THE SWEDISH TRADE & INVEST COUNCIL

BUSINESS SWEDEN

BUSINESS CLIMATE SURVEY BULGARIA 2019

AN ATTRACTIVE COUNTRY FOR SWEDISH BUSINESS

January 2019

FOREWORD

Swedish companies have a substantial footprint on the Bulgarian market. With a strong focus on leading-edge technology, innovation, high-quality offerings and long-term commitment, many of the Swedish companies in Bulgaria have experienced rapid growth over the last two decades.

Bulgaria has gone through significant changes during the last thirty years. In the early 1990s the democratization process of the country began, with a subsequent shift towards a market economy, sustained by adoption of new legislations and harmonization with EU regulations as Bulgaria became an EU member state in 2007.

The present study confirms the strong and growing presence of Swedish companies in Bulgaria. Based on an in-depth survey it provides valuable information and insights from “the ground”. Bulgaria is seen as an attractive market by Swedish companies – with over 90% planning for further investments in the coming three years, and over half expecting to increase the number of staff. The study gives an updated and aggregated picture on how Swedish companies established in Bulgaria perceive the business climate in Bulgaria – identifying both opportunities and challenges.

It is our hope that this report will give you new and valuable insights on the Swedish business presence in Bulgaria, as well as the opportunities in this growing market.

Bartosz Modzelewski
Project Manager
Central and Eastern Europe

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Swedish Ambassador
to Bulgaria

In cooperation with and sponsored by:

SWEDISH COMPANIES ARE OPTIMISTIC ON THE PROSPECTS OF THE BULGARIAN MARKET

Coverage

32 *respondents from Swedish companies answered the survey.*

Profile

Diversified respondent base in terms of both size and sector.

Advantages

Top 3 advantages when doing business in Bulgaria:

- *EU membership* **87%**
- *Low income tax* **80%**
- *Low cost of labour* **54%**

Challenges

Top 3 challenges when doing business in Bulgaria:

- *Labour shortages* **80%**
- *Tough competition* **73%**
- *Bureaucracy* **63%**

Growth

84%

expect growth for the industry in which the company is operating in the next three years.

Expansion

87%

plan to expand their activities in Bulgaria in the next three years, and 90% based on their expectations with respect to turnover increase.

Investments

+ = **85%**

will invest during the next 3 years, primarily in:
*Staff: **80%***
*Production/office facility: **57%***
*IT Equipment: **57%***

Profitability

€ **90%**

*expect profitability (ranging from moderate to very high) in the mid-term future and **77%** expect profitability in 2019.*

SWEDISH COMPANIES PRESENT IN BULGARIA PLAN TO EXPAND, INVEST AND GENERATE GROWTH.

BUSINESS CLIMATE SURVEY 2019 HAD A HIGH RESPONSE RATE…

- The Business Climate Survey 2019 was conducted between November 22nd 2018 and December 21st 2018 by **Business Sweden** in collaboration with **the Embassy of Sweden.** We would also like to thank **Saab** and **Trelleborg** for their support and co-sponsorship of this year's edition of the study.
- **32 individuals representing companies of all sizes and industries have answered the survey.**
- **The respondents of the survey were either Country Managers, Regional Managers** or sometimes **Business Line Directors** in case of large companies.
- The survey was composed of quantitative and qualitative questions **aiming to understand the current business climate and expectations** (including opportunities and challenges) **of the Swedish subsidiaries in Bulgaria**.
- In order to understand the current state of business, a number of questions about internal factors such as e.g. turnover and number of employees were also included in the survey. The respondents were as well asked to express their expectations regarding the short- and mid-term future in order to get acquainted about their current view on the development of the Bulgarian business climate.

* SOME RESPONDENTS INDICATED SEVERAL SECTORS WHEN ANSWERING THE SURVEY.

COVERAGE

32

RESPONDING COMPANIES

Manufacturing	29%
Services	13%
Telecommunications	6%
Construction	3%
Transportation & Transport Systems	3%
Agriculture	3%
Energy & Environment	3%
ICT	3%
Healthcare	6%
Other	29%

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

- The profile of the respondents shows a **good mixture of companies involved in the Business Climate Survey 2019** indicating that **the aggregated picture reflects views from companies of all sizes**.
- Bulgaria as an export market is attractive to both smaller and larger companies. **The country's geographical proximity to other Balkan states, Central Asian countries and the Middle East, low cost of labour and tax incentives** are advantages attractive not only for the largest companies.

Profile of the respondents*

Global Turnover (MEUR) \ Turnover in Bulgaria (MEUR)	0–10	10–50	>50	
>1000	28%	**57%**	**100%**	= **47%**
100–1000	28%	14%	N/A	= **20%**
<100	**44%**	29%	N/A	= **33%**

The respondents of the Business Climate Survey represent a mixture of all sizes of companies.

Almost half of the participants (47%) recorded a global turnover **greater than € 1 Billion**

Selected Participants of Business Climate Survey 2019

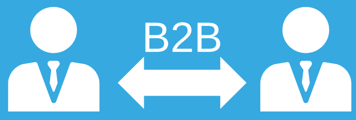
THE RESPONDENTS COVER MANY SECTORS AND MOST COMPANIES ARE ENGAGED IN B2B ACTIVITIES

Sectors

29%	13%	6%	3%
3%	3%	3%	3%
6%	29%		

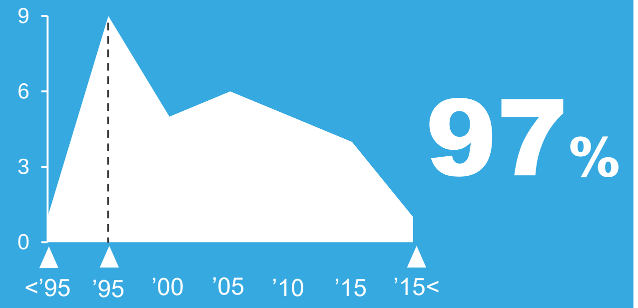
Main Customer Group

58%



…of the Swedish companies are in B2B sector in Bulgaria

Establishment Year



…of the respondent companies are established after 1990

- Swedish companies are **diversified** in terms of activity areas, e.g.:
  - **Manufacturing (29%)**
  - **Services (13%)**
  - **Telecommunications (3%)**
  - **Construction (3%)**
  - **Transportation & Transport systems (3%)**
  - **Agriculture (3%)**
  - **Energy & Environment (3%)**
  - **ICT (3%)**
  - **Healthcare (6%)**
  - **Other* (29%)**

- **B2B (58%) is the primary business context for the majority of respondents** followed by B2C (29%).
- Only 13% of the respondents stated that their primary business context is B2G.

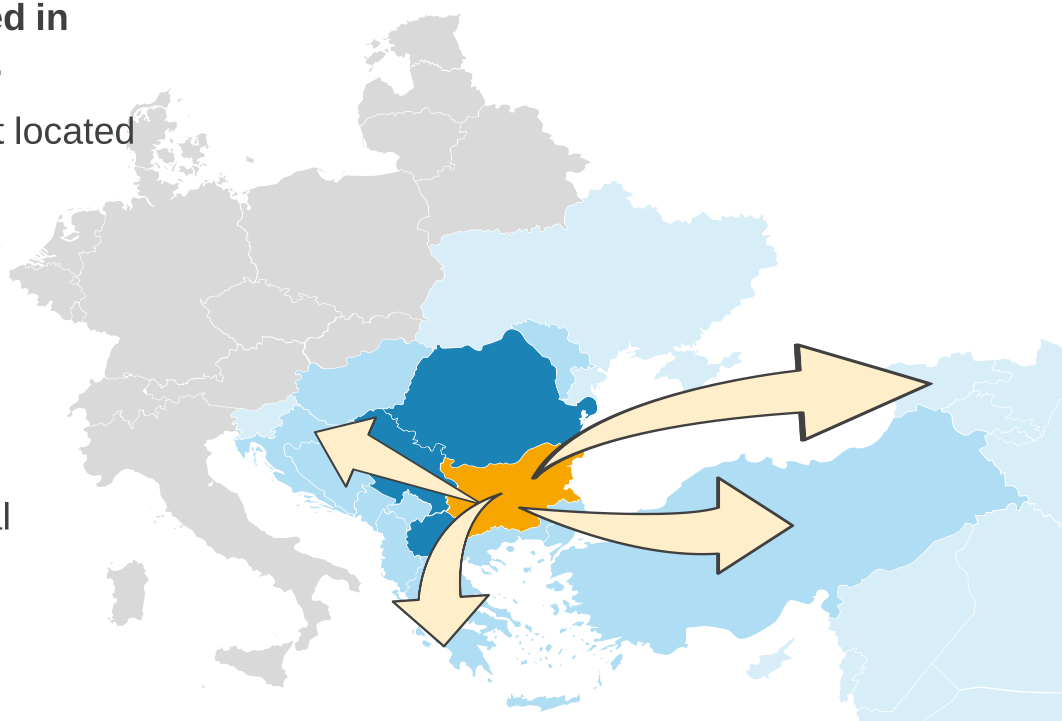
- Swedish interest in doing business in Bulgaria has significantly increased after 1990.
  - **The majority (97%) of the responding Swedish subsidiaries in Bulgaria were established after 1990.**
  - 33% of the responding companies were established after Bulgaria joined the EU in 2007.

*Including among others: defense, education, mining, entertainment, pharmaceutical, FMCG.

SINCE 1990 THERE IS A CONTINUOUS INTEREST AMONG SWEDISH COMPANIES TO INVEST IN BULGARIA.

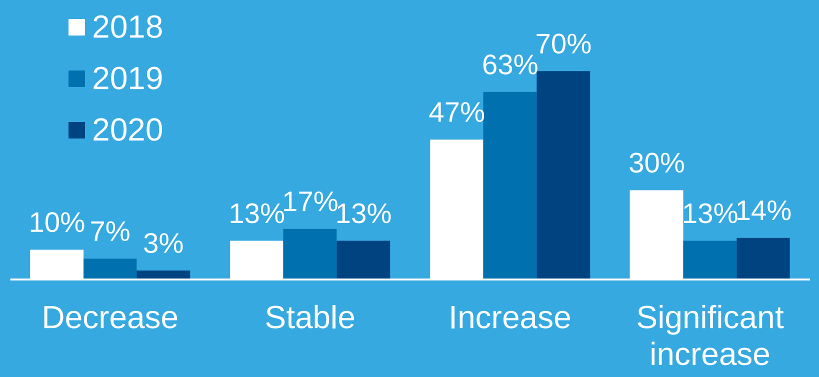
BULGARIA FUNCTIONS AS A HUB OFFICE FOR CA. 10% OF THE RESPONDENTS

- **90% of the respondents indicate that their company's office in Bulgaria manages only country-wide operations,** which could be the measure of the potential of the size and attractiveness of Bulgarian market on standalone basis.
- **10% of the respondents indicate that the office located in Bulgaria is responsible for at least one more country.**
  - Some companies indicate that the manufacturing plant located in Bulgaria serves as a global export hub.
  - Other respondents state that worldwide operations are conducted from the Bulgarian office.
  - **South-East Europe, the Middle East and Africa, are the most common regions** managed by hub offices/operational facilities in Bulgaria.
- Vast majority of the local subsidiaries is managed by local managers as Bulgarian language is required



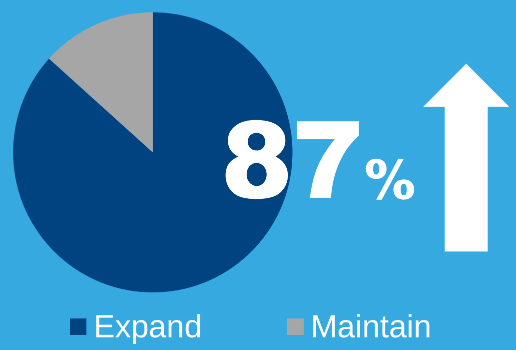
SWEDISH COMPANIES IN BULGARIA BELIEVE IN THEIR RESPECTIVE SECTORS AND ARE PLANNING TO GROW

Expectations on Sector Growth



- The vast majority of **respondents expect their respective sectors to grow** in both short- and mid-term perspectives:
  - **Between 76% and 84%** of the respondents **expect a mid-term positive sector growth. On average, ca. 14%** of the companies **expect the growth to be double-digit figure.**
  - **90% expected either sector stability or growth in 2018**.
  - Only 5% of the respondents on average expect a negative growth in a mid-term perspective.
  - Telecommunications, transportation and construction are sectors with the least confidence in underlying growth potential.

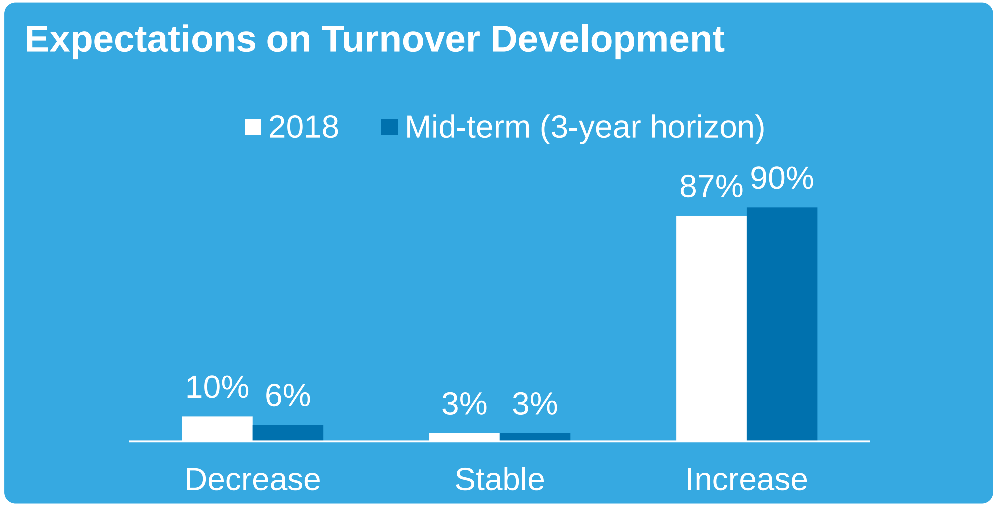
Companies' Mid-term Plans for Bulgaria

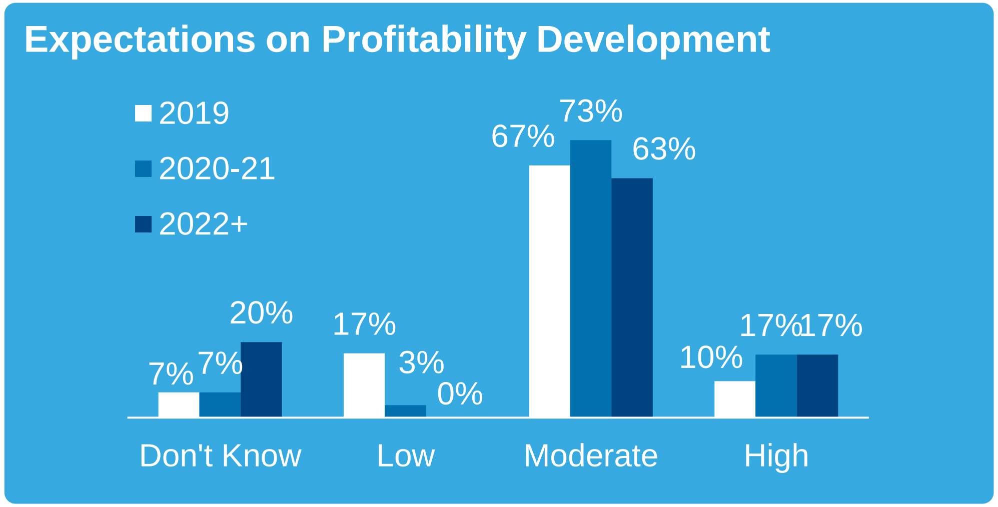


- Regarding Swedish companies' view on development for their business in Bulgaria within the next three years, **the statement is quite clear**:
  - **100% of the respondents will either expand or maintain their activities in Bulgaria**.
  - 87% are looking at an expansion of their activities on the Bulgarian market.
  - 13% intend to maintain the current level of business in Bulgaria, whereas there is not a single company which at present plans to withdraw from Bulgaria.

SWEDISH COMPANIES ARE IN BULGARIA NOT ONLY TO STAY, BUT ALSO TO EXPAND THEIR BUSINESSES.

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



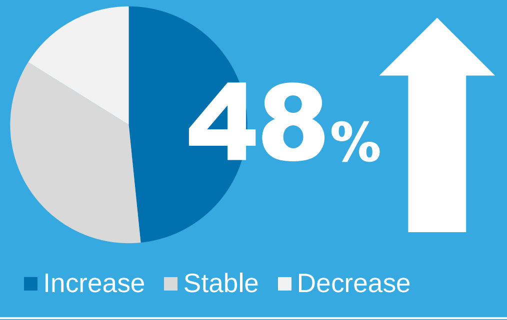


- The respondents' answers clearly show that most **companies expected that their turnover grew both in 2018 as well as is expected to grow by 2021**.
  - **90%** of the respondents **expect a mid-term positive turnover growth. 37%** of these respondents **expect more than a 10% turnover increase** (whereof 16% expect +20% increase).
  - **This positive outlook is shared within most industries and company sizes**. Small and medium size companies tend to be the most optimistic, closely followed by large companies.
  - **90% expect either turnover stability or growth during 2018**.
  - **10% expect a decrease of the turnover in 2018**, but only 6% expect a decrease in a mid-term perspective.

- The **respondents are rather optimistic about the Bulgarian market's profitability possibilities**.
  - **90% of the participants expect profitability** (ranging from moderate to very high profitability) in the mid-term. However, most companies expect a moderate profitability.
  - The survey also confirms that **despite the difficulty to foresee long-term profitability development** (2022 and beyond) the **respondents believe in a bright future**. **80% of the respondents** expect profitability as well in the long-run.
  - Manufacturing is the sector that is the most positive in the short-, mid- and long-term. Pharmaceutical and transportation are other industries which are more optimistic regarding the long-term perspective than other sectors.

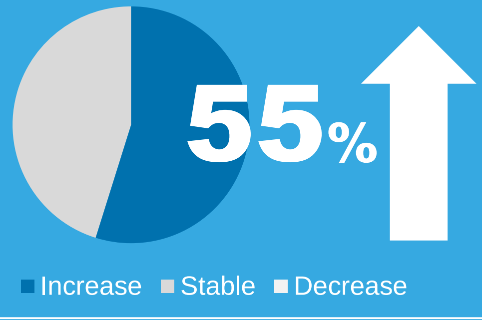
EXPANSION OF SWEDISH BUSINESS IN BULGARIA WILL ALSO LEAD TO AN INCREASE IN THE NUMBER OF STAFF

Employment Trend Short-Term



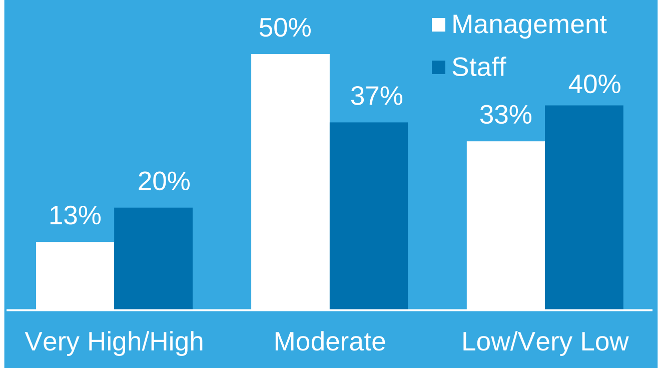
…of the companies increased their number of employees in 2018

Employment Trend Mid-Term



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

Access to Qualified Labour



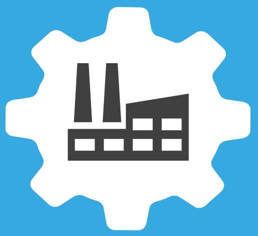
- Most respondents decided to either **keep their current staff number or increase it in 2018.**
  - 48% respondents hired new staff in 2018 and 35% kept the staff number stable, thus ~**83% in total either remained stable or recruited more staff during 2018.**
  - Compared to 2017, the total number of employees across surveyd companies have increased with several hundred.
  - Only 16% decreased their staff in 2018.

- Swedish companies are **also committed to the Bulgarian market in a mid-term perspective**.
  - **55% expect to increase** the staff number and **45% expect to remain** current staff levels **within a 3 years term (100% combined).**
- Companies in the industrial, and ICT sectors are the ones that will make the major increases regarding new employment of staff.

- Swedish companies have a **moderate to low resource pool** when they recruit in Bulgaria.
  - **50% of the respondents** have a moderate perception about availability of managers. The figure, however, drops to only 37% regarding staff.
- **40%** believe that there is a **low or a very low availability of staff**. Equivalent figure for **availability of managers is 33%**.
- The access to staff is to a large extent connected to the very low unemployment rate, but also to their qualification level.

COST ADVANTAGES AND QUALIFIED WORKFORCE CREATES AN INTEREST FOR PRODUCING IN BULGARIA

Production in Bulgaria



32%

…of the respondents have a production facility in Bulgaria

Production Investments in Bulgaria

23%

…of the respondents that do not have a production facility in Bulgaria consider to have one in 3 years

Advantages of Producing in BG

39%

22%

…of the respondents state attractive costs and qualified workforce as the two most important advantages of producing in Bulgaria

- **60% of the Swedish companies with existing production facilities plan to invest** more in their existing production facilities within the next 3 years.
- The most common sectors for Swedish producers are **Manufacturing**, **Energy** and **Healthcare**

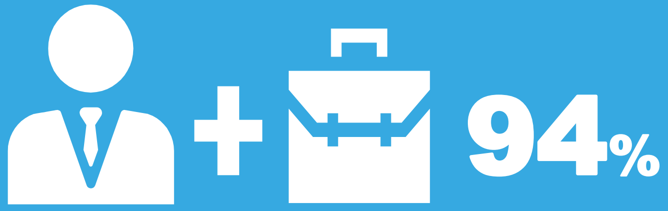
- An **additional 30%** has not decided yet about starting a production in Bulgaria.
- Respondents in the **Manufacturing, Mining, Healthcare, and Transportation sectors lead the willingness to invest in new production facilities.**

- According to the respondents, the **most important advantages of producing in Bulgaria**:
  - **Attractive production costs (39%)**
  - **Qualified workforce (22%)**
  - **EU membership and low taxation (13% each factor)**

35% OF COMPANIES WILL INVEST IN EITHER THEIR EXISTING PRODUCTION FACILITY OR IN A NEW FACILITY IN BULGARIA.

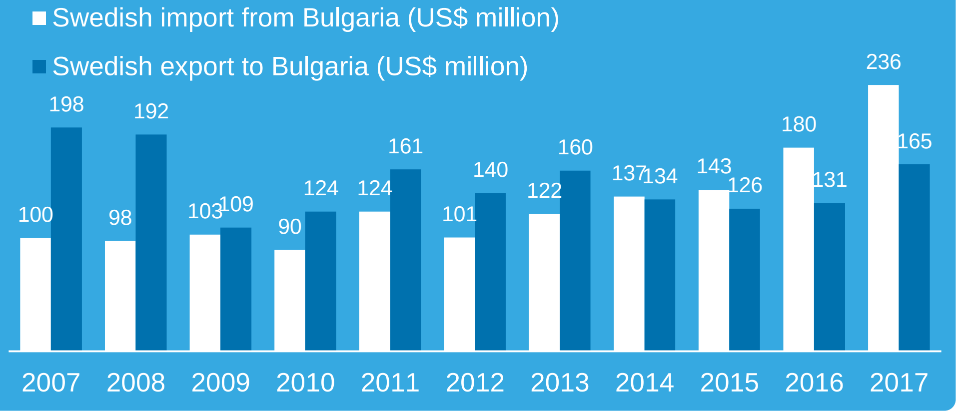
THE VAST MAJORITY OF THE SWEDISH COMPANIES WILL CONTINUE TO INVEST IN BULGARIA

Ambition to Invest



…of the respondents will make investments in the next three years and 81% will make investments in 2019

Trade between Sweden and Bulgaria

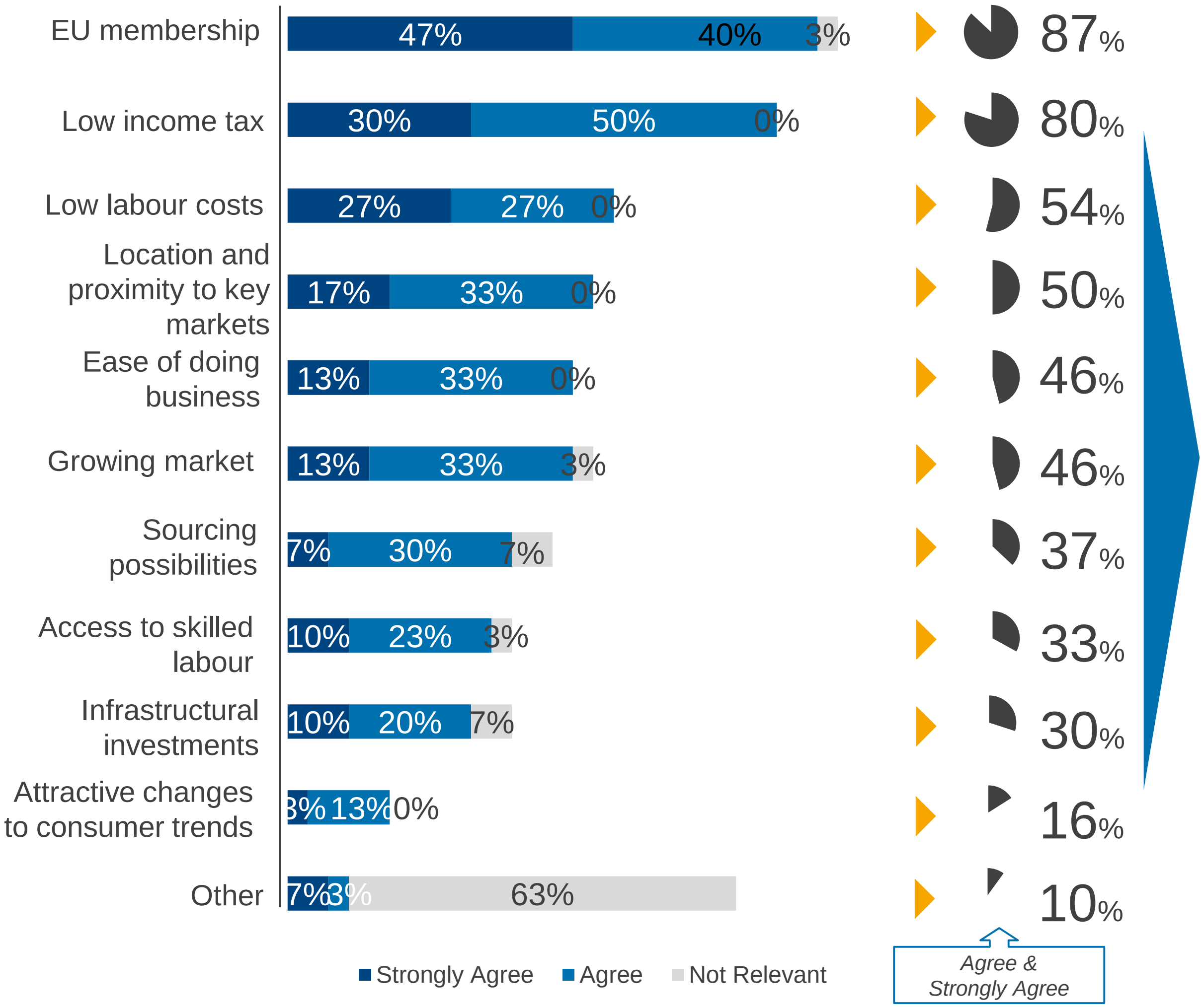


- Bulgaria has a steadily growing economy that is showing an increased private consumption, very low unemployment rate as well as stable to positive credit ratings from Moody's, S&P and Fitch.*
- The most **popular areas of mid-term investments** are:
  - **Staff (80%)**
  - **IT (57%)**
  - **Production/office facility (40%)**
  - **Prodcution equipment/other fixed assets (37%)**
  - **Land (10%)**

*SOURCE: HTTPS://COUNTRYECONOMY.COM/RATINGS/BULGARIA

- **The export to Bulgaria has increased by 65% during the last 10 years**, even though the gross balance of trade between Sweden and Bulgaria was significantly reduced as a result of the financial crisis between 2007 and 2010.
- Primary drivers for growth:
  - Abolition of duties since joining the EU in 2007.
  - Harmonization with EU rules and legislation.
  - Well-educated workforce.
  - Business-friendly environment.
  - Steadily growing domestic consumption.

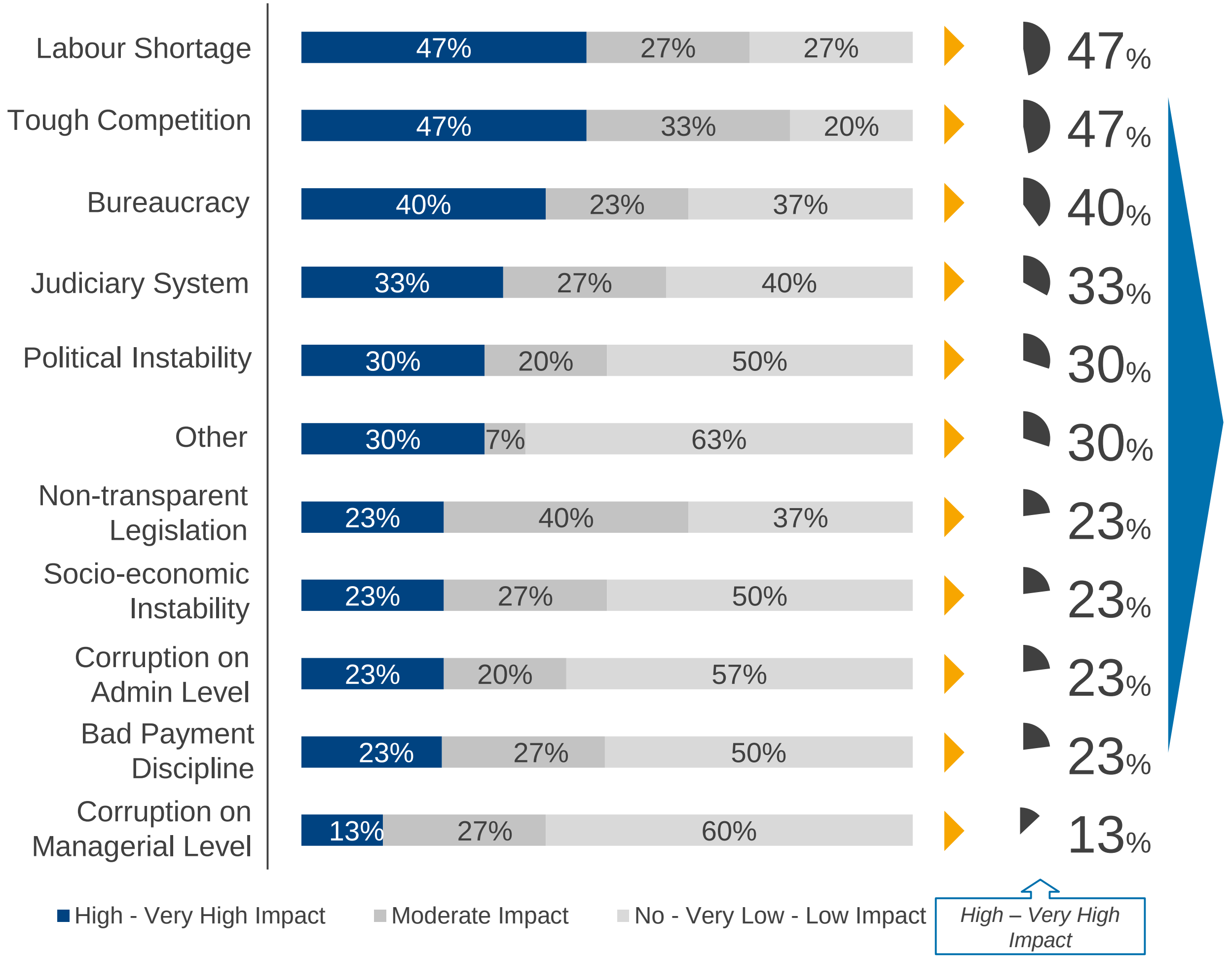
MAIN BENEFITS FOR SWEDISH COMPANIES: BULGARIA IS LOW COST COUNTRY AND EU MEMBER



- According to the European Commision, Bulgaria´s GDP is expected to grow **by 3,5% in 2018** and continue to **grow by 3,6% on average** for the next three years.*
- Bulgaria has a population of approximately **7,1 million people** with a growing purchasing power**. 93% of the Swedish companies** see it as an opportunity when doing business in Bulgaria.
- 87% of the respondents see the **EU membership** as an important benefit, followed by **low taxation** (80%) and **low labour costs** (54%) respectively.
- The minimum gross wage level in Bulgaria **was €261** on a monthly basis in 2018 compared to the **EU average minimum wage of €876** for the respected period.* This is considered as one of the more important advantages of doing business in Bulgaria. However, **labour shortage** observed on the market combined with **high rate of economic activity might push up wages up in the mid-term** if economy continues to grow.
- Many Swedish companies producing in Bulgaria **perceive the geographical location**, with close **proximity to major marktets as a business opportunity, which can increase their customer base and sourcing possibilities.** With the EU operating as a single market, Bulgaria is well located as an entry point to the EU from Northern Africa, the Middle East and some Balkan countries.

* SOURCE: EUROPEAN COMMISSION, WORLD BANK, BUSINESS SWEDEN ANALYSIS

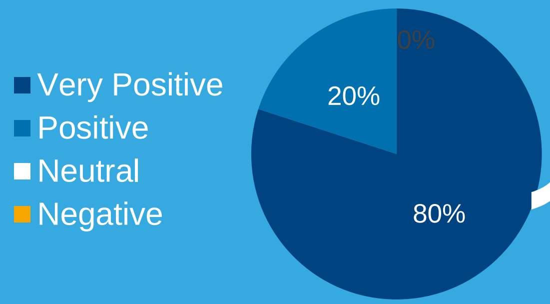
BUREAUCRACY REMAINS A CHALLENGE, BUT MARKET COMPETITION AND LABOUR SHORTAGE ARE BECOMING EVEN MORE CHALLENGING



- Due to Bulgaria´s **attractiveness among international players,** the competition is tough and this is also one of the biggest concerns of Swedish companies in Bulgaria.
- In spite of several actions undertaken by Bulgarian government to facilitate the functioning of authorities, bureaucracy (40%), judiciary system legislation (33%) and non-transparent legislation (23%) are still challenges among the surveyed companies.
- The political situation in Bulgaria is a concern for 30% of the respondents. It is important to remember that the political situation does not impact the Bulgarian economy in a considerable way and that the **Bulgarian economy flourish with little regards to the political situation.**
- **Corruption is evaluated to have a moderate impact** (between 13 and 23% depending on the level on which corruption takes place) when doing business in Bulgaria. During the last 10 years Bulgaria has improved in this area, but even though remains as the lowest scoring country within the EU (43 points out of 100 on the 2017 Corruption Perceptions Index reported by Transparency International).
- Bad payments are a concern for 23% of the respondents.

BEING SEEN AS A SWEDISH COMPANY OR BRAND IS A COMPETITIVE ADVANTAGE IN BULGARIA

Perception of Sweden among Bulgarian Counterparts



100%

…of the companies thinks that Sweden, both as a country and a brand, is perceived positively

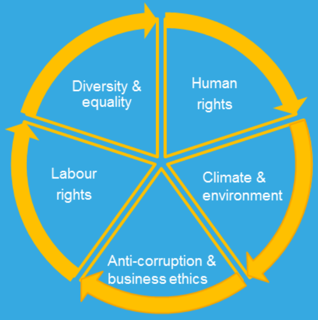
- **All companies agree that it is beneficial to highlight the Swedish origin on the Bulgarian market.**
  - None of the respondents stated that Sweden as a brand is perceived either neutrally or negatively on the Bulgarian market.
- Using the Swedish brand can also be beneficial for Swedish companies looking to recruit staff on the Bulgarian market.

- Swedish companies in Bulgaria are often associated with the following concepts:
  - **Innovation**
  - **Quality**
  - **Sustainability**
  - **Trust (Reliability)**

SWEDISH COMPANIES WILL MOST LIKELY BENEFIT FROM USING THE SWEDISH BRAND IN BULGARIA.

FOCUS ON CORPORATE SOCIAL RESPONSIBILITY CAN CONTRIBUTE TO COMPANIES' COMPETITIVE EDGE IN BULGARIA

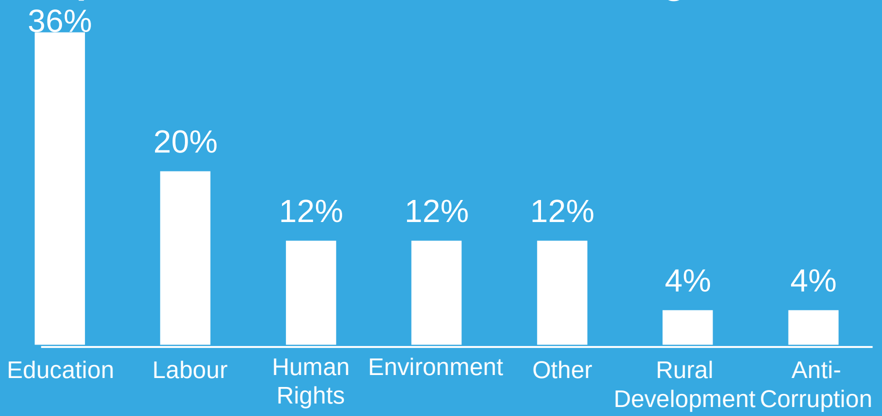
Swedish Companies' CSR Involvement in Bulgaria



78%

…of the companies are engaged in a CSR project in Bulgaria

Companies' CSR Interest Areas in Bulgaria



- Corporate Social Responsibility (CSR) involvement among the Swedish companies in Bulgaria is visible, but **not yet on a desired level**. Hence, there is an improvement opportunity for companies.
  - Independent studies* suggest that CSR, when embedded in the business strategy, provides a **competitive edge in the areas of brand equity, corporate reputation, employee retention, and environmental conservation.**

- **Education and labour** are considered as **key CSR priorities in Bulgaria** by the Swedish companies engaged in CSR activities.
  - **54% of the companies involved in CSR activities** in Bulgaria **have a global turnover greater than €1 Billion**. It shows that both small and large size companies are involved in CSR in Bulgaria. Yet, 27% of the involved subsidiaries have a local turnover in Bulgaria greater than €25 million.
  - Other areas of CSR activities among the respondents are:
    - Kids & orphanage support
    - Prevention and early diagnosis of fatal diseases
    - Donations and sponsorhip for activities around foster families

*SOURCE: THE BUSINESS CASE FOR BEING A RESPONSIBLE BUSİNESS", 2011, DOUGHTY CENTRE CRANFIELD UNIVERSITY

THE SWEDISH TRADE & INVEST COUNCIL

CONCLUSIONS AND FINAL WORDS

- **The aggregated result of this survey shows clearly** that the vast majority of **Swedish companies** operating in Bulgaria, **believe in the potential of the market,** regardless if the perspective is short-, mid- or long-term.
- **They believe in the economy and in their own sectors** and **are planning to expand their operations and invest in Bulgaria**. As a consequence of these plans and actions, **they expect their turnover to grow and their profitability to increase**.
- The Swedish companies experience **challenges such as tough competition, labour shortages as well as bureaucracy and non-transparent legislation.**
- **Despite some indicators of an economic slowdown appearing ahead** such as all-time low unemployement rates and high inflation rates, that jointly pose some risks of overheating the economy, the overall outlook for growth remains positive.
- **The image of Sweden as a country and a brand is positively perceived on the Bulgarian market. Swedish companies** planning to either expand or start a new journey on the Bulgarian market, do **have a beneficial position** and should use this advantage. **Moreover**, **none of the responding companies have experienced any negativity associated** with Sweden as a brand.

THE SWEDISH TRADE & INVEST COUNCIL

EMBASSY OF SWEDEN

TRELLEBORG

CONTACT INFO

***Please contact Business Sweden if you have any questions** regarding this survey, or if you need support in growing your business internationally, in Bulgaria or in any of the other 50+ locations where we are represented in the world. We advice our clients, from the smallest start-ups to the global corporations, in all steps of their international endeavours. We have the network and can complement your internal resources in an efficient way, worldwide.*

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