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Report Name: Hotel Restaurant and Institutional Food Service Bulgaria 2021

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Prepared By: Alexander Todorov

Approved By: Alicia Hernandez

Report Highlights:

Bulgaria's hotel, restaurant, and institutional (HRI) foodservice industry grew year-on-year by early 2020. The COVID-19 pandemic severely hit the industry and food service sales dropped significantly in 2020 and in early 2021. In 2021, despite some remaining anti-COVID measures, after a strong summer tourist season, the HRI sector started to rebound and registered up to 25 percent growth in certain categories over 2020. However, the levels are still lower than before the pandemic. FAS Sofia expects the industry to fully recover by the end of 2024, depending on the course of new challenges such as high inflation, the war in Ukraine, high energy prices, political instability, as well as the revival of tourism and steadiness of the domestic economy.

Market Fact Sheet: Bulgaria

Executive Summary

Although Bulgaria’s GDP growth had been above 3% since 2016, in 2020 it dropped by 4% in the wake of COVID-19 and in 2021 it grew by 7.6% compared to 2020. Exports generate 49% 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 2021, Bulgaria ran a \$2.46 billion trade deficit in goods. Agriculture makes up 5% of Bulgaria’s GDP.

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 grocery retail sales reached BGN 12.2 billion (\$7.07 billion) in 2021. Modern retail sales accounted for BGN 7.43 billion (\$4.3 billion) or 61% and BGN 4.78 billion (\$2.77 billion) in traditional channel. Total grocery outlets were 38,955. The largest retailer, Kaufland, accounted for nearly 28% 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>
Bulgaria 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 2021, consumer-oriented food imports were \$3.28 billion, a 14.3% increase compared to 2020.

Food Processing Industry

Bulgarian food processing enjoys a steady development. Leading food processing sectors

Quick Facts CY 2021

Imports of Consumer-Oriented Products

(\$3.28 billion)

List of Top 10 Growth Products in Host Country

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

Food Industry by Channels (\$ billion) 2021

Food Exports – Agricultural and Related Products (2021)	8.55
Food Imports – Agricultural and Related Products (2021)	6.13
Retail	7.07
Food Service	2.57

GDP/Population

Population (*millions*): 6.52

GDP (\$ *billion*): 80.5

GDP per capita (\$): 11,700

Bulgarian National Bank Exchange Rate: \$1=BGN 1.727

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

Contact: AgSofia@usda.gov

General Information:

HRI in Bulgaria is still maturing and does not have long professional traditions, especially in the high-value segment. Prior to the COVID-19 outbreak, these sectors had developed dynamically with tourism and shopping malls being the main drivers. Bulgaria's HRI foodservice industry grew year-on-year until February 2020. The industry was severely hit by the COVID-19 pandemic with a nearly 45 percent drop in food service sales at restaurants and hotels as the outlets closed, tourism halted, and public outings were reduced.

The Government of Bulgaria (GOB) introduced a tax relief measure to help the food service industry. The measure was extended until December 31, 2023. Bulgaria's value added tax (VAT) was reduced from 20 percent to 9 percent for restaurant and catering services (alcoholic beverages were excluded from this measure).

In 2021, Bulgaria's tourism enjoyed strong summer and winter tourist seasons and registered up to 50 percent growth over the same period in 2020. Although the still existing, mandatory anti-COVID measures applied by food service operators in 2021 limited the recovery, the industry started rebounding and registered nearly 25 percent growth compared to 2020, while still about 28 percent down from 2019 (Source: Euromonitor). Industry players with online channels established during the pandemic were less negatively affected by the pandemic overall.

In 2022, the summer season reached nearly 90 percent of the 2019 summer season tourism. Despite the war in Ukraine, the lack of tourists from Russia, Ukraine, and Belarus, and the mild winter, the preliminary data for the 2022 winter tourism season is very good. The food service industry rebound continued and is expected to register up to 20 percent growth compared to 2021.

The major problems the industry faced in 2022 were the war in Ukraine, growing inflation, rising energy prices, decreasing consumer purchasing power, and supply chain disturbances. All these issues resulted in significant cost of living increases, most substantial in grocery products, and further diminished consumers' purchasing power. This required the grocery retail, food service, and food processing industries to adapt quickly to the new environment, which they successfully did. According to the Bulgarian National Statistical Institute (NSI), GDP grew by nearly 4 percent in 2022 compared to 2021, unemployment is below 5 percent, and both exports and imports increased considerably in 2022.

According to the European Commission (EC), Bulgaria's economic expansion is expected to slow down in 2023, before somewhat higher growth resumes in 2024. Price increases and higher borrowing costs are set to weigh on household consumption. Export growth is forecast to slow down, in line with the subdued foreign demand until the end of 2023 and then rebound in 2024. With inflation gradually slowing, GDP growth is projected to accelerate from 1.4 percent in 2023 to 2.5 percent in 2024. Inflation is forecast to decrease notably in 2023 and further in 2024. No unemployment fluctuations are expected and it is likely to remain at the current low level below 5 percent.

FAS Sofia expects that Bulgaria's HRI industry will keep the upward recovery trend but will need up to 24 months to fully recover and reach the pre-pandemic 2019 level.

SECTION I. MARKET SUMMARY

Bulgarian National Bank's (BNB) 2021 average exchange rate of \$1.00=BGN 1.727 was used in this report.

Macroeconomic Situation

Despite COVID-19 pandemic challenges and the volatile political situation, Bulgaria has successfully maintained an International Monetary Fund (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. There is a reduced rate of 9 percent for hotel accommodation and for restaurant and catering services (excluding alcoholic beverages). 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 2024 Bulgaria may be allowed to adopt euro as a national currency and thus become a member of the Eurozone.

Tourism Industry

Until early 2020, Bulgaria's tourism sector was developing quickly, making up nearly 11 percent of the country's GDP. Bulgaria has established itself as a low-budget destination for European travelers, though, 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. The sector started reviving slowly in 2021 and in 2022 the strong summer season almost reached the pre-pandemic levels of 2019. According to NSI, 7.2 million foreigners visited Bulgaria in 2021, up 52 percent from 2020 (the population of Bulgaria is 6.52 million).

Hospitality Industry

In 2021, there were 3,335 public and private accommodation establishments functioning in the country – hotels, motels, mountain chalets, camping sites, and other establishments for short-term accommodation with more than 10 beds. The number of establishments dropped by about 9 percent from 2019, mainly due to closures during the COVID-19 pandemic. The number of the nights spent by foreigners in all accommodation establishments increased by 72 percent in 2021 compared to the previous year (Source: NSI). Bulgarian middle and high-end hotels (three, four, and five stars) dominate with about three-fourths of available rooms. International business travelers tend to stay at recognized international hotels located in city centers and with international-standard quality rooms and services.

Infrastructure

Currently there are four civil airports in Bulgaria, including Sofia, Varna, Burgas, and Plovdiv. The largest airport is in Sofia. The number of passengers via Bulgarian airports increased significantly from 3.9 million in 2020 to 5.3 million in 2021, mainly due to the easing of COVID-19 related travel restrictions.

Bulgaria's infrastructure is relatively well-developed and continues to improve. There are six major highways, a 4,031 km. railway network, two seaports on the Black Sea, and numerous ports on the

Danube River. Five pan-European corridors cross the country and link Northern and Western 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 all 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 relatively young, 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. In 2021, the industry started recovering and the sales grew in value. However, they were still far from the pre-pandemic 2019 levels and the number of outlets kept decreasing.

Table 1. Consumer Food Service Outlets and Value Sales in 2019-2021

	2019	2020	2021
Outlets	40,415	37,820	36,921
BGN million current prices	6,202.9	3,551	4,435.7

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, especially for high-end products, and have great potential to increase.	Competition in the Bulgarian food market is very strong and many consumers still prefer traditional products.
High proportion of the household budget spent on food purchases (about 30 percent). 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	Suppliers must comply with European

import almost all beef for direct consumption. Increased quota for non-hormone beef imports enlarges market opportunities.	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 87 percent in value terms) rather than chains. The leading chains in 2021 were Happy Bar & Grill, Fornetti, and McDonald’s. In 2021, the fastest developing independent categories were full-service restaurants and cafés/bars.

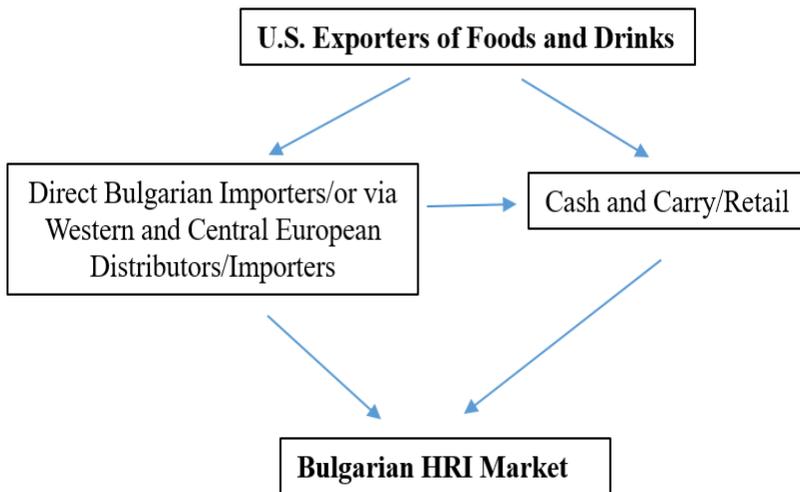
The top leaders in the limited-service segment were McDonald’s, Domino’s Pizza, and KFC. Franchising is still a successful model in the HRI sector and is less risky for new entrants into the market. It is practiced by the international brands and by local companies in various forms, although domestic 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 companies contact [FAS Sofia](#) for guidance when arranging a trade 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 an annual base, with the main contributing factors being the numerous 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. While in 2021 the number of outlets decreased, the industry still saw a sharp recovery, but could not reach the pre-pandemic levels, mainly due to the remaining restrictions imposed for customers without a COVID-19 certificate. Although the takeaway and delivery alternatives helped some of the players to survive during the pandemic, their positive impact was not as good as expected and did not contribute to a high growth in value. Happy Bar & Grill remains the undisputed leader in the category. Post expects full-service category to recover by mid-2024, depending on the new challenges such as the high inflation and the war in Ukraine, as well as the revival of tourism and stabilization of the domestic economy.

Limited-Service Restaurants

Between 2015 and 2019, the limited-service category grew by approximately four percent year-over-year. Similar to full-service restaurants, in 2020 the category declined by approximately 30 percent, with already well-established takeaway and delivery infrastructure and the lower price positioning being the main factors for a slightly better performance. In 2021, the category registered up to 25 percent growth in value sales, compared to the previous year, and a slight drop in the number of outlets. Nevertheless, the sales in 2021 were nearly 23 percent lower than the pre-pandemic 2019, with pizza and burger-focused establishments being the main drivers in this category. McDonald's, Domino's Pizza, and KFC remained the leaders in this segment (Source: Euromonitor). Post expects the limited-service category to recover faster and return to pre-COVID levels by the end of 2023.

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 and full-service categories, this segment was growing steadily through 2019. In 2020, the category was hit by the COVID-19 pandemic and sales dropped by nearly 40 percent. In 2021, the sales in the category increased by nearly 25 percent with a slight drop in number of outlets but are still nearly 30 percent lower than the pre-pandemic 2019. Top market leaders remain Nedelya, Starbucks, and Costa Coffee (Source: Euromonitor). Post expects the limited-service category to fully rebound by the end of 2024.

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 more than 37 percent decline in sales in this segment. In 2021, the category saw a slight decline in number of outlets, but the sales increased by 23 percent compared to 2020. This level is still about 23 percent down from 2019. 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 the end of 2023.

Street Kiosks

In 2020, sales in the kiosk category declined by over 40 percent. Unlike the restaurant, cafés, and bars, street kiosks were not required to close as they do not have dine-in areas. The main drivers of the sales drop were the imposed social distancing measures, home isolation, and lack of tourists. In 2021, the sales increased by over 23 percent, but still significantly lower than in 2019. 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, and various seeds. The market leaders are Fornetti and Go Grill (Source: Euromonitor). Post expects full recovery of the category by the end of 2023, under the strong competition of limited-service and self-service establishments.

Catering Services

Until 2020, the Bulgarian catering sector was increasingly attractive with a 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. Similar to the other categories, 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. In 2021, it started rebounding with full recovery expected by early 2024.

100 Percent Home Delivery and Third-Party Operators

This fast-developing prior to 2020 category saw a boost in sales during COVID-19 pandemic, which continues to date. Strong international third-party food delivery operators such as Glovo.bg (former Foodpanda.bg), Takeaway.com, and many domestic companies 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 2019-2021

Company / Brand	2019	2020	2021
Happy Ltd / Happy Bar & Grill	19.9	18.4	18.6
Aryzta AG / Fornetti	13.4	13.5	13.2
McDonald's Corp / McDonald's	11.4	12.8	12.4
Domino's Pizza Inc / Domino's Pizza	6.9	8.3	8.3
Yum! Brands Inc / KFC	6.4	6.6	6.7
Aladin Foods OOD / Aladin Foods	6.0	5.8	5.7
Nedelia OOD / Nedelya	4.9	5.1	5.1
OMV Tankstellen / OMV Viva	4.7	4.5	5.0
Hellenic Petroleum SA / Eko	3.3	2.9	3.4
Doctor's Associates Inc	3.4	3.3	3.3

Source: Euromonitor

SECTION III. Competition

Table 4.

Product	Major Suppliers	Market Summary
Dried fruits and nuts	Turkey, USA, Greece, Vietnam	Lower prices from competitors, but U.S. products dominate in almonds, pistachios, and walnuts due to quality.
Dry legumes (peas, lentils, and beans)	Egypt, Turkey, Ethiopia, Kyrgyzstan, Argentina, Russia, Canada	Bulgaria imports almost all dry beans and pulses. Competitors offer lower prices. The U.S. advantage is quality and variety. Challenges are the EU tariffs on dried beans and the CETA FTA.
Beef	EU countries, Argentina, Uruguay, Australia, USA	Argentina and Uruguay are major non-EU suppliers, as most U.S. beef tends to be more expensive.
Fish and seafood	Spain, Greece, Denmark, Netherlands, Canada, Germany, Turkey	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, Serbia, Turkey, UK, USA	USA is well known supplier of price competitive BBQ sauces with high quality and is able to supply a variety of regional

		saucers.
Canned fruits and vegetables	EU countries, Turkey, Serbia, China	Price competitive.
Ready-to-eat meals	EU countries	Imports are at competitive prices.
Wine	France, Italy, Germany, Spain, North Macedonia, 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, North Macedonia, South Africa, and Chile.
Fruit juices	EU countries, Turkey, Serbia	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, Austria, India, Germany, Turkey	Asia offers quality and low-price products. Biotech testing is a constraint.
Fresh fruits	Turkey, Greece, Ecuador, Netherlands, Germany, Romania	Preference is given to EU suppliers and neighborhood countries due to tariffs, EU phytosanitary barriers, and quick logistics.

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, frozen vegetables, 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/>

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Attachments:

No Attachments.