



Investing in Bulgarian Tourism

Teaser Paper

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REPUBLIC OF BULGARIA
Ministry of Tourism

Executive Summary

Investing in Bulgarian Tourism

Key Insights

WHY BULGARIA

- **Lowest cost** of doing business in EU for both variable and fix costs (cost advantage for labor cost >80%, utilities ~30%, industrial and office rents between 68% and 82% compared to EU average)
- **Lowest corporate tax rate** of 10% flat in EU (compared to 15% in SRB, 16% in RO and 19% in PL and CZ)
- **Political and business stability** (3,4% GDP growth for 2016, 5th place in EU and 2nd lowest gov. debt to GDP)
- **Balanced GDP composition** with above average industry and tourism sector contribution, Germany is major trade partner
- **Access to key markets** in European Union, Russia, Turkey and Middle East

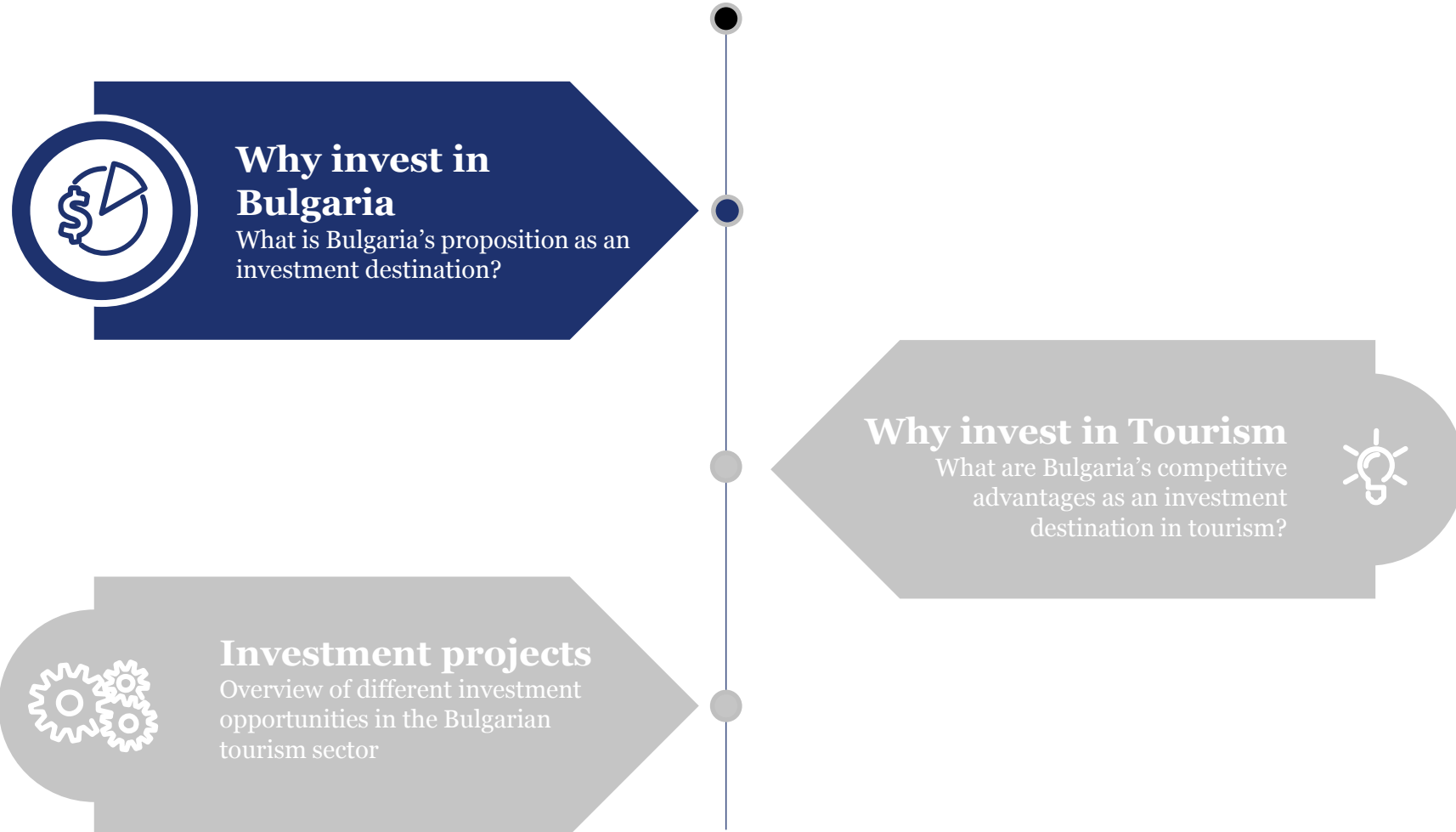
WHY TOURISM

- **6% annualized growth** of tourist arrivals for the last 5 years outperforming the EU and world average (4,6% and 4,3%) as well as competitors like Turkey, Italy and France. At the same time, available bed-places have increased by only ~2% p.a.
- **Projected growth of business and foreign visitor spending** of 84% and 75% respectively by 2027 clearly surpassing the EU (27% and 48%) and world average (49% and 58%)
- **Proximity to key generating markets** as its neighbor countries, together with Germany, Poland and UK making-up the top 10 arrival countries
- **High governmental priority** on positioning as high-end, year-round destination (via business, wellness, cultural tourism etc.)

INVESTMENT OPPORTUNITIES

- **Tourism investment map** created together with the regional municipalities containing >30 projects (e.g. expo-centers, sport centers, golf and wellness resorts etc.) with investment volume ranging from 0.5 to >100 mEUR
- Further possibly to bridge to private investment projects via the officially partnered tourism sector organizations

Content



Bulgaria is located in South-Eastern Europe and has been awarded by major institutions as a promising economy to do business with

Key facts about Bulgaria

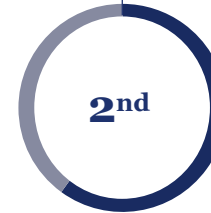
Location



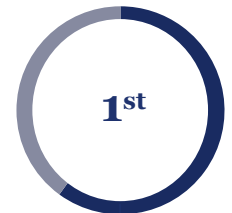
Population



GDP growth rate in the EU for 2016



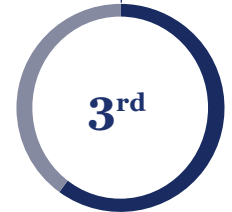
Place in the Global Service Location Index for 2016, according to AT Kearney



Outsourcing destination in Europe for 2015, according to Cushman & Wakefield



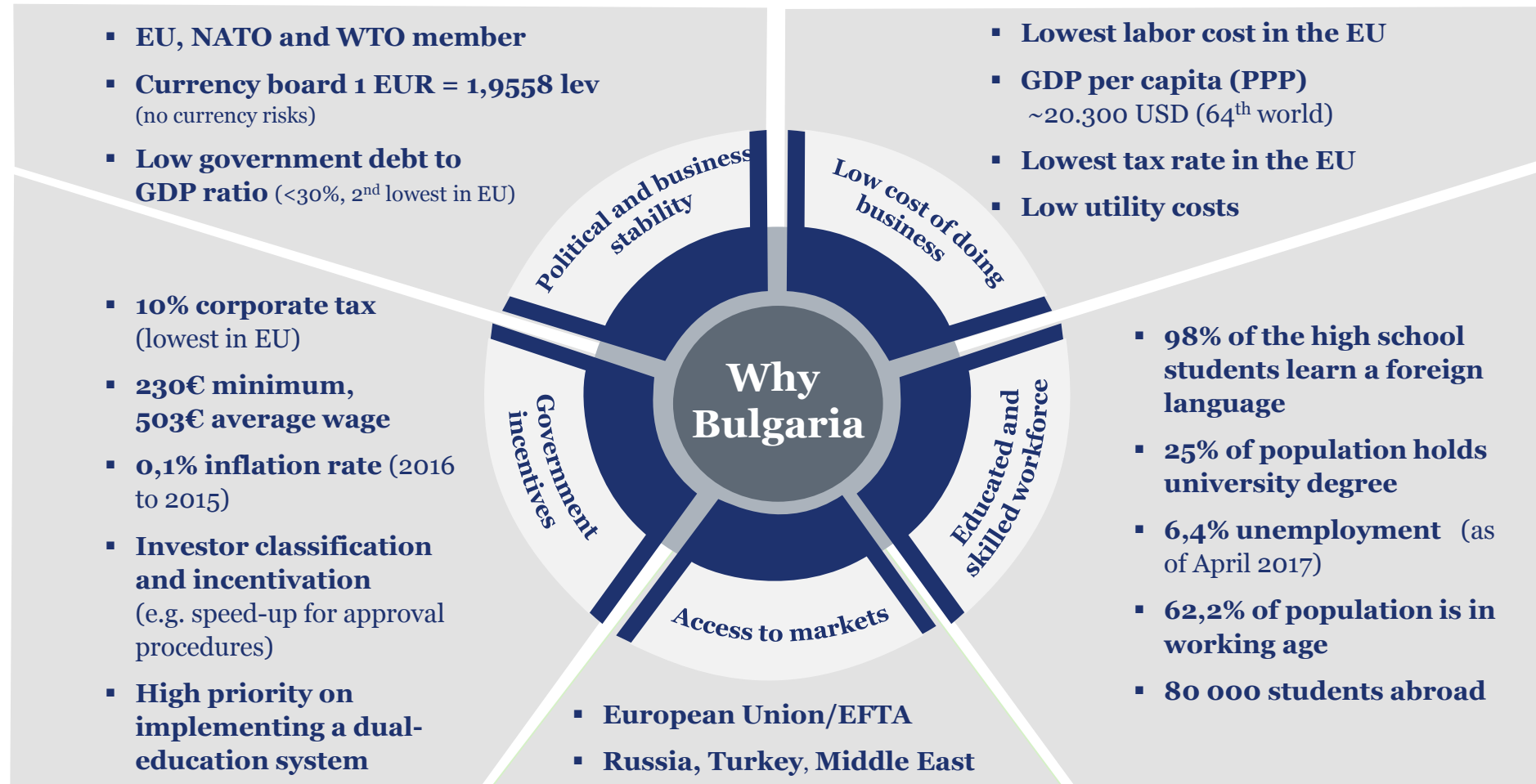
Fastest internet speed in the world



Easiest economy to do business in East Europe for 2014, according to the World Bank

Bulgaria offers highly favorable investment conditions: competitive cost structure, access to markets and political stability

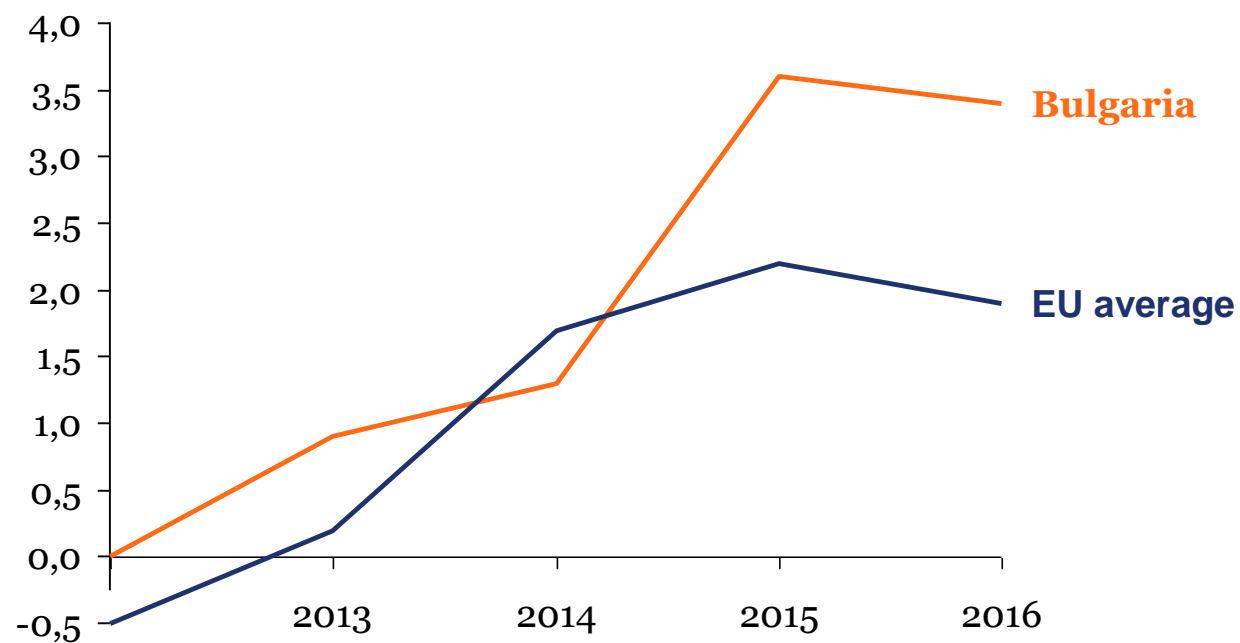
Overview investment conditions



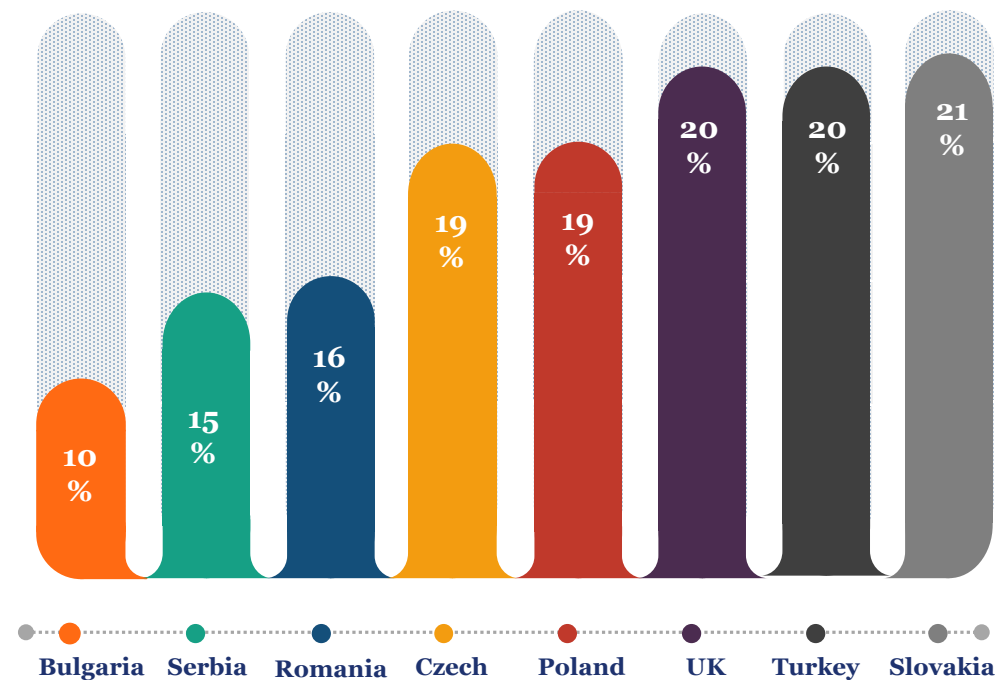
Except for 2014, Bulgaria's GDP growth rate outperforms EU average systematically in the last 5 years

GDP growth and tax rate

GDP growth rate (%) comparison¹



Corporate tax rate in selected countries, 2016 (%)²

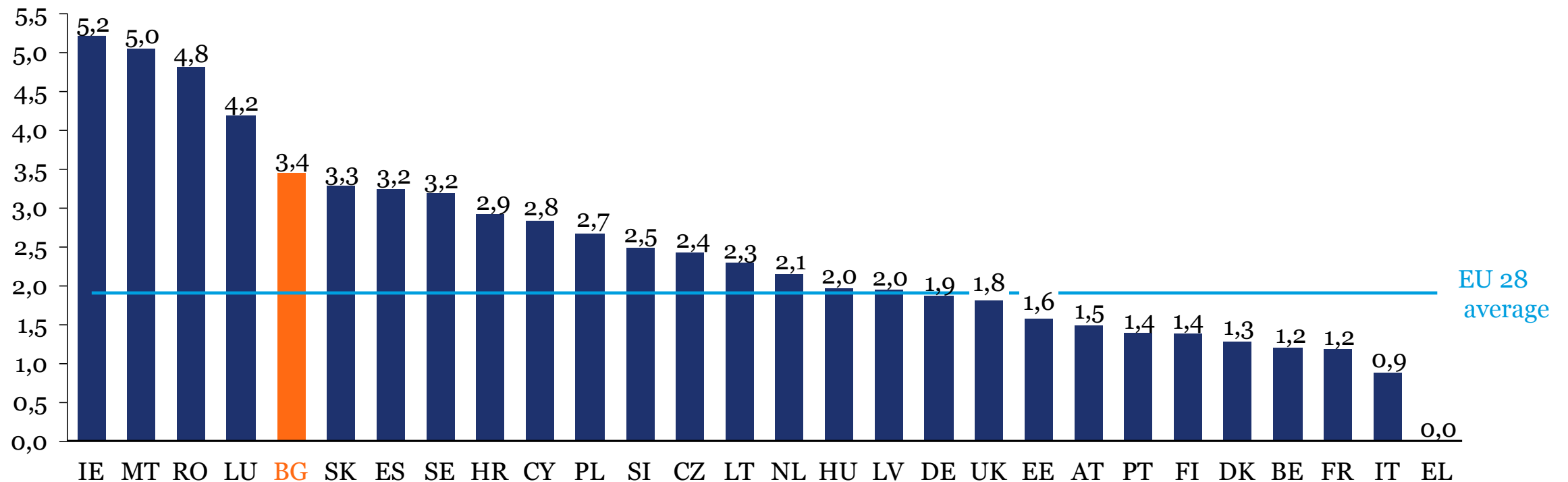


Sources: 1 World Bank
2 Eurostat

In 2016, Bulgaria has moved up two places to become the 5th rank holder in the EU regarding GDP growth rate

GDP growth rates - EU member States comparison

GDP growth rate of the EU member states in 2016 (%)



Bulgaria offers highly competitive cost structure – both in terms of fix and variable costs

Competitive cost of doing business



Electricity



Gas



Water



Industrial rents



Office rents



Cost of Labour

BG¹

0,079 €/kWh

(5th most competitive in EU)

0,019 €/kWh

(most competitive in EU)

1,09 €/m³

From 2,5 €/m² per month
(Sofia)

From 12 €/m² per month
(Sofia)

Ø hourly wage
4,40 €
(most competitive in EU)

EU-28²

0,114 €/kWh

0,03 €/kWh

4,09 €/m³
(Frankfurt)³

~14 €/m² per month
(Frankfurt)⁴

~38 €/m² per month
(Frankfurt)⁴

Ø hourly wage
~25 €
DE: >30 ; CZ, PL: ~10 €; RO: 5,5 €

Cost benefit

30% ↓

36 % ↓

73% ↓↓

82% ↓↓↓

68% ↓↓

82% ↓↓↓

Sources: 1 National Statistical Institute

2 Eurostat

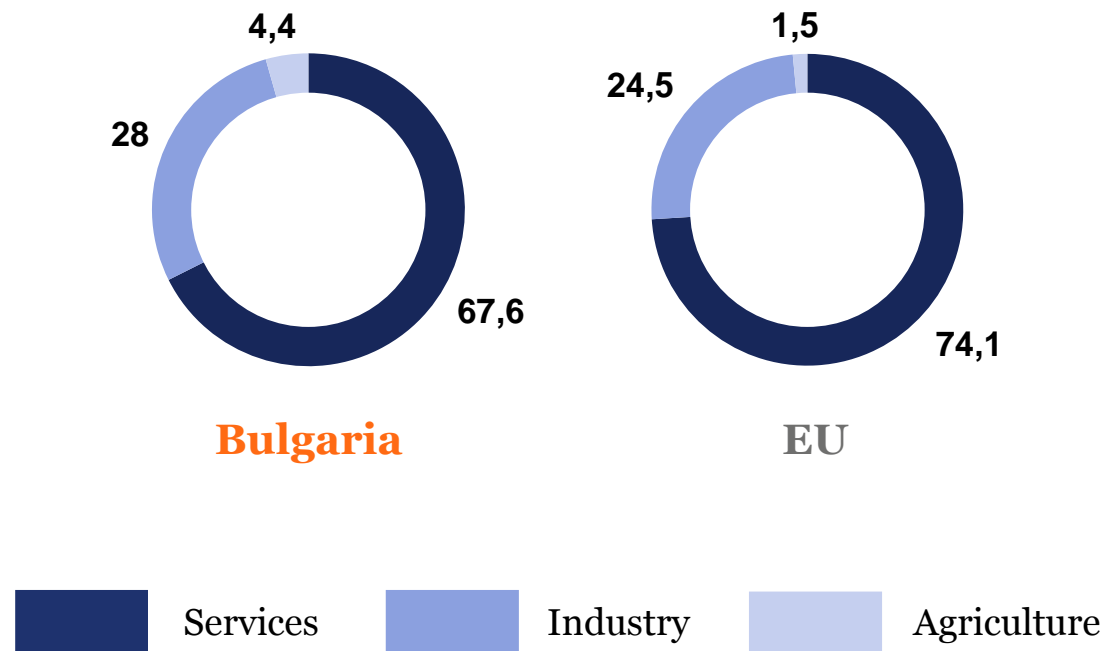
3 Global Water Intelligence

4 Statista

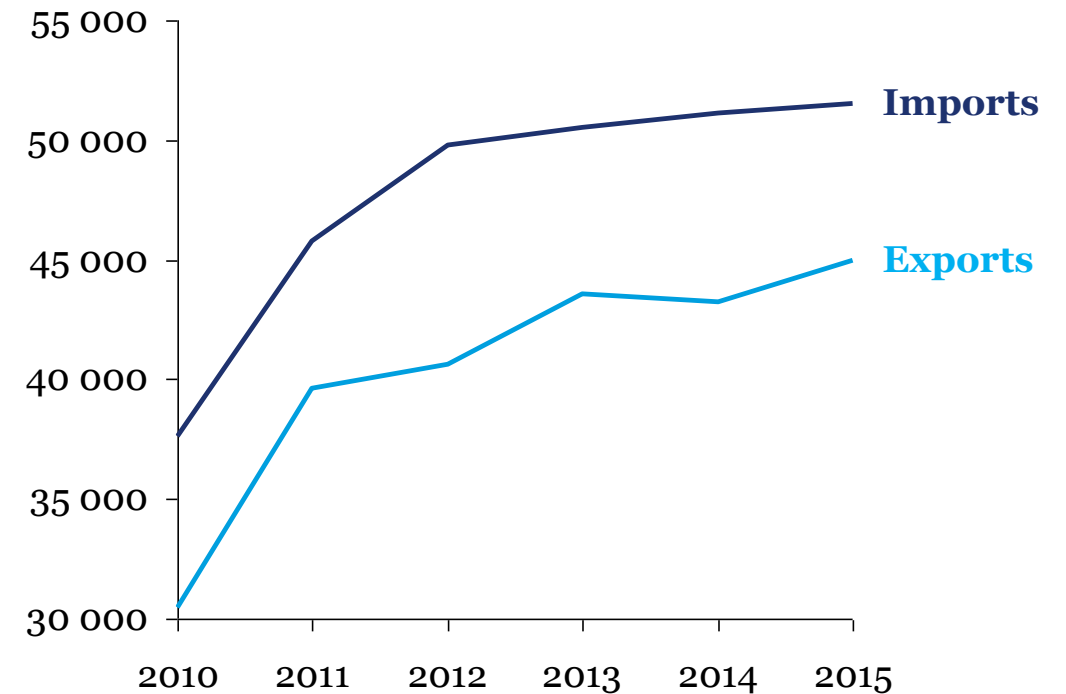
Bulgaria has a balanced GDP composition with above average industry sector portion, while trade volume keeps increasing

GDP composition and trade volume development

GDP composition in 2016 (%)¹



Trade volume growth between Bulgaria and the rest of the world (BGN million)²

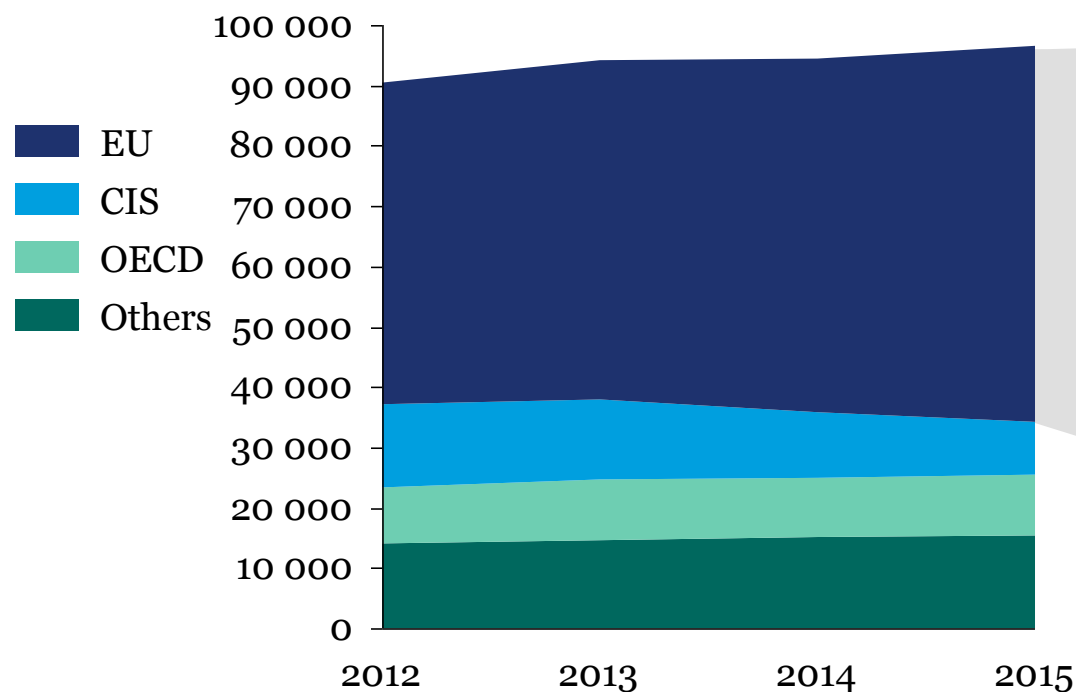


Sources: 1 World Bank
2 National Statistical Institute

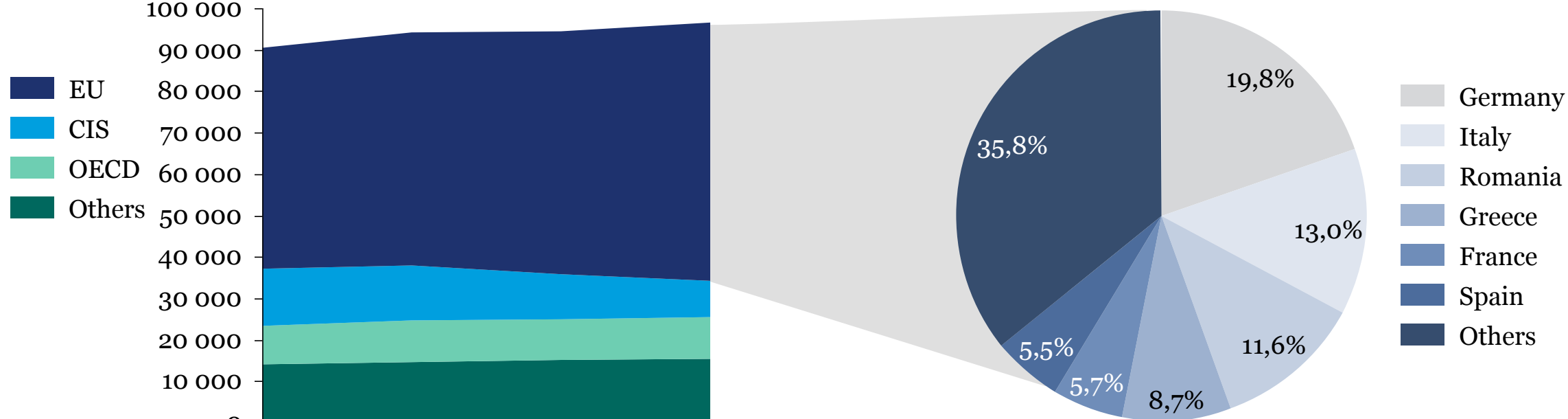
EU accounts for >64% of the trade volume – Germany, Italy and Romania being the major trading partner

International trade volume and distribution

Trade volume¹ development between Bulgaria and the rest of the world (million BGN)



Trade volume distribution between Bulgaria and the EU in 2015 (%)



Source: National Statistical Institute

¹ Trade volume = Exports + Imports

Content



Tourism in BG profits from its proximity to main markets, however further positioning as high-end, year-round destination is required

SWOT analysis

Strengths

- Relative proximity to leading global generating **markets** (e.g. Germany)
- High **cost competitiveness**
- Well-developed **airport and partly road infrastructure**
- Increasing penetration of low-cost **airlines** (WizzAir, RyanAir) with increasing number of lanes

Weaknesses

- Clear **seasonality of tourism**
- Tendency to reduce the average **length of stay**
- Insufficient **marketing** to position BG in the high-end tourism sector (→HR)
- Unevenly developed **transport infrastructure**

Opportunities

- Favorable and stable **economic environment** for tourism development
- Facilitating **visa** regimes (e.g. China)
- Increasing the number of **trips** at the expense of the **duration**
- Increasing the **price advantage** when searching for a tourist trip

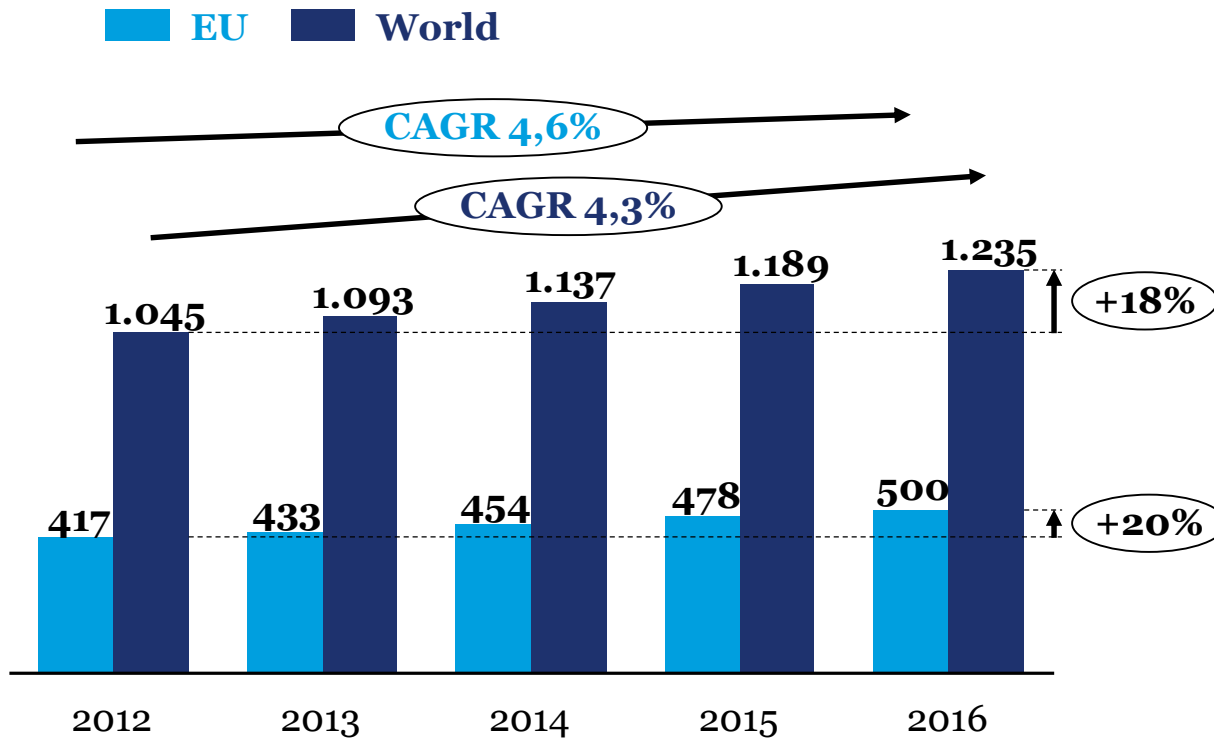
Threats

- Availability of **skilled workforce**
- Changes in **behavior, attitudes and motivation** of tourists
- Lack of focus on **service** and **safety**
- **External risks:** climate change, terror attacks to potentially shift tourist inflows

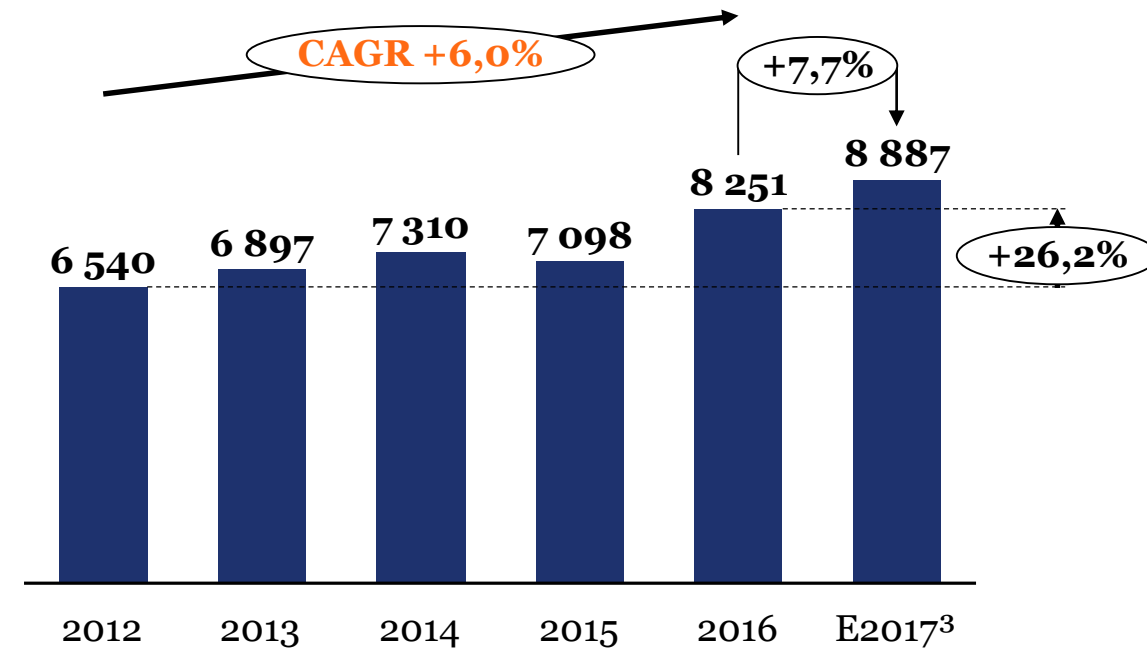
With **6% CAGR** of tourist arrivals for the last 5 years, Bulgaria's tourism sector outperforms the EU and World average

Tourism: a growing industry worldwide

International tourist arrivals worldwide (millions)¹



International tourist arrivals in **Bulgaria** (thousands)²



CAGR: compound annual growth rate

Sources: 1 UNWTO World Tourism Barometer

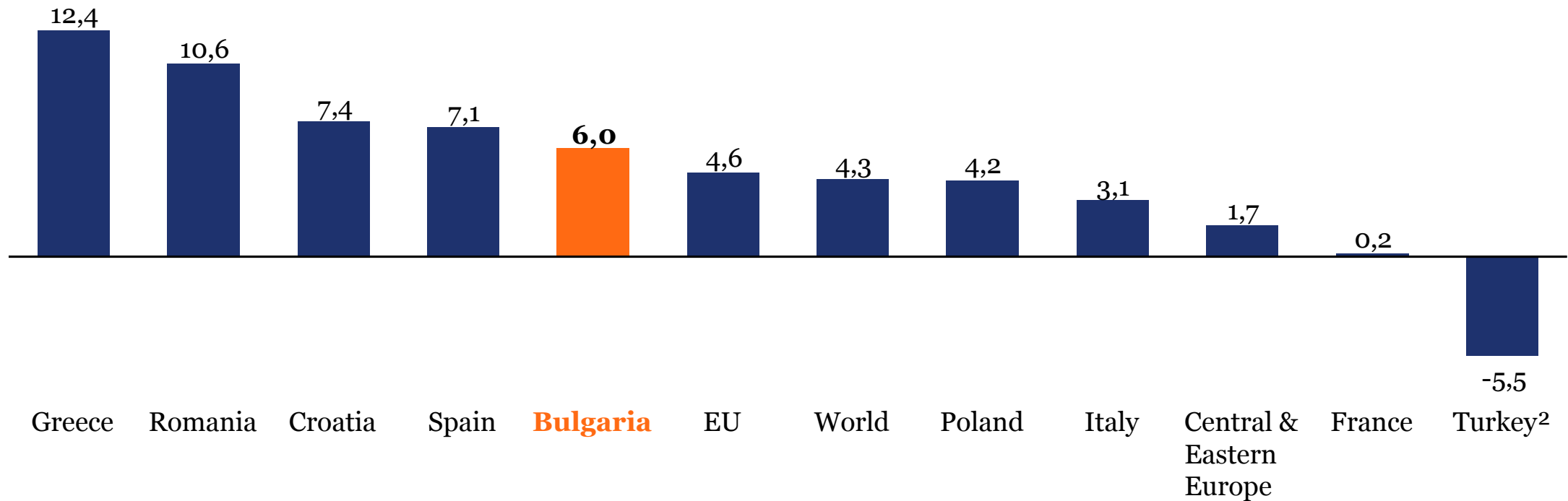
2 National Statistical Institute

³ The estimated number for 2017 is calculated based on the recorded growth for the period January-June 2017

Bulgaria's tourism growth exceeds that of competitors Turkey, Italy and France, however lies behind Spain, Croatia and Greece

Tourist arrivals – selected CAGR comparison

CAGR of the number of international tourist arrivals between 2012-2016¹ (%)



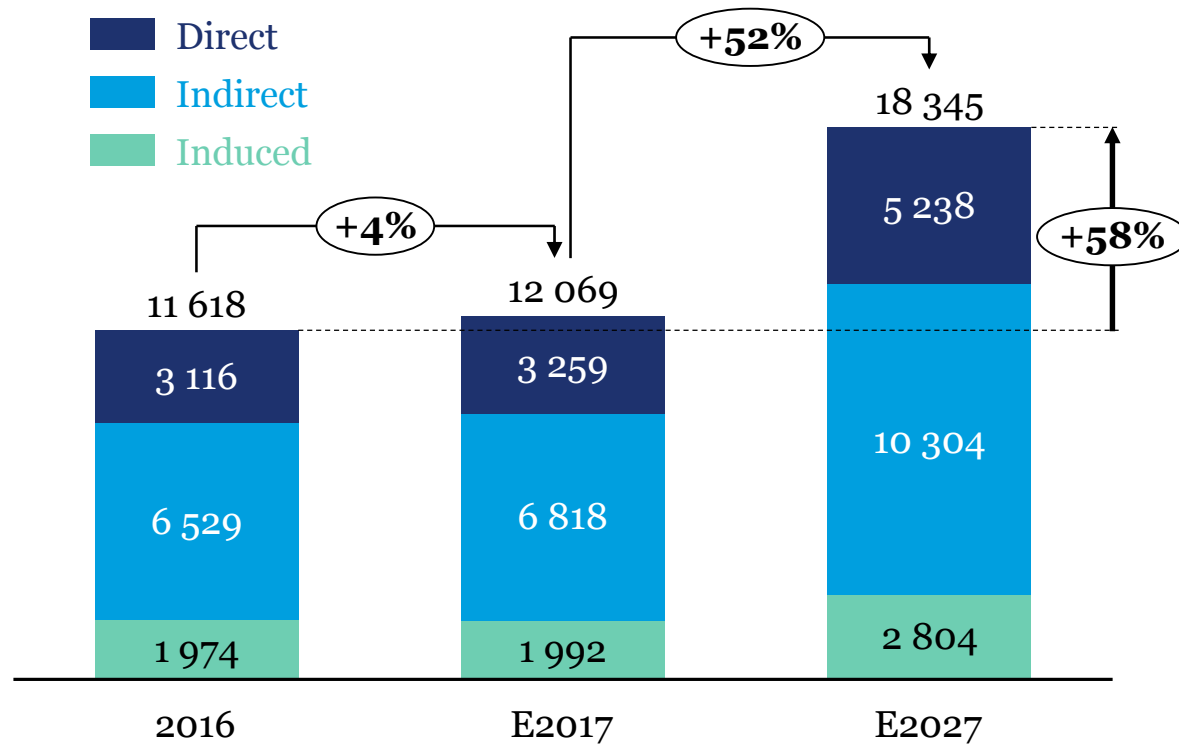
Sources: 1 UNWTO World Tourism Barometer
2 Ministry of Culture and Tourism of Turkey

The tourism sector in Bulgaria is expected to grow by more than **50%** in the next 10 years making it a vital part of the country's GDP

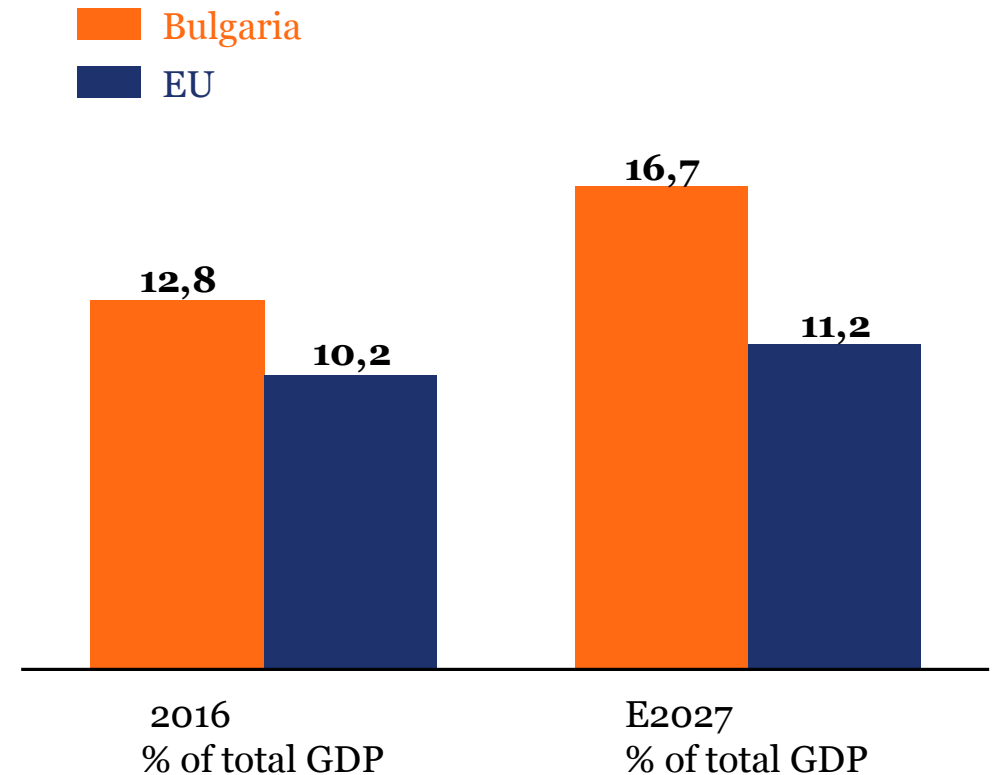
Tourism growth and contribution to GDP

Bulgarian Tourism sector contribution to GDP

(BGN million)



Tourism contribution as % to the GDP



Source: World Travel & Tourism Council

Direct: sum of internal tourism consumption and purchases by tourism providers

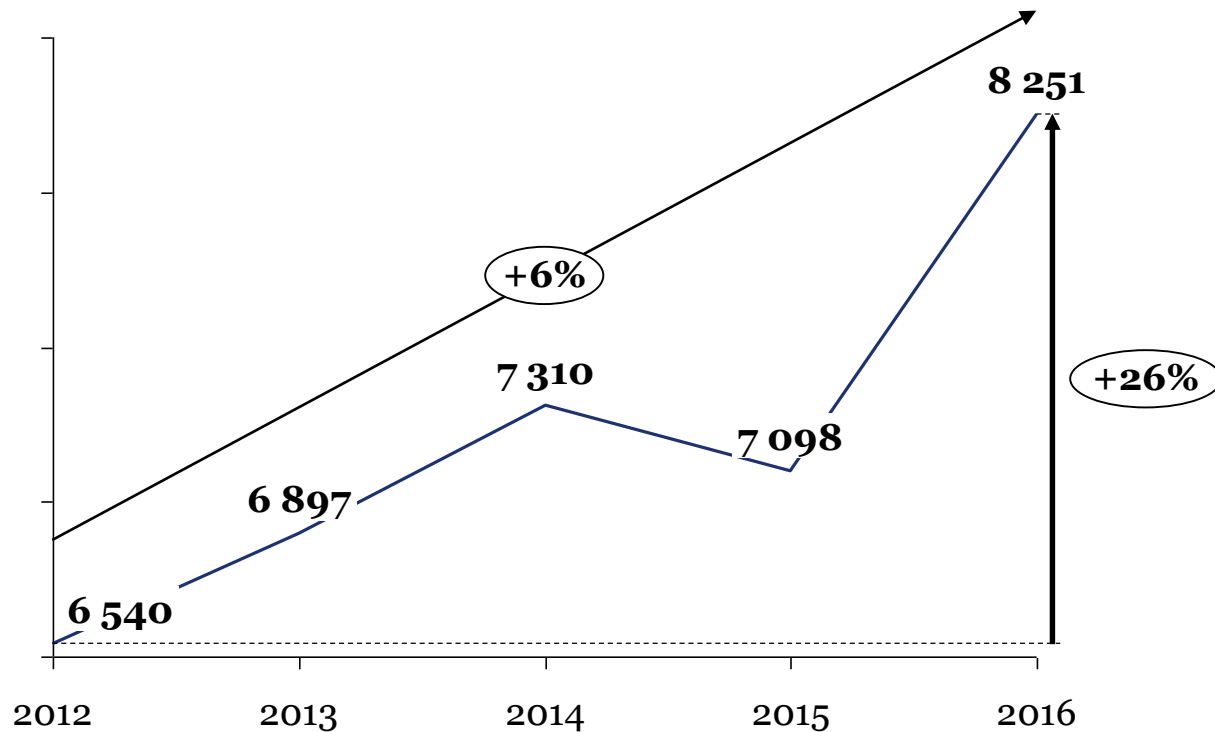
Indirect: sum of supply chain, investment and government collective

Induced: broader contribution of those in/directly employed by the tourism sector

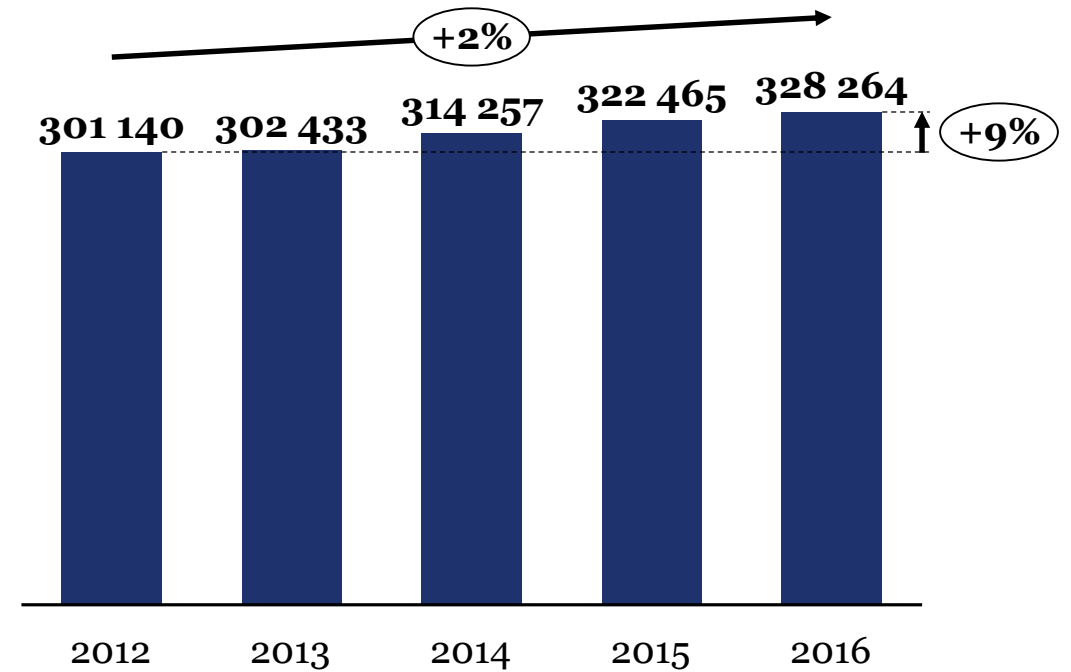
The number of international tourist arrivals in Bulgaria is growing by 6% p.a. – exceeding the capacity growth of 2%

International tourist arrivals and number of bed-places

International tourist arrivals in Bulgaria (thousands)¹



Number of bed-places²



Sources: 1 National Statistical Institute

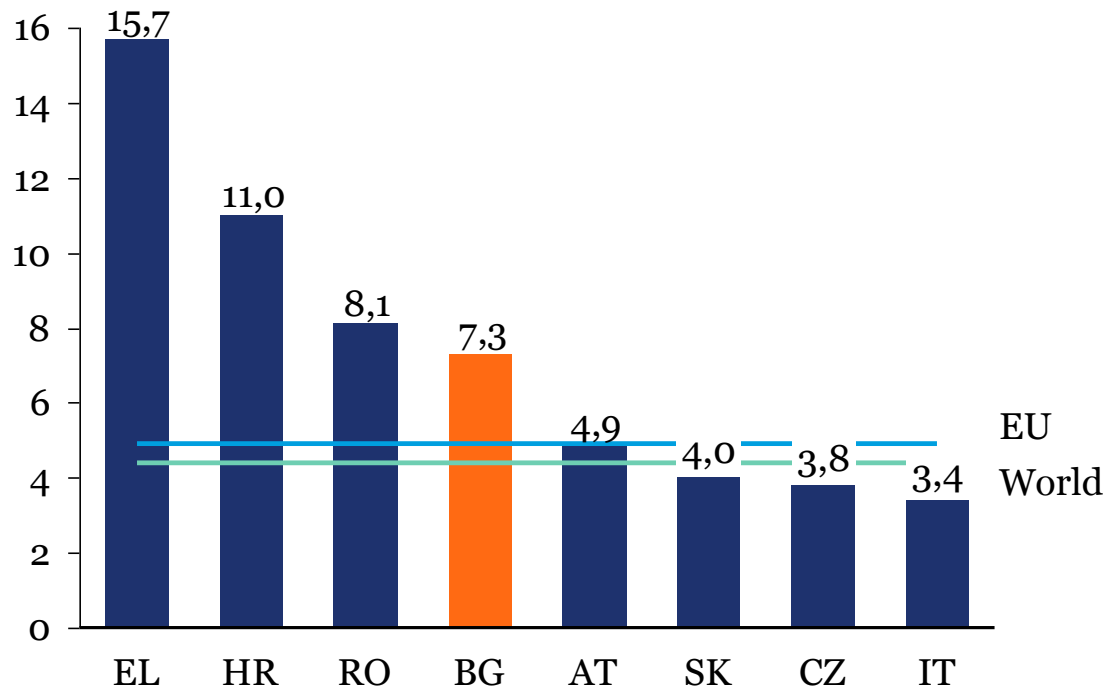
2 Eurostat

A "bed place" applies to a single bed; a double bed is counted as two bed places

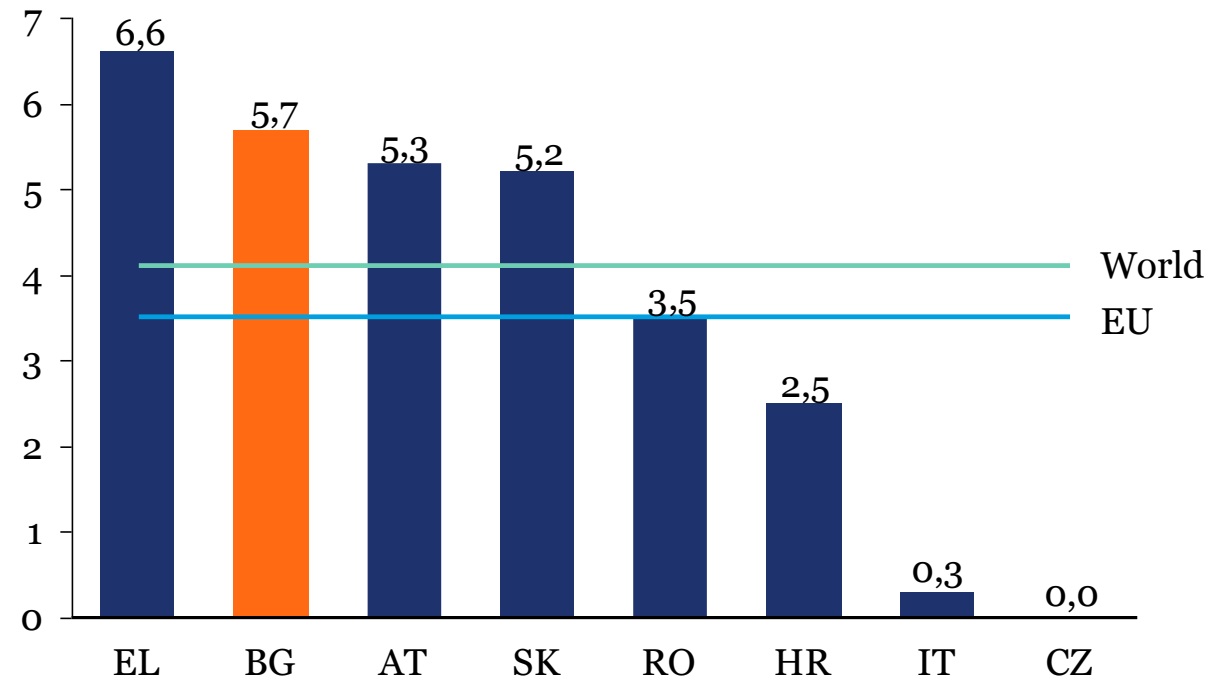
In Bulgaria, around **7 out of 100 EUR** invested are spent in the tourism sector, which is expected to grow above average in 2017

Tourism capital investment contribution

Tourism CAPEX to total CAPEX in 2016 (%)...



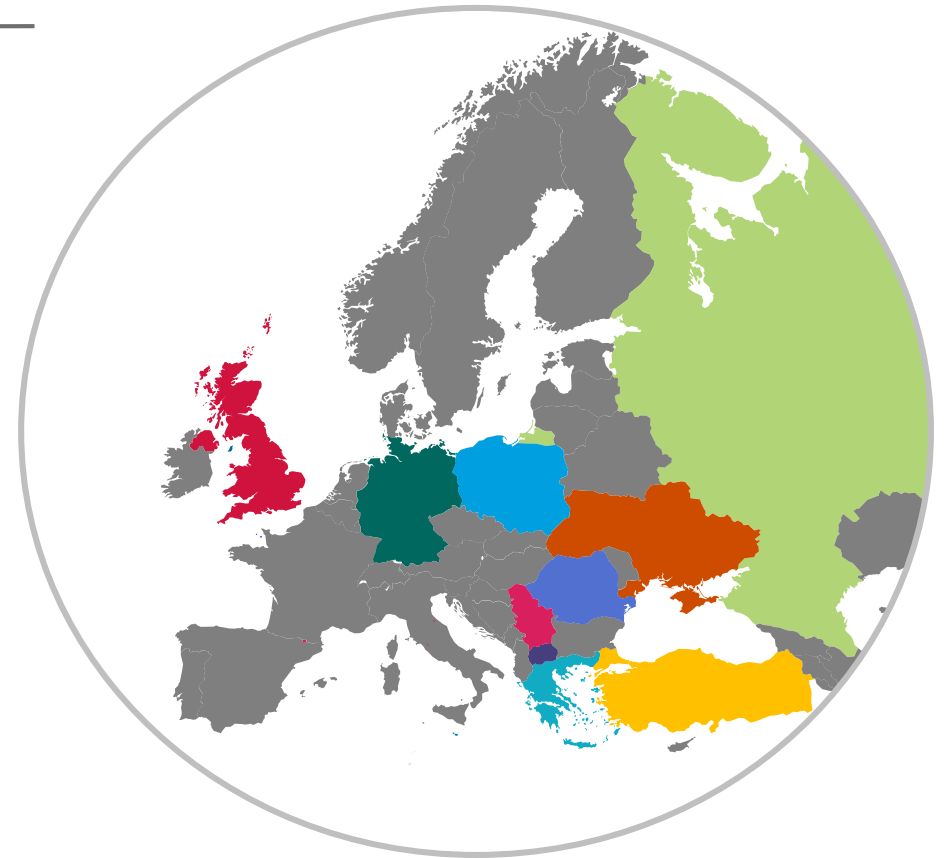
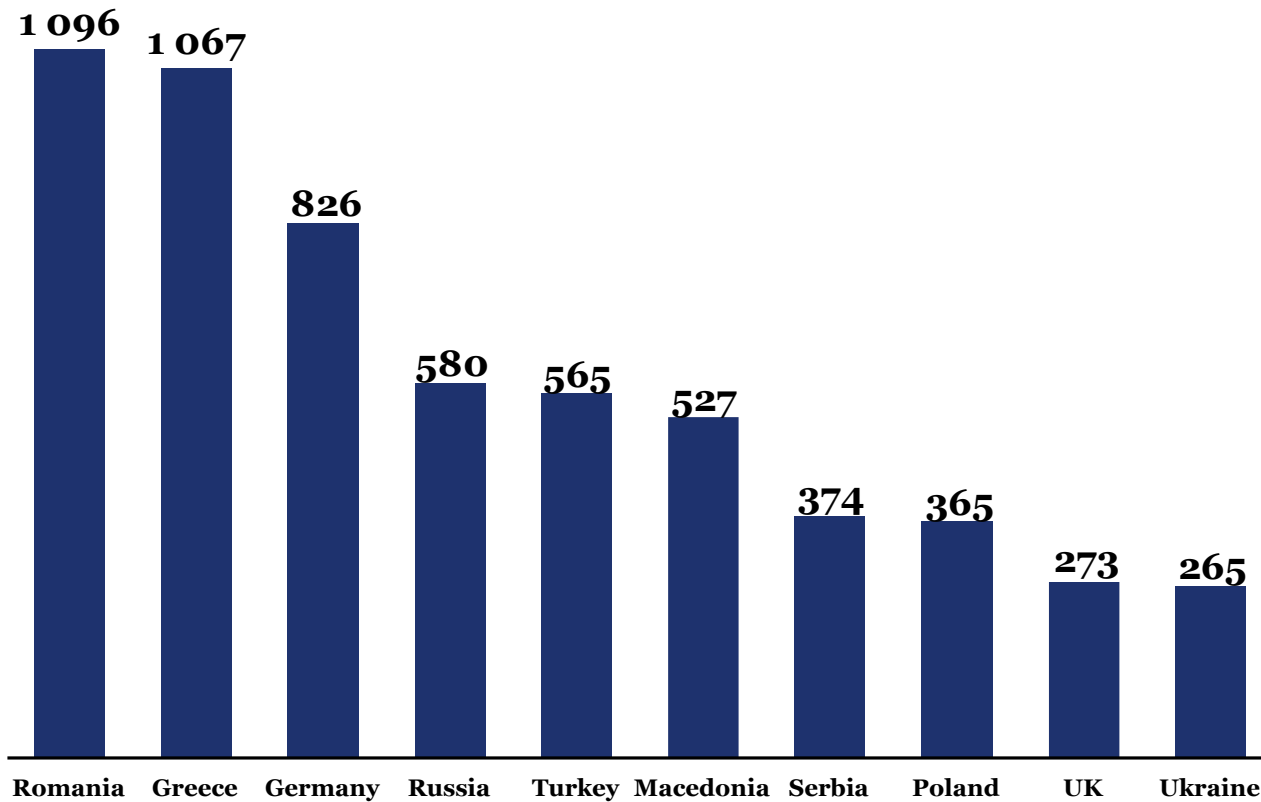
...and growth rate in 2017 (%)



Tourists from the neighbor countries, together with Germany, Poland and UK make-up the top 10 arrival countries

Top 10 countries of origin of tourists in Bulgaria

Top 10 international tourist arrivals in Bulgaria in 2016
(thousands)

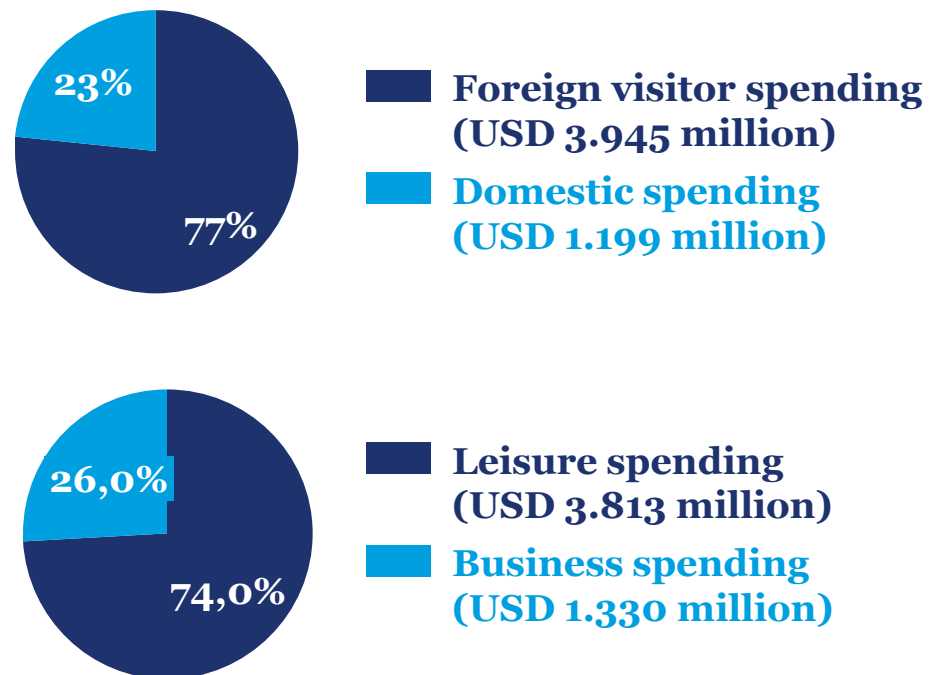


Source: National Statistical Institute

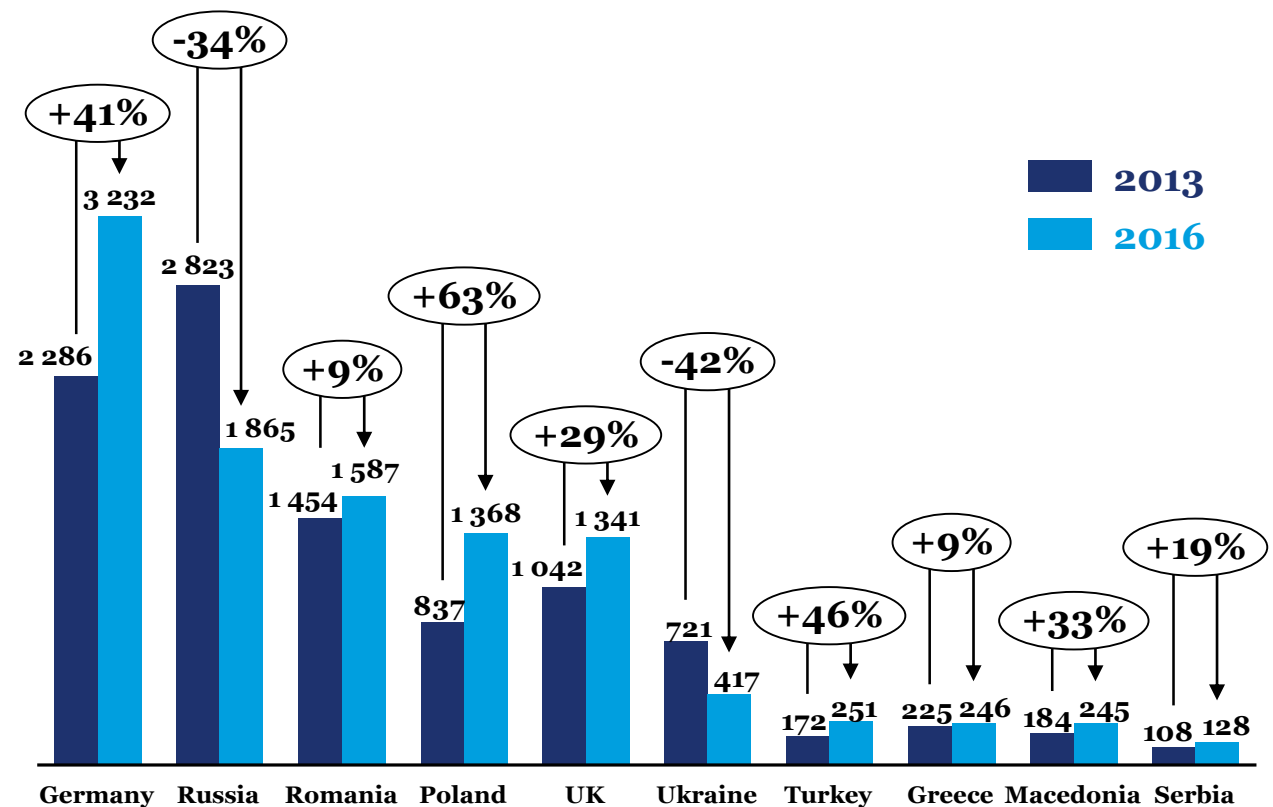
Foreign visitor spending overwhelms domestic with mainly leisure purpose – Germany leading the race in the #nights spends

Tourism spending and night spends

Tourism spending in 2016¹ (%)

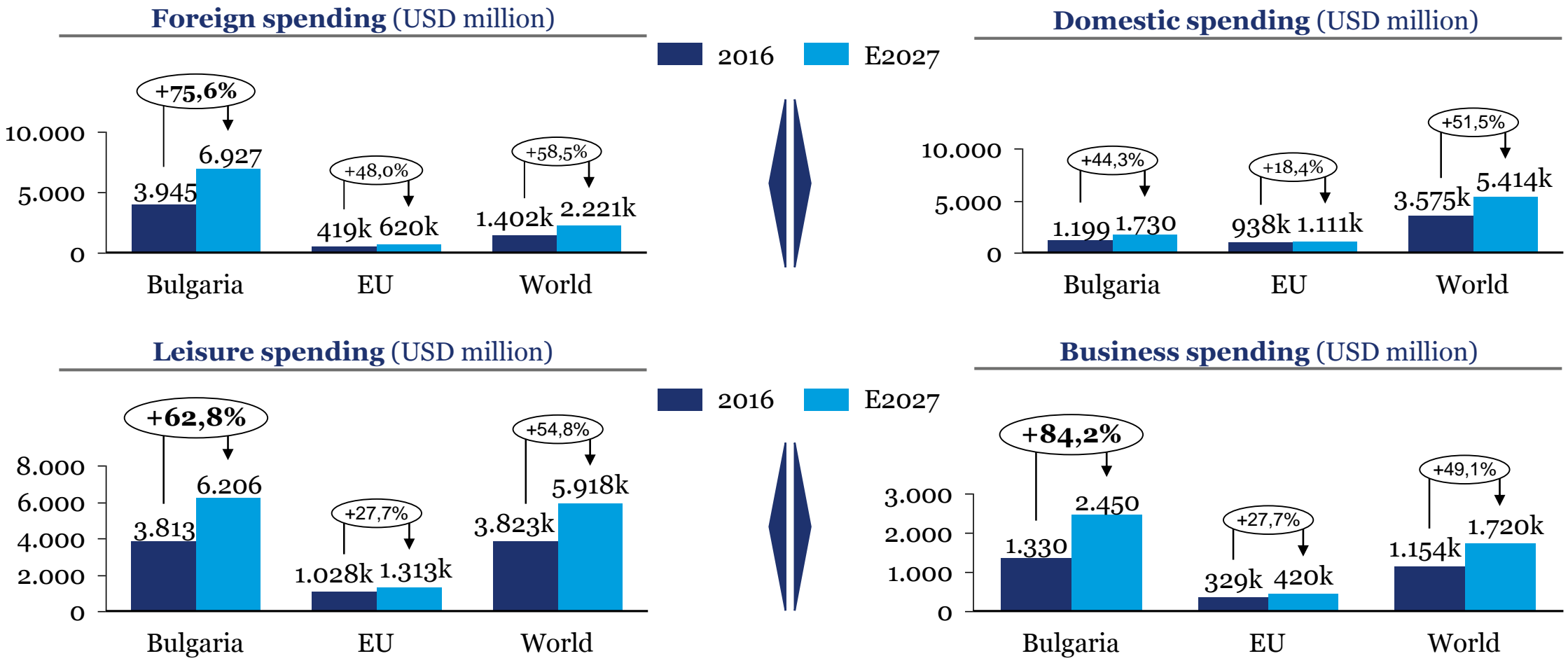


Number of night spends by the top 10 international tourist arrivals in Bulgaria (thousands)²



Foreigner spending in Bulgaria together with Business and Leisure is expected to grow faster than the EU and World average

Tourism spending development in Bulgaria compared to EU and World



Source: World Travel & Tourism Council

Bulgaria has the potential to become a four season touristic destination

Diversity in tourism



Sea tourism

A characteristic feature of the **sea tourism** is its high concentration in two municipalities - Nessebar and Varna, where almost **half of all income from night spends** is realized.



Mountain tourism

Bulgaria has been recognized as the most popular skiing destination in the Balkans with a total length of **ski runs** of over **210 km**. Major resorts are Bansko, Borovets and Pamporovo



Cultural tourism

By number of **cultural monuments** and artifacts, Bulgaria is in **third place** in Europe after Italy and Greece with more than 40.000 on its territory.



SPA tourism

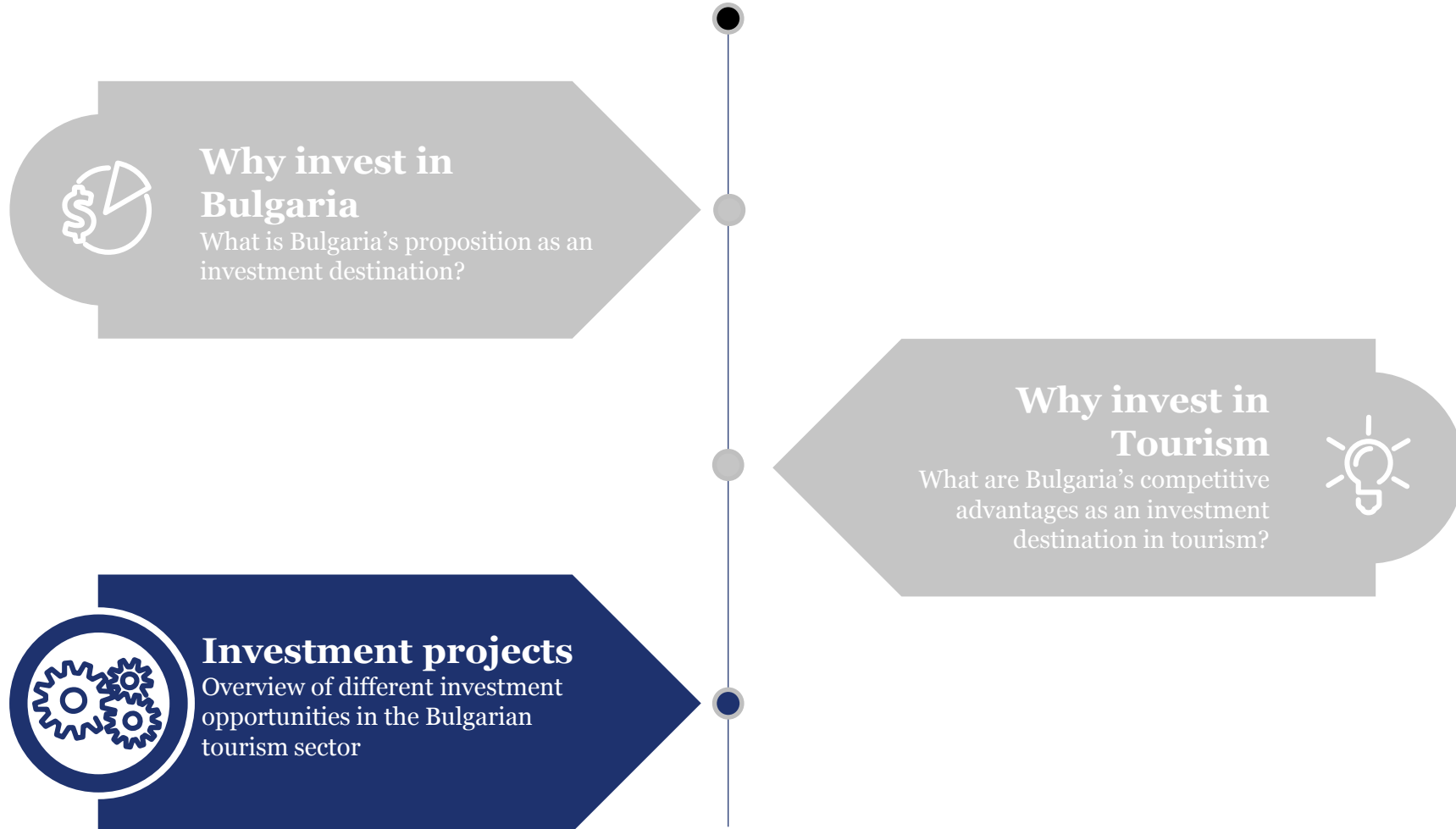
There are great opportunities for the development of SPA tourism in Bulgaria. More than **600 large mineral springs** are known, of which **only about 5% are used**.



Urban tourism

There is potential for the development of urban tourism, considering recent **low-lost airline penetration** in major cities like Sofia, Varna and Bourgas.

Content



There are great opportunities for investing in the Tourism sector in Bulgaria

Tourism investment map

NORTH WEST

- Expo business center in municipality center Vidin ~13 mEUR
- Motorsports park near Chelopech ~120 mEUR

SOUTH WEST

- Aqua park in proximity to Sofia
- Reconstruction of Ovtcha Kupel and Gorna Banya bathhouses in Sofia
- Ski area incl. resort near Dupnitsa ~15 mEUR
- Expo business center in municipality center Blagoevgrad ~18 mEUR
- Sports facility center incl. hotel complex near Blagoevgrad ~12 mEUR

NORTH CENTRAL

- Recreational resort at the Pcelin dam near Razgrad ~1.25 mEUR
- Ski area incl. resort near Tryavna
- Recreational resort Uzana near Gabrovo

SOUTH CENTRAL

- Reconstruction of SPA recreational complex near Stara Zagora (>34000 spends per yr)
- Golf resort with SPA hotel near Dospat ~10 mEUR
- Small expo center near an ancient Thracian site ~0.5 mEUR

NORTH EAST

- Rental and management (incl. possible renovation) of 3 hotel buildings and restaurants with >200 rooms, 1st line near Gold Sands resort with plot size ~450 Ar
- SPA and swimming pool complex in Varna ~4 mEUR
- Horse park Vinitsa, Varna ~2.5 mEUR
- Mud bath center in SPA center Shabla

SOUTH EAST

- Balneo-rehab facilities in Burgas ~2 mEUR
- Recreational complex in Burgas ~1.25 mEUR
- SPA recreational complex near Sliven mineral bathhouses

Further opportunities incl. bridge to private projects via the officially partnered tourism organizations upon request.

The Ministry of Tourism is glad to support your investment initiatives in Bulgaria's tourism sector

Contact



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Thank You!