

Voluntary Report – Voluntary - Public Distribution

Date: June 21, 2021

Report Number: BU2021-0025

Report Name: Hotel Restaurant and Institutional Sectors

Country: Bulgaria

Post: Sofia

Report Category: Food Service - Hotel Restaurant Institutional, Market Development Reports

Prepared By: Alexander Todorov

Approved By: Jonn Slette

Report Highlights:

Bulgaria's hotel, restaurant, and institutional (HRI) foodservice industry grew year-on-year until 2019. However, since March 2020, food service sales at restaurants and hotels dropped significantly following COVID-related closures. In 2020, HRI sales were down nearly 40 percent from 2019. Post does not expect HRI to fully recover before 2023, as stakeholders are pursuing new business models and expanding takeout and delivery services.

Market Fact Sheet: Bulgaria

Executive Summary

Although Bulgaria's GDP had been above 3% since 2016, GDP in 2020 fell by 4.2% in the wake of the COVID-19. Exports generate almost half of Bulgaria's GDP and are a pillar of the economy. EU Member States are Bulgaria's primary trading partners, although there are wide disparities in the balances of trade. In 2020, Bulgaria ran a \$3.24 billion trade deficit in goods. Agriculture makes up 4% of Bulgaria's GDP.

processing sectors include dairy, bakery, sugar, chocolate and confectionery, sunflower oil, red and poultry meat, eggs, soft drinks, horticultural processing, and wine production.

Food Retail Industry

Bulgarian food retail sales reached \$7.45 billion in 2020. Modern retail sales accounted for \$4.32 billion (58%) and \$3.13 billion in traditional channel. Total grocery outlets were 41,067. The largest retailer, Kaufland, accounted for nearly 30% of sales among the top 10 largest food retailers. Grocery e-commerce expanded significantly due to COVID-19 but still has growth potential. Urban consumers are increasingly demanding for higher quality and products perceived as healthful.

<i>SWOT Analysis</i>	
<i>Strengths</i>	<i>Weaknesses</i>
Bulgarian is accessible by sea and has an efficient distribution network. Growing food processing industry is looking for new imported ingredients. Low marketing costs.	Some U.S. exports are disadvantaged because of EU non-tariff barriers and import duties.
<i>Opportunities</i>	<i>Threats</i>
Growing incomes, increasing demand for high-value products, fast developing food retail network, consumption habits changing towards high-quality products.	Domestic producers receive EU funds to upgrade production efficiency and product quality which can lower demand for imports.

Imports of Consumer-Oriented Products

U.S goods exported to Bulgaria must meet EU sanitary and phytosanitary requirements. For more specific information, see Post's Food and Agricultural Import Regulations and Standards [report](#). In 2020, consumer-oriented food imports were \$2.87 billion, a 5% increase over 2019.

Food Processing Industry

Bulgarian food processing is developing rapidly and generated \$7.4 billion in 2019. Over 6,300 food processors operate in Bulgaria. Leading food

Quick Facts CY 2020

Imports of Consumer-Oriented Products:
(\$ 2.87 billion)

List of Top 10 Growth Products in Host Country

- | | |
|------------------------|--------------------------------|
| 1) Sunflower Seeds | 2) Meat of Swine |
| 3) Food Preparations | 4) Cocoa Preparations |
| 5) Bread, Pastry, Cake | 6) Coffee, Not Roasted |
| 7) Cane or Beet Sugar | 8) Whiskies |
| 9) Nonalc. Beverages | 10) Tomatoes, Fresh or Chilled |

Food Industry by Channels (\$ billion) 2020

Food Industry (2019)	7.4
Food Exports – Agricultural and Related Products (2020)	6.25
Food Imports – Agricultural and Related Products (2020)	5.18
Retail	7.45
Food Service	2.48

GDP/Population

Population (*millions*): 6.92

GDP (*\$ billion*): 74.4

GDP per capita (*\$*): 10,730

Bulgarian National Bank Exchange Rate:
\$1=BGN 1.594

Sources: Euromonitor, Eurostat, Bulgarian National Bank, Bulgarian National Statistical Institute, Local sources

Contact: AgSofia@usda.gov

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

COVID-19

The following report provides full-year 2020 data. Because data during the ongoing pandemic are still incomplete, Post seeks to provide updated information and developing trends.

On March 13, 2020, the Government of Bulgaria (GOB) declared a state of emergency, which significantly slowed the economy. Even during the state of emergency, most Bulgarian food processors continued to operate, albeit with less capacity due to workforce reductions and social distancing requirements. The rapid post-pandemic decline in the food service market and correlating demand spike for retail products led most food processing companies to reorganize production and distribution away from restaurants and toward retail outlets. Consumer trends shifted in favor of staple foods and online purchases, leading to notable declines in restaurant consumption. On May 14, 2020, the state of emergency was replaced by an official emergency epidemic situation. Nonetheless, the number of incoming foreign visitors during the summer tourism season dropped dramatically. After widespread HRI closures from mid-March to mid-May, followed by a significant drop in tourism and incoming business travelers, HRI sales for products like beer, meat, spirits, wine, fish and seafood, coffee, beverages, and confectionery declined. Although the measures were eased in June, the industry could not catch up due to still ongoing pandemic leading to withdrawal of consumers and lack of foreign tourists. In November, the GOB introduced a second lockdown until January 2021, which had additional negative effect on the industry due to the inability to take advantage of Christmas and New Year holidays' high demand. The GOB introduced measures to support the foodservice industry such as reduced value-added tax (VAT) rate from 20 percent to nine percent for restaurants, although it covered only food, soft drinks, beer, and wine. Initially the measure only covered dine-in orders, but later on it was extended by including the entertainment sector and foodservice deliveries. Additionally, wage subsidy schemes were introduced, although it turned out that they are not flexible enough as most of the employees in the foodservice sector are hired at minimum wage and rely on tips which account for larger portion of their incomes.

In 2020, the HRI industry contracted by nearly 40 percent with variations among different categories. Although entire foodservice industry was severely hit by the pandemic, some categories such as restaurants specialized in delivery, takeaways, and drive-through managed to partially reduce sales declines.

Bulgarian National Statistical Institute (NSI) announced that Bulgaria's gross domestic product (GDP) declined by 4.2 percent in 2020. According to the European Commission's (EC) forecast, the Bulgarian economy is expected to start recovering in 2021 with a GDP rebound of up to 3.5 percent and up to 4.7 percent in 2022. FAS Sofia expects the HRI industry to fully recover from the pandemic by early 2023, under updated labor and work safety protocols.

SECTION I. MARKET SUMMARY

Bulgarian National Bank's (BNB) 2020 average exchange rate of \$1.00=BGN 1.59 was used in this report.

Macroeconomic Situation

Despite COVID-19 pandemic in 2020, the center-right government has successfully maintained an IMF-backed tight fiscal policy. The Bulgarian Lev (BGN) is pegged to the euro at just under two-to-one by

the Currency Board. Bulgaria's corporate and income tax rate of 10 percent are the lowest in the EU. The VAT rate is 20 percent. The Government of Bulgaria (GOB) prides itself on its fiscal discipline, low tax rates, and incrementally increasing revenue collection. In July 2020, Bulgaria entered into the revised Exchange Rate Mechanism, known as ERM II, after completing a series of preconditions to strengthen the economy and banking industry. This means that as of early 2023 Bulgaria may be allowed to adopt euro as a national currency and thus become a member of the Eurozone.

Tourism Industry

Until March 2020, Bulgaria's tourism sector was developing quickly, making up nearly 11 percent of country's GDP. Bulgaria has established itself as a low-budget destination for European travelers. However, hospitality and culinary professional organizations are working to raise awareness and change perceptions about Bulgarian tourism to attract more high-income travelers. While the centers of Bulgarian tourism are the Black Sea beaches and mountain resorts, spa and historical tourism are also increasingly important. In 2020, the sector was severely hit by COVID-19, which led to up to 65 percent decline in value as compared to 2019. According to NSI, 4.73 million foreign tourists visited Bulgaria in 2020, down 49 percent from 2019 (the population of Bulgaria is 6.92 million).

Hospitality Industry

Bulgarian middle and high-end hotels (three, four, and five stars) dominate with about 70 percent of available rooms. Lower-end hotels still make up a higher number of businesses (about 51 percent). International business travelers tend to stay at recognized international hotels located in city centers and with international-standard quality rooms and services. 2020 is historically the most difficult for the hotel sector. According to data from the Ministry of Tourism's Unified Tourist Information System, the summer season ended with a 60-70 percent drop for the big resorts and similar for the city hotels. The latest results from the expiring winter season also show serious problems in the ski resorts, as the reduction of overnight stays for the main winter resorts is between 50 and 70 percent. The results in spa tourism are better - the main resorts are expected to end the winter season with 30 to 50 percent decline.

Infrastructure

Currently there are four civil airports in Bulgaria, including Sofia, Varna, Burgas, and Plovdiv. The largest airport is in Sofia, with nearly 2.94 million passengers in 2020, down 59 percent from 2019. The decline is a result of COVID-19 travel restrictions.

Bulgaria's infrastructure is relatively well-developed and continues to improve. There are seven major highways, 230 railway stations, four international airports, two seaports on the Black Sea, and numerous ports on the Danube River. Bulgaria is a major trade hub for linking Northern Europe with the Middle East and North Africa.

Dining Culture

Bulgarians generally like to dine out, with lunch and dinner being the most common meals for dining out. Breakfast is usually eaten at home, although bakery products from street kiosks and institutional cafeteria are commonly consumed during breakfast.

In the quick service sector burger and pizza sales bring the most value. Customers like burgers and pizza due to their affordability and quick availability. Over the last four years, Sofia observed strong

gourmet burger and street food trends, with new outlets opening and established ones diversifying their menus. Food deliveries to offices and homes also have gained in popularity. Local consumers tend to prefer coffee over tea, although most coffee shops offer both. Beer is the most popular alcoholic beverage, followed closely by wine and distilled spirits.

HRI Sector Overview

The HRI sectors in Bulgaria are still young industries without long-term professional traditions, especially in the high-end segment. HRI has developed dynamically in pre-COVID-19 years, with economic and demographic changes, tourism, shopping malls, and upscale urban restaurants driving growth. In 2020, the food service industry recorded a significant drop in value sales. The number of outlets also decreased.

Table 1. Consumer Food Service Outlets and Value Sales in 2018-2020

	2018	2019	2020
Outlets	40,163	40,415	37,708
BGN million current prices	5,667.1	5,779.2	3,604.7

Table source: Euromonitor data

Table 2. Advantages and Challenges Facing U.S. Products in Bulgaria

Advantages	Challenges
Bulgarians are becoming more aware of foreign, including U.S., cuisine.	Domestic and intra-EU products supply a high proportion of Bulgarian food and beverages needs.
Bulgaria has a stable currency fixed to the euro which eases market entry and transshipping.	U.S. exporters must conform to often difficult European standards and regulations.
Food consumption levels in Bulgaria are below average for the EU and have great potential to increase.	Competition in the Bulgarian food market is fierce and many consumers still prefer traditional products.
High proportion of the household budget spent on food purchases. Consumers are receptive to modern, innovative, and healthy products, although less so than elsewhere in Europe.	Lower disposable income makes consumers more price sensitive and choosing cheaper alternatives.
Bulgarians like beef but produce tiny quantities and import almost all beef for direct consumption. Increased quota for non-hormone beef imports enlarges market opportunities.	Suppliers must comply with European regulations such as food safety (non-hormone), logistical constraints, and labeling regulations.
U.S. fast food chains, theme restaurants, and the food processing industry are raising demand for food ingredients.	Certain food ingredients are banned or restricted from the market.

SECTION II. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

Prevailing Business Models and Market Entry Strategies

In general, the HRI sector is highly fragmented and dominated by independent players (more than 86 percent in value terms) rather than chains. The leading chains in 2020 were Happy Bar & Grill, McDonald's, and Fornetti. In 2020, the fastest developing independent category was 100 percent home delivery/takeaway, followed by street kiosks, limited-service (fast food), full-service restaurants, self-service cafeterias, and cafés/bars.

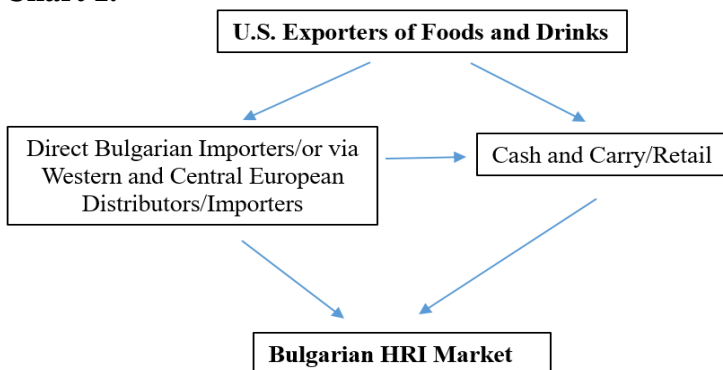
The top leaders in the limited-service segment are McDonald's and Domino's Pizza. Franchising is still a successful model in the HRI sector and is less risky for new entrants into the market. It is practiced by the international brands and by local companies in various forms, although domestic businesses still lag in terms of standards. Franchising offers brand recognition and is more convenient for new entrants who are not familiar with local business and/or legal practices. Franchising does not currently face any regulatory hurdles and is supported by the [Association of Franchises in Bulgaria](#). This organization facilitates training activities and linkages between foreign brand owners and potential local partners.

The best method to reach Bulgarian prospective business partners is to contact them directly via e-mail or to reach out to the [FAS Sofia](#) office for additional assistance and guidance. A visit to Bulgaria is strongly recommended to establish meaningful relationships with Bulgarian buyers. While visiting Bulgaria, it is advisable to bring product catalogues, samples, and price lists to show to potential buyers, as many of them rely heavily on subjective factors when deciding on new products to represent. Post recommends that the companies contact [FAS Sofia](#) for guidance when arranging a visit to Bulgaria.

B. MARKET STRUCTURE AND DISTRIBUTION

The diagram below indicates product flow in the HRI sector for the U.S. exporters.

Chart 1.



C. SUB-SECTOR PROFILES

Full-Service Restaurants

Full-service restaurants were the fastest growing category prior to 2020. After March 2020, the sales in the category dropped significantly by up to 40 percent on annual base, with main factors contributing to this drop being the several lockdowns, restricted travel and lack of tourists, and consumers' sharp withdrawal due to increased risk of Covid-19 infection. Some of the players, mainly the chained restaurants, were able to minimize the disruption by switching to takeaway and delivery. Post expects full-service category to recover by early 2023, depending on Covid-19 development, revival of tourism, and stabilization of the domestic economy. Happy Bar & Grill remains the leader in the category.

Limited-Service Restaurants

Between 2015 and 2019, the limited-service category grew by approximately four percent year-over-year. In 2020, the category declined by approximately 30 percent, which is significant but less acute than in full-service category. The main reasons for the better performance were the already well-established takeaway and delivery infrastructure and the lower price positioning. Pizza and burger-focused establishments were the main drivers in this category. McDonald's, Domino's Pizza, and KFC are the leaders in this segment (*Source: Euromonitor*). Post expects the limited-service category to recover faster and return to pre-Covid levels by early 2022.

Cafés and Bars

Cafés and Bars have the highest number of outlets and account for over half of all HRI outlets. Cafés are the most popular and their customer base tends to be younger and retired people. Coffee shops are popular and attract people in the 18-45 age group. Similar to limited-service category, this segment was growing steadily between 2015 and 2019. In 2020, the category was severely hit by the Covid-19 pandemic and sales dropped by nearly 40 percent. The main reasons for the decline were the same that affected the full-service segment. Top market leaders are Nedelia, Starbucks, and Costa Coffee (*Source: Euromonitor*).

Self-service cafeterias

Self-service cafeteria sales was traditionally a steady growing category before 2020. The main customers in this segment are middle income office and service-oriented workers and Covid-19 pandemic caused a large portion of them to switch to working from home, which resulted in nearly 35 percent decline in sales in this segment. Market leaders are BMS Bulgarska Kuhnya, IKEA Restaurants, and Trops Food (*Source: Euromonitor*). Post forecasts faster recovery of the category and a return to 2019 levels by early 2022, given a positive development of the pandemic and a swift return of their customers to pre-Covid work patterns.

Street Kiosks

In 2020, sales in the kiosk category declined by over 20 percent. Unlike the restaurant, cafés, and bars, street kiosks were not required to close as they do not have dine-in areas. Sales are seasonal and pick up during summer months, during which the pandemic slowed down, as well as around holidays and in weekends. The main drivers of the sales drop were the imposed social distancing measures, home isolation, and lack of tourists. Street kiosks offer snacks, hot dogs, pizza, sandwiches, pancakes, coffee, steamed corn, popcorn, ice cream, cotton candy, candy apples, nuts, sunflower and pumpkin seeds, and dried fruits. The assortment of foods has changed from more traditional hot dogs and pizza to healthier

alternatives such as nuts, corn, pumpkin and various seeds. Mobile kiosks dominate in the category. The market leaders are Fornetti and Go Grill.

Catering Services

Until 2020, the Bulgarian catering sector was increasingly attractive with growing number of companies operating on the market. Catering businesses range from small to large-scale operations and are organized into several categories. Institutional caterers supply larger factories, government agencies, private companies, hospitals, airline caterers, hotels, corporate and private parties and events, and local small events caterers. Bigger catering companies do not usually limit operations to one category, but cover a few categories by supplying hospitals, institutions, hotels, and big to medium-size events. The segment was severely hit by the pandemic due to low tourist inflow and hospitality industry crises, lack of corporate and private events, sharp drop in airline operations, and the switch of big corporate clients from office to home work.

100 Percent Home Delivery and Third Party Operators

This fast-developing prior to 2020 category saw a boost in sales during Covid-19 pandemic. Strong international third-party food delivery operators such as Foodpanda.bg and Takeaway.com became increasingly attractive for independent foodservice players who switched from dine-in to home delivery. This segment traditionally competes for market share with full-service and quick-service restaurants which have their own delivery services infrastructure developed. The sector is already expanding beyond Sofia, where it was concentrated in the recent years, into second-tier cities like Plovdiv, Varna, and Burgas. The growing demand for home delivery is expected to sustain in the following years.

Table 3. Top 10 Company Shares in Chained Consumer Food Service: Percent Food Service Value 2018-2020

Company / Brand	2018	2019	2020
Happy Ltd / Happy Bar & Grill	20.0	19.9	18.2
Aryzta AG / Fornetti	14.9	13.4	14.5
McDonald's Corp / McDonald's	12.0	11.4	12.6
Domino's Pizza Inc / Domino's Pizza	6.3	6.9	7.9
Yum! Brands Inc / KFC	5.9	6.4	6.9
Aladin Foods OOD / Aladin Foods	5.8	6.0	5.5
OMV Tankstellen / OMV Viva	4.8	4.7	5.1
Nedelia OOD / Nedelya	4.6	4.9	4.6
Hellenic Petroleum SA / Eko	3.3	3.3	3.5
Go Grill OOD / Go Grill	2.6	2.8	2.9

Source: Euromonitor

SECTION III. Competition

Table 4.

Product	Major Suppliers	Market Summary
Dried fruits and nuts	Argentina, USA, Turkey, Greece, Vietnam	Lower prices from competitors, but U.S. products dominate in almonds and pistachios due to quality.
Dry legumes (peas, lentils and beans)	Kyrgyzstan, Turkey, Egypt, Argentina, Ethiopia, Russia, Canada	Bulgaria imports almost all dry beans and pulses. Competitors offer lower prices. The U.S. advantage is quality and variety. Challenges are new EU tariffs on dried beans and the CETA FTA.
Beef	Ireland, Argentina, Uruguay, Australia, USA	Argentina and Uruguay are major suppliers, as most U.S. beef tends to be more expensive.
Fish and seafood	Denmark, Greece, Spain, Canada, Germany, Norway	EU suppliers are price competitive and able to supply faster and cheaper the fish and seafood varieties demanded by local consumers. U.S. disadvantages are the tariffs and CETA FTA.
Sauces, salad dressing and seasonings	EU countries, USA	USA is well known supplier of price competitive BBQ sauces and is able to supply a variety of regional sauces.
Canned fruits and vegetables	West and Eastern Europe	Price competitive.
Ready-to-eat meals	EU countries	Imports are at competitive prices.
Wine	Italy, France, Germany, Croatia, Spain, and New World wines, USA.	Price competitive since no duties inside the EU. Quality creates opportunities for U.S. wines. Strong domestic production and competition from New Zealand, South Africa, and Chile.
Fruit juices	EU countries	Lower prices from the EU. However, Florida juices have a good reputation.
Ethnic Foods	China, Japan, India	Interest in Tex-Mex products and other regional U.S. cuisines, e.g. Cajun.
Rice	China, Greece, Myanmar, Italy, Pakistan, India, Thailand	Asia offers quality and low price products. Biotech testing is a constraint.
Fresh fruits	Greece, Turkey, Ecuador, Netherlands, Germany, Romania	Preference is given to EU suppliers and neighborhood countries due to tariffs and EU phytosanitary barriers.

Source: OAA Sofia and Trade Data Monitor (TDM) based on Eurostat

SECTION IV. BEST PRODUCTS PROSPECTS

- Best U.S.-origin opportunities in HRI sector are for distilled spirits, wine, dried fruits and tree nuts (almonds, pistachio, walnuts, and pecan), peanuts, fish and seafood (salmon, hake, herring, mackerel, pollock, squid, lobster, scallops), beef, pulses, snacks, breakfast cereals, and popcorn.
- Other opportunities exist for U.S. fruit juices and soft drinks (including flavored waters), ethnic products, grapefruit, salad dressing, tomato sauce, spices, craft beer, and chocolate.

SECTION V. POST CONTACT AND FURTHER INFORMATION

If you have questions or comments regarding this report, require listings of local importers and institutions or need assistance exporting to Bulgaria, please contact the U.S. Office of Agricultural Affairs in Sofia.

Office of Agricultural Affairs | U.S. Embassy, 16 Kozyak Str., Sofia 1408, Bulgaria

Tel: +359-2-939-5774; +359-2-939-5720 | E-mail: agsofia@usda.gov

Website: <https://bg.usembassy.gov/embassy/sofia/sections-offices/foreign-agricultural-service/>

The public reports published by FAS Sofia can be reached by following this [link](#). Please use the search engine to filter the reports by country, category, and date.

Attachments:

No Attachments.