

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION

BULGARIA



BULGARIA: THE HUNT FOR SKILLS-BASED TALENT



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"POSITIONED AS A RELIABLE, SECURE, AND PREFERRED PARTNER OF THE GERMAN ECONOMY"

How has the investment climate in Bulgaria developed in recent years, particularly, in a political context?

In the last two years, Bulgaria has experienced positive economic growth, reflected in an increasing interest from foreign investors. The country continues to offer an attractive combination of low labor costs, a well-educated workforce, and a favorable geographical location.

Political stability is a crucial factor for foreign investors, as uncertainties and political risks can influence their decisions. In June 2023, Bulgaria emerged from a period of political crisis, electing a regular government. Attracting foreign investors with high added value is a key focus of the Bulgarian government, alongside addressing demographic challenges and emigration.

Since 2005, the German-Bulgarian Chamber of Industry and Commerce (DBIHK) has been conducting surveys among its members on the business environment in Bulgaria. The survey results provide insights into challenges and issues in the country, as well as the advantages of Bulgaria as an investment and business location.

As always, the economic survey in 2023 posed the question: "How will your investment this year compare to the last?". Forty eight percent of the surveyed companies said that they planned to increase their investment, compared to 53% in the previous year (2022). Meanwhile 42% said that their financial investments would remain the same. Ninety two percent of all the respondents said that they intended to choose Bulgaria again as a location for their investments (compared to 100% in 2022), with 44% describing Bulgaria as an attractive investment destination.

As a forward-looking and responsible business community, we felt obligated to officially advocate for Bulgaria's imminent accession to the Schengen Area and the introduction of the Euro on behalf of our board and committees in February 2023. An achieved success for Bulgaria was the lifting of controls at air and sea borders in early March 2023.

What sectors are the most lucrative in terms of collaboration between German and Bulgarian partners?

In recent years, several sectors in Bulgaria have emerged as suitable for increased collaboration with German companies.

Bulgaria's burgeoning IT sector, with well-trained professionals, presents numerous opportunities for enhanced cooperation in software development, IT outsourcing,



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and digital innovation. The country has established itself as a hub for the automotive industry, creating promising economic and collaboration opportunities in production, supply, and electromobility.

Renewable energy and energy efficiency are vital topics in Bulgaria, offering potential business collaborations in renewable energy, energy infrastructure, and green technologies, which may also be of interest to the German economy.

The pharmaceutical and biotechnology sector shows growing potential. A successful collaboration in research, production, and distribution is possible. A joint publication with the Konrad-Adenauer Foundation in 2022 titled "Pharmaceutical Industry in Bulgaria: Opportunities for Future Development" highlights Bulgaria as a suitable location for European manufacturers looking to relocate their pharmaceutical production. Key advantages of the country include a long tradition in pharmaceutical manufacturing, access to qualified personnel, the ability to produce high-value products, proximity to major European markets, and a low tax burden.

Lastly, the tourism industry should not be overlooked. Bulgaria provides excellent conditions not only for sea and ski tourism but also for spa and wellness.

What challenges do you see for German companies operating or intending to invest in Bulgaria?

The challenges facing the Bulgarian economy, particularly the shortage of skilled workers and dissatisfaction with corruption control, emerged from the 2023 economic survey. The shortage of skilled workers was identified by companies as one of the most significant risks for the next 12 months (66%), followed by labor costs (61%), electricity prices (45%), and economic policy conditions (42%).

Companies' dissatisfaction with the fight against corruption and crime remains a central issue. Eighty four percent of the respondents stated that they were very dissatisfied or dissatisfied, emphasizing the need for more efforts in this area. In response, the Bulgarian Parliament amended the constitution and initiated judicial reforms.

How would you assess the quality of education and availability of skilled workers in Bulgaria? What initiatives are in place to improve workforce qualifications?

Our common goal is to make Bulgaria a modern and attractive place to work, live, and do business. To achieve this, it is necessary to increase the attractiveness of dual education, reform higher education, modernize labor laws, and optimize administrative processes in Bulgaria.

When it comes to economic development, some of the most urgent measures are closely linked to providing skilled workers for businesses. Quick decisions are required from both the state and businesses to position Bulgaria as an attractive business location in the future.

Considering the shortage of skilled personnel in Bulgaria, the DBIHK board decided to prepare and implement various initiatives dedicated to the focus theme "Securing Skilled Workers for Prosperity and Growth" in 2023-2024. Several measures were successfully implemented in 2023, with further initiatives planned for 2024.

In October 2023, AHK Bulgaria organized a conference on "Securing Skilled Workers for Sustainable Business Development." This event addressed topics related to human resources, presenting successful practices with regards to hiring, retention, and development of employees, as well as the future development of the employer branding process. Legal aspects of labor law and topics such as home office, flexible working hours, bonus payments, and stock-based plans as instruments for talent acquisition and retention were discussed, along with the need for transparency and equal pay for women and men.

The project "Business Meets School" was launched in 2023, where students from the 8th to 12th grades of the 73rd School "Vladislav Grammatik" in Sofia visited member companies, learning about entry opportunities for legal-age students and internship programs.

What successful examples of German-Bulgarian business partnerships and German direct investments can you mention?

The traditional sector for German investors in Bulgaria is the automotive industry. In addition to parts and components production, information and communication technologies, including IT, digitization, and innovation, as well as electrical engineering, have also established themselves.

Over the years, not only have new German investors like LEONI, Otto Bock, and FlixBus been attracted, but also many large companies such as Aurubis, Lufthansa Technik, Bosch, and others have expanded their investments. Bulgaria has positioned itself as a reliable, secure, and preferred partner for the German economy.

In the last two years, the country has attracted two significant German investments—a company in Stara Zagora supplying parts to the German automotive industry and a company in Ruse manufacturing components for electric vehicles of a well-known Bavarian automotive conglomerate. It's important to note that these are long term investors who intent to remain in the region for the next 20-30 years.

"A VAST RESERVOIR OF WELL-EDUCATED EXECUTIVES"

How attractive is Bulgaria from an HR perspective?

The situation in Bulgaria appears twofold from an HR perspective. Compared to the rest of the EU, Bulgaria has a low wage level. In 2022, labor costs were 8.20 euros per hour. The country's moderate income tax contributes significantly to the market's attractiveness in terms of remuneration. Also, its relatively low ancillary labor costs make it an ideal location for labor-intensive manufacturing processes.

The down side of low salaries is the noticeable shortage of qualified, as well as unqualified, personnel. Structural deficiencies in the education system contribute to this, as does the competition within the European labor market. Many workers are drawn to countries like Germany, France, or Austria, where they can earn salaries that are several times higher than those customary in Bulgaria. Thus, the low wage level in Bulgaria is one of the direct causes of the local labor shortage.

Without a significant increase in salary levels, this situation is unlikely to change in the foreseeable future. The increase would need to be well above the inflation rate. Like many European countries, Bulgaria is currently grappling with high inflation. Last year, inflation stood at 8.5 percent, after reportedly exceeding 13 percent in 2022 according to Statista. Rising energy prices were also drivers of inflation in Bulgaria.

In recent years, Bulgaria has come into focus for many Western European companies as a potential nearshoring location. Establishing new production facilities and expanding existing plants could lead to increased demand for labor.

What positions does CT Executive Search help recruit to in Bulgaria?

In Bulgaria, CT Executive Search primarily fills leadership positions for international companies, most of which have Western European or U.S. roots. A majority of these are upper mid-level structures, including corporations. Bulgaria is of interest to companies in the consumer goods and investment goods sectors as both a market and a production location. Accordingly, the majority of our mandates relate to positions in sales and production. Additionally, we work with companies in the IT sector. Bulgaria has become a significant location for IT outsourcing and shared services centers, particularly, for German companies.

What Bulgarian regions are you predominantly active in?

Most of the companies we work with are based in Sofia. But we also help recruit top management to companies with operations in the country's industrial locations—especially in Plovdiv or around Burgas. Filling production-related positions requires a



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lot of research. Here, we can rely on good market knowledge and many years of experience in handling such mandates.

What makes the Bulgarian executive search market stand out?

Today, Bulgaria has a large reservoir of well-educated executives, some of whom hold MBAs and other internationally recognized degrees. Over the years, internationally operating companies in the country have invested heavily in the training and further education of their employees. Bulgarian managers trained in foreign companies maintain a more "democratic" leadership style than is traditionally practiced in Bulgaria. The latter is now the domain of purely local, often owner-managed companies. Micromanagement, autocratic structures, and a lack of decision-making freedom are considered negative factors, especially, by younger Bulgarians, resulting in many preferring to work in a foreign company.

However, as Bulgaria's economy continues to develop, some of the more traditional businesses have attempted to review their practices and approach by recruiting internationally experienced managers and transitioning towards modern systems and internal processes. To this extent, there is a large pool of highly qualified executives in Bulgaria, with significant international experience to fill these positions.

An interesting target group for identifying potential candidates is also the Bulgarian diaspora—some of the skilled professionals and executives working abroad are open to returning to their home country, if a challenging and attractive opportunity awaits them there.

ANALYSIS

CURRENT DEVELOPMENTS IN THE BULGARIAN LABOR MARKET

In recent years, the Bulgarian labor market has shown positive developments with a continuous increase in the number of employed individuals and a decreasing unemployment rate. In the 1st quarter of 2023, the employment rate reached 70.4 percent, marking a 1.6 percentage point increase compared to the previous year.

Approximately two-thirds of the employed individuals work in the service sector, while one-third works in the industrial sector. Salaries are particularly increasing dynamically in the fields of logistics and IT, where the shortage of skilled professionals is particularly noticeable. Overall, Bulgaria has the lowest labor costs among EU member states, making it an attractive location for nearshoring, manufacturing, and outsourcing.



Christian Tegethoff

Managing Director
of CT Executive Search

There are further positive developments contributing to the increased employment rate:

- Economic recovery following the COVID-19 pandemic
- Increased demand for talent in the technology, industry, and tourism sectors
- Growing mobility of the Bulgarian workforce

Despite these positive trends, the Bulgarian labor market faces structural weaknesses. These include:

Shortage of skilled workers

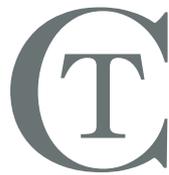
The shortage of qualified professionals in the technology, engineering, and healthcare sectors poses a significant challenge. It results from low birth rates, a high emigration of skilled workers abroad, and partially inadequate educational and training offerings in Bulgaria. In recent years, the Bulgarian government implemented various measures to address this shortage, including investments in education and training, promoting the return of skilled professionals from abroad, and initiatives to enhance professional mobility. Despite these efforts, the skills shortage remains a challenge in the foreseeable future.

Low productivity

The productivity of the Bulgarian workforce is relatively low compared to other EU member states. This is partly attributed to structural factors, such as low investments in modern production facilities and the lack of competitiveness of companies. Additionally, the qualifications of the Bulgarian workforce are relatively low compared to other EU member states, partly due to the current state of the Bulgarian education system. The government has implemented various measures to counteract this and boost productivity, including investments in education and training, promoting innovation and digitization, as well as implementing various tax reforms.

Unemployment

The unemployment rate in Bulgaria has significantly decreased in recent years, dropping to 4.3 percent in 2022. However, unemployment in Bulgaria is unevenly distributed, with rural regions experiencing higher rates compared to urban areas.



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CT Executive Search focuses on placing key positions in Eastern Europe and the Emerging Markets – in CIS, Africa, the Middle East and Asia. We are experts in cross-border search processes and identifying high-performing candidates, adding value to international companies. Leveraging a broad network of analysts and consultants across Eastern Europe and the emerging markets, CT Executive Search has established itself as a reliable partner to well-reputed multinational companies.

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