

**NEWSLETTER**

**INTERNATIONAL**

 ENGLISH VERSION

**BULGARIA & ROMANIA**



## SOUTH EASTERN EUROPE: LOW-WAGE LOCATION ON THE DOORSTEP?



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## “GERMAN ECONOMY IS BROADLY REPRESENTED”

### How is the German economy represented in Romania and Bulgaria today?

Economic relations with both countries stand on a solid foundation. A good indicator, which from my point of view illustrates the commitment of German companies in the countries, is the number of jobs created.

According to a study by the Institute for Market Economics, German companies have created more than 35.000 jobs in Bulgaria. The German-Romanian Chamber of Commerce and Industry (AHK) in Bucharest estimates the number of jobs created by German companies in Romania at over 350.000.

Another interesting indicator is the development of bilateral trade. With Romania, trade reached a new record level of 32.2 billion euros last year, an increase of seven percent over the previous year. In the first half of 2019, we recorded a year-on-year increase of 2.7 percent.

With Bulgaria, Germany was trading almost 8 billion euros in 2018, which meant an increase of 7.5 percent. In the first half of 2019, the value of goods traded with Bulgaria amounted to 4.1 billion euros. This puts Romania in fifth place, Bulgaria in an outstanding eighth place among the 29 countries covered by the OAOEV.

### Do you observe German companies entering the markets of Romania and Bulgaria at the moment? Which sectors are active there?

The German economy is broadly represented in both countries. For example, we see investments in the automotive, services, trade, energy, raw materials and finance sectors.

The companies already working in the markets would decide again today for an investment in the country, as shown by the current results of the business surveys of the AHKs in Sofia and Bucharest. These are encouraging signals for further investment in these markets.

### What makes Romania and Bulgaria attractive as production sites for German companies?

Romania and Bulgaria have been members of the European Union since 2007 and offer good conditions, such as low labour costs, quite attractive taxes and well-educated young people. Membership of the European Union has, in addition to the adoption of the *acquis communautaire*, also provided the opportunity to access Structural and Cohesion Fund resources.



**Anja Quiring**

Regional Director South Eastern Europe in the German Eastern Business Association (OAOEV), Berlin

Bulgaria could call for 11.7 billion euros in funding for the entire current funding period, and Romania has a total of 36.7 billion euros available. Prerequisites for this are, of course, suitable projects. Here we see further potential in terms of utilization of the financial resources provided.

## **What could governments do to improve the conditions for direct investment in Romania and Bulgaria? What are the barriers today?**

Undoubtedly, there is still need for further reform in order to reduce existing barriers to investment and to create a reliable investment environment. Unfortunately, factors such as insufficient legal certainty and an unsatisfactory fight against corruption continue to adversely affect investment decisions. Transparent rules and a reliable legal framework would definitely be competitive advantages.

However, one particular issue concerns not only Romania and Bulgaria, but is a pan-European phenomenon: the growing shortage of skilled workers. The activities of the AHKs in Bucharest and Sofia and their member companies in the field of vocational training are an important element in countering this deficiency.

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## “SHORTAGE OF WORKERS STEADILY INTENSIFYING”

### **What should a Western European company consider when entering the Bulgarian market?**

Choosing the right location is crucial to success in Bulgaria. At the same time, the infrastructure should be analysed precisely, as in some places it still leaves much to be desired. For example, in Ruse there is no motorway connection. However, the government has done much to ensure that the regions are generally better connected to international transport routes.

The second important issue is the availability of labour. Recruitment is becoming more and more challenging, especially in rural regions. There is a strong migration in big cities like Sofia and abroad. Above all, this concerns the highly educated and the low qualified workforce. Low-skilled people can earn more elsewhere in the service sector, while the highly qualified are sought-after specialists everywhere. Salaries in Sofia or Plovdiv are rising rapidly to keep people there.

These issues must be taken into account when making investment decisions. Bulgaria should no longer be seen as a low-wage country per se, and in sectors such as IT and automobile manufacturing, internationally competitive salaries must now be paid.

Investors can benefit from incentives granted by individual municipalities to strengthen economic development. These are, for example, tax advantages or simplified approval procedures, which can be quite interesting and influence the choice of location.

### INTERVIEW



#### **Uwe Köhler**

Managing Director of the construction machinery plant of the Swedish company Husqvarna in Ruse, Bulgaria. Husqvarna employs 184 people at the site.

## **To what extent is Bulgaria generally suitable as a production location?**

Bulgaria actually had good traditions in various sectors, such as mechanical engineering, chemistry, pharmacy, agriculture or tourism. The good basis has unfortunately waned since the collapse of the socialist companies, which happened in part certainly due to bad management. The experienced specialists of that time are now retired or approaching the retirement age.

The young generation has other priorities. Many work in commercial professions, but only relatively few young people are being educated in the technical field, especially as skilled workers. That is why some companies are trying to introduce the dual vocational training system today, some with the support of the Austrian Embassy.

Companies must consider the subject of training into their project planning right from the outset. There are no „complete“ people on the street waiting to be hired.

Of course, it is still possible to build a well-functioning production site in Bulgaria. However, productivity is traditionally low and statistically amounts to only 50 percent of German figures. This is only partly due to outdated equipment. That's why it's important to introduce an efficient and streamlined production system right away.

## **What was your experience when recruiting and managing employees in Bulgaria?**

During my time in Bulgaria, I have seen a steadily intensifying shortage of workers. However, at the same time, the quality of the candidates, who in turn know their value, has improved. Employers have to put together attractive packages. Workers today are very mobile and less loyal than before. Companies wanting to keep staff turnover low have to pay well, offer benefits and development opportunities.

Hierarchical thinking is still very common in Bulgarian companies, especially in owner-managed businesses. However, young Bulgarians with international experience have different views. Today, foreign companies operating in Bulgaria are working to international standards and maintaining a cooperative-participative style that is appreciated by the younger generation.

The manager who shouts at his people at least once a day becomes more and more a cliché of the past.

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## “BUCHAREST IS NOT ROMANIA”

### How does Schmitz Cargobull operate in Romania? Which products do you offer?

Schmitz Cargobull entered the Romanian market in the early 1990s through importers, and since 2003 we have had our own subsidiary.

We do not have any production site in Romania, but we offer nationwide service in cooperation with authorized partners. Therefore, we maintain a spare parts warehouse in Bucharest and plots for used trailers in Bucharest and Cluj. Together with our finance company, we employ more than 30 people in Romania.

We offer our entire product range here. The simple tarp trailer for various freight applications is a bestseller, but we also have refrigerated trucks and dump trucks on offer. The latter are especially interesting for the agricultural and construction sectors.

### How do you assess the demand for your products in Romania? What trends do you see in the market?

The last ten years have been quite positive for us, especially since 2015, things went well. 2018 was another successful year and we have been market leaders in Romania for a long time. However, we now see that demand is declining and that we are entering a phase of consolidation overall.

While Romania's macroeconomic environment is still positive at four percent GDP growth, the national economy depends heavily on Western Europe, especially the automotive industry and its suppliers. There is a clear market decline in the current year.

Romania has been the cost leader in logistics for many years and therefore had a good competitive position. But even in Romania it is difficult today to find drivers - and these now earn almost as much as their Western European colleagues. As a result, Romanian logistics providers are increasingly forced to innovate and offer total solutions. This is putting a lot of pressures especially on small providers.

### To what extent is Romania attractive as a production location for Western European companies?

Until now, Romania has been an interesting location due to the availability of land and well-trained technical staff. Today, however, there is a labour shortage, which is mainly due to emigration - about five million Romanians have emigrated since the early 1990s.

The young people are not as much technically oriented as they used to be. Many work in IT and services, less in production and technology. Romania has therefore lost appeal for manufacturing companies.



**Roland W. Schacht**

Managing Director with responsibility for Romania, Moldova, Greece and Cyprus at Schmitz Cargobull Romania, Bucharest. The German Schmitz Cargobull AG is Europe's leading manufacturer of semi-trailers, truck bodies and trailers.

Bucharest is not Romania. While things are going better in the big cities, rural development is very slow. In addition, the political situation has worsened since 2016, even more bureaucracy is the result. Foreign investments are nowadays mainly made in call centres and IT outsourcing.

### **What advantages and disadvantages does Romania have as a manufacturing location?**

Political insecurity and deficiencies in infrastructure, especially regarding highways and railways, are clearly negative factors.

Romania still scores points in terms of labour costs compared to Western Europe, although not to the same extent as before. Companies wishing to invest benefit from subsidies and tax holidays, especially for projects in structurally weak regions.

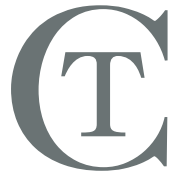
What did you experience when recruiting and managing Romanian employees?

Due to the shortage of staff, even recruiting for standard positions is difficult and recruiting through job postings is nearly impossible. In many places there is full employment. Companies often depend on headhunters and temporary employment agencies when looking for staff. One determining factor for the attractiveness of a position is location - commuting is not easy for employees due to poor infrastructure.

The young people in Romania are hardly different from Western Europeans. They have the same ideas and aspirations, respect and trust are important to them. Many look closely at the development and training opportunities in their company.

Staff retention a big issue in Romania, for many emigration is tempting. Companies need to show appreciation and offer opportunities for development to keep employees on board.

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