



European Construction Sector Observatory

Country profile **Bulgaria**

September 2020



In a nutshell

Since 2010, Bulgaria's GDP has increased by 25.0%, amounting to BGN 102.3 billion (EUR 52.3 billion) in 2019. This also represents a 3.4% growth compared to the 2018 levels.

Bulgaria's GDP performed modestly in 2019, driven by strong private consumption, rise in public investment and high capacity utilization. It was also partially driven by a healthy inflation rate as a result of rapid wage growth, high employment rate, strong domestic demand and higher food prices.

Similar to the country's economy, the Bulgarian broad construction sector has also gained slight momentum. The **number of enterprises** in the broad construction sector totalled 54,098 firms in 2019 (a marginal decline of 0.5% over 2018). This also represents an increase of 6.7% between 2010 and 2019.

In contrast, the **volume index of production** in the broad construction sector decreased by 7.5% over the 2015-2019 period, driven by the 19.8% decline in construction of civil engineering during the same period. Conversely, the production in construction of buildings increased by 3.5% in 2019 compared to 2015.

Volume index of production in construction of civil engineering sub-sector between 2015 and 2019

↓ 19.8%

The **total turnover** in the broad construction sector stood at EUR 10.4 billion in 2017, representing a slight increase of 5.3% compared to 2010 (EUR 9.9 billion). It further increased to EUR 11.9 billion in 2019, a 20.6% increase since 2010. This overall

increase was driven by growth in sub-sectors including in the real estate activities (43.6%), the manufacturing (40.1%) and the narrow construction (17.5%) sub-sectors over the 2010-2019 period.

Turnover in the broad construction sector between 2010 and 2019

↑ 20.6%

Similarly, the **gross operating surplus** of the broad construction sector recorded a moderate increase of 21.5% between 2010 and 2017, reaching EUR 1.7 billion. Majority of this increase was driven by growth in the real estate activities (53.1%), followed by manufacturing (31.5%) and the narrow construction (19.8%) sub-sectors over the same period. Correspondingly, the **gross operating rate** of the broad construction sector, an indicator of the sector's profitability, increased from 13.8% in 2010 to 15.9% in 2017. This is slightly below the EU-27 average of 16.6%.


In terms of employment, there were 245,195 **persons employed** in the Bulgarian broad construction sector in 2019, representing a drop of 11.1% over 2010. This was driven by a fall in employment in the architectural and engineering activities (-24.5%), the narrow construction (-13.4%) and the manufacturing (-12.8%) sub-sectors during the same period.

Number of people self-employed in the broad construction sub-sector between 2010 and 2019

↓ 11.1%

There are several crucial issues hindering the sustainable development of the Bulgarian construction sector. Firstly, the issue of rising

number of bankruptcies declared by the broad construction sector companies. The number of company deaths in the narrow construction sub-sector and the real estate activities sub-sector grew by 58.5% and 156.0%, from 2,068 and 1,433 in 2010 to 3,420 and 3,669 in 2017, respectively.

Company death in the narrow construction sub-sector between 2010 and 2017  **58.5%**

Company death in the real estate sub-sector between 2010 and 2017  **156.0%**

Secondly, the issue of late payments by the customers. The outbreak of COVID-19 pandemic has made the situation even more difficult. According to the European Payment Report 2020, 43.0% of the SME respondents expect late payments to have a high impact on liquidity squeeze, just slightly lower than EU average of 45.0%.

Percentage of Bulgarian respondents reporting late payment by B2B customers in Easter Europe¹ **77.0%**

Thirdly, the continuing shortage of skilled and professional workforce in the construction sector continues to be a major concern. Fourthly, the business environment remains heavily regulated. The public procurement process continues to be non-transparent and distorted. Several rounds of authorization schemes for construction companies further make the entire process difficult and inconvenient.

Investment in innovation and R&D activities is still limited and lacklustre and can be further improved. Although the business enterprise R&D expenditure (BERD) in the narrow construction sector has increased over the years, much improvement is still needed to deliver on Bulgaria's innovation commitments. Moreover, the annual number of **construction-related patent applications** in 2019 continues to be two, same as 2010 levels.

Business enterprise R&D expenditure (BERD) in the narrow construction sector increased by 819.7%, from EUR 0.2 million in 2012² to EUR 1.7 million in 2017.

The Bulgarian economy also faces major challenges in the innovation front due to lower digital skills of its workforce and insufficient investment in the integration of digital technologies into business.

The overall outlook for the broad construction sector is promising in the long run, primarily supported by increased investments in public infrastructure backed by EU funding. The EU-Turkey agreement linking Istanbul to the Bulgarian border crossing via a high-speed train as well as the ongoing national highway motorway construction are favourable developments for the country. Bulgaria continues to prioritize the development of corridors 'Orient/East-Med' and 'Rhine-Danube' including connections with Western Balkan countries, in order to become a transit country on the future Alpine-West Balkans Rail Freight Corridor.

The outbreak of COVID-19 pandemic has massively impacted the economic landscape of the country. Under the revised 2020 Budget, Bulgaria has extended its budget deficit target to BGN 3.5 billion (EUR 1.8 billion) with an increased public debt ceiling of BGN 10.0 billion (EUR 5.1 billion) for 2020³. Furthermore, EU funding earmarked for education, training, transport infrastructure and the environment has been switched to an ERDF fund, aimed at protecting growth and SMEs, including an ESF fund for access to jobs⁴. Although no construction sector-specific regulation has been adopted for the COVID-19 situation, there are other regulations that indirectly affect the sector⁵.

Despite having better prospects than many other sectors, the Bulgarian broad construction sector will witness difficulties in meeting its set target goals for 2020. Any major improvement is only expected to take place post market recovery from 2021 onwards.

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Key figures

Construction market

In 2019⁶, there were 54,098 **enterprises operating in the broad construction sector** in Bulgaria, with the real estate activities and narrow construction sub-sectors accounting for 41.9% and 40.3% of the total, respectively. The significant share of real estate enterprises in the country construction sector represents a 26.5% growth compared to the 2010 level. The number of firms in the broad construction sector increased by 6.7% since 2010 (50,714), while representing a decline of 0.5% compared to 2018 (54,388). The number of enterprises in the narrow construction sub-sector also increased marginally by 3.0% in 2019 compared to 2010 level. On the other hand, the number of firms in the manufacturing and architectural and engineering activities sub-sectors decreased by 15.3% and 17.8% over the same period, respectively.

Number of enterprises in the architectural and engineering activities sub-sector between 2010 and 2019

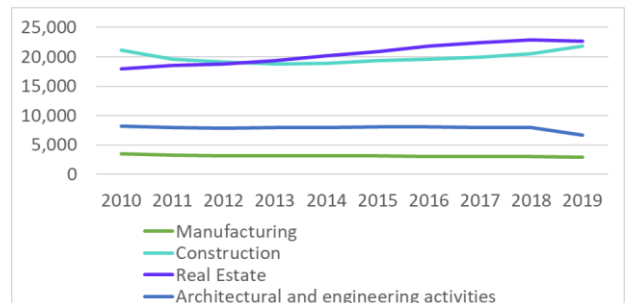
↓ 17.8%

The **volume index of production in broad construction sector** dropped by 7.5% over the 2015-2019 period. Production in construction of civil engineering declined by 19.8% over the reference period. In contrast, production in construction of buildings increased by 3.5% in 2019 compared to 2015.

Production in the construction of civil engineering sub-sector between 2015 and 2019

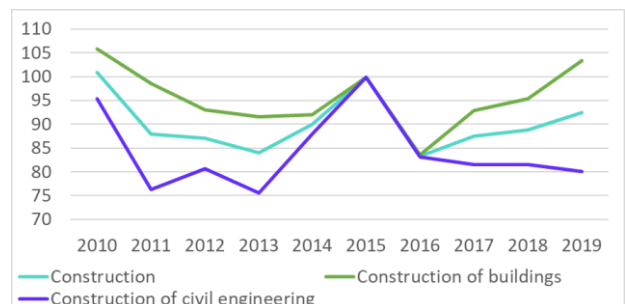
↓ 19.8%

Figure 1: Number of enterprises in the Bulgarian broad construction sector between 2010 and 2019



Source: Eurostat, 2020.

Figure 2: Volume index of production in the Bulgarian construction sector between 2010 and 2019 (2015=100)



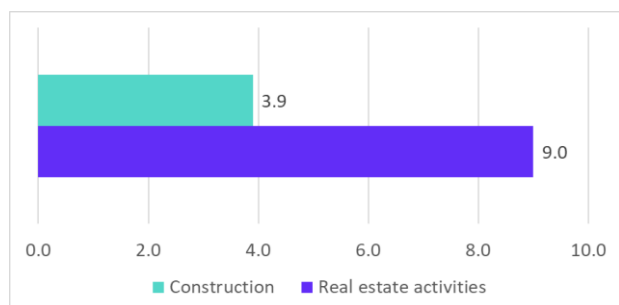
Source: Eurostat, 2020.

The total added value of the broad construction sector⁷ grew by 30.6% in the 2010-2019 period, amounting to EUR 3.2 billion in 2019⁸.

The narrow construction sub-sector accounting for 55.5% of the total, followed by real estate activities (26.4%), manufacturing (13.1%) and architectural and engineering activities (5.0%) sub-sectors. All sub-sectors except architectural and engineering activities increased by over 30% between 2010 and 2019. The **share of gross value added** of the narrow construction and real estate activities sub-sectors in the GDP reached 3.9% and 9.0% in 2019, respectively. However, both of these are slightly below the EU-27 average of 5.0% and 9.7% for the same period, respectively.

Currently, there are six regions in Bulgaria, namely *Severozapaden*, *Severen tsentralen*, *Severoztochen*, *Yugoiztochen*, *Yugozapaden* and *Yuzhen tsentralen*. Regional disparities continue to remain significant, with the *Yugozapaden* region representing 48.6% and 35.4% of the gross value added of the narrow construction and the real estate activities sub-sectors in 2017⁹, respectively. *Severozapaden* and *Severen tsentralen* continue to have the lowest gross value added both in narrow construction (3.5% and 6.0%) and real estate activities (10.4% and 10.0%) sub-sectors for the same period, respectively.

Figure 3: Gross value added as a share of GDP in the Bulgarian broad construction sector in 2019¹⁰ (%)



Source: Eurostat, 2020.

Productivity

Overall, **apparent labour productivity**¹¹ in the Bulgarian broad construction sector increased from EUR 8,852 in 2010 to EUR 12,812 in 2017¹² (44.7%), still being significantly below the EU-27 average of EUR 50,079. Manufacturing activities sub-sector saw the highest increase in labour productivity, growing from EUR 8,488 in 2010 to EUR 13,082 in 2017 (54.1%), followed by narrow construction sub-sector increasing from EUR 7,300 to EUR 10,900 over the 2010-2017 period (49.3%). In contrast, manufacturing sub-sector saw a decline of -1.7% over the 2018-2019 period, currently ending at EUR 12,860 while narrow construction sub-sector reported an increase of 2.6% over the same period, totalling EUR 11,183 in 2019¹³ respectively.

Similarly, real estate activities sub-sector witnessed an increase of 44.1%, from EUR 14,300 in 2010 to EUR 20,600 in 2017. This further rose by 4.7% over the 2018-2019 period, ending at EUR 21,577. In parallel, architectural and engineering activities sub-sector decreased from EUR 13,700 in 2010 to EUR 11,700 in 2017, representing a fall of -

14.6% over the period. The sub-sector reported another drop of -11.2% over the 2018-2019 period, totalling EUR 10,390 in 2019¹⁴.

Since 2010 labour productivity has been steadily increasing but is still substantially below the EU-27 average. For instance, Bulgaria's apparent labour productivity for 2017 stood at EUR 12,812 compared to EU-27 average of EUR 50,079.

Major barriers to productivity growth include lack of skilled labour, challenging business environment, slower uptake of digital technologies and insufficient investment in research and development, particularly in intangible assets¹⁵. All these factors are, in turn, increasing the sector's competitiveness risk and jeopardising its capacity to attract capital investments.

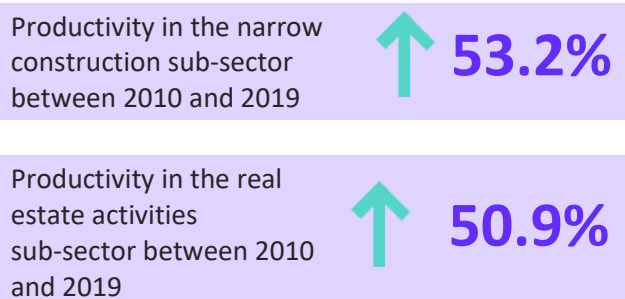
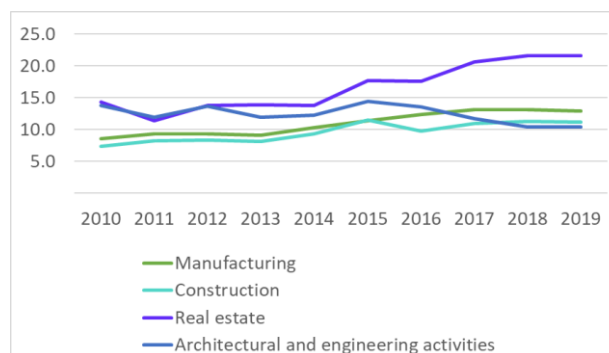


Figure 4: Labour productivity in the broad construction sector in Bulgaria between 2010 and 2019 (EUR k)



Source: Eurostat, 2020.

Turnover and profitability

The total **turnover** of the Bulgarian broad construction stood at EUR 10.4 billion in 2017, representing an increase of 5.3% compared to 2010 (EUR 9.9 billion). This further increased to EUR 11.9 billion in 2019¹⁶, a 20.6% increase since 2010. This growth was driven by a 43.6%, 40.1% and 17.5% increase in the real estate activities, manufacturing and narrow construction sub-sectors over the 2010-2019 period, respectively. In

contrast, the architectural and engineering activities reported a decrease of 19.1% over the same period. Overall, 68.8% of the total turnover was generated by the narrow construction sub-sector, followed by manufacturing (13.6%), real estate activities (13.2%) and architectural and engineering activities (4.4%) sub-sectors.

The **gross operating surplus** of the broad construction sector amounted to EUR 1.7 billion in 2017¹⁷, a 21.5% and 13.9% increase compared to 2010 and 2016, respectively. In terms of its sub-sectors, the largest increase was reported by the real estate activities (53.1%), followed by manufacturing activities (31.5%) and narrow construction (19.8%) over the 2010-2017 period. In contrast, the real estate activities sub-sector witnessed a decline of 48.0% over the same period.

Gross operating surplus between 2010 and 2017 ↑ **21.5%**

At the same time, the **gross operating rate** of the broad construction sector¹⁸, an indicator of the sector's profitability, stood at 15.9% in 2017¹⁹, 2.1% increase since 2010. In terms of sub-sectors, real estate activities remain the most profitable sub-sector, with the gross operating rate of 39.0%, a 4.8% increase since 2010. In contrast, architectural and engineering services saw the largest drop in the gross operating rate across sub-sectors (-10.9% between 2010 and 2017), reaching 17.0% in 2017. Similarly, the manufacturing sub-sector also witnessed a marginal decline of 0.4% compared to 2010. On the other hand, the narrow construction sub-sector recorded a slight growth of 2.1% since 2010, ending at 11.1% in 2017.

The cost is an important element in the profitability of construction sector in Bulgaria. The construction cost index increased by 15.0 index points in 2010-2019. This growth was driven by the significant growth in the labour cost (+51.9 index points (over 2010-2019), combined with a rather modest rise in input prices for materials (+2.1 index points) over the same period.

Figure 5: Construction cost index between 2010 and 2019 (2015=100)

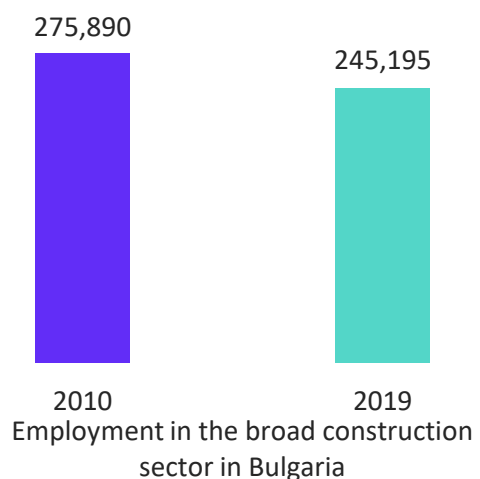


Source: Eurostat, 2020.

Employment

In 2019, 245,195 persons were **employed** in the Bulgarian broad construction sector, a decline of 11.1% compared to 2010. The narrow construction sub-sector employs 64.6% of the total workforce (i.e. 158,321 persons) of the broad sector, followed by the real estate activities (15.9% of the total workforce – 39,014 persons), the manufacturing sub-sector (13.2% of the total workforce – 32,436 persons), and architectural and engineering activities (6.3% of the total workforce – 15,424 persons) (Figure 6).

Except for real estate activities sub-sector, which experienced an increase (9.9% over the 2010-2019 period) in terms of persons employed in the sector, all the other sub-sectors registered a downturn with the largest decline being in the architectural and engineering activities (-24.5%).

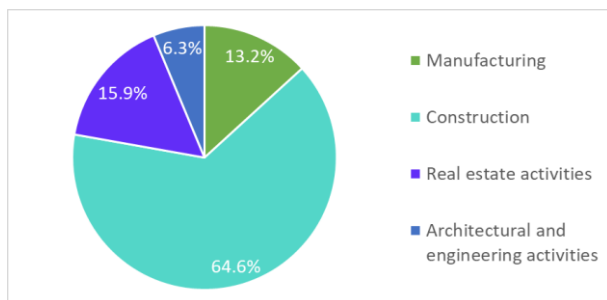


As for employment by specific occupation, the number of managers, clerical support workers and plants, machine operators and assembler in the narrow construction sub-sector reported some of the largest drops, from 18,900, 7,300 and 32,400 in

2010 to 10,000, 4,400 and 20,200 in 2019 (-47.1%, 39.7% and -37.7%) respectively. Conversely, in the real estate sub-sector, technicians and associate professionals experienced a substantial increase of 77.6%, from 5,800 in 2010 to 10,300 in 2019.

Number of managers in the narrow construction sub-sector between 2010 and 2019 ↓ 47.1%

Figure 6: Percentage of people employed by construction sub-sectors in Bulgaria in 2019



Source: Eurostat, 2020.

The number of **self-employed** workers in the narrow construction sub-sector increased by 32.2% from 25,500 in 2010 to 33,700 in 2019, representing 10.9% of the self-employed in the general economy, which is slightly below the EU-27 average of 11.9%.

In parallel, **full-time employment** in the narrow construction sub-sector decreased by 8.0%, between 2010 and 2019. In contrast, a notable

increase of 31.6% was recorded in the real estate activities sub-sector during the same period.

Similar to the gross added value, there are strong regional disparities in terms of the number of persons employed, driven by adverse demographic trends and increasing skills shortages. The region of Yugozapaden alone represents 42.8% and 52.1% of the total number of persons employed in the narrow construction and real estate activities sub-sectors in 2017²⁰, respectively. Conversely, the region of Severozapaden had the lowest proportion of persons employed in the broad construction sector, with the narrow construction and real estate activities sub-sectors engaging only 4.9% and 4.7% of the total persons employed in the sub-sectors in 2017²¹, respectively.

Since the COVID-19 containment measures were put in place, Bulgaria’s overall unemployment rate has increased substantially. This was also partly boosted by the return of workers from abroad. After reaching the lowest value of 4.1% in 2019, Bulgaria’s unemployment rate is predicted to increase to 7.0% in 2020 and then to decrease to 5.8% in 2021, driven by partial recovery in the country’s employment situation. In parallel, nominal wage growth (after years of important gains) is expected to slow down to 3.5% in 2020 and 2.3% in 2021²².

2

Macroeconomic indicators

Economic development

The Bulgarian economy witnessed consistent economic growth in 2018 and 2019 primarily driven by strong private consumption, rise in public investment and high capacity utilization.

Bulgaria's **GDP** amounted to BGN 102.3 billion (EUR 52.3 billion) in 2019, an increase of 25.0% compared to 2010 and 3.4% since 2018. In 2019, Bulgaria's potential GDP was BGN 99.0 billion (EUR 50.6 billion), translating into a positive output gap of 3.4%. The **inflation rate** in Bulgaria has been dropping continuously since 2011 and displaying a deflationary trend since 2014 (-1.3% in 2016) due to declining import prices and subdued domestic demand. However, it picked up in 2017 and finally reached 2.5% in 2019, primarily due to a rapid wage growth, high employment rate, strong domestic demand and higher food prices²³. Inflation is expected to remain around 2.3% in 2020 and 1.9% in 2020 sustained by unprocessed food and energy prices.

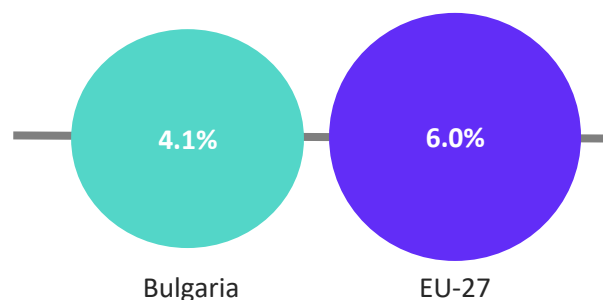
GDP between 2010 and 2019

↑ 25.0%

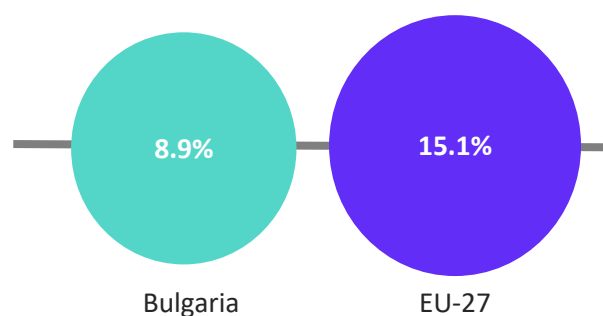
Demography and employment

Employment has been growing over the past few years, in line with the improved economic outlook. The overall **unemployment rate** in Bulgaria reached 4.1% in 2019, which is below the EU-27 average of 6.0%. The youth unemployment rate (below the age of 25) stood at 8.9% in 2019, well below the EU-27 average of 15.1%²⁴.

Unemployment rate in 2019



Youth unemployment rate in 2019



Regional disparities remain notable. The regions of *Yugozapaden* and *Yuzhen tsentralen* had the highest number of persons employed in the narrow construction (42.8% and 15.3%) and real estate activities (52.1% and 13.0%) sub-sectors in 2017²⁵, respectively. Furthermore, the unemployment rate among low-skilled workers (15.4% in 2018) is almost four times that of the medium-skilled workers (4.4% in 2018) and six times that of the high-skilled workers (2.4% in 2018)²⁶.

In terms of demographics, the **total population** in Bulgaria amounted to 7.0 million in 2019. It is projected to decrease by 7.9% by 2030 and by 19.2% until 2050, falling to 5.7 million. Additionally, **net migration** has been negative in Bulgaria since the 2000s. It declined from 2010 (-17,683) to 2013 (-1,108), before picking up in 2016

(-9,329) and decreasing again in 2018²⁷ (-3,666). This trend is driven by Bulgarians searching for higher income opportunities in other EU Member States.

Projected population evolution between 2019 and 2030  **7.9%**

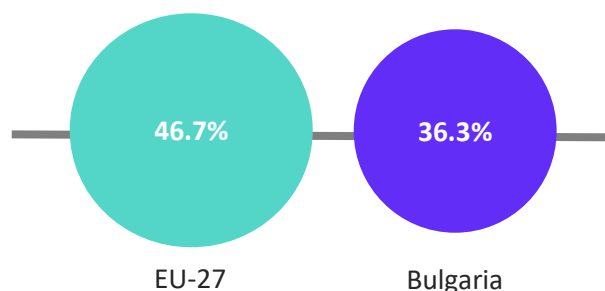
In 2019, Bulgaria's **working age population** accounted for 64.3% of the total. However, demographic projections foresee a substantial ageing of the population, with the share of those aged 65 or more rising to 30.7% by 2050. In parallel, the work age population will strongly decrease from 64.3% in 2019 to 55.7% in 2050. This indicates there will be a greater demand for health and caring facilities in the mid to long-term future. In these lines, the Bulgarian government has adopted a National strategy for long-term care and an action plan for 2018-2021. Still under its first phase, the government aims to reform the system, restructure and close its 161 specialised institutions having about 11,000 adults. This is expected to be completed by 2034²⁸.

Public finance

In 2019, the **general government expenditure** in Bulgaria accounted for 36.3% of GDP, slightly lower than in 2018 (36.6%) but well below the EU-27 average of 46.7%. The same year, **general government deficit** reached 2.1% of GDP, high compared to the EU-27 average (-0.6%). The **general government gross debt** stood at 20.4% of GDP, substantially lower than EU-27 average of 77.8%. The general government consumption expenditure witnessed a GDP increase of 1.0 percentage point in 2019 (17.5%) compared to 2018 (16.5%). Despite slower implementation of EU-funded projects, public investments saw a recovery followed by an increase in public sector wages. Improvements in tax collection were primarily driven by an increase in taxes and social security contributions.

The fiscal outlook remains positive in the medium term driven by increased public investments for both national and EU projects along with already announced increment in public sector wages for 2020. The budget surplus is expected to amount to 0.9% of GDP for 2020 and 2021. Further, the public debt is forecast to reach below 20% of GDP by 2021²⁹.

General government expenditure in 2019 (% of GDP)



Regarding monetary policy, the Bulgarian Central Bank has cut the **official interest rate** over the last years, from 5.1% in 2008 to 0% in 2016 and continues to remain so still in 2019, encouraging consumption and investment.

Entrepreneurship and access to finance



According to the 2019 Global Competitiveness Report by the World Economic Forum, Bulgaria ranks 49th out of 141 economies in terms of financing of SMEs³⁰.

As per the 2019 Global Competitiveness Report, Bulgaria ranks 54th with regards to venture capital availability and 67th as to domestic credit to private sector. As per the 2019 SBA Fact Sheet, Bulgaria's general score on 'Access to finance' is above the EU-28 average with six indicators above while the rest four below the EU-28 average³¹.

According to the 2019 SBA Fact Sheet, Bulgaria has one of the lowest scores in 'entrepreneurship' among all the EU Member States. It has the lowest score in the EU for adults aiming to start a business within three years. Bulgaria also has the lowest score in the EU with regards to the newly introduced 'High job creation expectation rate' indicator, dropping from 13.4% in 2016 to 2.5% in 2018. Nevertheless, since last year its performance has improved in two indicators, namely 'Established business ownership rate' and 'Entrepreneurship as a desirable career choice'³².

Bulgaria SMEs have benefitted from the improvements in the banking sector as also from the EU funded programmes like Innovation and Competitiveness (EUR 1.3 billion) and SME Initiative (EUR 102.0 million), etc³³. Further, banking instruments under Investment Plan for

Europe were successfully leveraged to provide much needed support to Bulgarian banks including EUR 256.0 million under the Competitiveness of Enterprises and SMEs - Loan Guarantee Facility (COSME Loan Guarantee Facility). Moreover, lending to non-financial corporations in construction sector also improved in 2019, with **outstanding loans** reaching BGN 3.0 billion in 2019 (EUR 1.5 billion). This represents an increase of 7.9% compared to 2018 but a substantial decline (-30.3%) compared to BGN 4.3 billion (EUR 2.2 billion) in 2010.

According to the 2020 Doing Business Report, Bulgaria ranked 113th out of 190 economies in terms of starting a business, requiring seven procedures and involving 23 days to complete³⁴. Corruption and insufficient government bureaucracy are some of the problematic factors which still need to be dealt with. According to the 2019 Corruption Perceptions Index (CPI), Bulgaria ranks 74th out of 180 countries surveyed with a score of 43 out of 100, the lowest in the EU-28 region³⁵.

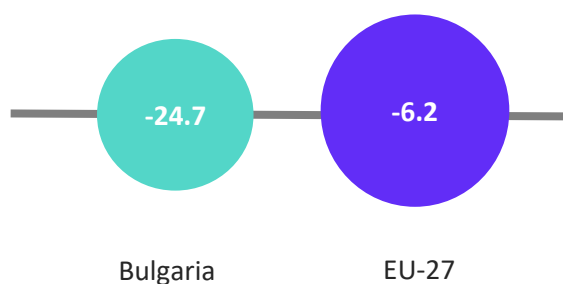
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Key economic drivers of the construction sector

Business confidence

Over the 2010-2019 period, the **consumer confidence indicator** has recovered to some extent, standing at -24.7 in 2019 compared to -31.3 in 2010. Nevertheless, it remains below the EU-27 average of -6.2. The **industry confidence indicator** has improved significantly in 2019, ending at -1.1, well above the 2010 level of -9.6 as well as the EU-27 average of -4.8. Similarly, the **construction confidence indicator** has also continuously improved over the years, going from -37.6 in 2010 to -6.1 in 2019. Yet, this is well below EU-27 average of 5.1.

Consumer confidence indicator in 2019



The **investment ratio** also declined marginally to 19.0% in 2019 compared to 19.2% in 2018 as well as 22.0% in 2010. This is also slightly below the EU-27 average of 21.7% in 2019.

In contrast, **investment per worker** in the broad construction sector increased from EUR 9,031 in 2010 to EUR 11,013 in 2017³⁶. In the real estate activities sub-sector, investment per worker increased from EUR 22,600 in 2010 to EUR 24,800 in 2017. In contrast, investment per worker in the narrow construction sub-sector decreased from EUR 3,500 in 2010 to EUR 3,400 in 2017³⁷.

According to the Bulgarian Construction Chamber, since the introduction of state of emergency to deal with COVID-19 pandemic, the construction sector has lost more than BGN 100 million (EUR 51.1 million). Nonetheless, compared to other sectors, business climate has improved for the construction sector and the sector has a more optimistic outlook for the coming months³⁸.

Domestic sales

The ranking of the **most domestically sold** construction products in Bulgaria in 2018³⁹ has remained unchanged since 2012⁴⁰. The top five most domestically sold construction products are presented in Table 1, including a comparison with the top sellers in the EU-28. These represented 54.6% of total domestic construction product sales in 2018.

Table 1: 5 most domestically sold construction products in Bulgaria and in the EU in 2018

Bulgaria				EU-27
	Product	Value (EUR m)	Share in construction product domestic sales (%)	Product
1	Ready-mixed concrete	199.2	15.9	Other structures, etc. (group)

Bulgaria				EU-27
	Product	Value (EUR m)	Share in construction product domestic sales (%)	Product
	(group 236310)			251123)
2	Other structures, etc. (group 251123)	151.0	12.0	Doors, windows, etc. (group 251210)
3	Portland cement, aluminous cement, etc. (group 235112)	142.0	11.3	Ready-mixed concrete (group 236310)
4	Doors, windows, etc. (group 251210)	109.6	8.7	Prefabricated buildings of metal (group 251110)
5	Prefabricated buildings of metal (group 251110)	83.0	6.6	Prefabricated structural components for building, etc. (group 236112)

Source: PRODCOM, 2020⁴¹.

Export of construction-related products and services

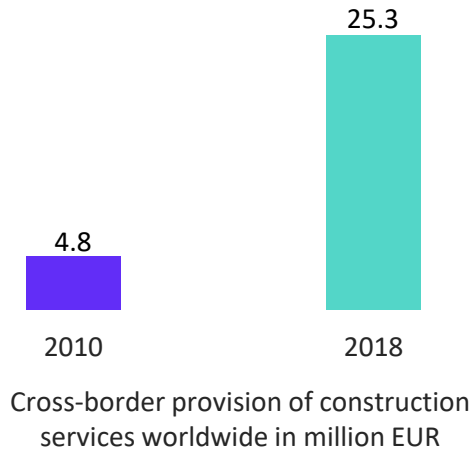
The ranking of the top five most exported construction products has changed since 2010⁴². Nonetheless, the top five most exported construction products according to the most recent data are summarised in Table 2. Together, they made up 51.9% of all construction products exports in 2018.

Table 2: 5 most exported construction products in Bulgaria and in the EU in 2018

Bulgaria				EU-27
	Product	Value (EUR m)	Share in construction product export sales (%)	Product
1	Ceramic tiles and flags (group 233110)	75.5	17.8	Ceramic tiles and flags (group 233110)
2	Other structures, etc. (group 251123)	40.8	9.6	Other structures, etc. (group 251123)
3	Particle board (group 162112)	40.6	9.6	Fibreboard of wood, etc. (group 162115)
4	Plaster products for construction purposes (group 236210)	33.4	7.9	Doors, windows and their frames, etc. (group 251210)
5	Pellets and briquettes, etc. (group 162915)	30.2	7.1	Marble, travertine, alabaster, etc. (group 237011)

Source: PRODCOM, 2020⁴³.

In terms of **cross-border provision of construction services**⁴⁴, Bulgaria exported EUR 25.3 million worldwide in 2018⁴⁵, substantially above the 2010 value (EUR 4.8 million) but well below its 2012 peak (EUR 158.4 million). In fact, in 2019 almost 94.0% of exports (EUR 23.3 million) were destined to the EU-27 countries, compared to 52.1% (EUR 2.5 million) in 2010. In parallel, Bulgaria imported a total of EUR 12.2 million in construction services in 2018, an 80.0% decline since 2010 (EUR 60.9 million), with EUR 11.6 million from EU-27 countries and EUR 0.5 million from outside the EU-27. Bulgaria, therefore achieved a **trade surplus** of EUR 13.1 million in 2018.



Access to finance in the construction sector

The credit extended to the broad construction sector has declined by 30.3% between 2010 and 2019, going from BGN 4.3 billion (EUR 2.2 billion) to BGN 3.0 billion (EUR 1.5 billion) in 2019.

According to the 2019 SBA Fact Sheet, in terms of ‘access to finance’, Bulgaria performs above the EU average especially in areas of ‘strength of legal index rights’, ‘cost of borrowing of small loans relative to large loans’, ‘equity funding for new and growing firms’ and ‘business angel funding for new and growing firms’. In contrast, the number of ‘rejected loan applications and unacceptable loan offers’ almost doubled compared to the previous reference period⁴⁶.

The Fund Manager for Financial Instruments in Bulgaria (FMFIB) adopted various initiatives to improve access to finance⁴⁷:

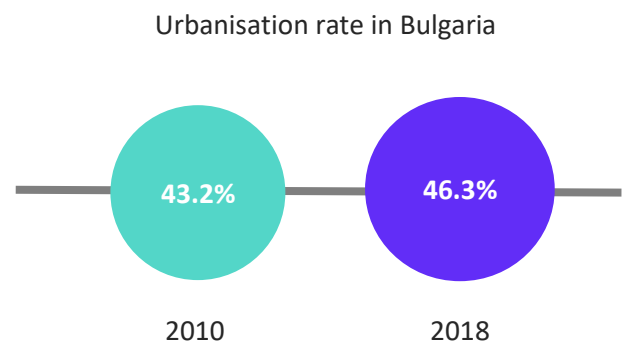
- the ‘**Risk-sharing micro-finance facility**’ to provides micro loans of up to EUR 25,000 to support the establishment and development of start-ups.
- the **Venture Capital Fund** under the Innovation and Competitiveness 2014-2020 Operational Programme, to provides financial support to start-ups/SMEs during their first 5 years.
- **Innovation Accelerator Bulgaria — accelerator and seed financing fund**, supported by the Operational Programme Innovation and Competitiveness 2014-2020 to provide access to equity and quasi-equity funding to Bulgarian start-ups at their early development stage.

- the **Fund for the support of innovative start-ups** to provide financial (equity and quasi-equity investments) and business support to early-stage entrepreneurs to develop their business.

According to the **SME access to finance of enterprises (SAFE) 2019 results**, on average, only **6.2% of the respondent SMEs consider ‘access to finance’ as the most important problem faced by them, slightly better than the EU-28 average of 7.2%**⁴⁸.

Access to housing

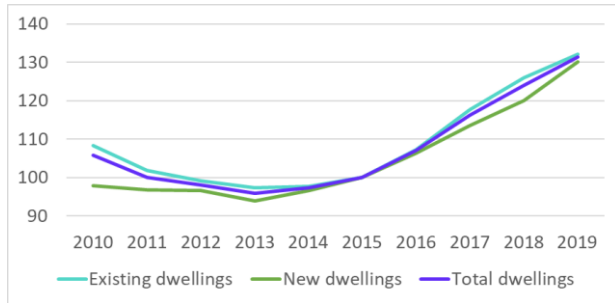
The number of **households** in Bulgaria reduced to 2.7 million in 2019, a decrease of 2.3% compared to 2010 level. The country has a high **urbanisation rate**, with 46.3% of the population living in cities and greater cities in 2018, compared to 43.2% in 2010. In parallel, the **mean equivalised net income** experienced a 58.7% growth since 2010, amounting to EUR 5,551 in 2019. These factors, together with the lowest mortgage interest rates since 2010 (Figure 8) are the driving force behind the growth of the housing market, as shown by the slowly recovering house prices since 2014 (Figure 7). The house price index for total dwelling in 2019 was 31.4% above the 2015 level, with the index for new dwellings being slightly below the one for existing dwellings (130.2 vs. 132.1). Mortgage growth has remained strong, indicating that credit could be fuelling the ongoing real estate market expansion across the country⁴⁹.



After reaching its peak in 2008, Bulgarian banks’ lending for residential house purchases deteriorated continuously until 2014, after which the sector saw some improvements backed by Bulgaria’s targeted housing policies. Benefiting

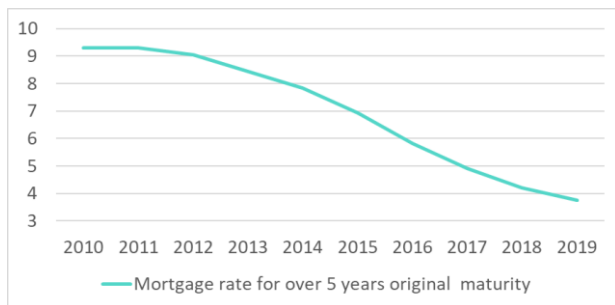
from further funding from the EU, the sector has currently surpassed the 2010 levels. In 2018⁵⁰, these amounted to EUR 4.7 billion, representing an increase of 27.0% compared to 2010 level of EUR 3.7 billion. In Bulgaria, only 2.3% of the population were owners with a mortgage in 2019, whereas 81.8% were owners without outstanding mortgage.

Figure 7: House price index in Bulgaria over 2010-2019 (2015=100)



Source: Eurostat, 2020.

Figure 8: Mortgage rates for loans for over 5 years original maturity over the period 2010-2019 (%)



Source: ECB MFI Interest Rate Statistics, 2020.

The number of newly built dwellings fell by 23.2%, reaching a total number of 12,105 in 2019, compared to 15,771 in 2010⁵¹. However, this is more than the lowest recorded value over the period 2010-2018 of 7,806 in 2015. Additionally, the number of building permits for residential buildings increased by 22.3% since 2010, reaching 5,980 in 2019, compared to 4,891 in 2010⁵².

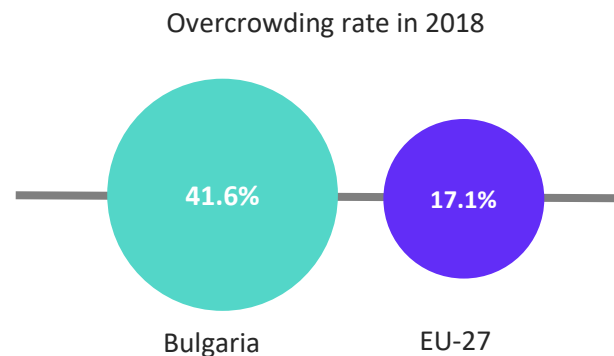
Number of building permits for residential buildings between 2010 and 2019 **22.3%**

Besides, the **housing cost overburden rate**⁵³ was at 17.9% in 2018⁵⁴, well above the EU-27 average of 9.6% and more than three times the 2010 level (i.e. 5.9%), showing a deteriorating housing affordability situation⁵⁵. Bulgaria has a high **home**

ownership rate i.e. 83.6% of the population owned their dwelling in 2018 as compared to EU-27 average of 69.9%. For 2019, this rate has increased to 84.1% of the total population. It further increases to 84.6% for the population whose income is **above 60% of the median equivalised income**, while drops slightly to 82.5% for those **below 60% of the median equivalised income** in 2019⁵⁶.

The **overcrowding rate**⁵⁷ for Bulgaria was also very high at 41.6% in 2018⁵⁸, compared to the EU-27 average of 17.1%. Moreover, Bulgaria's **severe housing deprivation rate**⁵⁹ was 10.1% in 2018, while the EU-27 average was 4.0%⁶⁰. Rising poverty rates, low levels of social housing stock, sub-standard housing conditions and lack of public investment are some of the driving factors behind such high overcrowding rate. It is estimated that every second Bulgarian at risk of poverty is overburdened by housing costs. The country does not have any strategic framework with regards to social housing and its policies are mostly decentralised, with no specific measures to prevent homelessness or to promote social reintegration of homeless people. It is expected that the new law on social service will address the widespread homelessness issue with a new service from 2021⁶¹.

According to 'The State of Housing in the EU 2019' report, only 2.6% of the total housing stock available in Bulgaria is social rental housing. In fact, the country has one of the highest proportion of people (18.9%) overburdened by housing costs as compared to the EU average of 10.4%⁶².



Infrastructure



According to the 2019 Global Competitiveness Report, Bulgaria stood at 56th out of 141 economies in terms of its overall infrastructure quality⁶³.

Bulgaria ranked 26th for its railroad density, 62nd for the efficiency of its seaport services, 66th for the efficiency of its train services, 67th in road connectivity, 79th for the efficiency of its air transport services and 102nd in terms of the quality of its roads. Bulgaria's road density improved by 75.0%, reaching 7.0km/km² in 2018 as compared to 4.0 km/km² in 2010. In contrast, its railroad density dropped slightly by 2.6% over the same period, totalling 37.0 km/km² in 2018.

Over the years, the financial assistance from the EU played an integral part in the sector's growth. According to the 2019 EU Budget, Bulgaria will receive an assistance of BGN 4.5 billion (equivalent to EUR 2.3 billion) out of which BGN 1.5 billion (equivalent to EUR 0.8 billion) will be invested in

infrastructure projects within Bulgaria⁶⁴. The investment financing from EU has increased and is anticipated to remain high in the medium term. Majority of the public investment is used to finance road infrastructure and smaller construction projects. In the coming years, public investment in transport infrastructure and defence is expected to increase, driven by government announcements to finance specific projects in the states sectors⁶⁵.

Regional differences also exist in terms of infrastructure availability, driven by regional economic output and growing employment rates. The southern regions have a more sophisticated infrastructure framework providing better facilities and thus, attracting major capital investments as compared to the rest of the country. The northern regions face various challenges in the form of weak transport connections, low quality energy and water infrastructure, etc. They have obsolete cross-border connections with Romania. Further, intermodal terminals are also missing in key cities like Ruse and Varna.

4

Key issues and barriers in the construction sector

Company failure

There has been a widespread increase in the number of bankruptcies declared by the companies in the Bulgarian broad construction sector. The number of **company deaths** in the narrow construction sub-sector grew by 58.5% between 2010 and 2017⁶⁶, from 2,068 to 3,420. Likewise, the number of company deaths in the real estate activities sub-sector increased by 156.0%, from 1,433 in 2010 to 3,669 in 2017.

Company death in the narrow construction sub-sector between 2010 and 2017

↑ 58.5%

Company death in the real estate sub-sector between 2010 and 2017

↑ 156.0%

Over the same period, the number of **company births** in the narrow construction sub-sector also increased by 58.5%, from 2,018 in 2010 to 3,199 in 2017. In the real estate activities sub-sector, a slight 0.2% increase in company births was recorded over the 2010-2017 period. Similarly, in the architectural and engineering sub-sector, company deaths increased by 124.8% while company births went up by only 16.2% over the same reference period. According to a survey, 31.0% of Bulgarian construction companies were experiencing financial difficulties in 2018⁶⁷.

The dramatic rise in the number of company deaths can be partially attributed to the country's inefficient insolvency framework. Nonetheless, in collaboration with the European Commission, the Bulgarian authorities had identified existing gaps in

the framework and have already established a roadmap to address these issues and reform the overall framework. These measures continue to be a part of the Bulgaria's commitments in order to apply for ERM II accession⁶⁸.

The outbreak of COVID-19 pandemic has also contributed towards the widespread increase in insolvencies within the sector. However, compared to other sectors, the situation of construction sector is expected to improve in the coming months.

Trade credit

According to the *Survey on the Access to Finance of Enterprises (SAFE) 2019*, trade credit constitutes a relevant source of financing for more than one third of Bulgarian SMEs (37.6%), well above the EU-28⁶⁹ average of 31.0% in 2019⁷⁰.

Regardless, only 12.5% of the SMEs applied this approach in the last six months compared to EU-28 average of 16.7% in 2019. Additionally, among the respondents who applied and negotiated for trade credit financing, almost 76.5% of the applicants received everything they applied for. This is slightly above the EU-28 average of 73.5% for the same⁷¹.

Moreover, there is no indication of increased needs to use trade credit with over 74.2% of respondents SMEs reporting their credit requirement remaining unchanged over the last 6 months. This is slightly higher than the EU-28 average of 72.9%. In terms of availability, 12.9% of respondents consider that trade credit availability improved in 2019 (compared to EU-28 average of 15.2%), while 61.8% of respondents consider the availability to have remained unchanged (compared to EU-28 average of 70.7%) and most likely to stay the same in the near future⁷².

According to Payment Practices Barometer - Bulgaria 2019, almost one third (33.6%) of the Bulgarian respondents B2B sales were made on credit. This is well above the 24.4% average of last year as well as Eastern Europe average of 67.2%⁷³.

Late payment

According to the CRIBIS D&B Payment Study 2020, about 15.3% of the respondent companies in the Bulgarian construction make payment by due date while 3.2% of the companies make payment after 90 days of due date. Broadly, only 19.4% of the Bulgarian companies clear their payment dues on time as compared to EU average of 44.3% in 2019⁷⁴.



According to the Atradius Payment Practices Barometer, 82.0% of the Bulgarian respondents granted payment duration averaging 30 days for B2B invoices in 2019. This is quite low compared to the last year payment duration of 38 days, present regional average of 37 days as well as Eastern Europe average of 48 days for 2019⁷⁵.

Moreover, 34.0% of the Bulgarian respondents also focus on sending reminders for overdue invoices compared to 36.0% in Eastern Europe. Similarly, 30.0% of the respondents also offer discounts for early payments compared to Eastern Europe average of 39.0%. This is in addition to the short payment duration already granted to B2B customers⁷⁶.

Due to improved payment timing from B2B customers, there has been an average 13.0% rise in timely payment from B2B customers with 79.4% of invoices being paid on time in 2019 compared to 70.1% in 2018. This further explains why 56.0% of SME respondents in Bulgaria reported no significant impact from late payments as compared to Eastern Europe average of 52.0%. Nonetheless, in order to manage cash shortfall due to late payment, 28.0% of the respondents had to delay payments to their suppliers⁷⁷.

77.0% of the Bulgarian respondents report late payments by B2B customers in Eastern Europe⁷⁸.

With the onset of COVID-19 pandemic, the situation has become more difficult. According to the European Payment Report 2020, 43.0% of the SME respondents expect late payments to have a high impact on liquidity squeeze. This is just slightly lower than EU average of 45.0%. Considering only COVID-19 impact, the European average pre-pandemic was 35.0% which further increased to 51.0% during peak pandemic situation⁷⁹.

As per the European Payment Report 2020, 73.0% of the overall SME respondents from real estate and construction sector have agreed to accept longer payment terms in order to avoid damaging client relationships. Country wise, 70.0% of the SME respondents from Bulgaria have agreed to accept longer payment terms, marginally higher than the EU average of 69.0%⁸⁰.

Moreover, 57.0% of the SME respondents from Bulgaria prefer introduction of new legislations to solve the problem of late payments. This is well above the EU average of 50.0%⁸¹.

Time and cost of obtaining building permits and licenses



As per the 2020 World Bank's Doing Business Report, Bulgaria ranked 43rd out of 190 in 2020 in terms of 'dealing with construction permits', same as last year's ranking.

In particular, 18 procedures are required to obtain a construction permit in Bulgaria, compared to 12.7 in the OECD high-income countries (

Table 3). The costs associated with getting a building permit in Bulgaria are also higher than the OECD average, amounting to 3.4% of the value of the warehouse⁸², as opposed to 1.5% in the OECD high income. Conversely, Bulgaria performs better than the OECD high-income average in terms of the time necessary to obtain a construction permit. In Bulgaria, obtaining a building permit takes 97 days, compared to 152.3 days in OECD high income countries.

Table 3: Construction procedures timing and costs in Bulgaria

Procedure	Time to complete	Associated costs
Obtain current cadastral extract from the Agency for Geodesy, Cartography and Cadastre	1 day	BGN 90.0 (EUR 46.0)
Apply for VISA from the Chief Architect of the Municipality	3 days	BGN 80.0 (EUR 40.9)
Obtain decision from the Director of the Regional Inspectorate of Environment and Water	14 days	No charge
Sign preliminary contracts with the water authorities	7 days	BGN 600 (EUR 306.8)
Request and obtain preliminary assessment of the building for its compliance with energy efficiency requirements from licensed company	5 days	BGN 2,601 (EUR 1,329.9)
Hire a construction supervision company for evaluation of the project and supervision during construction	7 days	BGN 9,150 (EUR 4678.3)
Obtain final construction approval from the Chief Architect of the Municipality	35 days	BGN 10,405 (EUR 5,320.0)
Obtain approval for opening a construction site and determining construction line and construction level	2 days	BGN 20 (EUR 10.2)
Obtain approval from Municipality once the superstructure is complete	4 days	BGN 1,500 (EUR 766.9)
Sign contract with water provider and receive connection	7 days	BGN 600 (EUR 306.8)
Obtain geodetic measurement from a licensed company	7 days	BGN 350 (EUR 179.0)
Map the building in the cadastral map and receive registration certificate	3 days	BGN 124 (EUR 63.4)
Request and obtain certificate for energy efficiency	7 days	BGN 500 (EUR 255.6)
Have the Construction Surveillance file a report on the completed construction	1 day	No charge
A technical passport is registered with the Chief Architect of the Municipality	3 days	No charge
File a copy of the registered technical passport with the Cadastre	1 day	No charge
Receive final inspection by the Municipality	1 day	No charge
Obtain approval of the building and occupancy permit from the Municipality	7 days	BGN 750 (EUR 383.5)

Source: Doing Business overview for Bulgaria, World Bank, 2020.

Substantial effort has been made to decrease the regulatory and administrative burden on businesses in the past years in Bulgaria. In the context of the World Bank Doing Business report,

the country has initiated business reforms in two of the areas measured by the report – Employing Workers and Getting Electricity. The latest legislative amendments from 2019 concern employment, extending the duration of the contribution period required before an employee can become eligible for unemployment protection⁸³.

Skills shortage



The number of job vacancies in the narrow construction sub-sector reached a new peak of 872 in 2019, representing a substantial increase of 549.3% compared to the 2010 level of 134.

With regards to the real estate activities sub-sector, there were 154 vacancies in 2019, representing a 59.6% increase from 97 since 2010 and a 55.7% decline since its peak of 348 in 2011.

Interest in the construction and engineering sector is on a declining trend as evident by the declining number of the university students. In fact, the number of **tertiary students** in engineering, manufacturing and construction decreased by 26.3% between 2010 and 2018⁸⁴, specifically in engineering and engineering trades (-33.1%) as well as architecture and building (-30.9%).

Number of tertiary students in engineering, manufacturing and construction between 2010 and 2018

↓ 26.3%

The Bulgarian economy faces a growing shortage of workers despite decline in the unemployment rate since past few years. Although the general employment (72.4% in 2018) and activity rates (76.3% in 2018) in the Bulgarian economy continues to rise, approaching the EU averages (73.2% and 78.4%, respectively), adverse demographic trends along with high inactivity rates for some population groups (e.g. NEETs, Roma, etc.) also exists within the economy. All these factors coupled with labour shortages and a decreasing working age population are some of the biggest concern for Bulgaria.

Overall, there is a lack of workforce in construction across Europe including in Bulgaria. Hiring skilled

workers from non-EU member states could mitigate the issue. Making the sector more attractive may also mitigate labour shortage. On this front, Bulgaria has already increased its minimum wage by 10% from 2018 and over 100% since 2011 to BGN 560 (EUR 287) in January 2019⁸⁵. Additionally, on 1st January 2020, the government again increased the minimum wage to BGN 610 (EUR 312)⁸⁶. The number of people receiving the minimum wage has also increased.

Nonetheless, the advent of COVID-19 pandemic has significantly changed the existing skill shortage situation. With most of the work sites being closed and construction work being suspended due to emergency declaration, unemployment rates have spiked even further. Mass labour layoffs followed by delays and even cancellation of major construction projects have eroded most of the gains achieved in the last few years. The issue has become more critical as Bulgaria's working age population is predicted to decline from 64.3% in 2019 to 62.2% in 2030 and further to 55.7% in 2050.

Sector and sub-sector specific issues

Material efficiency and waste management

Over the years, waste generated from construction and demolition activities (hazardous and non-hazardous) in Bulgaria increased substantially, from 78,880 tonnes in 2010 to 2,089,131 tonnes in 2016. This is quite below the EU-27 average of 787.4 million tonnes in 2016⁸⁷.

In 2018, the recycling rate of municipal waste for Bulgaria was 31.5%, well below the EU-27 average of 47.4% and lower than the country's own target of 50.0% by 2020⁸⁸.

Despite being one of the lowest municipal waste generators in the region, waste management continues to be a challenge for Bulgaria. It has one of the highest landfilling rates for municipal waste in the EU, making it likely to miss achieving the 50% waste recycling target for 2020⁸⁹. A separate 'pay-as-you-throw' principal was also formally introduced but will only be enforced as of 2022. For now, the practice of not calculating waste collection fees based on waste generation continues in Bulgaria⁹⁰.

In line with the European Commission's policy on waste management, Bulgaria's Ministry of Environment and Water had released the National Strategic Plan for the Management of Construction and Demolition Waste for the period 2014-2020. More recently, in March 2020, the European Commission approved a EUR 77.0 million investment from the European Regional Development Fund to upgrade the integrated waste management system in the city of Sofia, Bulgaria. The objective is to construct a highly efficient plant for simultaneous producing heat and electricity while using fuel derived from unrecyclable municipal waste⁹¹.

The project is the final part of a 3-phase waste management programme to reduce waste generation, improve recycling and promote investment in waste management in Sofia. In total, Bulgaria has received a EUR 204,0 million grant from the European Regional Development Fund over two programming periods – 2007-2013 and 2014-2020⁹².

Climate and energy

Emissions of greenhouse gases (carbon monoxide and dioxide, methane, nitrous oxides and particulate matter) from activities in the narrow construction and real estate activities sub-sectors amounted to 503,660 tonnes and 17,420 tonnes in 2018, respectively. Emissions from activities in both the sub-sectors registered a declining trend with the narrow construction sub-sector experiencing a 10.1% decrease compared to 2010 (560,256 tonnes), and real estate activities sub-sector recording a decline of 22.2% since 2010 (22,376 tonnes).

Bulgaria continues to be plagued by poor air quality due to high rate of fine particulate matter (PM2.5) concentrations primarily caused by the domestic heating sector using solid fuels and transport. The lignite-based Bulgaria power plants further result in excessive sulphur dioxide pollution. The country, backed by EU funding, has already launched pilot projects to address air quality issues related to the residential heating and transport sectors. But these projects are still in early stages to result in any meaningful impact⁹³.

The construction sector is considered as the key for addressing climate change due to the energy savings potentials of the building stock. Newly built

buildings (residential and non-residential) use less energy than old buildings, have better standards of insulation and air tightness.

Over the Past two years, Bulgaria has taken active steps to reform its energy sector. Since June 2019, Bulgarian power futures contracts started trading on the European Energy Exchange, followed by the Independent Bulgarian Energy Exchange (IBEX) joining the European Single Intraday Coupling in November 2019. The country also amended its Energy Act to remove fees levied on electricity imports, thereby making it easier to trade with market participants from neighbouring systems. It is also involved in market coupling projects with neighbouring countries like North Macedonia, Croatia and Serbia⁹⁴.

By end-2020, Bulgaria is planning to introduce market-based retail price mechanism for

electricity. Its draft National Energy and Climate Plan establishes the principle of social assistance system in order to provide protection to consumers against energy poverty but falls short of mentioning any concrete measures beyond a targeted heating allowance⁹⁵.

In October 2019, Bulgaria again amended its Energy Act to improve the functioning of the gas market, including setting up of an organised trading point and rules on gas balancing as well as a gas release programme for the public supplier. The country has also started construction work on the gas interconnector between Greece and Bulgaria since May 2019. This was backed a EUR 45.0 million grant from the European Energy Programme for Recovery and a EUR 39.0 million allotment from the European Regional Development Fund⁹⁶.

5

Innovation in the construction sector

Innovation performance

According to the 2020 European Innovation Scoreboard, Bulgaria is a Modest Innovator⁹⁷.

According to the report, Bulgaria scores high in Employment in fast-growing enterprises of innovative sectors, Design applications, and Trademark applications. Its strongest innovation dimensions include Employment impacts and Intellectual assets. Finance and support, Attractive research systems and Innovators are the weakest innovation dimensions of Bulgaria. As per the report, Bulgaria scores low on some indicators including R&D expenditures in the public sector, Public-private co-publications, Most cited publications, and Lifelong learning⁹⁸.

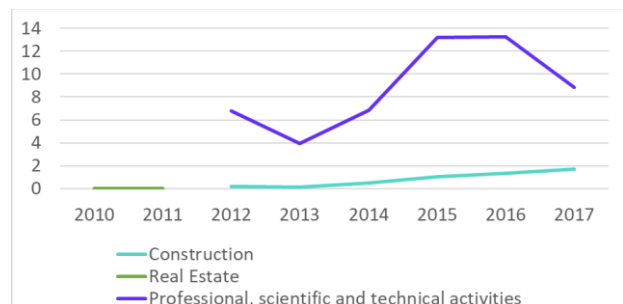
Business enterprise R&D expenditure (BERD) in the narrow construction sector increased by 819.7%, from EUR 0.2 million in 2012⁹⁹ to EUR 1.7 million in 2017 (Figure 9).

Similarly, BERD in professional, scientific and technical activities increased by 30.4%, from EUR 6.8 million in 2012¹⁰⁰ to EUR 8.9 million in 2017. Moreover, the annual average number of **construction-related patent applications** has remained stable at 2 over the 2010-2019 period.

BERD in professional, scientific and technical activities between 2012 and 2017

↑ 30.4%

Figure 9: Business enterprise R&D expenditure (BERD) per construction sub-sector in Bulgaria over 2010-2017¹⁰¹ (EUR m)



Source: Eurostat, 2020.

In parallel, the total R&D personnel (full-time equivalents – FTE¹⁰²) strongly increased. In the narrow construction sector, the total R&D personnel went from 10 in 2013¹⁰³ to 96 in 2017 (an increase of 860.0%). Likewise, the number of researchers (FTE) also grew by 860.0%, from 5 in 2013 to 48 in 2017. The professional, scientific and technical activities sub-sector also reported strong increases over the period 2013-2017, in terms of the total R&D personnel (124.2%) and researchers (FTE) (150.0%).

Eco-innovation and digitalisation



According to the 2018 Eco-Innovation Scoreboard (Eco-IS), Bulgaria scored 50, in comparison to the EU-28¹⁰⁴ average of 100¹⁰⁵.

Bulgaria is one of the worst performing EU Member States in the 2018 Index. There are several challenges faced by the country including boosting investment opportunities in eco-innovation and the circular economy, promoting efficient use of resources through increasing energy efficiency, developing renewable energy sources and improving sustainability practices within the transport sector. Factors like low levels of research and innovation (R&I) investment, fragmented public science base, lack and ageing of skilled human resources and inefficient governance

continue to hold back Bulgaria's productivity and economic growth potential¹⁰⁶.

According to the **European Commission Digital Economy and Society Index (DESI) 2020**, Bulgaria is ranked last, i.e. 28th out of EU-28 countries. With a 36.4 score, Bulgaria stands at the last position, well below the EU-28 average score of 52.6¹⁰⁷.

As per the Index, in 2019, Bulgaria's performance improved in terms of connectivity, particularly with regards to the wide availability of ultrafast and mobile broadband networks. The country also made advancements in e-governance as evident from rising number of users and a high score in providing digital public services for business¹⁰⁸.

Nonetheless, major indicators have not improved sufficiently to keep up the pace with the EU-28 average. Bulgaria's digital skills level is one of the lowest in the EU region. In terms of integration of digital technology, Bulgaria's performance is also well below the EU-28 average. Even in the case of online commerce, Bulgarian companies are still well behind their counterparts – only 7.0% of SMEs sell online as compared to EU-28 average of 18.0%. Similarly, only 3.0% of the SMEs make cross-border sales with just 2.0% of their turnover coming from online segment. As a result, Bulgaria continues to be at the bottom of the DESI Index at 28th position, same as last year report¹⁰⁹.

Bulgaria's Ministry of Transport, Information Technology and Communications is currently involved in drawing up a new 'Digital Transformation of Bulgaria for 2020-2030', aimed at covering the potential of digital transformation for growth, work, healthcare, energy policy, social participation, and government transparency¹¹⁰.

In order to address these issues, Bulgaria is strategically investing in digital technologies via EU-coordinated programmes including the EuroHPC Joint Undertaking. To this end, the Bulgarian government put in place an "Innovation strategy for smart specialization 2014-2020" aimed to foster innovation across sectors. These include the **National Innovation Fund (NIF)**, which aims to support the entry to market of new products and services, based on scientific research and R&D. The country has also established a National Centre for Supercomputing Applications. Bulgaria is also an endorser of the Declaration on Cooperation on Artificial Intelligence. The government has initiated various reforms to improve and stimulate its innovation system. For instance, implementation of the Operational Programme "Science and Education for Smart Growth 2014-2020" and the strategy "Better Science for a Better Bulgaria 2025". Based on goals set out in the latter strategy, the Bulgarian government aimed to reach an R&D investment intensity target of 1.5% by 2020¹¹¹.

The EU also plays a key role in innovation through several programmes, including the EUREKA initiative, the Eurostars programme, or more generally the ESIF. Over the period 2014-2020, EU funds were used to finance four centres of excellence and nine centres of competences in addition to other regional research projects outside Sofia.

Bulgaria has also introduced the 'Digital Transformation of Bulgarian Industry – Industry 4.0' strategy to foster and accelerate the digitalisation process of the Bulgarian industries. For instance, coBuilder and Nemetschek have started educating the Bulgarian construction industry about the advantages of using **Building Information Modelling (BIM)** by organising various events.

6

National and regional regulatory framework

Policy schemes

In order to tackle the widespread problem of homelessness in Bulgaria, a new **National Housing Strategy for 2018-2030** was drafted and was planned to be introduced by the Ministry of Regional Development and Public Administration in 2018. It builds on all relevant existing strategies, i.e. National Regional Development Strategy 2012–2022; the updated National Strategy for Population Demographic Development in the Republic of Bulgaria for the period 2012 – 2030; and the National Program for Improvement the housing conditions of Roma in Bulgaria 2005 – 2015 (more details below).

The new Housing Strategy objectives are threefold: first, it aims to establish a working mechanism for adequate management and maintenance of the housing stock (tackling the issue of renovation and low energy efficiency). Second, it aims to provide affordable housing, including a direct support to vulnerable groups (hence addressing the issue of social housing deficit). The third specific objective is "Building a National Housing Framework", which consist of a separate fund combining financial resources from all sources (State budget, operational programmes, donors, capital markets etc.), and will allocate them towards the objectives 1 and 2 of this strategy.

The new Housing Strategy puts emphasis on the role that municipalities can play in housing development¹¹². It was published and was in the process of public consultation by the end of July 2018. However, it could not be adopted and implemented till date. The new housing strategy has direct links to other existing strategies such as the national strategy for reducing poverty and promoting social inclusion aimed at addressing the

need for legal regulation of homelessness and the provision of affordable housing for all citizens. As such, Bulgaria needs to officially adopt a housing strategy to reduce homelessness and improve the social inclusion of its citizens while at the same time tackling other illegal housing issues¹¹³.

As per the 2019-2020 action plan under the national strategy for reducing poverty and promoting social inclusion, Bulgaria intends to rehabilitate 473 social housing units in urban areas. The objective is to allow 2,223 representatives from marginalised groups (including Roma) to benefit from modernised social infrastructure. The action plan also highlights Bulgaria's commitment to adopt the new housing strategy. However, till date, this programme has not been implemented¹¹⁴.

Under the operational programme 'Regions in Growth' 2014-2020, the government introduced the policy measure '**Improving housing conditions for vulnerable groups and regional health infrastructure**', started in 2015 and ending in 2023. It entails the construction, reconstruction, repair and expansion of social housing, as well as the construction, and renovation of health infrastructure¹¹⁵. While local governments are required to provide social housing for those in need, it is an unfunded mandate. In the few municipalities where new social housing is being constructed with funding from the EU operational program (Regions in Growth), the target group is not necessarily low-income households¹¹⁶.

The Bulgarian government is also working on reforming the existing insolvency framework to streamline the entire process and simplify its implementation steps¹¹⁷.

By June 2019, the government had already adopted the insolvency framework roadmap to address existing gaps within the framework and established a dedicated steering body called the 'Coordination Council'. A working group has been set up to draft the required legislative amendments by June 2020. Moreover, the Ministry of Justice has also requested technical assistance from the Structural Reform Support Programme (SRSP) for setting up an early warning tool to detect a deteriorating business situation. The roadmap also aims to facilitate the transposition of **Directive 2019/1023** on Restructuring and Discharge of Debt, with a transposition period of 2 years commencing from July 2019¹¹⁸.

The breakout of COVID-19 pandemic has massively impacted the policy landscape of the country. Under the revised 2020 Budget, Bulgaria has extended its budget deficit target to BGN 3.5 billion (EUR 1.8 billion) with an increased public debt ceiling of BGN 10.0 billion (EUR 5.1 billion) for 2020¹¹⁹. Furthermore, EU funding earmarked for education, training, transport infrastructure and the environment has been switched to an ERDF fund, aimed at protecting growth and SMEs, including an ESF fund for access to jobs¹²⁰.

Although no construction sector-specific regulation has been adopted for the COVID-19 situation, there are other regulations that indirectly affect the construction sector¹²¹.

For instance, the Council of Ministers adopted a Decree to pay compensation to businesses affected by the state of emergency, provided they fulfil certain criteria. The move is aimed at encouraging them to retain their employees. Construction sector employers are eligible for compensation payments (i) if they have suspended their business, where a competent authority has imposed restrictions, or (ii) if they have suspended their business, or the work of employees or if they have introduced part-time work at their own discretion and their sales revenue decreases by 20% or more as compared to the same month of the previous year. The compensation allowed is 60% of the January 2020 employees earnings and social insurance due on behalf of employers. The compensation will be granted for the period 13 March until 30 June 2020. The employers will be required to pay full salaries and social security

contributions to their employees for the respective months of business suspension¹²².

Building regulations

The Spatial Planning Act (SPA) is a key legislative element in Bulgarian construction law. Among others it details spatial planning rules, project design and authorisation procedures, quality control and supervision of the works, the requirements to be met by the works and notifications that need to be provided to the relevant authorities throughout the building process¹²³. The National Construction Supervision Directorate (NCSD) within the Ministry of Regional Development ensures compliance with the Act and controls the design and construction, including the use of high-quality building materials¹²⁴.

Moreover, the Act requires that the **construction contract** is concluded in writing, since it is the basis of the relationship between the parties involved in the construction process. The contract is set out in Articles 258-269 of the Bulgarian Obligations and Contracts Art¹²⁵. Finally, the **Bulgarian Chamber of Builders Act** from 2006 regulates the requirements for individuals and legal entities that have the right to perform construction works¹²⁶. Specifically, national and international firms need to be registered in the **Central Professional Register of Builders (CPRB)** in order to carry out construction works¹²⁷.

According to the Bulgarian Construction Chamber, the country needs a whole new legal framework. There are proposed new legislative initiatives, which would replace the existing SPA and would consequently lead to the simplification of the regulatory environment. Further reforms have been initiated to reduce the sector losses from the operation of grey economy, estimated at BGN 1.5 billion (EUR 0.8 billion)¹²⁸. Amendments have been made to the Spatial Planning Act – SPA and **Bulgarian Chamber of Builders Act** limiting the scope of unlisted builders in the **Central Professional Register of Builders (CPRB)** up to the construction of residential and villa buildings with low built-up area (not more than 100 sq. m.).

Insurance and liability related regulations

In Bulgaria, professional liability insurance is compulsory for designing and construction related activities, as stipulated in Article 171 of the Spatial Planning Act of 2001 and must be taken out by all parties involved in the construction process (investors, designers, contractors, construction supervisors, consultants and suppliers of equipment)¹²⁹. The compulsory insurance covers claim for property damage and for personal injuries. The insurance is valid for a period of one year and requires to be renewed throughout the duration of the activity. However, voluntary

insurance, such as ‘**Insurance of construction and assembly works**’ can also be issued, as specified in Article 173 of the Act, with insurance periods which can exceed one year¹³⁰.

The duration of liability pertaining to the execution of works and repair of defects is defined in **Ordinance N° 2 of 31.07.2003** of the Minister of Regional Development and Public Administration. This depends on the type of the construction and assembly project undertaken, ranging from 5 years for construction activities such as internal installations, insulation and waterproofing, etc. to almost 10 years or more for structural construction works¹³¹.

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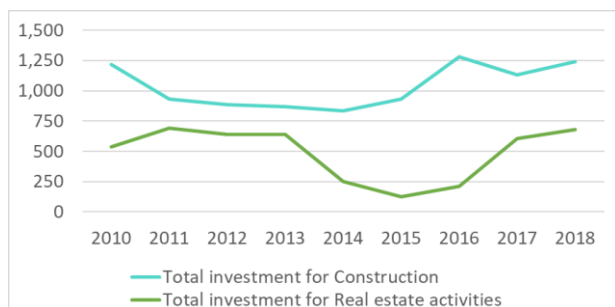
Current status and national strategies to meet Construction 2020 objectives

TO 1 – Investment conditions and volumes

Total investment by the broad construction sector¹³² has been fluctuating over the past years, especially since 2013 (Figure 10). Namely, investment in the narrow construction sub-sector¹³³ increased by 1.9% from 2010 to 2018¹³⁴, from EUR 1,219.3 million to EUR 1,243.0 million. In similar lines, investments in the real estate activities sub-sector increased by 27.5%, rising from EUR 535.1 million in 2010 to EUR 682.0 million in 2018. Investment in intangible assets and intellectual property for both construction and real estate activities were limited¹³⁵.

Investment in the real estate activities sub-sector between 2010 and 2018 **↑ 27.5%**

Figure 10: Investment by the Bulgarian broad construction sector between 2010 and 2018 (EUR m)



Source: Eurostat, 2020.

The investment index in the broad construction sector¹³⁶ has experienced a small decline since 2015, decreasing by 3.4% over 2015-2019 (Figure 11).

Investment in dwellings by the whole economy increased significantly by 139.1% over the period 2015-2019. On the other hand, investments in the non-residential and civil engineering sub-sectors declined by 26.4% between 2015 and 2019. In 2018¹³⁷, investment in the broad construction sector amounted to EUR 4.8 billion, of which EUR 1.5 billion were invested in dwellings and EUR 3.3 billion - in non-residential construction and civil engineering¹³⁸.

Total investment in non-residential and civil engineering sub-sectors between 2015 and 2019 **↓ 26.4%**

Total investment in dwellings by the whole economy between 2015 and 2019 **↑ 139.1%**

Figure 11: Investment index in the Bulgarian broad construction sector between 2010 and 2019 (2015=100)



Source: AMECO, 2020.

The share of total **inland infrastructure investment**¹³⁹ in the GDP has increased from 1.1% in 2010 to 1.2% in 2016¹⁴⁰. Overall, investment in air, road and sea infrastructures have increased substantially, by 400.0%, 238.1% and 110.0% over the 2010-2018 period, respectively¹⁴¹.

Additionally, in 2017, the Bulgarian Transport Ministry announced an investment of EUR 2.3 billion in transport infrastructure by 2020, mostly devoted to improving the airport and seaport infrastructure as well as finalising railway connection, which are funded under EU's Operational Programmes (OP)¹⁴².

Road infrastructure investment between 2010 and 2018  **400.0%**

Air infrastructure investment between 2010 and 2018  **238.1%**

In terms of infrastructure maintenance, overall expenditure on inland waterways and road infrastructure maintenance increased considerably by 330.0% and 233.5% between 2010 and 2018, respectively.

Maintenance investment in sea and air infrastructure also surged by 50.0% and 33.3% between 2010 and 2018, respectively.

Through its 2016-2022 Strategy for the development of road infrastructure, Bulgaria aims to create a sustainable and safe road network, which will be integrated to the EU Trans-European transport network (TEN-T)¹⁴³. Specifically, Bulgaria is part of two TEN-T transport axes, namely the Orient/East Med Corridor and the Rhine-Danube Corridor. In terms of budget, the strategy foresees three scenarios for the period 2016-2022: 'sustainable development', with a budget of BGN 19.5 billion (EUR 10.0 billion); 'status quo maintenance' with a budget of BGN 12.6 billion (EUR 6.4 billion); and 'fiscal constraint scenario', budgeted at BGN 9.2 billion¹⁴⁴ (EUR 4.7 billion). This would make Bulgaria a transit country on the upcoming Alpine-West Balkans rail freight corridor¹⁴⁵.

Bulgaria has already completed its share of core network under TEN-T for inland waterways. However, with regards to roads and railways, the

country is still lagging, resulting in a decrease in traffic intensity for both freight and passenger rail transport. The EU-Turkey agreement linking Istanbul to the Bulgarian border crossing via a high-speed train is a favourable development for the country. Similarly, the ongoing construction of a national motorway is also a positive development. Bulgaria continues to prioritize the development of corridors 'Orient/East-Med' and 'Rhine-Danube' including connections with Western Balkan countries, with the aim to become a transit country on the future Alpine-West Balkans Rail Freight Corridor¹⁴⁶.

Bulgaria is a beneficiary of the EU Road Safety Exchange programme, focusing on infrastructure safety and traffic rules enforcement. A road safety action under the Connecting Europe Facility will improve the 25 registered blackspots on the Orient/East-Med Corridor road network¹⁴⁷.

Majority of the investments in rail and road infrastructure are supported by EU funds. Large-scale infrastructure projects to be completed by 2022 include the renovation and modernisation of 220 km of railway lines, 60 km of new highways and 12 metro lines.

In 2019, the EIB Group invested almost EUR 91.0 million in infrastructure¹⁴⁸.

In parallel, Bulgaria has also benefitted from investments from the European Fund for Strategic Investments (EFSI). As of July 2020, the financing under EFSI amounted to EUR 728.0 billion and is set to trigger additional investments of EUR 4.2 billion. Under the Infrastructure and Innovation Window, nine projects have already been approved, amounting to EUR 393.0 billion and are set to trigger EUR 1.0 billion in total investments. Under the SMEs Window, 18 agreements have been approved, involving a total financing of EUR 335.0 million, and are set to trigger investments of up to EUR 3.1 billion¹⁴⁹. The European Structural and Investment Funds (ESIF) have agreed to provide Bulgaria with a total investment of EUR 9.9 billion for 2014-2020¹⁵⁰. The four largest allocations are EUR 2.6 billion for environment protection and resource efficiency, EUR 1.7 billion for network infrastructures in transport and energy, EUR 1.5 billion for low carbon economy and EUR 1.5 billion for social inclusion¹⁵¹. **Household renovation spending** has seen an increasing trend since 2010. It grew from EUR 226.2 million in 2010 to EUR

366.4 million in 2018, representing a rise of 64.9% over the same period. Moreover, renovation spending accounted for 1.2% of household disposable income in 2017¹⁵², slightly above its 2010 level and well above the EU-27 average of 0.9%.

Household renovation spending between 2010 and 2018

↑ 64.9%

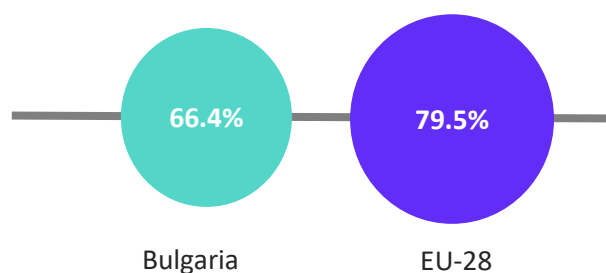
TO 2 – Skills

Bulgaria has one of the lowest public spending on education among the EU Member States, accounting for 3.6% of GDP (below the EU-28 average of 4.6%¹⁵³).

Bulgaria continues to stress on improving digital skills, reducing school dropouts, increasing staff salaries and strengthening inclusive learning. According to the draft 2020 Budget Law, the funding of education sector is being increased to BGN 4.8 billion (EUR 2.5 billion) as compared to BGN 4.2 billion (EUR 2.1 billion) last year, including a 17.0% pay hike for teachers¹⁵⁴.

In Bulgaria, enrolment in **vocational education and training (VET)** system remains marginally above the EU-28 average (50.7% compared to an EU-28 average of 47.8% in 2017), while the employment rate of recent VET graduates is lower compared to the EU-28 average (66.4% compared to 79.5% for the EU-28¹⁵⁵ in 2018). Nonetheless the country is taking active steps to improve the situation. A recent development with regards to this is the adoption of revised VET Act in October 2018. The amendments call for the development of a database for companies involved in dual training along with setting up of a labour contract for learners in dual training to provide for social and health insurance. The amended Act also mentions the requirements for the training of in company trainers to help them develop competences needed to support dual learners¹⁵⁶.

Employment rate of recent VET graduates in 2018



Additionally, the European Social Fund (ESF) also co-financed a project aimed at supporting the dual training system in Bulgaria. Furthermore, the concept of ‘teacher-methodologist’ was introduced under the Bulgarian-Swiss dual VET project (DOMINO) under which the teacher-methodologists would link mentors (i.e. company employees) with VET school teachers. Following this development, Ministry of Education and Science introduced a national training programme for in-company trainers in April 2019¹⁵⁷.

Still, several challenges regarding VET need to be addressed including its underfinancing, poor cooperation with the business sector, increasing drop-out rates, outdated curriculum, shortage of qualified teachers and lack of a coherent system to assess the VET system (Court of Auditors, 2016¹⁵⁸).

There is an urgent need to upskill and reskill the working population in Bulgaria. 17.4% of the working age population (between ages 25-64 – approximately 677,000 people) is low skilled, representing the double of the number of jobs available requiring only elementary skills (357,000)¹⁵⁹.

According to the recent Labour Force Survey, only 2.5% of adults aged between 25-64 years in Bulgaria had a learning experience during the preceding four weeks¹⁶⁰.

Bulgaria continues to have one of the lowest digital skills levels among the young population in the EU. Only 53.0% of the population aged between 16-19 years have their digital skills level assessed as or above basic compared to the EU-28 average of 83.0%¹⁶¹. The Bulgarian Digital National Alliance continues to organise events aimed at increasing the digital skills among different population segments. Backed by the funding from ESF along with national funds, the National Employment

Agency also assists people in acquiring professional qualifications and learning digital skills along with foreign languages.

TO 3 – Resource efficiency / Sustainable construction

Bulgaria has set an energy efficiency 2020 target of achieving 16.9Mtoe in primary and 8.6Mtoe in final stage consumption. However, both final as well as primary energy consumption of Bulgaria in 2018 was above its linear trajectory, casting donuts about the country's ability to fulfil its obligations by 2020¹⁶².

Bulgaria's current legal framework does not adequately incentivise the obliged parties to invest more in energy savings. Recent data highlights that Bulgaria has already surpassed its 2020 target for renewable energy shares in 2018. However, the share of renewables in transport sector (8.0%) remains below the 2020 target (10.0%)¹⁶³.

By 2030, Bulgaria is expected to receive about 6.0% of the Modernisation Fund (almost EUR 400.0 million, depending on the carbon price), aimed at supporting energy efficiency and modernisation of energy systems in lower income Member States. Besides, Bulgaria's auction revenues from the EU Emissions Trading System have almost tripled in 2018 compared to 2017, driven by higher carbon price and amounting to EUR 368.0 million. The New Green Deal for Europe, backed by the Just Transition Fund, could also speed up the carbon footprint improvement in the region. All these initiatives can help in channelling support for sustainability and decarbonisation¹⁶⁴.

The 2014-2020 **National Energy Efficiency Action Plan for Bulgaria (NEEAPB)** sets out the Bulgarian energy policy actions, in line with the requirements of the Energy Efficiency Directive (2012/27/EU) and the Directive 2010/31/EU on the energy performance of buildings¹⁶⁵. The NEEAPB details a series of programmes implemented to mobilise investments to improve the energy performance of buildings, such as the **National Green Investment Scheme** launched in 2010.

Another initiative is the **Residential Energy Efficiency Credit Line (REECL)**, a facility introduced by the European Commission, the European Bank for Reconstruction and Development (EBRD), and the Bulgarian Energy Efficiency Agency to reduce

energy consumption and bills in Bulgarian households. The REECL, with a budget of EUR 20.0 million, allows adhering banks to provide loans to households or associations of homeowners for energy efficiency measures such as double-glazing, thermal insulation, energy efficient installations (e.g. solar water heaters, biomass-fuelled boilers and heat pump systems). The REECL loans and incentive grants were available to borrowers until 31st August 2019¹⁶⁶.

The **National Programme for Energy Efficiency of Residential Buildings**, launched in early 2015, aims to support the renovation of private multi-family apartment blocks through a budget of BGN 1.0 billion¹⁶⁷ (EUR 511.3 million). In 2017, the budget was expanded with an additional BGN 1 billion (EUR 511.3 million).

In addition, the "**National Programme for Energy Efficiency of Multi-Family Residential Buildings**" was launched in February 2015 by the Bulgarian government. The programme can provide up to 100% of grant funding to eligible projects. In parallel, under the Local Taxes and Fees Act, buildings which were commissioned before 1st January 2005 and which have acquired an EPC with an energy efficiency class of B, C or D are granted exemption from immovable property tax¹⁶⁸.

According to Buildings Performance Institute Europe (BPIE), the National Programme for Energy Efficiency of Multi-family Residential Buildings focuses on renovation of multi-family residential buildings to energy class B, however the programme is not widely promoted. Also, there is no incentive for the renovation of public buildings to levels higher than class C.

Additionally, the resources, provided by international financial institutions such as the European Investment Bank (EIB)¹⁶⁹, the Council of Europe Development Bank (CEB)¹⁷⁰ and the World Bank¹⁷¹, are allocated through the Bulgarian Development Bank (BDB) to homeowner associations in residential prefabricated panel buildings. Support is provided in the form of grants of up to 100% of the eligible expenses. The grants include structural reinforcements of the building, energy audits, efficiency measures such as thermal insulation of external walls and roofs, replacement of windows and heating, plumbing and ventilation.

Support to the implementation of energy efficiency measures in the building stock, including residential buildings, administrative buildings and student residences, will also be provided under the **Operational Programme 'Regional Development' 2014-2020**, with an allocation of BGN 661.0 million¹⁷² (EUR 338.0 million).

TO 4 – Single Market

Overall, Bulgaria's performance was average with respect to the metrics of the 2020 EU Single Market Scoreboard¹⁷³, but the country performed well in terms of Transposition of law, Your Europe and SOLVIT¹⁷⁴.

Bulgaria's performance improved in various areas including transposition of law, e-Certis, SOLVIT and Your Europe – EU's single digital gateway aimed at providing access to information, procedures, assistance and problem-solving services¹⁷⁵. In relation to other 2020 EU Single Market Scoreboard metrics, Bulgaria's performance was average, particularly in case of infringements, point of single contact and public procurement. Bulgaria trade integration in the single market for goods as well as services is above the EU-28 average¹⁷⁶.

According to the 2019 SBA Fact Sheet, Bulgaria performs well below the EU-28 average in terms of single market area, having one of the lowest proportions of SMEs importing (3.0%) and exporting (3.3%) online in the EU region¹⁷⁷.

Bulgaria is well below the EU-28 average in terms of average transposition delay for overdue directives, Intra-EU online exporters and market access to new and growing firms without being unfairly blocked by established firms¹⁷⁸. Bulgaria is well integrated in the EU Single Market with about 63.0% of its exported goods going to EU Member States and around 61.0% of its imports coming from EU¹⁷⁹.

Insufficient resources and sub-optimal cooperation between different market surveillance authorities makes it difficult to maintain surveillance of the single market required to ensure a level playing field for businesses¹⁸⁰.

There are still some underlying challenges in need to be addressed. Complex authorisation and reporting requirements were introduced by a new law on Private Security Activities. It also entails

stringent requirements for temporary cross-border service providers. Similarly, several authorisation schemes were introduced for the construction services¹⁸¹ making the process more cumbersome and restrictive.

Bulgaria's regulatory framework for construction services is one of most restrictive frameworks in the EU¹⁸² region. Horizontal authorisation schemes in Bulgaria include company registration schemes that authorise companies (contractors and developers) to enter the national construction services market. These schemes impose a wide range of requirements (financial, technical, professional, insurance), creating a considerable administrative burden. The authorisations and licences of foreign service providers are therefore not recognised in Bulgaria, requiring them to undergo additional practices to be able to operate¹⁸³.

TO 5 – International competitiveness

According to the 2019 Global Competitiveness Index, Bulgaria ranks 49th out of 141 economies in terms of its performance¹⁸⁴.

In terms of the **internationalisation of construction SMEs**, the export value of all construction-related projects in Bulgaria stood at EUR 424.4 million in 2018, representing an increase of 75.1% compared to its value of EUR 242.4 million in 2010. Bulgaria's share of exports of all construction-related products in 2018 stood at 34.2% of the total production value. This is well below the EU-27 average of 11.4% for the same period.

Exports value of all construction-related products between 2010 and 2018

 **75.1%**

As per the 2019 Global Competitiveness Index in terms of **trade openness**, out of 141 economies Bulgaria ranks 7th regarding trade tariff percentage, 43rd with respect to border clearance efficiency and 90th in relation to prevalence of non-tariff barriers, while 113th when it comes to complexity of tariffs¹⁸⁵.

In the context of **inward FATS (Foreign affiliates statistics)**¹⁸⁶, value added at factor cost in the

narrow construction sub-sector decreased by 28.2% between 2010 and 2017¹⁸⁷. Similarly, turnover in the narrow construction sub-sector dropped by 59.0% during the 2010-2017 period respectively. In similar lines, turnover in the manufacturing sub-sector¹⁸⁸ outside EU-28, in terms of **outward FATS**¹⁸⁹ grew by 108.3% between 2013¹⁹⁰ and 2017¹⁹¹.

Overall, Bulgaria performance is in line with the EU average in relation to internationalisation. As per the 2019 SBA Fact Sheet, Bulgaria has performed better than the EU average in terms of advance rulings, formalities – automation and procedures along with border agency cooperation indicator. Nonetheless, in terms of extra-EU online exporters, the country is far below the EU average, having the third lowest proportion of SMEs engaged in extra-EU online exports¹⁹².

The **Bulgarian SME Promotion Agency (BSMEPA)**, a government institution aiming to provide information and consulting services to SMEs, implements measures to support their competitiveness and internationalisation. For instance, under the EU-funded project '**Promoting the internationalisation of Bulgarian companies**', the BSMEPA supports SME participation in international fairs and exhibitions abroad, though a budget of BGN 18 million (EUR 9.2 million)¹⁹³. Instances include international trade fairs in the fields of civil engineering, building technologies, equipment and materials in Vladivostok (Russia)¹⁹⁴, Algeria¹⁹⁵, Montenegro and Morocco¹⁹⁶. BSMEPA also cooperates with the **Bulgarian Construction**

Chamber (BCC) in the organisation of construction trade missions, e.g. to Morocco.

The BSMEPA also operates the on-line National Export Portal, which helps entrepreneurs in acquiring necessary skills to carry out foreign trade activities by gathering export-related information, publishing tender opportunities, information about foreign markets, and export strategies for various sectors (e.g. manufacturers of wood, wood products and of metal products, relevant to the construction sector)¹⁹⁷.

Some of the initiatives implemented in 2018 include:

- the 'New Technologies to Support Internationalisation' initiative, aimed at promoting sustainable development and successful integration of SMEs into the European and global economy while concurrently expanding their presence in priority markets.
- 'Creating conditions for sustainable development and successful integration of Bulgarian enterprises on European and international markets', intended at increasing the quality and magnitude of international support services provided to Bulgarian companies in export transactions.

Despite the continuous support from BSMEPA, Bulgarian SMEs face difficulties in meeting foreign market requirements and in safeguarding their intellectual property rights from infringements.

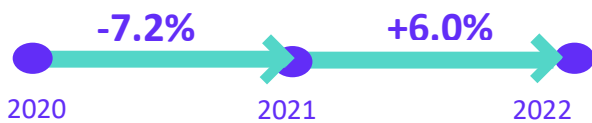
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Outlook

Bulgaria's economy is expected to decelerate in 2020 followed by a revival in 2021. The principal cause of this deceleration is the worldwide COVID-19 pandemic outbreak, followed by social distancing and declaration of state of emergency to combat the pandemic. Revival in 2021 will be driven by rise in private consumption and real wages along with an increase in public investment.

Bulgaria's GDP is forecast to annually decrease by 7.2% in 2020 and then increase by 6.0% in 2021, totalling BGN 100.7 billion (EUR 51.5 billion) in 2021.

Expected GDP growth between 2020-2022

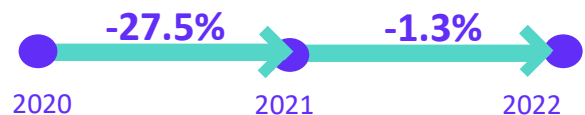


Similarly, the **volume index of production** of the broad construction sub-sector is estimated to annually decline by 12.6 index points (ip) in 2020. This is primarily due to decline in the construction of buildings and civil engineering sub-sectors by 17.6 ip and 12.0 ip in 2020, respectively. However, the volume index of production of the broad construction sector is expected to annually rise by 0.1 ip in 2021, driven by the rise in construction of civil engineering (1.4 ip) sub-sector partially offsetting the decline in construction of buildings (-3.4 ip) sub-sector in 2021. This further indicates that the sector will primarily pick up growth in 2021.

In contrast, the **total value added of the broad construction sector** to the economy is expected to decrease in both 2020 and 2021, by 26.2% and 1.5%, respectively. Correspondingly, the **turnover** of the broad construction sector is projected to decline annually by 28.4% and 1.3% in 2020 and 2021, respectively.

With changes in the macroeconomic context, the **number of persons employed** in the broad construction sector is also expected to annually decrease by 27.5% to 177,687 in 2020 and further by 1.3% to 175,425 in 2021. Much of this decline in employment is forecast to come from two sub-sectors: the manufacturing and the narrow construction sub-sectors.

Number of persons employed in the broad construction sector between 2020 and 2022



Similarly, the number of **enterprises** in the broad construction sector is expected to fall by 22.6% in 2020 and by 1.9% in 2021, totalling at 41,083.

With regards to the COVID-19 pandemic situation, although there was no ban on construction works during the state of emergency in Bulgaria, construction output has been severely hampered by the crisis. The economic uncertainty, rising levels of unemployment and lack of skilled construction labourers are expected to adversely impact the property market.

Bulgaria's broad construction sector is forecast to recover in 2021, driven by completion of large-scale office buildings, industrial and warehousing constructions. Output in civil engineering will be driven by investment in road and public utility constructions, backed by EU funding. The energy sector will also be expected to have a net positive impact, driven by the ongoing works of the Bulgarian part of 'Turkstream' in 2020 and 2021¹⁹⁸.

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- 6 Please note that this 2019 data is a nowcast - please refer to the methodology notes for further details.
- 7 Please note that the share of each sub-sector in the value added of the broad construction sector should not be compared to the shares of the Gross Value Added in the GDP, since the GDP also includes taxes and excludes subsidies.
- 8 Please note that this 2018 data is a nowcast - please refer to the methodology notes for further details.
- 9 No data available for subsequent years.
- 10 No data available for subsequent years.
- 11 Apparent labour productivity refers to the gross value added per person employed.
- 12 No data available for subsequent years for the productivity in the broad construction sector.
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Herein investment by the narrow construction sub-sector includes investment in machinery and intellectual property.

No data available for sequent years.

No data available for any years.

This includes total investment (i.e. gross fixed capital formation) in dwellings and non-residential construction and civil engineering by investors in the general economy (e.g. industry, financial and non-financial services, households, agricultural sector, etc.).

No data available for sequent years.

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