

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION

BULGARIA



## BULGARIA: NEARSHORING HOTSPOT DUE TO COST ADVANTAGE?

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## "BULGARIA REMAINS ATTRACTIVE FOR THE GERMAN ECONOMY"

### How is the German economy positioned in Bulgaria?

According to the Federal Ministry of Economics and Climate Protection, foreign trade turnover between Bulgaria and Germany reached EUR 9.8 billion in 2021, meaning that there was an increase of 19.43% compared to 2020.

Exports from Bulgaria to Germany amounted to 5.38 billion euros. In the opposite direction, imports from Germany to Bulgaria amounted to 4.5 billion euros.

Germany is Bulgaria's number one trading partner and the most important foreign market for Bulgarian production.

According to the BNB, German direct investments in Bulgaria in 2021 amounted to EUR 271.1 million.

The German-Bulgarian Chamber of Commerce and Industry (DBIHK) has been conducting a survey among its members on the business environment in Bulgaria since 2005. The information from the survey sheds light on the challenges and problems faced by the companies in the country and highlights the advantages of Bulgaria as an investment and business location. This year 38 DBIHK member companies took part in the survey.

When asked "How will your capital expenditures develop in the current year compared to last year?", 53% of the companies surveyed answered that they will remain the same. 100% of the respondents indicated that they would decide to invest in Bulgaria again.

The latest trade and investment data confirm the positive attitude of German entrepreneurs towards Bulgaria as a business location. However, an analysis of the specific factors of the business environment shows that the German economy expects decisive measures in relation to the electricity price, dealing with the shortage of skilled workers, an improvement in the quality of the education system, increasing the predictability of economic policy and the fight against corruption.

### How do you rate Bulgaria's prospects as a production location for German companies? To what extent has interest in Bulgaria increased due to nearshoring efforts?

Investors from Germany value Bulgaria's membership in the European Union (EU), and the comparatively low taxes and wage costs.

The EU plan for recovery and resilience of Bulgaria has been approved. The country will receive allocations amounting to 16.7 billion euros.



**Dr. Mitko Vassilev,**  
General Manager of the  
German-Bulgarian Chamber  
of Industry and Commerce  
(AHK Bulgaria), Sofia

In addition to being a member of the EU and NATO, Bulgaria benefits from the above-average integration of its economy into international value creation compared to the EU and scores with comparatively low wages and ancillary wage costs.

Most of the money goes into setting up new production sites, mostly in export-oriented sectors such as the IT industry, the electronics industry and the automotive industry. For example, the German electric car manufacturer Next.e.GO Mobile has announced the construction of a new micro-factory in Lovech in 2021 with an investment of 140 million euros. The new micro factory is scheduled to be ready in early 2024. This will make the Aachen-based company, the first car manufacturer in Bulgaria. Various automotive suppliers also intend to invest in new production facilities in Bulgaria and to transfer new production to the country.

According to the GTAI report "Companies are diversifying supply chains", Bulgaria aims to become the new hub for deliveries to Asia.

At the same time, demand for logistics services from Bulgaria is increasing for some goods, including wire harnesses and electronic components for the automotive industry. The logistics industry is benefiting from the trend that companies are diversifying their deliveries of pre-products, making use of deliveries from Bulgaria, among others.

### **To what extent is Bulgaria's energy supply secured in the coming months and years?**

Since April 27, 2022, Bulgaria has stopped receiving gas supplies from Gazprom.

The transformation that the energy sector needs to make in order to meet the new climate and carbon reduction targets has long been debated.

Bulgaria's current electricity mix consists of coal, which still accounts for around 40% of the country's energy mix, nuclear power, and around 36% from renewables and gas. The current problem is the gas.

Bulgaria has launched a Southeast European natural gas purchasing initiative. At an energy forum that took place in Sofia on May 5, 2022, the government representatives of Azerbaijan, Bulgaria, Greece, Italy, North Macedonia, Romania, Serbia and Ukraine decided to work together more closely on the supply of natural gas in the future. The aim is to strengthen energy security in our own country and also in the region.

In the medium term, Bulgaria wants to position itself as a regional hub for gas supplies. In this way, the south-eastern European country wants to make a contribution towards making itself and the region less dependent on Russian natural gas. The government wants to use the Trans-Balkan pipeline for this. This pipeline connects the Ukraine to Bulgaria via Moldova and Romania, reports Germany Trade & Invest (GTAI) in the article "Bulgaria wants to become a new natural gas hub".

Gazprom's natural gas supply freeze drives up prices. A contract for the supply of US liquefied natural gas has been signed. The final price is expected to match the Gazprom price.

**What economic advantages does Bulgaria offer in comparison to other countries in the region?**

The advantages of doing business in Bulgaria include:

- 10% tax rates (corporate, income tax)
- A large pool of highly qualified professionals, most of whom speak several languages
- Good geographic location in South-eastern Europe
- NATO and EU membership

Bulgaria will also receive a total of €29 billion from 2021 to 2027 in EU funds and is ranked 61st in the Ease of Doing Business rating.

**What could Bulgarian politicians do to further increase the attractiveness of Bulgaria as a business location?**

On May 27th, 2022, the board members of the German-Bulgarian Chamber of Commerce and Industry (DBIHK) met with the Prime Minister of the Republic of Bulgaria, Kiril Petkov. The aim of the meeting in the Council of Ministers was to support economic growth and increase the competitiveness of small and medium-sized enterprises and companies with potential for sales outside the country through direct dialogue with entrepreneurs. Kiril Petkov stressed the importance of dialogue with business to improve economic growth, competitive advantage and infrastructure. He underlined the government's policy of zero tolerance for corruption. The meeting also discussed issues related to improving the business environment, ensuring the rule of law and measures to attract foreign investors. Representatives of the DBIHK presented a proposal for an e-government memorandum to be signed with the government in the future. Close cooperation with the ministries for justice, labor and social policy, as well as for the economy, innovation and growth is expected.

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## "COMPANIES INVEST A LOT IN EDUCATION AND TRAINING"

### How attractive is Bulgaria from an HR point of view?

The situation in Bulgaria is ambiguous from an HR perspective.

Compared to the EU, Bulgaria has a low wage level. In addition, income is taxed only slightly and the ancillary wage costs are moderate. Therefore, from a cost perspective, Bulgaria is an attractive location for labour-intensive manufacturing processes.

The downside of the low salaries is the clearly noticeable lack of qualified, as well as unskilled staff. In addition to structural deficiencies, for example in the training system, the competition on the European labor market is responsible for this. Many workers are drawn to countries such as Germany, France or Austria, where they can earn many times the usual salaries in Bulgaria. Thus, low wages in Bulgaria are one of the direct causes of the local labor shortage.

Without a noticeable increase in salary levels, this situation will not change in the foreseeable future. The increase would have to be well above the level of inflation. Like many other European countries, Bulgaria is currently struggling with high inflation rates. In April this year, inflation was 14.4%. Increased energy prices are also among the inflation drivers in Bulgaria.

In recent years, Bulgaria has become the focus of many Western European companies as a possible nearshoring location. The establishment of new production facilities and the expansion of existing plants could mean that the demand for labor is further fueled.

### What positions do you mainly recruit into?

In Bulgaria, CT Executive Search primarily fills management positions for international companies, most of which have Western European or US roots. The majority can be attributed to the upper middle class, plus corporations.

Bulgaria is interesting for companies from the consumer and capital goods sectors both as a sales market and as a production location. Accordingly, the majority of our mandates relate to positions in the areas of sales and production. There are also orders from the IT sector. Bulgaria has developed into an important location for IT outsourcing and shared services centers, also and especially, for German companies.

### What Bulgarian regions are you mainly active in?

Most of the job vacancies are in Sofia, where many companies have set up their Bulgarian national companies. But we also work regularly at the country's industrial sites - especially in Plovdiv and around Burgas.



**Natalia Bichevina**

Manager CEE Desk. Born in Bulgaria, she has worked for CT Executive Search since it was founded in 2013.

Filling production-related positions requires a particularly large amount of research. Here we can rely on good knowledge of the market and many years of experience in handling such mandates.

## What are the characteristics of the Bulgarian executive market?

In Bulgaria today, there is a large reservoir of well-trained executives, some with MBAs and other internationally renowned qualifications.

The international companies operating in the country have invested a lot in the training and further education of their employees over the years. Bulgarian managers who have been trained in foreign companies cultivate a more "democratic" management style than has been traditionally practiced in Bulgaria. The latter is now the domain of purely local, often owner-managed companies.

Micromanagement, autocratic structures and a lack of freedom of choice are seen today as negative factors, especially, among younger Bulgarians. As a result, many prefer to work in a foreign company.

However, development has not stood still in the Bulgarian economy either. Some traditional companies have tried to reposition themselves by recruiting internationally experienced managers and to make a change towards modern systems and internal processes.

In general, internationally competitive executives are available in Bulgaria. The Bulgarian diaspora is also an interesting target group for identifying potential candidates - some of the specialists and executives working abroad are quite open to returning to their home country, provided a challenging and attractive job beckons.

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## "THERE ARE NOT ENOUGH SKILLED WORKERS"

### How is business going at the moment? Which topics do you mainly deal with?

We had a good year in 2021, a record year with a 30% increase in sales.

This year, we're at the same level, but we're dealing with problems with the supply of components. This mainly affects engines and electronic components. We have a lot of orders and enough staff to deal with them, the bottleneck is now the parts. The lockdown in Shanghai, in particular, has led to problems with the supply.

At this point, we have localized purchasing as far as possible, in accordance with the nearshoring approach. We buy machined metal parts, screws and fasteners in



**Uwe Köhler**

is Managing Director of the construction machinery plant of the Swedish company Husqvarna in Ruse, Bulgaria. Husqvarna employs 228 people at the site.

Bulgaria or the neighboring countries. However, the motors and sensors we need are only available in Southeast Asia and China, and sometimes also in Sweden, Germany and Japan. We obtain cast parts primarily from Turkey and Slovenia.

### **Why did you decide on Bulgaria and the Ruse location at the time?**

The local Husqvarna factory grew organically. There used to be a Bulgarian company here that was taken over by a Danish company after reunification. The Danes were in turn bought by Atlas Copco. Atlas Copco is owned by the same family as Husqvarna. Due to a shift in company portfolios, the production facility in Ruse came to Husqvarna a few years ago.

Ruse used to be by no means a remote location due to active Danube shipping. Local shipping still exists, but is far less active than it used to be. Ruse has long been planned to be connected to the Bulgarian motorway network, but the northern motorway is difficult to build due to the mountainous terrain. The middle section is still missing, so the journey to Sofia takes four hours.

There is only one Danube bridge to Romania in our area. The result is a lot of traffic jams, up to 20 kilometers in length during rush hour. The situation is quite dire, and ferries are currently being considered as an alternative, to avoid a complete collapse.

### **What was the impact of the Russian gas supply freeze?**

Due to the political tensions, it was obvious that Russia would stop supplying gas to Poland. Bulgaria was surprised. Bulgaria is not a big market for Russia; Moscow must have been disappointed that Bulgaria did not support Russian policy. Historically, Bulgaria has always been pro-Russia, and the Russians were seen as the liberators. Combining language and religion, Russia was perceived by many Bulgarians as their big brother.

Today, many Bulgarians condemn the war, but keep finding explanations as to why NATO is ultimately to blame for everything. The Russian gas supply freeze has fueled the Bulgarian people's resentment towards their own government, which has therefore, been unable to reach an agreement with Russia.

Husqvarna isn't a big gas consumer, certainly not in the summer. However, many Bulgarian foundries halted production after gas prices had tripled in some cases. The foundries had to wait and see if their customers would bear the costs, some are still struggling to survive.

### **What is your experience with recruiting workers?**

We don't have any major problems recruiting. We are eleven kilometers outside of Ruse, where there are few jobs. Luckily for us, many of our positions are well suited for women; the proportion of female employees is 35 percent. Here, women can earn just as well as their men; we "man" entire assembly lines with women.

Qualified employees such as financial controllers or designers are harder to come by. The university in Ruse is good, but inexperienced employees do not fit every position. IT specialists and other highly qualified people often go to Sofia or abroad.

### **What leadership style do you have in your company?**

In my last company in southern Bulgaria, top-down was the order of the day. The former private owner there exemplified this style. At the Husqvarna factory, employees have been used to a Scandinavian management style for many years. The employees are qualified and responsible and practice an open management style. In general, people in northern Bulgaria are a little less "autocratic" and there is more dialogue.

### **What expectations do you have for the further involvement of Western European companies in Bulgaria?**

From a logistical point of view, Bulgaria is conveniently located. Unfortunately, the country has lost many resources in recent years. This came to light during a recently done feasibility study regarding a possible VW factory building.

There are too few skilled workers. In this regard, the country is still living on the days of socialism, but the experts from back then are getting on in years. There is no dual training system. Those with higher qualifications often move away. Working in Bulgaria is not very attractive as long as salaries are so low here.

The IT industry has understood this and now pays competitively. Others have not yet realized it. The brain drain is more likely to continue. Returnees from abroad can be recruited selectively. However, this can only be done with a very attractive salary package. We are not talking about a 10 – 15% increase, but triple the usual remuneration.

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## EXECUTIVE SEARCH



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**CT Executive Search** focuses on placing key positions in Eastern Europe and the Emerging Markets – in Russia / 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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