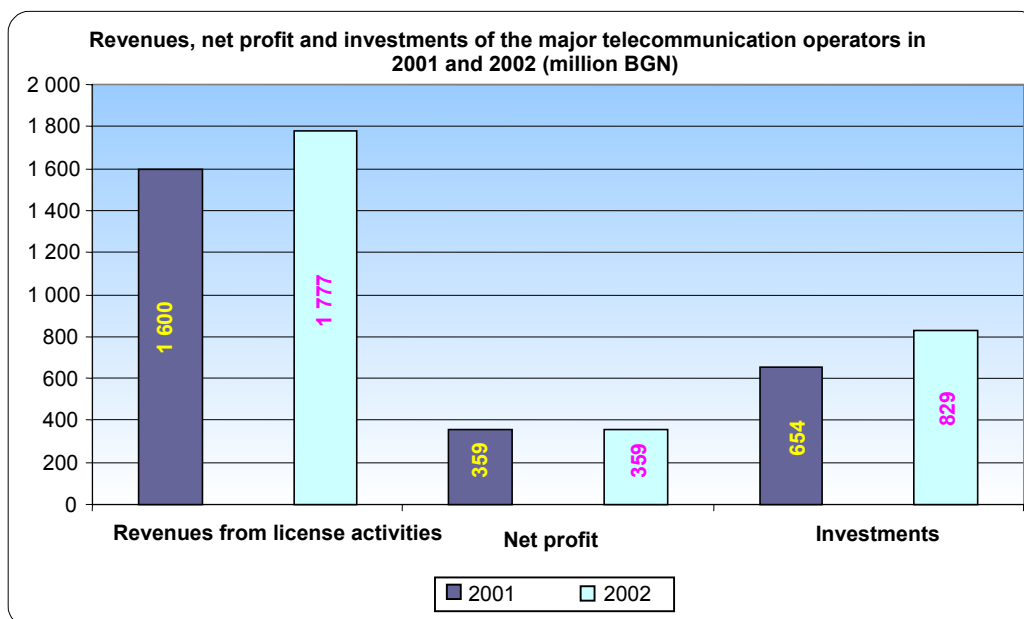
As stated in the expert evaluation made by the Communications Regulation Commission (CRC), the revenues from Internet access services in 2002 increased by 25% in comparison to those of 2001, 67% of which are raised from leased line access. The proceeds gained from voice over IP (VoIP) amount to 8% of the total income from Internet services.

The presence of activities such as paging services, installation of radio facilities and telex services in the overall market structure is very small and their volume decreased by 27.9%, as compared to year 2001.

The total volume of investments in the development of networks and services on the Bulgarian telecommunications market was 847 million BGN in 2002, which is 15% of the gross amount of all investments made in Bulgaria throughout the year. It is by 28% more than the funds invested in 2001 in the development of telecommunications networks.

1.3. Major operators on the Bulgarian telecommunications market

The revenues gained in 2002 from the telecommunications activities carried out by the Bulgarian Telecommunications Company (BTC), MobilTel, Cosmo Bulgaria Mobile and Radio Telecommunication Company (RTC) constituted 92% of the total amount of the revenues gained from telecommunications services. As compared to 2001, the net revenues from sales made by the four largest companies increased by 14 % and the revenues from license activity – by 17%. As part of the total revenues, the share of revenues from license activity remained almost unchanged – 94% in 2002 and 92% in 2001.



Source: CRC

Fig.5

Unlike the previous year, when the net profit of the companies increased by 85% in comparison with 2000, in 2002 there was a decrease, insignificant as it was (by 0.2%), with respect to the net profit of the four major operators. It is a result of the growing competition on the market of mobile services and the large volume of funds reinvested in the introduction of new technologies, the expansion and upgrade of functionalities of the existing networks and improvement of the services provided. The investments made by the four major companies increased by 27% in 2002 as compared to 2001. Expanding and developing its network, the second GSM operator is still a main investor on this market. Cosmo Bulgaria Mobile has made almost six times more investments than in 2001.

1.4. Prospects for development of the Bulgarian telecommunications market

The major factors under whose influence the Bulgarian telecommunications market will continue its development are the rise in consumer demands for option, quality and cost of the services provided, the market liberalization and the penetration of new technologies. With regard to regulation of the telecommunications market, the major efforts made by the Communications Regulation Commission are directed towards establishment and enforcement of a regulatory framework harmonized with the EU legislation and stimulating competition development, incentives on the sector investments, protection of consumers' interests and application of new technological solutions.

It is expected within a short and medium term that some new operators will penetrate the Bulgarian market as an alternative of the former monopolist BTC as regards fixed voice services and leased lines as well as some new providers of services like data transmission and VoIP. Despite the still low degree of penetration of the Internet services, the global net will be getting more and more preferable way of communication for the Bulgarian user. With reference to finalization of the privatization of the national operator and negotiations on the conditions of such a transaction, the expectations for the appearance of the third GSM operator are getting stronger. The market niches related to provision of new generation mobile services, such as GPRS and UMTS, are still vacant, which is a potential to be developed by the existing and emerging operators. Wireless networks and technologies, digital radio and TV broadcasting, digital networks and systems /TETRA, PMR, CDMA/ are still to be developed. The accelerated further digitalization of the fixed telephone network will provide an opportunity for provision of broadband services. The investors' interest in construction of backbone networks is expected to increase under the conditions of a not fully developed telecommunications infrastructure.