



Bulgaria

EIBIS 2016

EIB Group Survey on
Investment and
Investment Finance 2016

Country Overview

EIB Group Survey on Investment and Investment Finance Country Overview: Bulgaria

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About the EIB Investment Survey (EIBIS)

The EIB Group Survey on Investment and Investment Finance is a unique, EU-wide, annual survey of 12,500 firms. It collects data on firm characteristics and performance, past investment activities and future plans, sources of finance, financing issues and other challenges that businesses face. Using a stratified sampling methodology, EIBIS is representative across all 28 member States of the EU, as well as for firm size classes (micro to large) and 4 main sectors. It is designed to build a panel of observations to support time series analysis, observations that can also be linked to firm balance sheet and profit and loss data. EIBIS has been developed and is managed by the Economics Department of the EIB, with support to development and implementation by Ipsos MORI. For more information see: <http://www.eib.org/eibis>.

About this publication

This Country Overview is one of a series covering each of the 28 EU Member States, plus an EU-wide overview. These are intended to provide an accessible snapshot of the data. For the purpose of these publications, data is weighted by value-added to better reflect the contribution of different firms to economic output. Contact: eibis@eib.org.

About the Economics Department of the EIB

The mission of the EIB Economics Department is to provide economic analyses and studies to support the Bank in its operations and in the definition of its positioning, strategy and policy. The Department, a team of 30 economists, is headed by Debora Revoltella, Director of Economics.

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Disclaimer

The views expressed in this publication are those of the authors and do not necessarily reflect the position of the EIB.

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Ipsos Public Affairs works closely with national governments, local public services and the not-for-profit sector, as well as international and supranational organizations. Its c.200 research staff in London and Brussels focus on public service and policy issues. Each has expertise in a particular part of the public sector, ensuring we have a detailed understanding of specific sectors and policy challenges. This, combined with our methodological and communications expertise, helps ensure that our research makes a difference for decision makers and communities.

EIBIS 2016 – COUNTRY OVERVIEW

Bulgaria

The annual EIB Group Survey on Investment and Investment Finance (EIBIS) is an EU-wide survey of 12 500 firms that gathers quantitative information on investment activities by both SMEs and larger corporates, their financing requirements and the difficulties they face.

As the EU bank, the EIB Group responds to the need to accelerate investment to strengthen job creation and long-term competitiveness and

sustainability across all 28 EU member States.

EIBIS helps the EIB to contribute to a policy response that properly addresses the needs of businesses, promoting investment.

This country overview presents selected findings based on telephone interviews with 476 firms in Bulgaria in 2016 (July-October). **Note:** The results are weighted by value-added, reflecting firms' contribution to the economy.

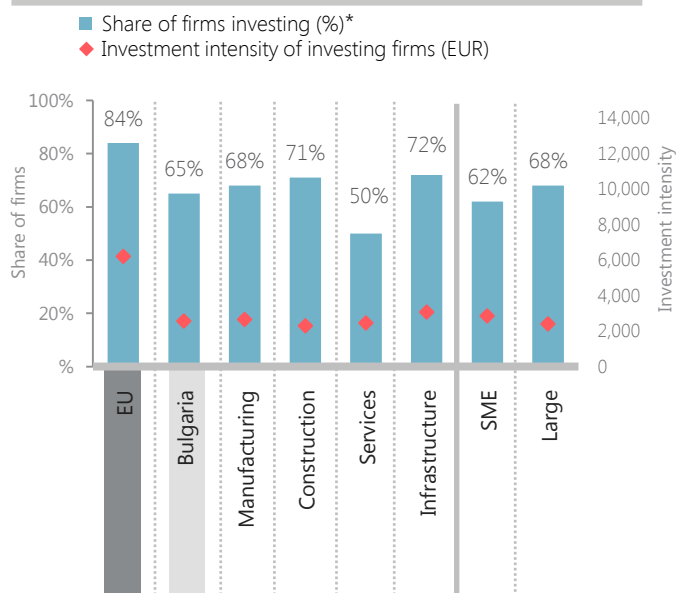
Key results

| | |
|-----------------------------|--|
| Investment outlook: | Low share of firms investing: Only 65% of Bulgarian firms invested in 2015, well below EU average. This situation should improve modestly in 2016 as small majority of firms expect to increase investment. |
| Investment activity: | Focus on replacement of machinery and equipment: Bulgarian firms invest significantly more in machinery and equipment than the EU average but at the expense of investment in intangible capital. In 2016, firms plan to invest more in replacement of existing stocks and capacity expansion but less in new products and services than the EU average. |
| Investment gap: | 75% report investment was the right amount: About 17% of Bulgarian firms assess their recent investment as insufficient, while 6% thought that they have investment too much. These shares are fairly very close to the EU average. |
| Investment barriers: | High uncertainty about political and regulatory climate: The political and regulatory climate have had negative effect on investment plans according to the majority of firms. Lack of workers and uncertainty about the future with the right skills is also considered a major obstacle. The shares of firms who see these two as impediments to their investment exceed the EU averages. |
| External finance: | 13% of firms report financial constraints: the proportion of firms either dissatisfied with the amount of finance they received, had their application rejected, thought borrowing costs would be too high or were discouraged from applying, higher than the EU average. |
| Firm performance: | Productivity is very low: Compared to the EU average, productivity of Bulgarian firms is very low. For most of them, productivity is below 40% of the EU average. |

INVESTMENT DYNAMICS

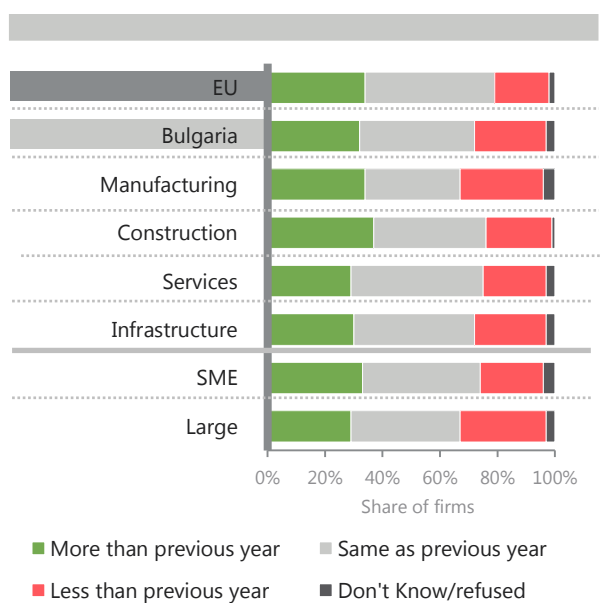
- Overall 65% of firms in Bulgaria invested in the last financial year, compared to 84% across the EU as a whole.
- The proportion of firms investing in the services sector was significantly lower than in the other sectors.
- The intensity of investment (investment per employee) in Bulgaria is well below the EU average.

Investment activity in last financial year



Base: All firms (excluding don't know/refused responses)
***The blue bars indicate the proportion of firms who have invested in the last financial year.**
 A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities.
 Investment intensity is the median investment per employee of investing firms.

Investment activity in last financial year compared to previous

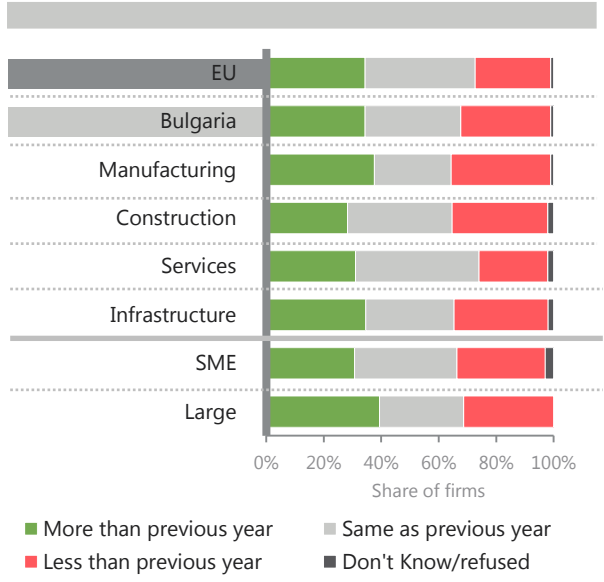


Base: All firms who invested in the last financial year
 Q. Overall was this more, less or about the same amount of investment as in the previous year?

- A quarter (25%) of firms say that they have invested less in 2015 than in 2014, while around a third (32%) have investment more.
- On balance, the share of firms that increased investment is higher than the share of firms that decreased investment (+7%).

- Looking ahead, slightly more firms expect to invest more (34%) than expect to reduce investment (31%) in the current financial year.
- More Bulgarian firms expect to reduce their investment compared to the EU average.

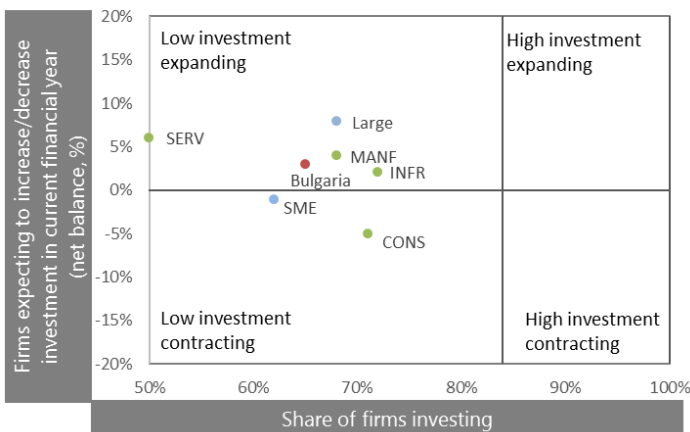
Expected investment in current financial year compared to last one



Base: All firms

Data is derived from two questions: firms who had invested in the last financial year were asked if they expect to invest more, around the same amount or less than last year; firms who had not invested in the last financial year were asked if they had already invested, or expect to invest in the current year

Investment cycle



Base: All firms

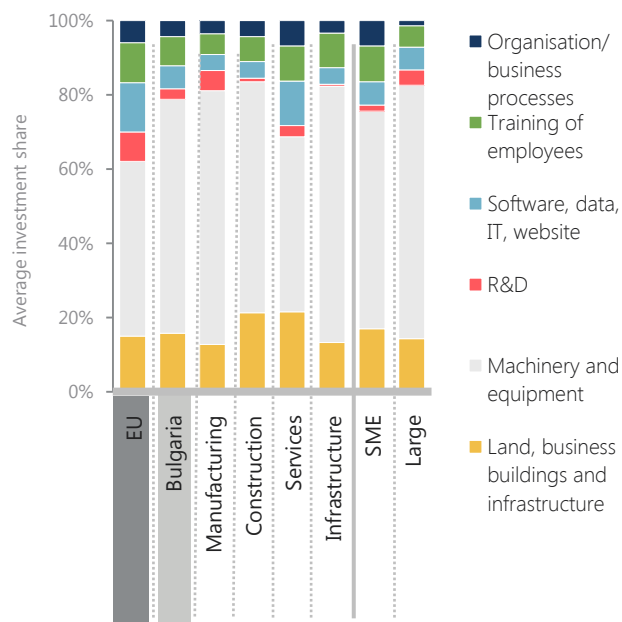
Share of firms investing shows the percentage of firms with investment per employee greater than EUR 500.

- The gap in investment activity between Bulgaria and the EU is expected to increase as the proportion of Bulgarian firms planning to invest less is higher than that of the EU.
- Large firms and those in the services sector are most optimistic about investment in 2016, keeping in mind that base in the services sector is very low – only 50% of firms invested in 2015.

INVESTMENT ACTIVITY

- The proportion of investment of Bulgarian firms in machinery and equipment is much higher than the EU average.
- This comes at the expense of investment in intangible assets, such as R&D, software, data, IT, website and training.
- This is common among countries farther away from the technological frontier, but will be a source of concern as Bulgaria catches up with technological leaders.

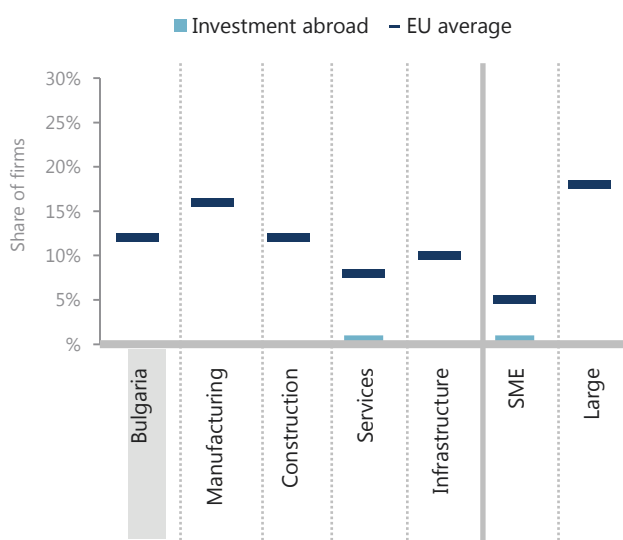
Investment areas



Base: All firms who have invested in the last financial year (excluding don't know/refused responses)

Q: In the last financial year, how much did your business invest in each of the following with the intention of maintaining or increasing your company's future earnings?

Investment abroad

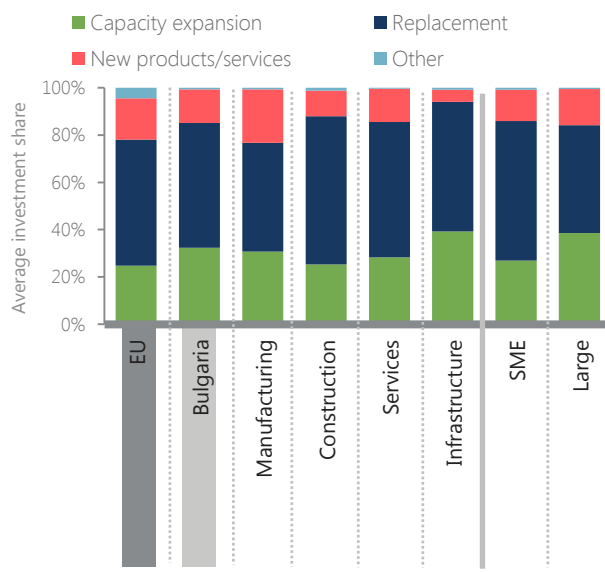


Base: All firms who invested in the last financial year
Q: In the last financial year, has your company invested in another country?

- Very few Bulgarian firms invested abroad in 2015. This is in line with the convergence argument above and should change as Bulgarian firms become more technologically sophisticated.
- The opposite flow of foreign firms' investment in Bulgaria is one of the main channels of technology transfer. This flow has picked up again in 2015 according to official statistics.

- Over half (53%) of firms' investment in Bulgaria went into the replacement of existing buildings, machinery, equipment and IT; in line with the EU average.
- A larger share of investment was allocated to capacity expansion compared to the EU as a whole (32% vs 25% respectively).
- Investment in new products and services is in line with the EU average.

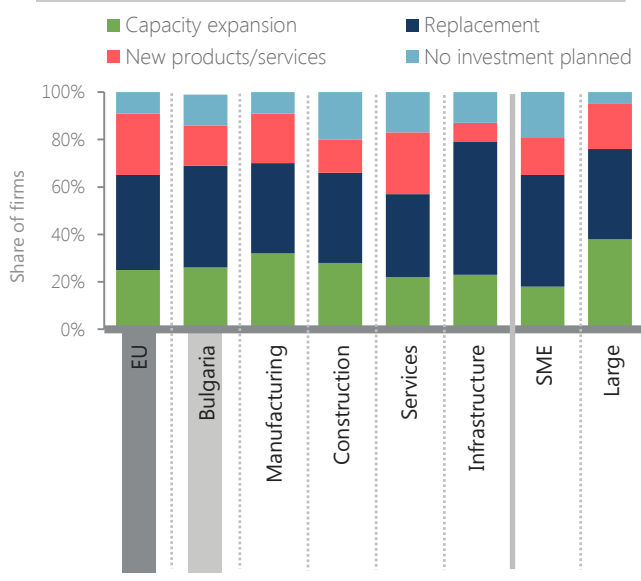
Purpose of investment in last financial year



Base: All firms who invested in the last financial year (excluding don't know/refused responses)

Q. What proportion of total investment was for (a) replacing existing buildings, machinery, equipment, IT (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

Future investment priorities



Base: All firms (excluding don't know/refused responses)

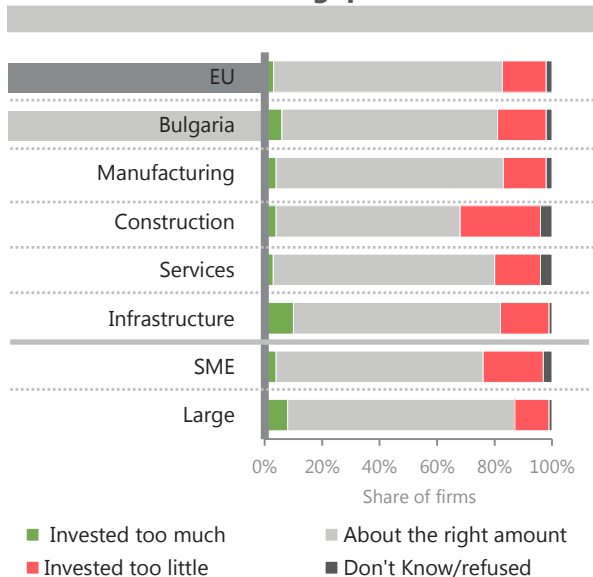
Q. Looking ahead to the next 3 years, which of the following is your investment priority (a) replacing existing buildings, machinery, equipment, IT (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

- Regarding firms' investment priorities for 2016, capacity expansion and replacement feature most prominently.
- The proportion of firms naming the development of new products, processes and services as a priority for the coming years is much lower.
- The share of firms who do not plan to invest in 2016 is higher than the EU average.

INVESTMENT NEEDS

- Three quarters (75%) of firms in Bulgaria believe their investment over the last three years was about the right amount, in line with the EU average.
- The proportion of firms reporting that their investment was too little is in line with the EU average.
- The highest reported investment gap is in the construction sector, where 28% of the firms assessed their investment as too little.

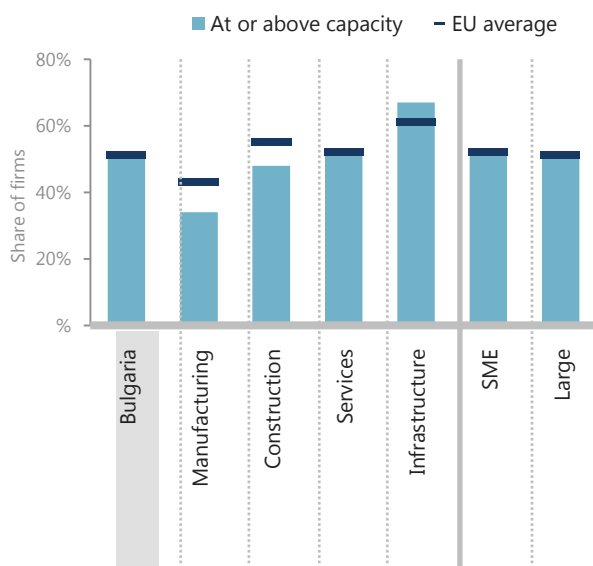
Perceived investment gap



Base: All firms (excluding 'Company didn't exist three years ago' responses)

Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount to ensure the success of your business going forward?

Share of firms at or above full capacity



Base: All firms (data not shown for those operating somewhat or substantially below full capacity)

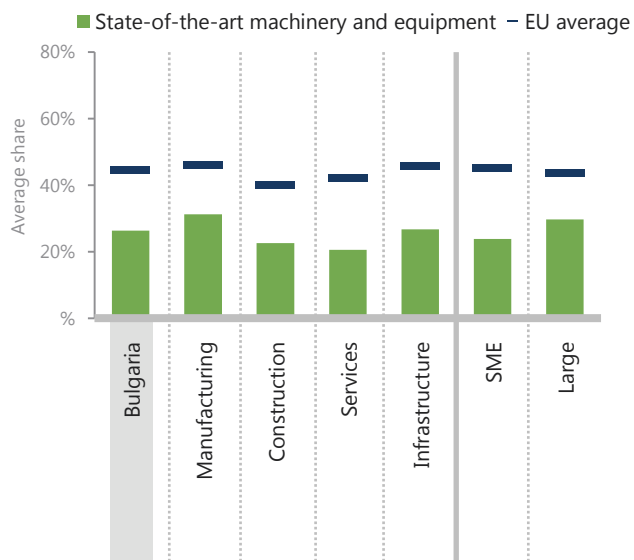
Full capacity is the maximum capacity attainable under normal conditions e.g., company's general practices regarding the utilization of machines and equipment, overtime, work shifts, holidays etc.

Q. In the last financial year, was your company operating above or at maximum capacity attainable under normal circumstances?

- Just over half (51%) of Bulgarian firms operate at or above full capacity, which is similar to the EU average, and is in line with the capacity expansion plans.
- The proportion of firms operating at or above maximum capacity is much higher in the infrastructure sector and is in line with the sector's plans.

- The technological sophistication of Bulgarian firms is fairly low. Their average share of state-of-the-art machinery and equipment is significantly below the EU average.

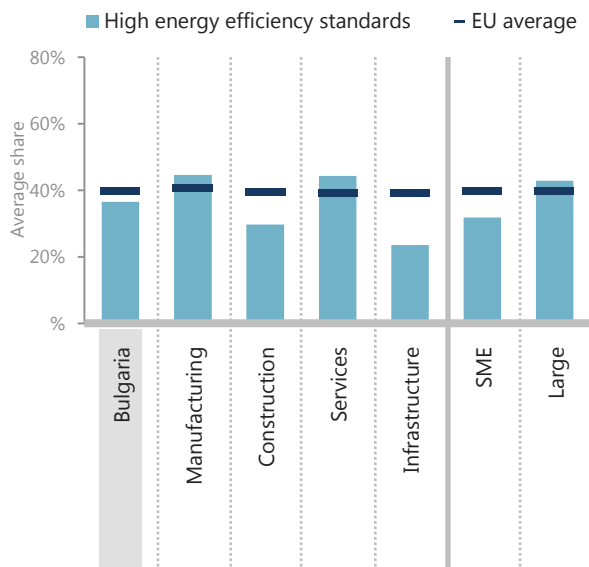
Average share of state-of-the-art machinery and equipment



Base: All firms

Q. What proportion, if any, of your machinery and equipment, including ICT, would you say is state-of-the-art?

Average share of building stock meeting high energy efficiency standards



Base: All firms

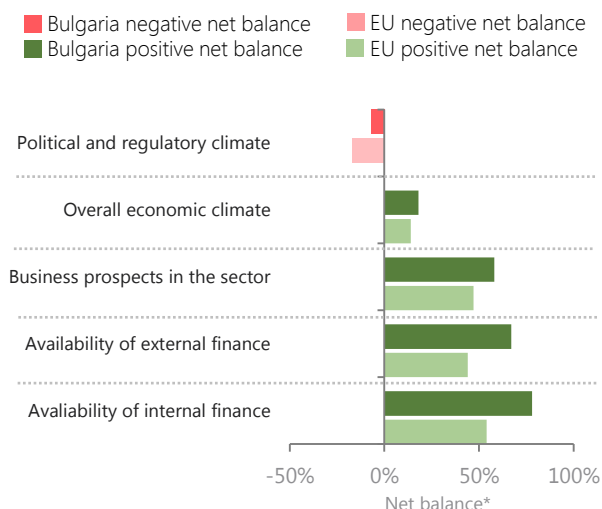
Q. What proportion, if any, of your commercial building stock satisfies high or highest energy efficiency standards?

- Over a third (36%) of the building stock of Bulgarian firms satisfies high energy efficiency standards, in line with the EU average.
- The average share of energy efficient building stock is higher in the manufacturing and services sectors.

INVESTMENT CONSTRAINTS

- The political and regulatory climate is cited as the main barrier to implementing planned investment in Bulgaria, in line with the EU as a whole but somewhat less negatively.
- The availability of internal and external finance, and business prospects in the sector, are seen more favourably in Bulgaria than the EU as a whole.

Short term influences on investment

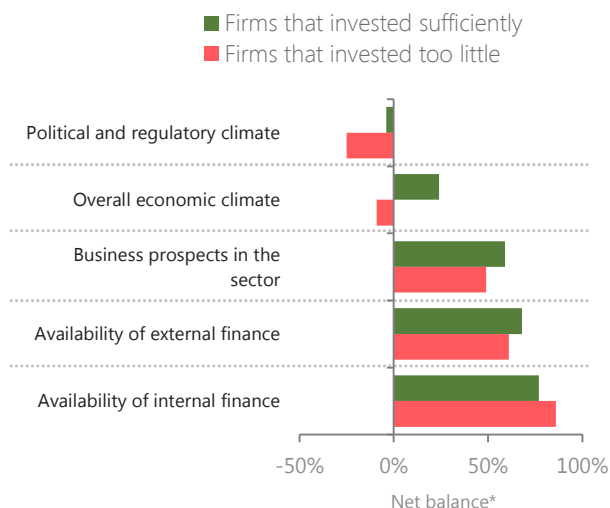


Base: All firms who have planned to invest in the current financial year

Q. How do each of the following affect your ability to carry out your planned investment. Does it affect it positively or negatively, or make no difference at all?

*Net balance is the share of firms seeing a positive effect minus the share of firms seeing a negative effect

Short term influences by investment performance



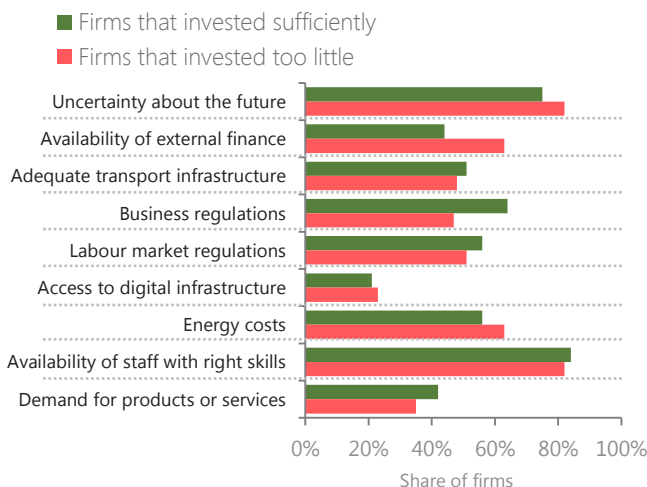
Base: All firms who have planned to invest in the current financial year and who invested too much, about the right amount or too little in the last financial year (excluding don't know/refused/Company didn't exist three years ago responses)

Q. How do each of the following affect your ability to carry out your planned investment. Does it affect it positively or negatively, or make no difference at all?

- Firms that invested too little report that the political, regulatory, and overall economic climate had a negative impact on their planned investment, compared to firms that invested sufficiently who see these as less of a barrier to investment.

- Availability of staff with the right skills is seen as the main barrier to investment by most firms (83%), significantly higher than the EU average (67%).
- Uncertainty about the future ranks is the second in importance barrier for investment. The proportion of firms in Bulgaria (76%) citing this as a barrier is again higher than the EU average (69%).
- Access to digital infrastructure (22%) and demand for products (40%) are seen as barriers to investment by fewer respondents.

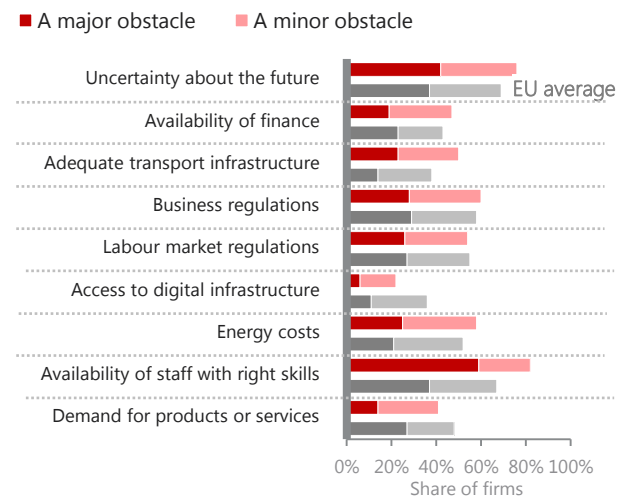
Long term barriers by investment performance



Base: All firms who invested too much, about the right amount or too little in the last financial year (excluding don't know/refused/Company didn't exist three years ago responses), data shown for firms who said each was a major or minor obstacle

Q. Thinking about your investment activities in Bulgaria, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

Long term barriers to investment



Base: All firms (data not shown for those who said not an obstacle at all/don't know/refused)

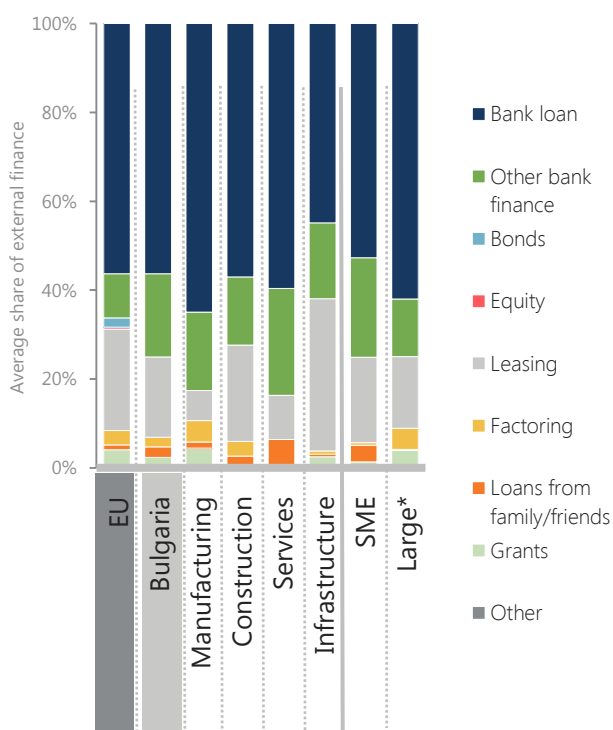
Q. Thinking about your investment activities in Bulgaria, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

- Firms in Bulgaria that perceive their investment as too little, indicate that availability of external finance, uncertainty about the future and energy costs are bigger barriers to investment compared to firms who say they have invested sufficiently.

INVESTMENT FINANCE

- Firms in Bulgaria mainly rely on internal funds to finance their investment activities, which is higher than the average for the rest of the EU.
- Bank loans are the most common source of external finance.
- Collateral and cost of finance are the least satisfactory elements of external finance for Bulgarian firms.

Type of external finance used for investment activities

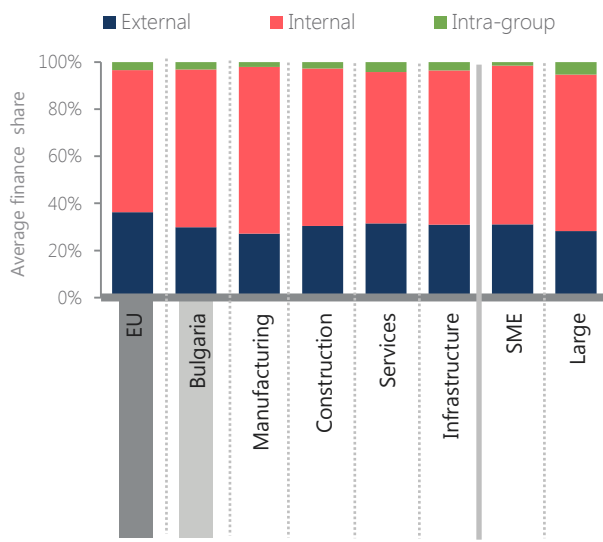


Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)

Q. Approximately what proportion of your external finance does each of the following represent?

*Caution very small base size less than 30

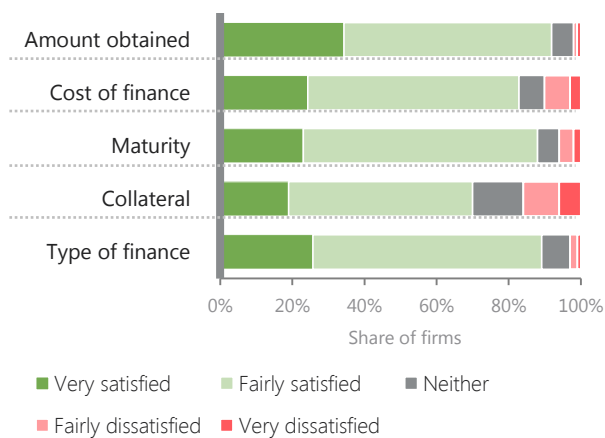
Source of investment finance



Base: All firms who invested in the last financial year (excluding don't know/refused responses)

Q. Approximately what proportion of your investment in the last financial year was financed by each of the following?

Satisfaction with external finance

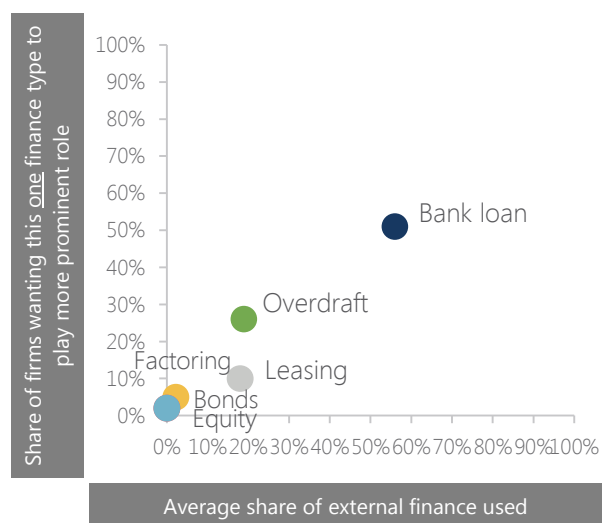


Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)

Q. How satisfied or dissatisfied are you with ...?

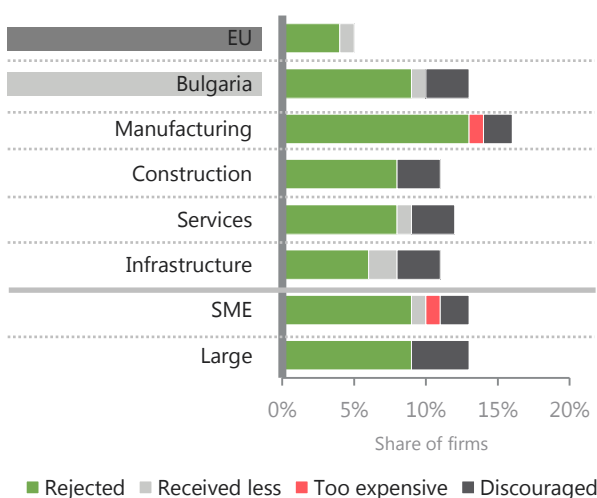
- Firms in Bulgaria want more of the type of external finance that they are already using.
- Bank loans (51%) are the most desired type of finance, followed by overdraft (26%) and leasing (10%).

Types of finance used versus the one type of finance firms want to use more



Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)
Data is derived from two questions: firms were first asked about the types of external finance used in the last financial year and then which one type of external finance they would want to have a more prominent role over the next 3 years

Share of finance constrained firms

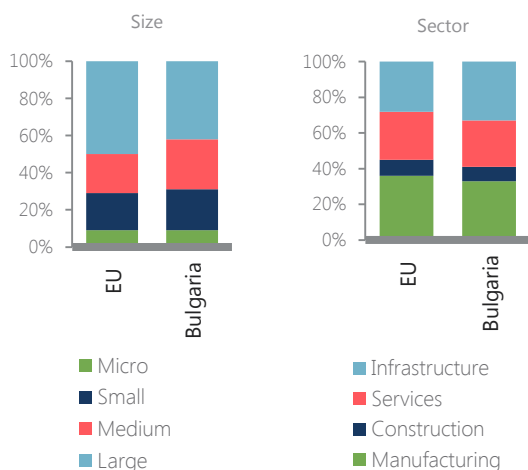


Base: All firms
Finance constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive) or they would be turned down (discouraged)

- Nearly one in eight (13%) firms can be considered finance constrained compared to 5% across the EU as a whole.

PROFILE OF FIRMS

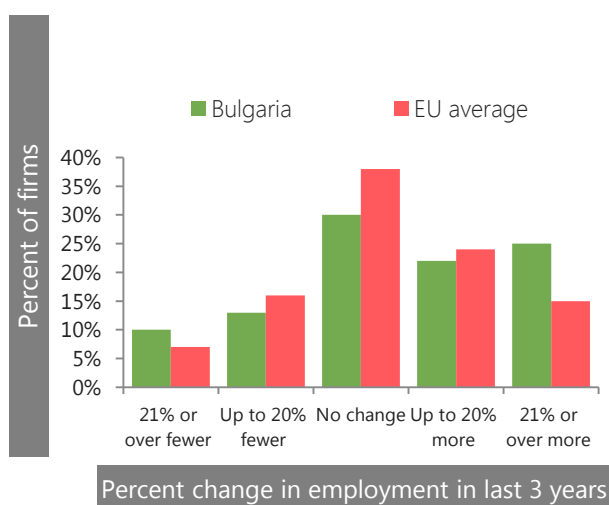
Contribution to Value-Added



Base: All firms

The charts reflect the relative contribution to value-added by firms belonging to a particular size class / sector in the population of firms considered. That is, all firms with 5 or more employees active in the sectors covered by the survey. Micro: 5-9 employees; Small: 10-49; Medium: 50-249; Large: 250+.

Employment dynamics in last 3 years

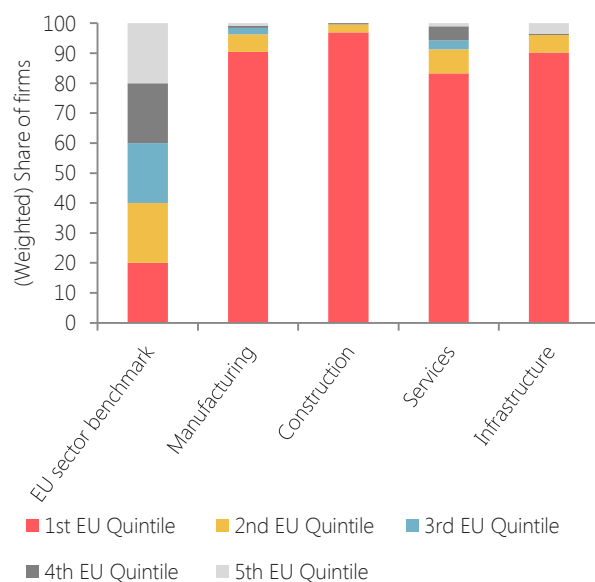


Base: All firms (excluding don't know, refused and missing responses)

Q. Thinking about the number of people employed by your company, by how much has it changed in the last 3 years?

- Compared to the EU average, medium-sized firms in this survey have a higher share of value added, at the expense of large firms who are underrepresented.
- Bulgarian firms appear more dynamic than those in the EU: more firms decline and grow faster and fewer firms in Bulgaria experience no change in employment level compared to the EU as a whole.
- Firms in Bulgaria have the lowest productivity levels across the EU. Productivity in the vast majority of firms does not exceed the second EU quintile.

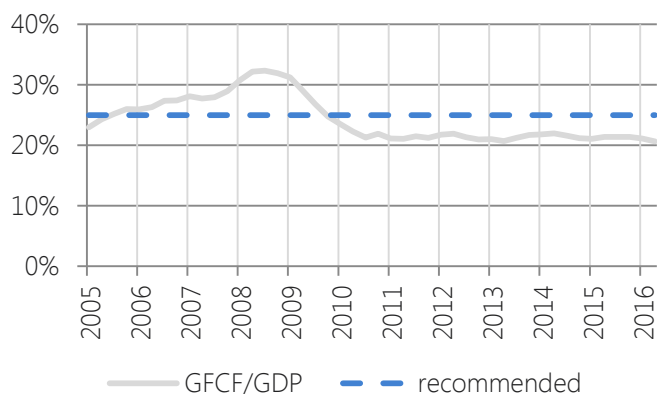
Distribution of firms by productivity class



Share of firms by productivity class (Total Factor Productivity). Productivity classes are sector specific; they are defined on the basis of the entire EU sample (for a particular sector).

MACROECONOMIC INVESTMENT CONTEXT

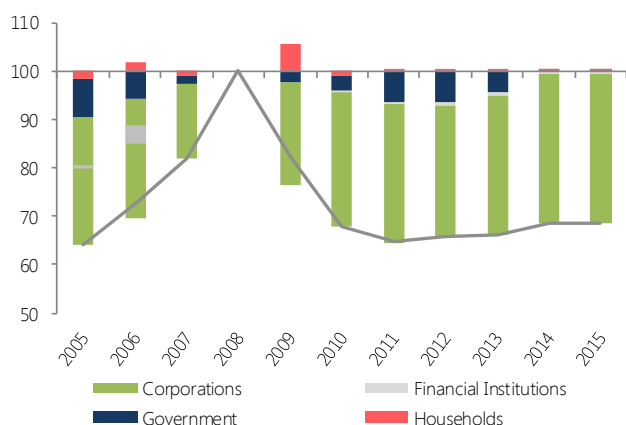
Investment Dynamics over time



The graph shows the evolution of ratio Gross Fixed Capital Formation to GDP against the recommended ratio by the Commission on Growth and Development (World Bank 2008) to achieve income convergence to advanced countries. Source: Eurostat.

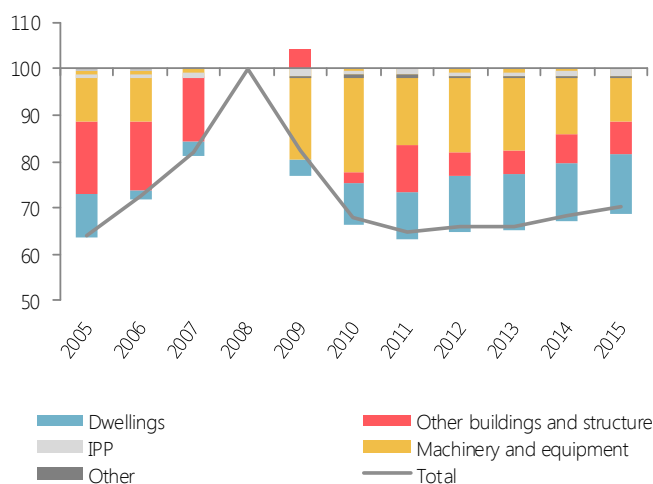
- The ratio of investment to GDP in Bulgaria has been lower than the recommended to achieve income convergence to advanced economies.
- Investment in the corporate sector is well below pre-crisis levels and much of this shortfall is in machinery and equipment.
- Residential investment is also well below pre-crisis levels that itself was the result of an unsustainable investment boom.

Investment Dynamics by Institutional Sector



The graph shows the evolution of total Gross Fixed Capital Formation (in real terms); by institutional sector. The data has been indexed to equal 100 in 2008. Source: Eurostat.

Investment Dynamics by Asset Class



The graph shows the evolution of total Gross Fixed Capital Formation (in real terms); by asset class. The data has been indexed to equal 100 in 2008. Source: Eurostat.

EIBIS 2016 – COUNTRY TECHNICAL DETAILS

The final data are based on a sample, rather than the entire population of firms in Bulgaria, so the percentage results are subject to sampling tolerances. These vary with the size of the sample and the percentage figure concerned.

Approximate sampling tolerances applicable to percentages at or near these levels

| | EU | Bulgaria | Manu- facturing | Cons- truction | Services | Infras- tructure | SME | Large | EU vs Country | Manufacturing vs Construction | SME vs Large |
|------------------|---------|----------|--------------------|-------------------|----------|---------------------|-------|-------|-------------------|----------------------------------|-----------------|
| | (12483) | (476) | (119) | (119) | (119) | (119) | (397) | (79) | (12483 vs 476) | (119 vs 119) | (397 vs 79) |
| 10% or 90% | 1.0% | 2.9% | 5.3% | 5.2% | 5.6% | 5.5% | 2.8% | 5.8% | 3.1% | 7.4% | 6.4% |
| 30% or 70% | 1.5% | 4.5% | 8.0% | 7.9% | 8.5% | 8.4% | 4.3% | 8.8% | 4.7% | 11.2% | 9.8% |
| 50% | 1.7% | 4.9% | 8.8% | 8.6% | 9.3% | 9.2% | 4.7% | 9.6% | 5.1% | 12.3% | 10.7% |

Glossary

| | |
|-----------------------|--|
| Investment | A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities with the intention of maintaining or increasing the company's future earnings. |
| Investment cycle | Based on the expected investment in current financial year compared to last one, and the proportion of firms with a share of investment greater than EUR 500 per employee. |
| Productivity | Total factor productivity is a measure of how efficiently a firm is converting inputs (capital and labor) into output (value-added). It is estimated by means of an industry-by-industry regression analysis (with country dummies). |
| Manufacturing sector | Based on the NACE classification of economic activities, firms in group C (manufacturing). |
| Construction sector | Based on the NACE classification of economic activities, firms in group F (construction). |
| Services sector | Based on the NACE classification of economic activities, firms in group G (wholesale and retail trade) and group I (accommodation and food services activities). |
| Infrastructure sector | Based on the NACE classification of economic activities, firms in groups D and E (utilities), group H (transportation and storage) and group J (information and communication). |
| SME | Firms with between 5 and 249 employees. |
| Large firms | Firms with at least 250 employees. |

EIBIS 2016 – COUNTRY TECHNICAL DETAILS

Base sizes

| Base definition and page reference | EU | Bulgaria | Manufacturing | Construction | Services | Infrastructure | SME | Large |
|---|-------|----------|---------------|--------------|----------|----------------|-----|-------|
| All firms, p. 3, p. 6, p. 7, p. 9, p. 11, p. 12, p. 13 | 12483 | 476 | 119 | 119 | 119 | 119 | 397 | 79 |
| All firms (excluding don't know/refused responses), p. 2 | 11838 | 456 | 115 | 116 | 114 | 111 | 381 | 75 |
| All firms (excluding those who have no investment planned/don't know/refused responses), p. 5 | 12159 | 466 | 115 | 116 | 118 | 117 | 388 | 78 |
| All firms (excluding 'Company didn't exist three years ago' responses), p. 6 | 12453 | 474 | 119 | 118 | 119 | 118 | 395 | 79 |
| All firms (excluding don't know, refused and missing responses), p. 13 | 12162 | 460 | 114 | 117 | 116 | 113 | 384 | 76 |
| All firms who invested in the last financial year, p. 2 | 12281 | 471 | 117 | 119 | 117 | 118 | 393 | 78 |
| All firms who invested in the last financial year, p. 4 | 10881 | 385 | 104 | 100 | 89 | 92 | 311 | 74 |
| All firms who have invested in the last financial year (excluding don't know/refused responses), p. 4 | 10060 | 354 | 93 | 94 | 80 | 87 | 286 | 68 |
| All firms who have invested in the last financial year (excluding don't know/refused responses), p. 5 | 9682 | 340 | 96 | 85 | 79 | 80 | 274 | 66 |
| All firms who invested in the last financial year (excluding don't know/refused responses), p. 10 | 9093 | 342 | 85 | 94 | 80 | 83 | 283 | 59 |
| All firms who have planned to invest in the current financial year and who invested too much, about the right amount or too little in the last financial year (excluding don't know/refused/company didn't exist three years ago responses), p. 8 | 10536 | 330 | N/A | N/A | N/A | N/A | N/A | N/A |
| All firms who used external finance in the last financial year (excluding don't know/refused responses), p. 10, p. 11 | 4344 | 165 | 41 | 41 | 38 | 45 | 137 | 28 |

Percentage rounding


Percentage with value of less than 0.5 but greater than zero has not been displayed in the charts.


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