



BULGARIA

AN ATTRACTIVE MARKET
FOR SWEDISH BUSINESS

BUSINESS CLIMATE STUDY

June 2017

Business Sweden



INTRODUCTION TO PRESENTATION

WHY A BUSINESS CLIMATE SURVEY IN BULGARIA?

- ▶ Strong Swedish business community in Bulgaria
- ▶ Bulgaria has potential for growth, which has been underestimated in the past years
- ▶ Provide an updated & aggregated picture on how Swedish companies established in Bulgaria perceive the business climate in the country

EXPECTED VALUE OF THE SURVEY

- ▶ Insights from companies which actually know and have experience from doing business in Bulgaria
- ▶ A component in the decision-making process about market entry/expansion/downsizing on the Bulgarian market

HOW WILL THE SURVEY BE USED?

- ▶ Initially present and discuss the results with relevant stakeholders, e.g.:
 - ▶ CG: Swedish companies in Bulgaria – 13/6/2017
 - ▶ Sweden: Stakeholders & companies in Sweden – Fall 2017
- ▶ Use it in Team Sweden's daily promotional activities, i.e. in meetings with Bulgarian companies, in interaction with Bulgarian stakeholders, including the Bulgarian government and agencies, other Bulgarian stakeholders both official and private as well with Bulgarian companies and press.
- ▶ Use it in Team Sweden's daily promotional activities, i.e. in meetings with Swedish companies, in interaction with the Swedish press, promote it in social media and put it on the website of Business Sweden etc.

AGENDA

- ▶ Method and Profiles of the Respondents
- ▶ Market Outlook
- ▶ Challenges and Opportunities

BUSINESS CLIMATE SURVEY 2017 HAD A HIGH RESPONSE RATE...

- ▶ Responsible for the Survey:



- ▶ Business Sweden has been the driver of the survey, but in close collaboration with the Ambassador of Sweden:



- ▶ A special thank you to Trelleborg and Astra Zeneca for all of their support in the survey.

COVERAGE



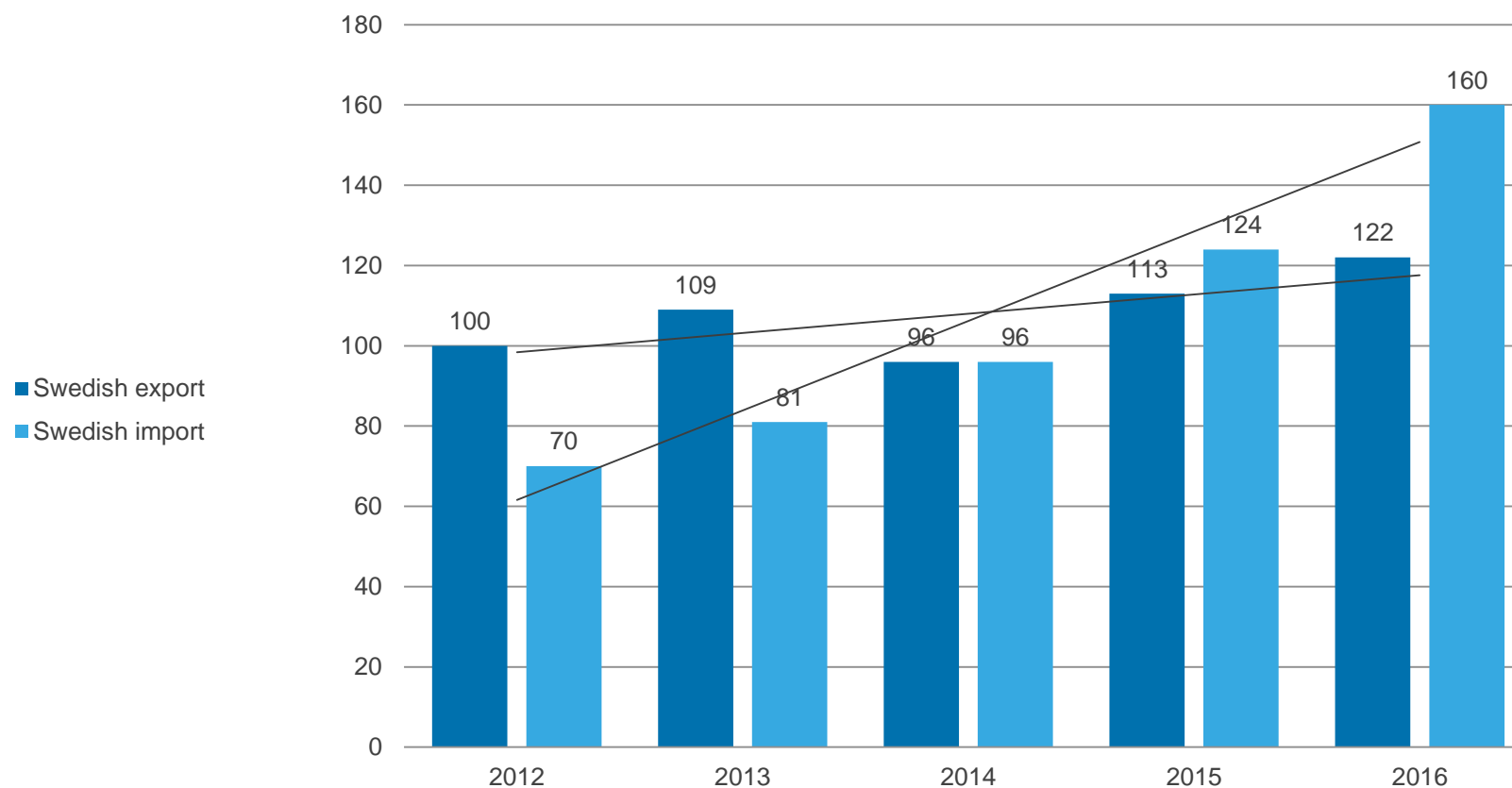
...out of the 37 Swedish subsidiaries in Bulgaria

7 SWEDISH SALES PARTNERS

Were asked to fill out the survey as well

TRADE BETWEEN SWEDEN AND BULGARIA ACCOUNTS FOR MORE THAN 282 MEUR

TRADE BETWEEN SWEDEN AND BULGARIA (MEUR, 2012-2016)

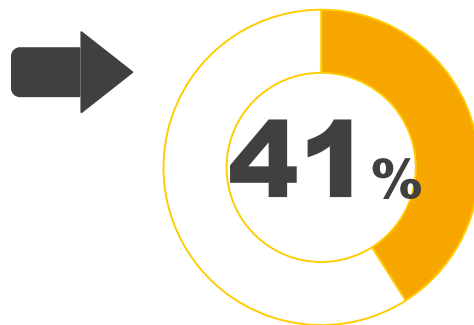
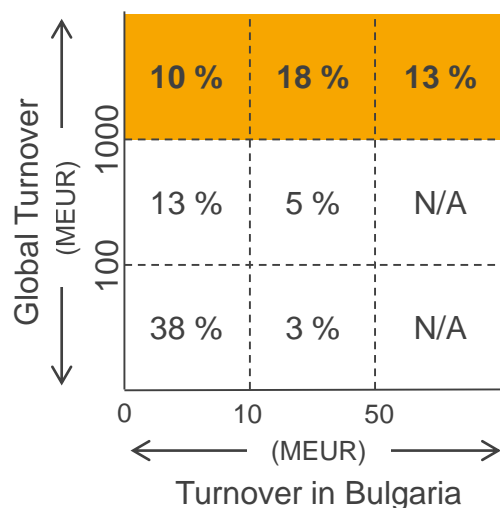


STABLE AND POSITIVE TRADE GROWTH BETWEEN SWEDEN AND BULGARIA SINCE THE END OF THE GLOBAL CRISIS

... AND A RELIABLE REPRESENTATION OF THE SWEDISH BUSINESS VIEW ON BULGARIA

- ▶ The aggregated picture reflects views from all sizes of companies.
- ▶ A high participation rate (to the survey) of companies with a global turnover greater than 1 BEUR.

Profile of the respondents



...of the respondents work for a Swedish company with a global turnover greater than 1 BEUR.

Business Climate Survey 2017 Selected Participants





THE RESPONDENTS REPRESENT MANY SECTORS MOST COMPANIES ARE ENGAGED IN B2B BUSINESS



Manufacturing



Construction



ICT



Transport Systems



Energy



Chemicals & Healthcare



Environment



Retail

Sectors



35%



5%



3%



5%



3%



11%



0%



38%

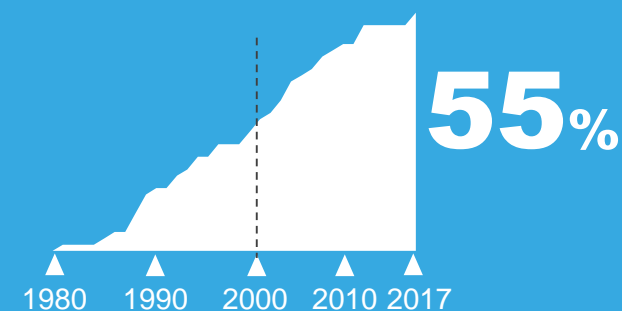
Main Customer Group

74%



...of the Swedish companies are
in B2B business in Bulgaria

Establishment Year

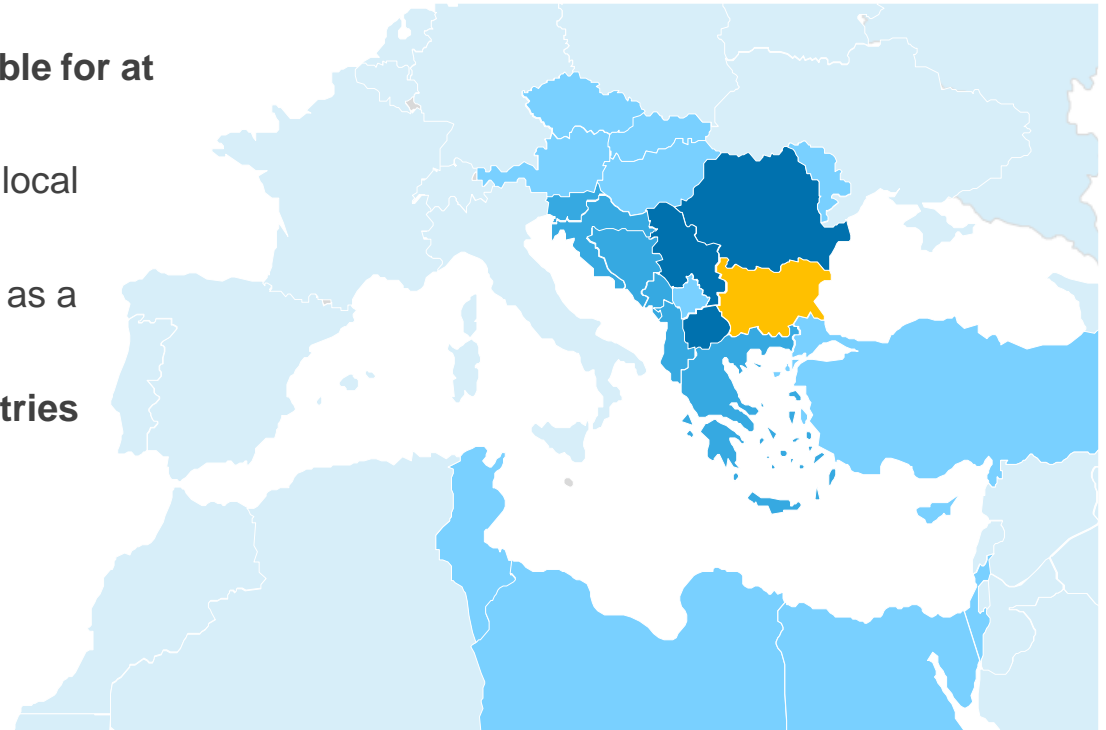


...of the respondent companies
were established after 2000

THERE HAS BEEN A STEADY GROWING INTEREST AMONGST SWEDISH COMPANIES TO INVEST IN BULGARIA

BULGARIA FUNCTIONS AS A HUB OFFICE FOR 29% OF THE RESPONDENTS

- ▶ **29% indicate that the Bulgarian office is responsible for at least one more country**
- ▶ Vast majority of the local subsidiaries is managed by local managers as Bulgarian language is required
- ▶ Large as well as small companies are using Bulgaria as a hub office
- ▶ **Romania, Serbia and Macedonia are the top countries managed by Bulgarian offices...**
- ▶ **...followed by South-East European countries**
- ▶ 27% of these offices coordinate activities within the **Middle East and Africa** as well



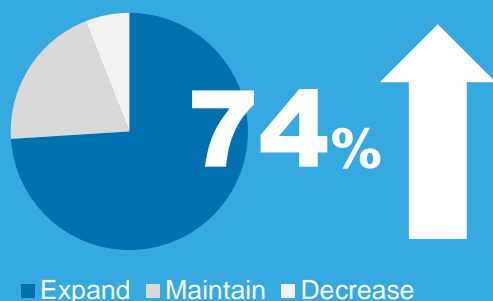
Frequency of the Managed Country

BULGARIA SERVES AS A STRATEGICAL HUB, FACILITATING ACCESSIBILITY TO THE SOUTH EAST MARKETS AROUND THE MEDITERRANEAN



SWEDISH COMPANIES HAVE A POSITIVE OUTLOOK ON THEIR GROWTH POTENTIAL IN BULGARIA

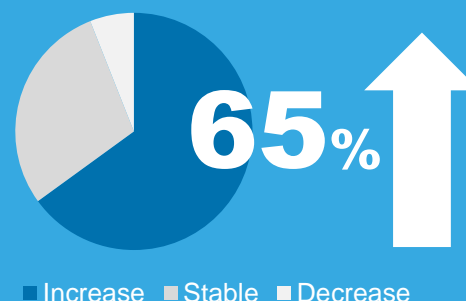
Expansion Plans Mid-term:



...of the companies will increase their activities in Bulgaria in the next 3 years

- ▶ **94%** of the respondents will either **expand or maintain their activities** in Bulgaria

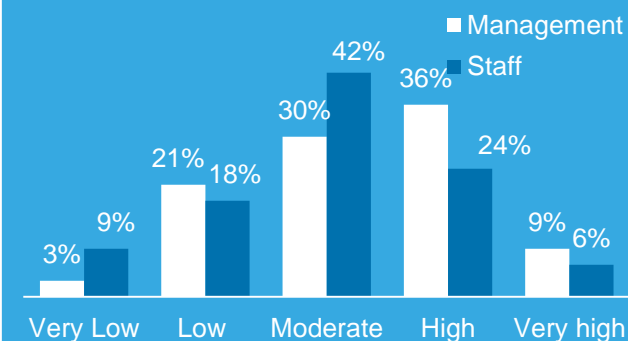
Employment Trend Mid-Term



...of the companies will increase their number of employees in the next 3 years

- ▶ Swedish companies are **also committed to the Bulgarian market in a mid-term perspective**
- ▶ The sectors of **Machinery & Manufacturing** and **Retail & Sales** expect to increase the most

Access to Qualified Labor



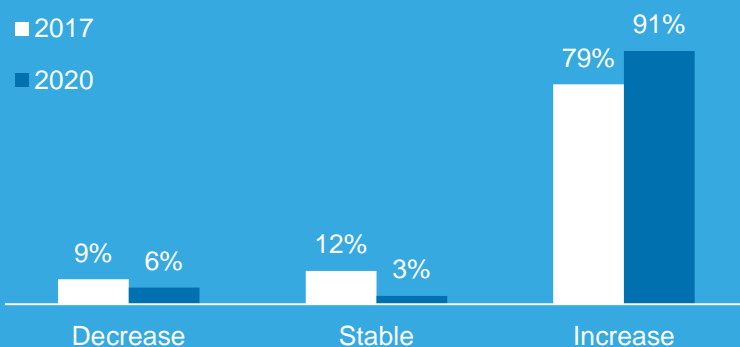
- ▶ **74%** believe they have a **good resource pool** when they recruit
- ▶ **Chemicals & Healthcare** are very satisfied with both management and staff labor availability

SWEDISH COMPANIES IN BULGARIA PLAN ON NOT ONLY TO STAY BUT ALSO TO EXPAND THEIR BUSINESS



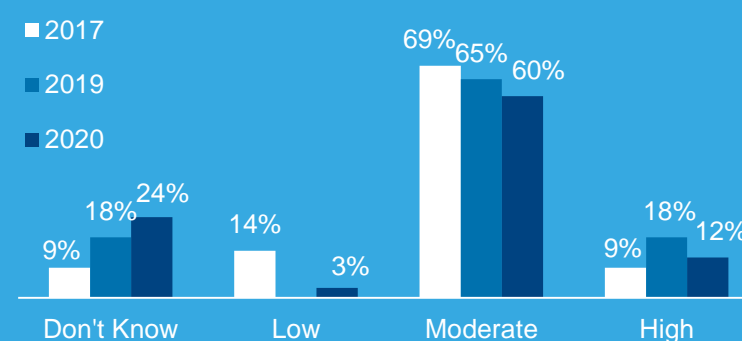
POSITIVE EXPECTATIONS ON OWN TURNOVER AS WELL AS PROFITABILITY DEVELOPMENT

Expectations on own Turnover Development



- ▶ The respondents' answers shows clearly that most companies expect that **their turnover will increase both during 2017 as well by 2020**

Expectations on own Profitability Development



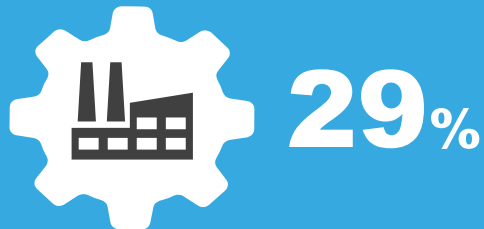
- ▶ The respondents are **optimistic about the Bulgarian market's profitability possibilities**

THE COMPANIES EXPECT THAT THEIR EXPANSION WILL GENERATE TURNOVER GROWTH AND PROFITABILITY



SWEDISH COMPANIES SEE BENEFITS IN EXPANDING THEIR PRESENCE IN BULGARIA

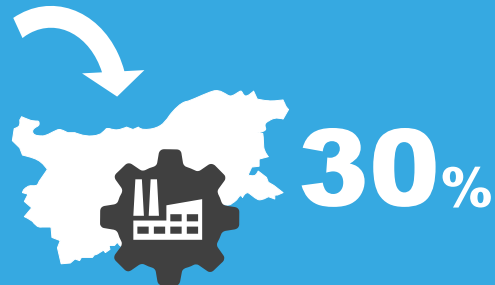
Production in Bulgaria



...of the respondents have a production facility in Bulgaria

- ▶ **80%** of these companies are in **Machinery & Manufacturing**
- ▶ **90%** of the companies with their own production facility plan to expand investments into the existing units within the next three years

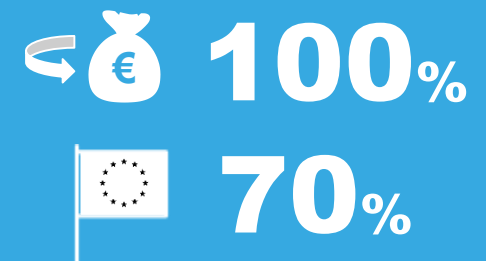
Production Investments



...of the respondents that do **not** have a production facility in Bulgaria, are considering to have one in 3 years

- ▶ Companies in the sectors of **Chemicals & Healthcare** and **Retail & Sales** are considering to open a production facility

Main Advantages of Producing



...of the Swedish producers state low cost and benefits of the EU membership as the two most important advantages of producing in Bulgaria

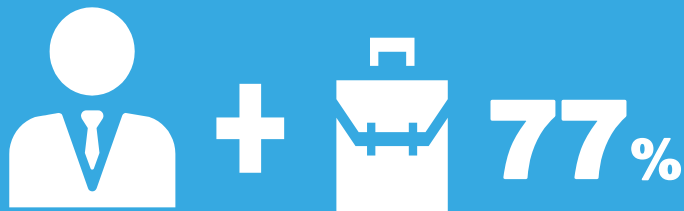
- ▶ The two main advantages for producing in Bulgaria are:
 - ▶ **Low costs (100%)**
 - ▶ **EU membership (70%)**

THE LOW COST AND THE BENEFITS OF EU MEMBERSHIP INTEREST SWEDISH COMPANIES IN STARING UP A PRODUCTION



SWEDISH SUBSIDIARIES PROVIDE OVER 8500 FULL TIME JOBS AND PLAN TO EXPAND THEIR INVESTMENTS IN BULGARIA

Ambition to Invest



...of the respondents stated that they will make investments in 2017. Whereas 80% stated that they will make investments in the next 3 years

- ▶ The most **popular areas of investments** are:
 - ▶ **Staff** (81%)
 - ▶ **Production Equipment** (41%)
 - ▶ **IT Infrastructure** (33%)
 - ▶ **Office Facility** (30%)

Utilization of Governmental Incentives



...of the companies have used some kind of governmental support

- ▶ Utilization of government incentives has not been a priority for Swedish companies
- ▶ Investment incentives in form of EU funds are interesting mainly for local manufacturing companies
- ▶ EU funding are implemented to modernize equipment and to boost the productivity

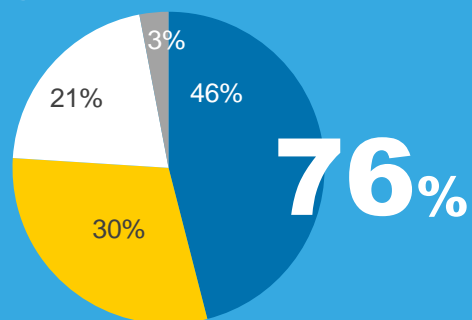
THE CONTINUED INVESTMENT IN BULGARIA IS A SIGN OF TRUST IN THE LOCAL ECONOMY



MANAGERIAL DECISIONS ARE OBJECTIVE AND MARKET ORIENTED

Influencing Managerial Decisions

- Local market conditions
- Decisions taken in Sweden
- Return on investments
- Current political situation

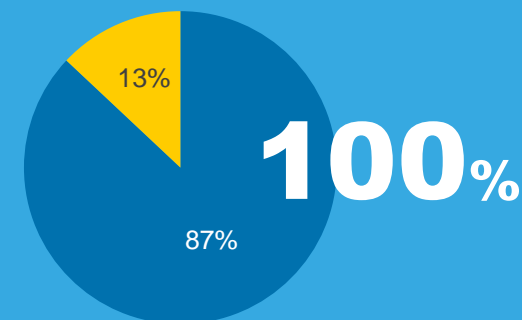


...believe that local market conditions and central decision-making are the greatest influencers

- ▶ **None of the respondents** ranked the **investment incentive** as the greatest influence on strategic managerial decisions

Perception of Sweden

- Very Positive
- Positive
- Neutral
- Negative
- Very Negative



...of the companies perceive Sweden, both as a country and as a brand, is perceived positively

- ▶ All responding companies agree that **it is beneficial to highlight the Swedish origin** on the Bulgarian market

SWEDEN IS A BRAND STANDING FOR QUALITY AND RELIABILITY



BUSINESSES' EXPERTISE AND HIGHER SALARIES FOR THE YOUNG DOCTORS WILL IMPROVE THE HEALTH CARE SECTOR

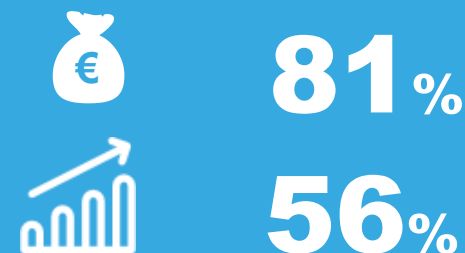
Businesses' expertise contribution



...believe that businesses' expertise can contribute to the National Health Care reform and Health Care institutions capabilities building

- ▶ **All respondents agree** on businesses' expertise will improve and positively influence the National Healthcare Sector Reform and the Capability building of the healthcare institutions
- ▶ **77%** believe a contribution would mean a **more effective healthcare system** or that **an improved quality of services would be provided**
- ▶ **20%** believe that the **competitiveness amongst public health care providers** will increase

Incentives for Young Specialists



...believe that higher salaries, job stability and career growth will prevent young specialist from leaving the Bulgarian healthcare system

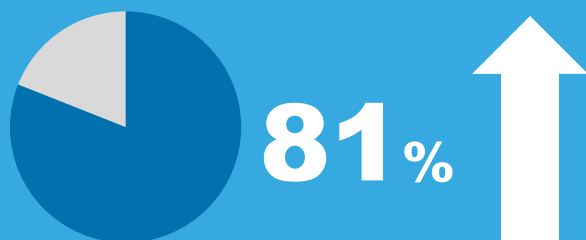
- ▶ In order to keep the young and skilled medical staff in the healthcare system it should offer:
 - ▶ **Higher salaries (81%)**
 - ▶ **Job stability and career growth (56%)**
 - ▶ **Attractive work conditions (41%)**

SWEDISH COMPANIES BELIEVE THAT BUSINESSES' EXPERTISE COULD CONTRIBUTE TO THE BULGARIAN HOSPITAL SECTOR



OPTIMIZATION OF THE PUBLIC FUND SPENDING IS DETERMINED BY RESTRUCTURE AND INNOVATIONS

Hospital restructure & Public funds

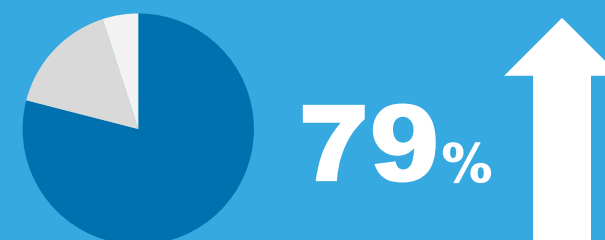


■ Moderate to High ■ Low ■ No impact

...believe that a restructure will have a moderate to high impact on public funds spending

- ▶ **All respondents** agree that a restructure will have an impact on the optimization of public fund spending
- ▶ **81%** of these believe **the impact will be moderate to high**

Innovative treatment & Public funds



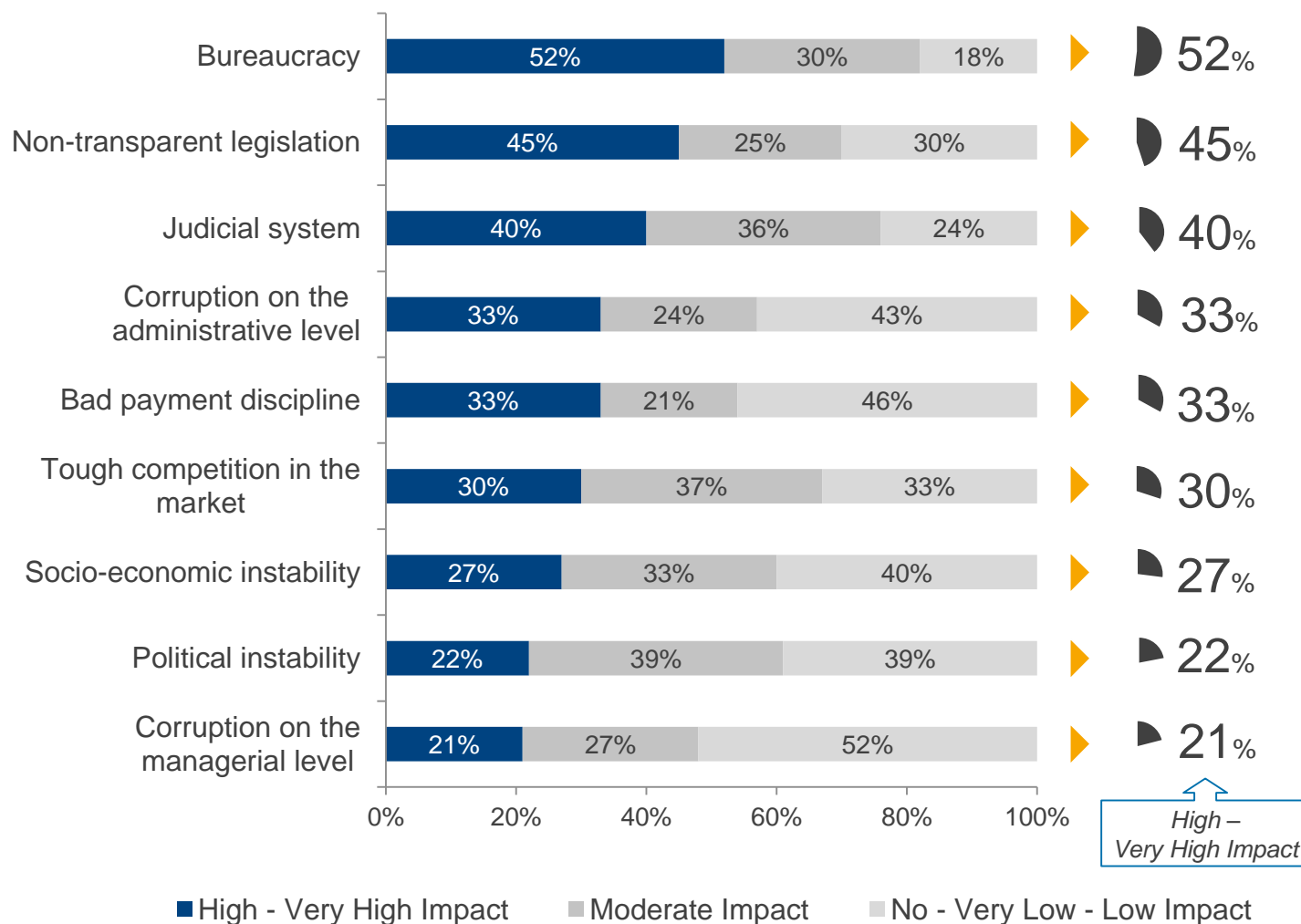
■ Moderate to High ■ Low ■ No impact

...believe that access to innovative treatment will have a moderate to high impact on the optimization of public funds spending

- ▶ **The vast majority agrees** that access to innovative treatment will have an impact on the optimization of public fund spending
- ▶ **79%** of these believe **the impact will be moderate to high**

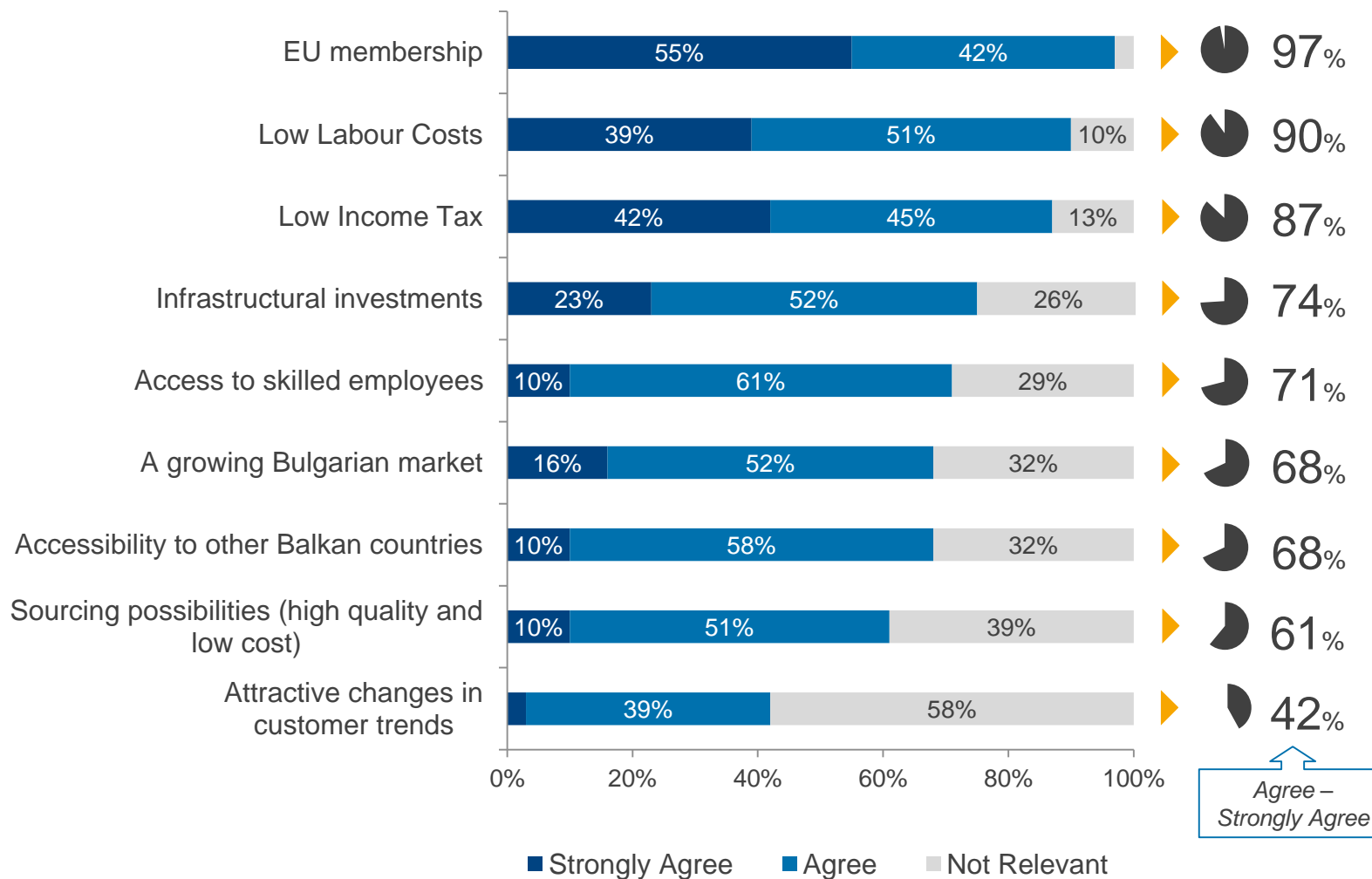
SWEDISH COMPANIES BELIEVE THAT BUSINESSES' EXPERTISE WILL IMPROVE THE BULGARIAN HEALTHCARE SYSTEM

MAIN CHALLENGES AFFECTING BUSINESS IN BULGARIA

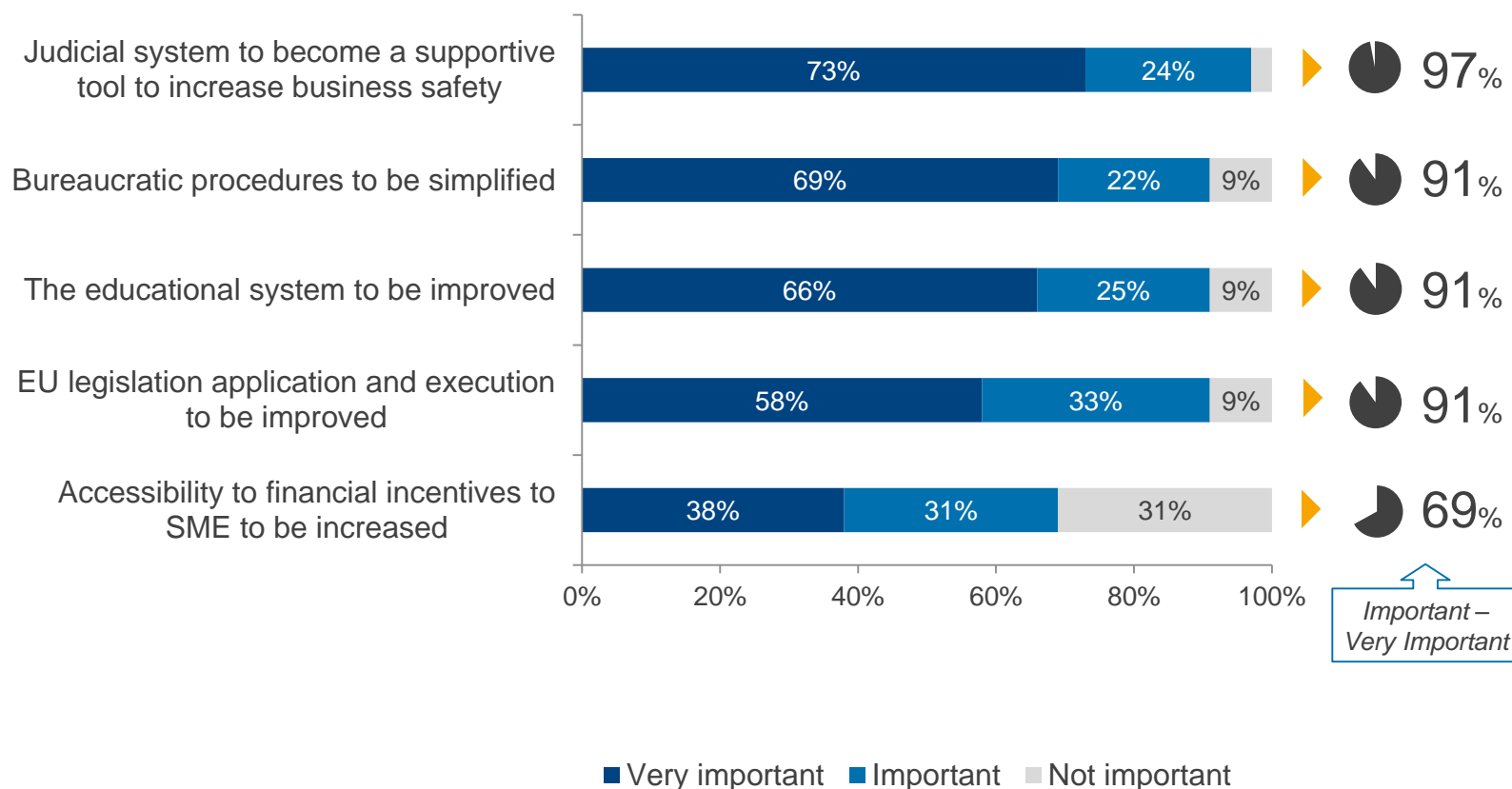




MAIN ADVANTAGES FOR DOING BUSINESS IN BULGARIA



AREAS THAT SWEDISH COMPANIES BELIEVE SHOULD BE IMPROVED IN ORDER TO BOOST TRADE AND INVESTMENTS IN BULGARIA



CONCLUSIONS

- ▶ Swedish companies initially often establish a representative unit and afterwards sometimes expand with local production
- ▶ Swedish companies see **challenges when it comes to political environment and market competition**, but...
- ▶ **Despite continued challenges in the Bulgarian market, Swedish companies...**
 - ▶ **Believe in the economy**
 - ▶ **Believe in their own sectors**
 - ▶ **Are planning to expand their operations and invest in Bulgaria**
 - ▶ **Expect their turnover to grow and their profitability to increase**
- ▶ Sweden creates over **8500 full time jobs** in Bulgaria
- ▶ Sweden has a strong “brand” and seal of quality in Bulgaria
- ▶ **All in all, Swedish companies believe in the potential of the market, regardless if the perspective is short, mid or long term**
- ▶ Concrete challenges must be **defined and solved together** through joint activities by international investors from all EU countries.



SWEDISH COMPANIES BELIEVE IN BULGARIA BUT EXPECT STATE DRIVEN CHANGES

EXECUTIVE SUMMARY

Coverage

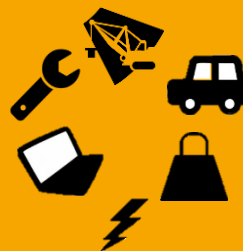
89%

Of the 37 Swedish subsidiaries in Bulgaria answered the survey

62%

Responded after the parliament approved the new coalition (4/5/2017)

Profile



Over 8500 full time jobs in diverse economic sectors

Advantages

Top 3 advantages of doing business in Bulgaria

EU Membership **97%**

Low Labour Costs **90%**

Low Income Tax **87%**

Challenges

Top 3 challenges for Swedish companies are:

Bureaucracy **52%**

Non-Transparent legislation **45%**

Judicial system **40%**

Growth

91%

Expect a turnover increase in the next 3 years

Expansion

74%

Will increase their activities in Bulgaria in the next three years. This is also supported by their expectations in turnover and staff number increase

Investments

+ = **77%**

Will invest in 2017, primarily in:
- Staff (81%)
- Production equipment (41%)
- IT infrastructure (33%)

Profitability

78%

Expect profitability (ranging from moderate to very high) in 2017 and **83%** expect profitability in the mid-term

SWEDISH COMPANIES ALREADY PRESENT ARE CONTINUOUSLY COMMITTED TO DO BUSINESS IN BULGARIA



KEY FINDINGS OF THE BUSINESS CLIMATE STUDY

KEY FINDINGS



Significant employer

Sweden creates 8500 full time jobs in Bulgaria and more than 2/3 of the existing companies plan to grow



Mostly B2B business models

Swedish companies engage mainly in B2B activities and develop the business sector (Swedish companies do not target the Bulgarian consumer)



Innovation is the key for change

Swedish companies believe that innovation will improve the public fund spending and service provision (in healthcare but also education)



No reliance on subsidies

Swedish companies do not use subsidies due to complicated administration but also because they do not qualify



Significant share of Swedish companies in Bulgaria run large operations in the country

40% of the Swedish companies have a turnover of more than 1 BEUR

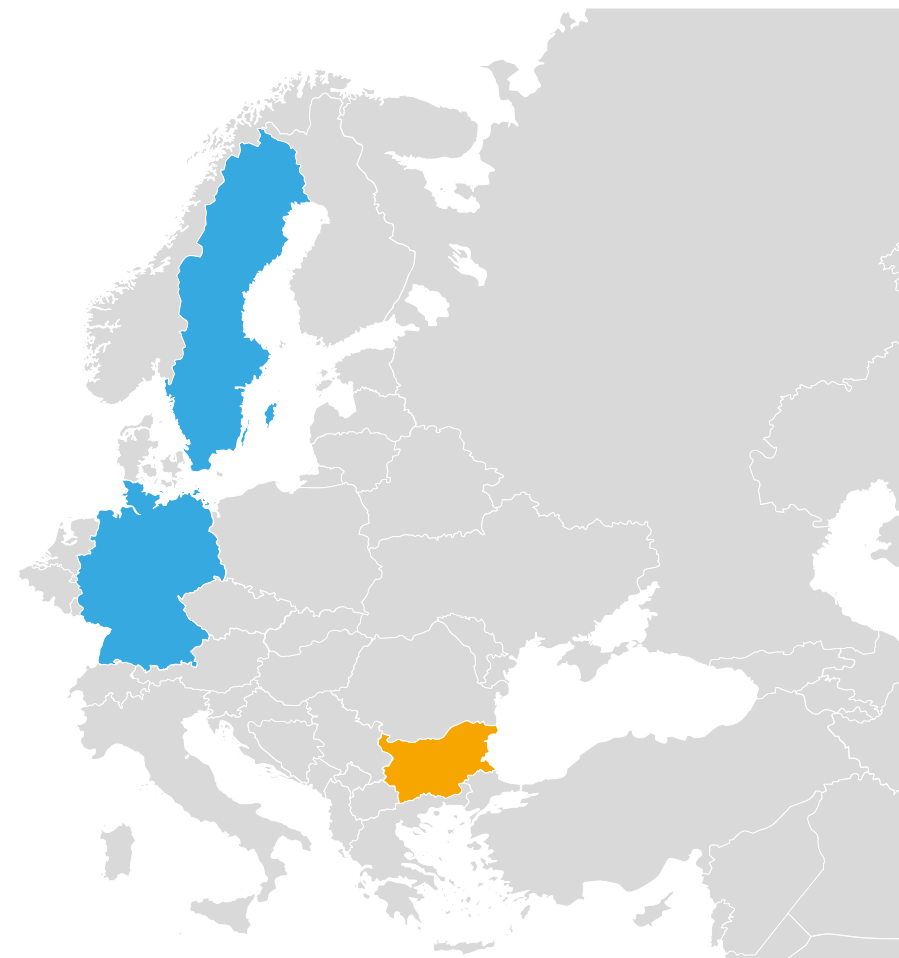


SWEDISH AND GERMAN COMPANIES IN BULGARIA SEE SIMILAR NEEDS FOR THE FUTURE COOPERATION GROWTH



EXTRACTS FROM DEUTSCHE HANDELSKAMMER'S BCS 2017

- ▶ "Reform of the educational and healthcare system in order to better match the employers needs"
 - ▶ "Reform of the judicative system and increase transparency"
- ▶ "Fight against corruption and inefficient market structures and monopolies"
 - ▶ "Increase the quality and efficiency of the public administration"
- ▶ "Decrease bureaucracy level and speed up approval and certification issuing processes"
 - ▶ "Secure a stable and predictable political and social environment"
- ▶ "Market success stories better and provide opportunity focused country marketing"
 - ▶ "Develop and support SMEs"





BULGARIA

KEY MACROECONOMIC INDICATORS



**DOMESTIC
MARKET VALUE**
45.3 BEUR



**UNEMPLOYMENT
RATE**
6,9 %



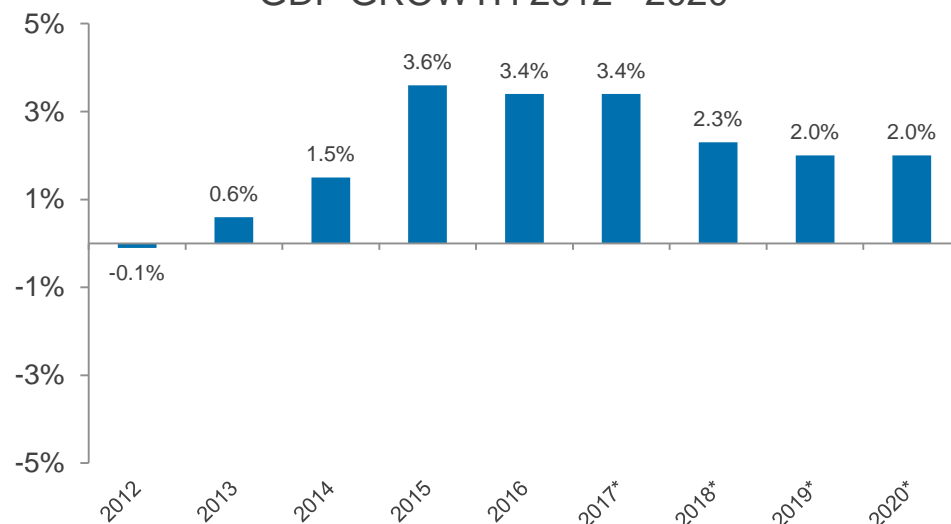
**CONSUMER PRICE
INFLATION**
1,6%



DOMESTIC PRODUCTION GROWTH
3.4% 2017 FF & 3,1 % IN 2018 FF

BULGARIA IS ONE OF THE FASTEST-GROWING SOUTH-EAST EUROPEAN COUNTRIES AND EU MEMBER

GDP GROWTH 2012 - 2020



Key Data & Forecasts	2015	2016	2017*
Population (million)	7.2	7.1	7.1
GDP (USD billion)	50.1	52.3	57.5
GDP per capita (USD)	6 990.2	7 352.1	8 141
GDP growth (%)	3.6	3.4	3.4
Inflation (%)	-0.1	-0.8	2
Trade balance (% of GDP)	-5.7	-3.8	-5.8

MACROECONOMIC OUTLOOK

- Governmental efforts and policies:** As an EU member since 2007, Bulgaria actively pursues implementation of the reforms stipulated in the EU Convergence Programme.
 - Currently the country successfully tackles fiscal adjustments and has solid progress at increasing budget revenues and decreasing the share of shadow economy while keeping the level of tax burden.
- Foreign investments and trade:** Favourable foreign investment environment which includes government incentives for new investment and low or flat corporate and income taxes. Germany, Italy, Romania and Turkey are the main trading partners.
- Economic indicators:** Domestic demand is the main growth engine, driven in particular by private consumption and investment following the acceleration in EU funds absorption under the 2014-2020 EU programming period.
 - Unemployment is expected to continue decreasing in the coming years and is likely to be 7% in 2017.
 - GDP growth increased significantly in 2015 compared to the year before, and the trend is expected to last throughout 2017. It will thereafter remain strong, although slightly more moderate.

FAVOURABLE FOREIGN INVESTMENT ENVIRONMENT AND STRUCTURAL REFORMS MAKE BULGARIA AN ATTRACTIVE MARKET

OPPORTUNITIES AND CHALLENGES ON THE BULGARIAN MARKET FROM THE SWEDISH PERSPECTIVE

OPPORTUNITIES

- ▶ The manufacturing and production sectors are creating most of the jobs in Bulgaria. It also has the highest contribution for the growing Swedish imports of Bulgarian products
- ▶ Automotive, Machinery, Chemicals and Sourcing are the most interesting sectors for Swedish investors in Bulgaria
- ▶ Innovations and R&D are a key for developing the industry and human resources. Innovations will improve the public sector.
- ▶ Attracting new Swedish companies to Bulgaria will increase the market importance as a regional hub.

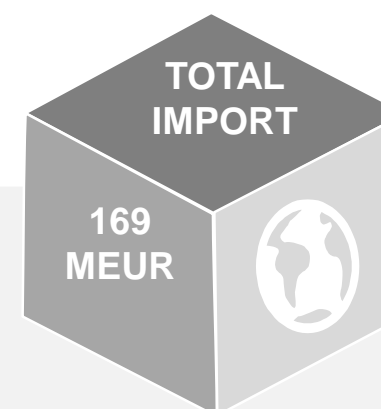
BULGARIA

CHALLENGES

- ▶ Heavy and rigid bureaucratic procedures, which should be simplified. Specific and concrete areas must be defined for improvement
- ▶ Development of a relevant educational system is required. The labour market is scarce on skilled labour force and competent middle management. There are strong regional and sectorial differences in the availability of worker force
- ▶ Judicial system must be reformed to provide better business safety
- ▶ Limited availability of the right work force in highly industrial areas e.g. Plovdiv



INTERNATIONAL TRADE DOMINATED BY CHEMICAL, INDUSTRIAL AND FUEL PRODUCT IMPORTS



CATEGORY	%	TREND
Food, beverages and tobacco	11	↓
Crude materials and mineral fuels	1,9	↗
Chemicals and Pharmaceuticals	32	↗
Manufactured products and machinery	51	→
Other goods	37	↗

CATEGORY	%	TREND
Food, beverages and tobacco	19	↗
Crude materials and mineral fuels	1,4	↗
Chemicals and Pharmaceuticals	28	↗
Manufactured products and machinery	42	↗
Other goods	10	↗

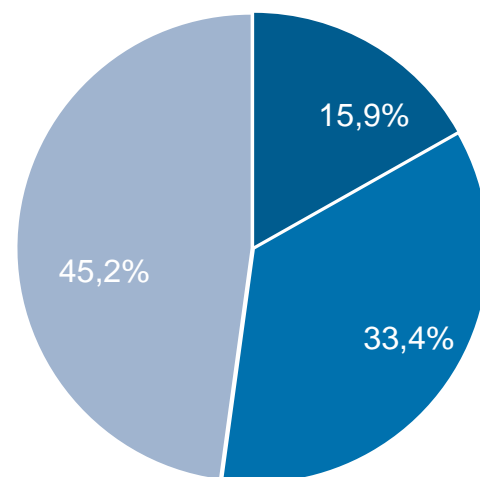
GERMANY, ROMANIA, ITALY AND RUSSIA ARE THE MAIN TRADING PARTNERS OF BULGARIA



STABLE AND CONSTANT GROWTH OF INDUSTRIAL PRODUCTION AND MANUFACTURING SINCE 2013



MANUFACTURING COMPANIES
BY SIZE IN BULGARIA



■ Small ■ Medium ■ Large



THE INDUSTRIAL PRODUCTION IN BULGARIA

- ▶ **4,5 BEUR production in 2016** and increase by 250 MEUR annually
- ▶ **In 2016 automotive companies grew by 20%** and expect similar results in the upcoming years
- ▶ The processing industry is created by a pool of more than 31 000 companies with total turn over of over 23 000 MEUR and 20% added value
- ▶ **70% of the machinery producers** plan expansions of their current production facilities
- ▶ Required are high precision, flexibility and labor productivity
- ▶ Still, low productivity level in the manufacturing sector, but one of highest investment rates in the EU (44)
- ▶ Industry driving forces are the automotive Tier 1 sub-suppliers to **BMW, Mercedes – Daimler, Volkswagen, Ford, Renault, FIAT, Bentley, Lamborghini, Porsche**
- ▶ **Average wage in the automotive sector is approx. 415 EUR**

50 COMPANIES WITH 33 000 EMPLOYEES PRODUCING AUTOMOTIVE COMPONENTS GENERATE ABOUT 3,5% OF THE GDP (2015)



BULGARIA IS A TOP LOCATION FOR CLINICAL AND MEDICAL RESEARCH

From the national economy:




- ▶ Manufacturing within pharmaceutical sector works with one of the countries highest labor productivity rates
- ▶ The clinical trial sector is 75 mln. EUR industry and follows global trends
- ▶ Bulgaria lags behind mature markets in terms of quality of healthcare services. Participation in clinical trials is seen as a tool given from the private sector to provide higher quality treatment, increased availability of medically advanced drugs and innovative approach to the healthcare system
- ▶ Key sector drivers in Bulgaria are high quality of medical data, ease of patient recruitment, competitive in-house trial management and attractive cost structure

Economics	52069
Administration and Management	23305
Communication technologies and Computer science	16017
Pedagogy	12562
Law	10605
Medical science	8797
Mathematics, Electrical engineering and Metallurgy	8793
Architecture, Construction and Geodesy	7495

- ▶ **Total number of graduates in the professional field, 2016**



NEXT TO POLAND AND EGYPT BULGARIA IS A STRONG LOCATION FOR HIGH LEVEL APPLICATION SOURCING IN THE ICT SECTOR

MARKET SEGMENT		GROWTH POTENTIAL
1	SOFTWARE SALES  <div style="background-color: #004a87; color: white; padding: 5px; border-radius: 10px; display: inline-block;"> BGN 184mn in 2017 to BGN 226mn in 2021 Growth rate of 5.3%. </div>	<ul style="list-style-type: none"> ▶ <i>There is potential for growth as vendors target the low penetration of applications in several key verticals, with a boost to the SME outlook offered by the supply of more flexible cloud solutions</i>
2	HARDWARE SALES  <div style="background-color: #0072bc; color: white; padding: 5px; border-radius: 10px; display: inline-block;"> BGN 401mn in 2017 to BGN 426mn in 2021 Growth rate of 1.5%. </div>	<ul style="list-style-type: none"> ▶ <i>Growing market for hybrid notebooks but the core PC market is saturated, and there is a drag from tablet demand cannibalization by smartphones, as well as declining spending on printers</i>
3	SERVICES SALES  <div style="background-color: #add8e6; color: white; padding: 5px; border-radius: 10px; display: inline-block;"> BGN 296mn in 2017 to BGN 357mn in 2021 Growth rate of 4.8%. </div>	<ul style="list-style-type: none"> ▶ <i>There is still growth potential in traditional IT services such as integration and maintenance, but it is cloud services and internet of things solutions that we expect to outperform over the medium term</i>

55%

Business Process Outsourcing

25%

IT Outsourcing

10%

Knowledge process outsourcing





BULGARIA WAS AWARDED THE “OFFSHORING DESTINATION OF THE YEAR” BY THE EUROPEAN OUTSOURCING ASSOCIATION

Industrial Sourcing

Bulgaria was named the best outsourcing destination. The Business process outsourcing created 3,7% of the national GDP in 2016

Electronic Manufacturing Services (EMS) is one of the most dynamic and growing production industries in Bulgaria

About 2000 companies in the textile industry in Bulgaria export approx. 18% of the total textile and clothing production to Sweden. Bulgaria so competes with China, Thailand, Bangladesh and Turkey

Outsourcing is expected to create 9% -10% of GDP in 2020.

More than 180 local exporting companies are amongst the biggest employers, with the ICT and outsourcing sectors generating the greatest number of new jobs in the country, reaching 41,000 in 2015

According to Cushman & Wakefield, Bulgaria is third amongst the top 15 manufacturing destinations globally, in terms of growth in 2015 and first in Europe



CONTACT US

About Business Sweden

Business Sweden's purpose is to help Swedish companies reach their full international potential and foreign companies to invest and expand in Sweden. We offer our customers strategic advice and hands-on support.

Business Sweden is owned by the Swedish Government and the industry, a partnership that provides access to contacts and networks at all levels. Business Sweden was founded on the first of January, 2013, by a merger of the Swedish Trade Council (Exportrådet) and Invest Sweden.



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THANK YOU!