SOFIA: ECONOMIC AND INVESTMENT PROFILE

November 2019
investsofia.com
Which are the leading industries, which are the target sectors for investments and how many jobs were created in Sofia?

What is the importance of infrastructure, local taxes and business conditions and how does the city perform in comparison to other popular business destinations in the region?

How will the economy of Sofia and the investments develop over the next years?
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# Abbreviations

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<th>Acronym</th>
<th>Description</th>
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<tr>
<td>NEA</td>
<td>National Employment Agency</td>
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<td>RIA</td>
<td>Road Infrastructure Agency</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>GVA</td>
<td>Gross value added</td>
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<td>HEI</td>
<td>Higher education institution</td>
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<td>TFA</td>
<td>Tangible fixed assets</td>
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<td>IT</td>
<td>Information technologies</td>
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<td>CPC</td>
<td>Commission for Protection of Competition</td>
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<td>NSI</td>
<td>National Statistical Institute</td>
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<td>PQA</td>
<td>Professional qualification acquired</td>
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<td>FDI</td>
<td>Foreign direct investment</td>
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<td>REI</td>
<td>Regional Education Inspectorate</td>
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<td>SSGE</td>
<td>Secondary school of general education</td>
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Sofia is the biggest regional economy in the country. About 40% of Bulgaria’s GDP is produced in Sofia. The contribution of Sofia Municipality to the national economy has been growing at a moderate but stable rate in recent years, reflecting the continuing concentration of economic activity in the Capital. Sofia provides the highest salaries, which are 38% higher than the average levels for Bulgaria.

Although Sofia was not spared by the economic crisis of 2008-2009, the recession was not as deep as in the rest of the country. Besides, the city managed to fully recover by 2010, and since 2013, the economy of Sofia is expanding. In the last three years Sofia’s economy marks a real GDP growth, significantly above the national average.

The change in the value added by the different sectors in Sofia in the last 10 years is in line with the transformation of the Bulgarian economy and its orientation towards higher value-added sectors. While the share of construction sharply shrinks (compared to 2008), Manufacturing, Information technology and Outsourcing are increasing their share and setting the pace of Sofia’s development. The manufacturing industry has increased its weight in the local economy after a series of investments in the areas of Pharmaceuticals, Automotive, Cosmetics, Optics, among others. By 2018, the Manufacturing industry had a share of 9.9%, showing an increase of almost 2% compared to its share before the crisis.

The same increase can be observed in the gross added value of the sector of Administrative and supporting activities, which includes part of the outsourcing industry (the so-called service call centres). The other part of the outsourcing industry is included in the Professional activities and research sector. These two broad sectors of outsourcing, along with the IT industry (part of the Creation and distribution of information and communication sector), found favourable growth conditions in Sofia in the last few years due to the combination of educated workforce, knowledge of foreign languages and low labour costs.

Sofia’s economy is also characterized by significantly higher investment activity than the national average. Latest data shows that about 40% of the cost of tangible fixed assets and half of foreign direct investments were concentrated in the Sofia region.
By the end of 2018, the Capital had attracted €13 billion of foreign investments or about € 9 800 per capita, which is nearly three times the average for the country.

**Cumulative FDI by 31.12.2018, % of all**

- **Trade, repairs, transportation, storage, post and tourism**
- **Real estate**
- **Extractive industry, manufacturing and utilities**
- **Information and creative products; telecommunications**
- **Professional and administrative activities, scientific research**
- **Construction**
- **Others**
- **Government, education, healthcare**
- **Agriculture**

**Most investments in Sofia are directed towards the service sector.** The industries in the sector make the biggest contribution to the added value of the local economy. The subsector of services attracting the largest share of investments in tangible fixed assets (31%) is Trade, repairs, transport, storage, post, hotels and restaurants. Foreign direct investment (FDI) data also confirms the attractiveness of this sector for investments – 37% of all FDI by 2018 fall here. This is due to both the high income and consumption in the Capital and the fact that the city is a well-developed transport and logistics centre.

Other sectors, attractive for foreign investment, are the Extractive industry, Manufacturing, Utilities, Real estate, IT and Outsourcing. While real estate investments were made before the 2009 crisis, those in the Extractive industry, Manufacturing, IT and Business services have been rising recently, in line with the rapid growth of these sectors.

**Sofia is also distinguished by a good absorption of EU funds** – a major source of public investment. By the end of June 2019, the Capital had absorbed BGN 4.2 billion. The largest beneficiary is the Metropolitan Municipal Company that manages the city’s metro.

**The export revenue of Sofia-based enterprises has been growing rapidly since 2014, in line with the expansion of the city’s economy.** More than one-third (37%) of the country's export revenue is generated in the Capital. In 2018, the exports from Sofia exceeded BGN 28 billion, indicating that a significant part of the city's economy is export-oriented.

While nearly 50% of the country's export revenue is generated in the Manufacturing sector, its share in Sofia is 18%. At the same time, the export generated by the Trade and Repairs sector in Sofia reaches 40% of the total export revenue, compared to 26% for the country. The value of foreign exchange earnings from the IT and Telecommunications sector has a share of 16% in the total export revenue of the city's economy, compared to about 7% in the national economy.
There is also a significant difference in the sector of *Professional Activities and Research* – the share of their export earnings in Sofia is about 8% compared to 3% in the country.

**Sofia is characterised by a relatively young and highly educated workforce** and demonstrates the best demographic trends in the country. It is one of the six regions in the country, where more people settled in than left in 2018. The number of people who moved to Sofia is comparable to the number of people who emigrated.

**Annual average population of Sofia**

As a result, **Sofia not only continues to account for an increasing amount of Bulgaria’s economic activity, but also attracts an increasing share of the country’s population.** The natural growth in Sofia, although negative, is the most favourable in the country: -1.9 promiles for 2018. The aging of the population is also relatively slow, with age dependency ratios for the city being among the best in the country.

**In addition to attracting economically active people from other areas, Sofia is also characterised by a concentration of highly qualified population.** While in the country the share of the population with higher education is 28.2%, in Sofia it is significantly higher - over 51%. The difference in the share of people with elementary and lower education is even higher - in Sofia the population aged 25-64 with elementary and lower education is 4% compared to 17% in the country. This comes to show that Sofia has a concentration of mostly educated people, and the labour market is composed of relatively high-skilled labour force.

The education system of the Capital is well-developed. As Sofia is the region with the largest population and the highest number of children, most of the schools of all types and in all educational levels are concentrated here. **Students in Sofia demonstrate the best performance at matriculation exams,** traditionally showing the highest average scores and the lowest share of fail grades.
Over the last few years, about 9,000 students annually graduate from secondary education, with a gradual growth in the last two years. Another characteristic of Sofia is the comparatively low share of professional education graduates – a fact that can be explained by the smaller share of the Manufacturing sector in the city. While on average 1/2 of the students in secondary education in the country study in and graduate from professional schools, for Sofia this share is about 1/3.

At the same time, preferences for profiled secondary education remain high. Nearly 70% of students in profiled schools study in language schools with focus on English, German, Spanish, French and other languages.

Sofia is the national leader in higher education. 23 of the 51 accredited higher education institutions in the country are situated in Sofia. Moreover, the top three universities with the highest accreditation rating (the Medical University, the University of National and World Economy and the Sofia University) are situated in Sofia and attract the majority of and the best students.

There are around 100,000 students in Sofia, accounting for over 40% share on a country level. In line with the trends in the country, the number of students in Sofia has been decreasing over the last few years (mainly because of demographic reasons), but the decrease is smaller than in the other parts of Bulgaria. A large part of the students from other areas stay in Sofia after completing their education – another factor behind Sofia’s good demography.
Given the concentration of highly-educated working-age population, it is not surprising that Sofia has the **highest employment rate** – 76% in 2018, which is an absolute record both for the Capital and Bulgaria. Furthermore, Sofia has the **lowest unemployment rate** (2.1%) compared to all regions.

The highest share of employment remains in the **Trade and repairs sector** – nearly 180 000 people or 1/4 of the labour force in the city. Since 2012, there has been a substantial rise in jobs in the *IT industry and professional activities* – a consequence of the boom in these sectors over the last few years.

The number of employees in *Administrative and supporting activities* is also increasing, which can be partially attributed to the growth of the outsourcing industry.

In line with the highest levels of employment in the country and the high share of industries that require highly qualified personnel, Sofia can boast salaries that are higher than the average in the country. In 2018, the **average annual salary in Sofia was BGN 19 000, which is 38% higher than the average annual salary in Bulgaria**. The fast growth rate – about 10.6% – slightly outpaces the national average rate of remuneration growth. If the growth from the first nine months of 2019 continues, the average annual salary in the capital is estimated to exceed BGN 21 500.

At the same time, **unemployment in Sofia is mainly frictional** or voluntary, i.e. it results from the natural movement of people from one job to another or from relatively generous unemployment benefits. The unemployment figures for Sofia show that out of the 15 000 registered unemployed in the Employment offices, 46% are with higher education and 31% with secondary professional education. In addition, over 61% of the registered unemployed are specialists (mainly in services, transport, economy and law). Given the level of specialisation and the relatively high educational level of the registered unemployed, it is not surprising that **only 5% of the unemployed in Sofia remain registered for over 1 year** compared to 37% in the country.

In addition to the educated workforce, **Sofia also offers relatively good infrastructural connectivity**. Sofia is among the main railway centres in the country. It is part of three European transport corridors and several highways start from the Capital, linking it with the Black Sea coast and the borders with Turkey, Greece and Serbia.

**The largest airport in Bulgaria** is also located in Sofia. Sofia Airport operates two passenger and two cargo terminals. Sofia Airport services more than 35 airlines, covering over 70 destinations and the number of passengers has increased to almost 7 million annually in 2018.

Sofia is also the only city in the country with a metro, which currently serves about 380 000 people daily and continues to expand. Last but not least, Sofia also offers good internet infrastructure, with one of the highest internet speeds in Europe, and 3/4 of the population aged 16-74 has access to and regularly uses the Internet.

**The local tax environment in the Capital is stable and predictable.** Contrary to the general trend of increasing local taxes and fees in the country in the last few years, none of the main local taxes and fees has been changed in the last 8 years (2012-2019) in Sofia Municipality. Most local
taxes and fees are similar to the average rates in other regional cities. Exceptions are the relatively higher waste collection fee and patent tax for retailers.

**Compared to its main competitors in the region, Sofia has a number of competitive advantages.** The corporate and personal income tax rate is 10%. Another key advantage of Sofia is the low cost of utilities and transportation. Salaries and labour costs in general are comparable to those in other major cities in the region. Internet speed and accessibility are also among the advantages of Sofia, according to testmy.net.

Overall, the prospects for the development of Sofia are positive. **The city will most likely continue to concentrate an increasing share of the economic activity in the country** due to its positive demographics and its leadership in the development of the fastest growing sectors.

The highly-skilled workforce will keep attracting investments in such rapidly growing sectors as the IT industry, outsourcing of business services and some manufacturing activities with relatively high added value. The data from recent years also illustrates high investments in these sectors.

**Sofia is well-positioned to develop some new forms of economic relations such as digital and shared economy services** due to both the appropriate IT infrastructure – highly educated people, high average internet speeds and numerous IT companies and specialists, and the large population. Most of the companies in the so-called **Creative Industries** are concentrated in Sofia, and this sector has also been developing rapidly in recent years.

**Transport, Storage and Tourism.** Inbound tourism received a strong boost after two low-cost companies opened regular flights to and from Sofia. Furthermore, traditional airlines are also adding new flight routes.

The **Construction** industry also has all the preconditions for growth in the coming years. Since 2015, there has been a rapid growth in the number of building permits, which in 2018 experienced record levels – higher than those in the years prior to the financial crisis.
1. Macroeconomic Profile

1.1. Gross Domestic Product

Sofia is the largest regional economy in the country. The Gross Domestic Product (GDP) of the Sofia region is BGN 40.2 billion for 2017, accounting for 39.9% of Bulgaria's total GDP. The contribution of Sofia to the national economy has been increasing moderately but steadily in recent years – for comparison, in 2008 the Capital produced 37.5% of the national GDP. This trend reflects the continued concentration of economic activity in Sofia.

In addition to being the largest economy in Bulgaria, Sofia provides the highest standard of living for its citizens compared to other regions of the country. The GDP per capita is traditionally highest in Sofia (BGN 30 295 in 2017), and, since 2008, it is about 2.2 to 2.3 times higher than the average for the country. It is over four times higher compared with the least developed regions in the country.

Although Sofia was not spared by the economic crisis of 2008-2009, the recession in Sofia was less prominent compared to the decline in the overall national output. In nominal terms, the gross domestic product of Sofia has not even stopped growing from 2008 onwards. In real terms[^1], the GDP of Sofia region shrank twice less than the national GDP drop.

Sofia experienced a second contraction of its total output in 2012 that was not registered in the rest of the country. This post-2008 economic development dynamic in Sofia was identical to the situation of the European economy, which many analysts

[^1]: I.e. after GDP deflated by the implicit deflator of national GDP because of the absence of regional deflators or price indices.
compare to the letter \( W \), where the initial decline in output in 2009 was followed by a further contraction in 2012. This parallel between Sofia’s economy and the European economy suggests that Sofia’s economic cycle is tied much more closely to other EU member states than to the other regions of Bulgaria. This fact is also reflected in the rapidly growing export earnings of the enterprises in Sofia, which determine the strong export orientation of the city’s economy.

Latest data show a sharp increase in Sofia’s GDP in 2016 and 2017 (both in real terms and per capita), with growth rates significantly higher in Sofia than in Bulgaria as a whole. GDP in the country is also rising significantly – by 3.6% in 2017, but with a real growth of 4.4% Sofia is even further ahead of the economy in the rest of the country.

1.2. Structure of the Economy

Sofia’s economy is dominated by the Service sector, which produces over 80% of the regional GDP, while Agriculture continues to have a negligible share close to zero.

Statistics on the value added at factor cost indicator provide valuable insight into the structure of the real sector of the local economy.

The biggest change in the structure of Sofia’s economy, following the recession in 2009, was the crisis in construction. After the burst of the construction bubble and the tightening of the credit market, the sector shrank to half its size, with its share in the local economy declining from 11% in 2008 to below 6% in 2018 (according to preliminary data).

At the same time, the manufacturing industry has increased its weight in the local economy, following a series of investments in new manufacturing facilities and already existing ones in pharmaceuticals, auto parts, cosmetics, optics and other. By 2018, the Manufacturing industry had a 9.9% share in Sofia’s economy, or more than one per cent higher than its pre-crisis weight.

The IT and Business Process Sourcing sectors continue to grow rapidly. According to various estimates, the employment in these activities increased by about 9% in 2018, already representing more than 8% of the employed in the capital economy. Sales revenues of the sector grew by around 18%.

According to NSI, 79 000 people were employed in ”Creation and Distribution of Information and Creative Products; Telecommunications” in 2018, constituting nearly 83% of the country’s total employment in the sector, and reaching 10.5% of the total employment in Sofia – a 5.2% growth on 2017.

According to company reports, about 6 500 companies operate in the Information Technology sector in Sofia. They have annual revenues of about BGN 5.8 billion and employ about 58 000 people – an 18% and 9.5% respective increase on 2017, when company revenues were BGN 4.9 billion and the number of employees - about 53 000. There are 5 companies with more than 1000 employees and 33 companies in total with more than 250 employees. About 22 000 people are employed in large companies, which cumulatively make about BGN 1.8 billion in revenues. The medium-sized companies with 50-249 employees are 133, generating BGN 1.5 billion in revenues and employing about 15 500 people. The small companies employing between 10 and 49 persons are 561, generating revenues of BGN 1.3 billion and creating nearly 12 000 jobs. The companies with less than 9 employees are more than 5 800 with a total of 9 000 employees - 2/3 of them practically self-employed.

The activities of call-centres (the so-called voice-based outsourcing of services) are carried out by 104 companies that generate BGN 450 million in revenues and employ 9 300 people, compared to 97 active companies in 2017 with revenues of 360 million (25% increase for 2018) and 8 000 employees (12% growth in 2018). However, this sector is characterized by significant economies of scale - only 6 companies with more than 250 employees generate 73% of revenues and employ over 75% of the total number of employees in the sector.
Value added at factor cost of non-financial enterprises in Sofia, 2008, %

Manufacturing: 8,3
Generation & distribution of electricity, heating and gas: 5,4
Construction: 11,0
Trade & repairs: 24,4
Transport, storage & post: 8,8
Creation and distribution of information & creative products, telecommunications: 17,3
Real Estate operations: 3,8
Professional activities & scientific research: 8,7
Administrative & supporting activities: 3,0
Other activities: 9,2

Value added at factor cost of non-financial enterprises in Sofia, 2018*, %

Manufacturing: 9,9
Generation & distribution of electricity, heating and gas: 4,1
Construction: 5,4
Trade & repairs: 24,5
Transport, storage & post: 8,3
Creation and distribution of information & creative products, telecommunications: 18,9
Real Estate operations: 4,9
Professional activities & scientific research: 8,9
Administrative & supporting activities: 5,4
Other activities: 9,5

Source: NSI, IME calculations, Note: * Preliminary data
An attempt to evaluate more accurately the outsourcing activities of both Information Technologies Sourcing and Business Processes Sourcing companies was made in AIBEST's annual report. According to the survey, the sector occupies nearly 62,000 people in 2018 and generates sales of €2.2 billion. Compared to 2017, the number of employees increased by 8.8%, and revenues - by 18.3%. According to the data used in the Association's annual report, Sofia-based companies account for nearly 93% of the sector's employment and revenues nationwide. In Sofia, the largest share of employees are involved in ITO - 30%, followed by employees in shared service centres (22%) and voice-based support services – 18.8%.

The structure of the non-financial sector in Sofia differs considerably from the structure of the overall non-financial sector in Bulgaria – a fact that to a great extent also illustrates the comparative advantages of Sofia Municipality over other parts of the country. For example, the economy of Sofia is dominated by the Trade and Repairs sector on one hand, and the Creation and Distribution of Information and Creative Products and Telecommunications on the other. The Trade and Repairs sector constitutes more than 1/4 of Sofia’s economy compared to less than 1/5 of the national economy. The sector of Creation and Distribution of Information and Creative Products, together with Telecommunications, have a share of about 19% or twice as much as the average of 9% for the country.

The main reasons for the far greater weight of these sectors in the city's economy are the higher income levels and the significant population concentration in the Capital, which imply higher purchasing power and consumption than in the rest of the country. The concentration of the IT industry and the telecommunication services market in Sofia is the main factor behind the doubled share of the Creation and Distribution of Information and Creative Products, Telecommunications sector.

Source: NSI, Note: * Preliminary data

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2 AIBEST, Annual Industry Report 2019, Sofia, October 2019
The same applies to the sector of *Professional Activities and Research*, which in Sofia has almost twice the share it has on a national level—9% and 5% respectively. The reason behind this is the rapid development of the outsourcing industry in Sofia in recent years and the significant investments in the sector.

### 1.3. Investments

**The majority of the investments in Sofia are directed towards the service sectors.** The structure of the investments in Sofia differs significantly from that in the country, and to a large extent the differences are predetermined by the very structure of the city’s economy. Considering that the local economy is dominated by services at the expense of the almost non-existent *Agriculture* and the significantly lower share of the *Extractive industry* and *Manufacturing*, compared to the average for the country, it is no surprise that **most investments in Sofia are directed precisely towards the service sectors**.

#### 1.3.1. Expenditure for acquisition of tangible fixed assets (TFA)

One of the main indicators of investment activity is the **expenditure on acquiring tangible fixed assets (TFA)**. The expenditure for TFA in Sofia is about BGN 6.4 billion in 2018 (according to preliminary data) or 37% of the TFA in the country. This means that the share of expenditure for TFA as a whole is proportional to the weight of the Sofia's economy in the national economy in 2018.

**- By sector**

The distribution of expenditure for TFA by economic activities in the Capital largely reflects the structure of the local economy. **In Sofia about 3/4 of the expenditure for TFA are made in the service sector** (according to preliminary data for 2018). The sector with the greatest expenditure for TFA (31%) in Sofia is *Trade, Repairs, Transport, Storage, Post, Hotels and Restaurants*. This can be explained by both the high incomes in Sofia, which stimulate consumption, and the fact that the city is a developed transport and logistics centre, continuing to attract investments in these businesses.

The *Extractive Industry* and *Manufacturing*, for their part, hold a share of about 16% in investments in TFA, *Construction* – 9.9%, and *Agriculture* – approx. 1%. In comparison, on a country level, the *Extractive Industry* and *Manufacturing* hold on average 32% of the expenditure for TFA, *Construction* – 8% and *Agriculture* – 9%, respectively.

**Expenditure on TFA in Sofia and country by economic sector, 2018*, %**

![Expenditure on TFA in Sofia and country by economic sector, 2018*](image)

Source: NSI; Note: *Preliminary data*
Sofia is also characterised by a relatively high share of investments in *Creation and Distribution of Information and Creative Products; Telecommunications*. The share of investments in this sector is about seven per cent, compared to three per cent in the country. This is mainly due to the energetic growth of the IT industry and the software development companies in Sofia, which, as the data show, also make substantial investments in fixed assets.

Another sector, experiencing vigorous development in recent years, is the *Outsourcing of business services*. This industry is growing rapidly and attracting significant investments both in Sofia and in several other large Bulgarian cities. Investments in TFA in the sector of *Professional Activities and Research, Administrative and Supporting Activities* are concentrated in the outsourcing industry. In Sofia, investments in this sector constitute about 12% of all investments in 2018, while in the country their share is lower – seven per cent, which again showcases the strong development of this sector in Sofia.

- **By type**

The bulk of non-financial corporations’ TFA expenditure is directed towards machines, manufacturing equipment and appliances - 33% of all TFA expenditure in 2018. Buildings, construction equipment and structures rank second with 31% of all expenditure for TFA, followed by vehicles with 16%.

![TFA expenses in Sofia, 2018*, %](image)

**Source: NSI; Note: * Preliminary data**

While all types of TFA expenditure in the country declined after the crisis, the most serious decrease was in land expenditure. The preliminary figures for 2018 show an increase, however, land expenditure remains far from its pre-crisis levels.

As a whole, the expenditure for TFA trend in Sofia does not differ from the overall dynamics in the country. **Expenditure for machines, manufacturing equipment and appliances in Sofia traditionally has a lower weight** than it has in the rest of the country because of the lower share of the *Extractive industry and Manufacturing* in the city’s economy, which implies relatively lower investments in machines and equipment than the national average.
1.3.2. Foreign Direct Investments

Sofia is the preferred destination for foreign direct investment (FDI) in Bulgaria and has attracted more than half of the cumulative foreign investments in the country. At the end of 2018 (preliminary data), the cumulative investments in Sofia amounted to €13 billion or €9,800 per capita. In comparison, the average level of attracted investments in the country is nearly three times lower - €3,636 per capita.

**Cumulative FDI by 31.12. of the respective year, bln EUR**

![Cumulative FDI Chart]

*Source: NSI; Note: * Preliminary data*

The largest recipient of FDI in the Capital is the large sector of Trade, Transport and Tourism which attracted about 37% of foreign investments by 2018 (preliminary data). The second largest recipient of foreign investment are Real Estate Operations, attracting about 18% of all FDI in Sofia. The Extractive industry, Manufacturing and Utilities are another major recipient of FDI in Sofia, with 15% of all foreign investment by 2018 targeting these sectors.

**Cumulative FDI in Sofia by 31.12.2018 r.*, %**

- **Government, education, healthcare; 0,2**
- **Professional and administrative activities, scientific research; 13,6**
- **Others; 0,4**
- **Agriculture; 0,0**
- **Extractive industry, manufacturing and utilities; 15,0**
- **Construction; 2,1**
- **Trade, repairs, transportation, storage, post and tourism; 37,3**
- **Real estate; 18,0**
- **Information and creative products; telecommunications; 13,3**

*Source: NSI; Note: * Preliminary data*
Creation and Distribution of Information and Creative Products; Telecommunications is also among the attractive sectors, with around 13% of all FDI so far. All IT businesses also fall into this sector. As we mentioned before, Sofia’s economy has been offering good opportunities for the development of the IT industry in recent years – workforce, relatively low labour and other operating costs, low direct taxes, etc. Another sector, which attracts significant foreign investments and develops rapidly in Sofia, is the outsourcing of business services, which in FDI statistics mainly falls into the sector Professional Activities and Research; Administrative and Supporting Activities. About 14% of all foreign investments in Sofia by the end of 2018 are concentrated in this sector.

It should be noted that, compared to the average for the country, Sofia is characterised by a relatively higher share of foreign investments in the following sectors:

- *Trade, Transport and Tourism; Information and Creative Products, Telecommunications;*
- *Real Estate;*
- *Professional and Administrative Activities, Scientific Research.*

The higher level of investments is triggered by the strong positions of these sectors in the local economy. Given that the *Extractive industry* and *Manufacturing* have significantly lower share in the structure of the city’s economy, compared to the average for the country, it is natural that the investments in these sectors are more than three times less than those in the country as a whole.

**Cumulative FDI by 31.12.2018*, % of all**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Sofia</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade, repairs, transportation, storage, post and tourism</td>
<td>25,26</td>
<td>37,3</td>
</tr>
<tr>
<td>Real estate</td>
<td>12,98</td>
<td>18,0</td>
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<tr>
<td>Extractive industry, manufacturing and utilities</td>
<td>15,0</td>
<td>42,72</td>
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<tr>
<td>Information and creative products; telecommunications</td>
<td>7,04</td>
<td>13,3</td>
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<tr>
<td>Professional and administrative activities, scientific research</td>
<td>9,39</td>
<td>13,6</td>
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<tr>
<td>Construction</td>
<td>2,1</td>
<td>1,80</td>
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<tr>
<td>Others</td>
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<td>0,6</td>
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<tr>
<td>Government, education, healthcare</td>
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<tr>
<td>Agriculture</td>
<td>0,0</td>
<td>0,21</td>
</tr>
</tbody>
</table>

Source: NSI, IME calculations; Note: * Preliminary data
1.3.3. EU funds

In the last few years EU funds have become an increasingly important source of investment for the Bulgarian regions. **Sofia is characterised by a relatively good degree of absorption of EU funds.** Funds, paid out to projects, financed by the EU (in both program periods) on the territory of Sofia Municipality amounted to BGN 4.151 billion as of the end of June 2019. Sofia has absorbed nearly 1/3 of the total amount of funds allocated under the Operational Programs or about BGN 2 900 per person on average – a better absorption rate than the country average of about BGN 1 500 per person.

**Top 20 projects financed by European funds in Sofia in terms of paid funds as of June 2019, BGN.**

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>Project</th>
<th>Paid Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>METROPOLITEN EAD</td>
<td>Project for Metro Extension in Sofia: line 3, Stage I - &quot;Vladimir Vazov Blvd. – City Centre - Zhitnitsa Street&quot;</td>
<td>515 500 410</td>
</tr>
<tr>
<td>METROPOLITEN EAD</td>
<td>&quot;Metro Expansion Project in Sofia: Stage II Lot 1&quot; Obelya - Nadezhda &quot; and Lot 2 &quot;Mladost I - Tsarigradsko shose &quot;</td>
<td>453 026 490</td>
</tr>
<tr>
<td>METROPOLITEN EAD</td>
<td>Project for Metro Extension in Sofia, I Stage - &quot;Nadezhda&quot; road junction - Central Railway Station - Sveta Nedelya Square - Cherni Vrah Blvd. &quot;</td>
<td>362 206 777</td>
</tr>
<tr>
<td>Employment Agency</td>
<td>New choice - development and realisation</td>
<td>289 414 160</td>
</tr>
<tr>
<td>Sofia Municipality</td>
<td>Construction of an integrated system of municipal waste treatment facilities</td>
<td>250 150 810</td>
</tr>
<tr>
<td>METROPOLITEN EAD</td>
<td>&quot;Project for expansion of the metro in Sofia Stage III, Lot 1 &quot;Tsarigradsko shose - Sofia Airport&quot; and Lot 2 &quot;Mladost 1 - Business Park in Mladost 4 &quot;</td>
<td>205 152 678</td>
</tr>
<tr>
<td>Road Infrastructure Agency</td>
<td>Lot 70 &quot;North Speed Tangent from km 0 + 000 to km 16 + 540&quot;</td>
<td>186 524 233</td>
</tr>
<tr>
<td>Road Infrastructure Agency</td>
<td>Construction of the Kalotina-Sofia highway, Lot 1 &quot;Western Arc of the Sofia Ring Road /SRR/&quot;, Phase 2</td>
<td>87 593 711</td>
</tr>
<tr>
<td>METROPOLITEN EAD</td>
<td>Project for Metro Extension in Sofia: line 3, Stage II - &quot;Zhitnitsa Street – Ovcha Kupel – Ring Road&quot;</td>
<td>84 714 130</td>
</tr>
<tr>
<td>Sofia Municipality</td>
<td>Delivery of 10 metro trains for the sections of stage 3 of a metro extension project in Sofia: Lot 1, Tsarigradsko shose Blvd. - Sofia Airport and Lot 2 Mladost 1 - Business Park Mladost 4</td>
<td>80 160 817</td>
</tr>
<tr>
<td>Sofia Municipality</td>
<td>Project for integrated metropolitan public transport</td>
<td>77 197 486</td>
</tr>
<tr>
<td>Sofia Municipality</td>
<td>Design and construction of a cogeneration plant in Sofia with the utilization of RDF - the third phase of an integrated system of municipal waste treatment facilities of Sofia Municipality</td>
<td>71 404 824</td>
</tr>
<tr>
<td>SOFIA TECH PARK</td>
<td>&quot;Science and Technology Park&quot;</td>
<td>67 413 621</td>
</tr>
<tr>
<td>Sofia Municipality</td>
<td>Implementation of activities for improvement of the quality of the ambient air by buying and supplying buses</td>
<td>64 835 097</td>
</tr>
<tr>
<td>Sofia Municipality</td>
<td>Implementation of activities for improving the quality of the ambient air by purchasing and supplying tramway cars</td>
<td>59 635 256</td>
</tr>
<tr>
<td>Sofia Municipality</td>
<td>Integrated metropolitan public transport - Phase II</td>
<td>39 160 146</td>
</tr>
</tbody>
</table>
The beneficiary that received most funds is the Metropolitan Municipal Company, which manages the metro in Sofia. The funds received are invested in the expansion of the metro network. Sofia Municipality is the second biggest beneficiary of EU funds on the territory of Sofia. The largest projects financed by EU funds are related to the construction of the Municipal waste treatment plant, the purchase of metro trains and ecological buses, the water supply and sewerage infrastructure of parts of the city, park areas, social services, enhancement of the administrative capacity, etc. The Employment Agency and the Road Infrastructure Agency are among the largest beneficiaries of European funds in the city.

1.4. Export

After 2010, foreign exchange earnings in Sofia have been steadily rising, increasing their absolute size by nearly 3 times by 2018. Over the last three years, the city has been experiencing an annual export growth of over 20%, with export earnings in 2018 increasing over 2.5 times compared to 2014. Thus, in 2018 (according to preliminary data) their BGN equivalent reached BGN 28.4 billion, which amounts to over 1/3 of the export earnings of the country.

Sectoral data, once again, shows the specifics of Sofia's economy. While nearly 50% of the country's export earnings are generated in Manufacturing, their share in Sofia is 18%. At the same time, the export of the Trade and Repairs sector in the Capital reaches 40% of the revenues, compared to 26% for the country.

Foreign exchange earnings from the IT and Telecommunications sector constitute 16% of the total export earnings in Sofia, compared to about seven per cent in the national economy. Values for Professional Activities and Research sector also differ – the share of export earnings in the Capital is about eight per cent, compared to three per cent in the country. This is due to the fact that the two sectors form the broad IT and outsourcing industry in the Capital, which is mainly export-oriented. What is more, these sectors experienced significant growth between 2012-2018, with export earnings increasing by about 200% (with a total growth of nearly 150% for the Capital).
2. Workforce

2.1. Demography

Sofia Municipality is the largest region in Bulgaria in terms of population and has relatively favourable demographic trends. In 2018, over 1.3 million people lived in Sofia, accounting for nearly 19% of the country's population. In comparison, in 2000, the population of Sofia amounted to only 15% of the total annual average population of Bulgaria, which means that the city attracts more and more citizens from other regions in the country.

Source: NSI; Note: * Preliminary data
In 2018, Sofia Municipality was again one of the six regions in the country (along with Plovdiv, Varna, Bourgas, Pernik and Kardzhalı) with positive mechanical growth. The influx of young people also contributes to the relatively more favourable natural growth in the Capital. Although in 2018 the natural growth rate in Sofia was negative (-1.9 ‰), it was the most favourable in the country, where the average rate is -6.5 ‰. Over 21% of the children in Bulgaria in 2018 were born in Sofia compared to 15% in 2000. The relatively favourable natural and mechanical growth in Sofia determines the city's good demographic trends. The population is younger and decreases more slowly than in other regions and cities in the country. Over the years, the differences in age-dependency ratios between Sofia and the country as a whole have increased. While in 2000 the ratio of the population, aged 65 and over, to children under the age of 14 in Sofia was comparable to that in the country, in 2017 the difference increased to 28% in favour of Sofia. Similar is the trend in the ratio of number of people over 65 to the working age population.

Another distinctive feature of Sofia Municipality is the almost entirely urban population. The concentration of the largest share of population in both one city and in the most densely populated urbanized territory in the country (three times higher than the average) provides diversity and easy access to workforce.

### 2.2. Education

The structure of the population in Sofia by education level differs significantly from that of the country. The Capital is characterised by a concentration of highly qualified population and especially of population with tertiary education.

The greatest difference in the share of population between Sofia and Bulgaria was noted for the population with elementary (or lower) and with tertiary education.

While the share of the population with higher education was 28% in the country in 2018, in Sofia it was significantly higher – over 51%.

The variation in the share of people with elementary and lower education was even greater – in Sofia the population, aged 25-64 with elementary and lower education was 4%, compared to over 17% in the country. This indicates that the Capital's population is mostly educated and the labour market is made up of more skilled workers than in any other region and in the country as a whole.

Source: NSI
As Sofia is the region with the highest population and with the largest number of children, it is no surprise that most schools and educational institutions of all types and of all educational levels are concentrated in the city. **Students in Sofia are also performing best in matriculation exams**, traditionally showing the highest average scores and the lowest share of poor and failing grades in the compulsory matriculation exam – in Bulgarian Language and Literature. The latest results from 2019 are no exception.

In the 2017/2018 school year, there are 229 general schools in Sofia with 113 000 students or over 18% of the students in the country. In addition, 18% of all Bulgarian school teachers work in the Capital. The city’s education system is performing better than the system in any other region of the country. The share of school drop-outs and repeaters in elementary and secondary education is three times lower than the average in the country.

Nearly 9 000 students graduate annually from secondary education in Sofia. Of these, about 2 700 graduate from a school which awards professional qualification.

Sofia is characterised by a comparatively low share of graduates with professional education degree. In the country, on average, half of the students graduate from a professional school. In Sofia the share is about 1/3. **The admission statistics for the 2017/18 school year show that most students were enrolled in a professional qualification as a "Technician in Transport Equipment", "Technician in Computer Systems", "Technician in Communication Systems", "Economist" and "Electrical Engineer"**, which account for over 1/3 of the total intake and largely correspond to the economic profile of the Capital.

A coefficient of educational correspondence developed by IME, concerning the correlation between professional education and the economic profile, shows that Sofia has one of the highest results in the country. This is mainly due to the high number of people studying in IT-related fields and the high number of people employed in IT. It is worth noting that **the preference for specialised (or profiled) secondary education has increased in recent years**. Compared to 2008, the share of students in 8-12 grade in profiled classes in 2018 increased by five per cent. Nearly 70% of all students enrolled in a profiled school are enrolled in a profiled language school with English, German, Spanish, French being the most preferred languages. The great interest in

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3 IME, Zornitsa Slavova, [How professional education responds to the realities of local economies](https://www.ime.bas.bg/en/activities/research), 2018
profiled secondary language schools is not surprising. It corresponds to Sofia’s labour market demand for more university graduates and less graduates from professional secondary education. This is due to the specifics of the economy in the city and because of the relatively low share of the Extractive and Manufacturing industries in Sofia.

Source: RIO Sofia-city

Twenty-three of the 51 accredited higher education institutions in the country are located in Sofia. Moreover, all three universities (the Medical University, the University of National and World Economy and Sofia University ‘St. Kliment Ohridski’) with the highest accreditation ratings⁴ are located in the Capital and attract the best students. The number of students in Sofia is about 100 000, which is over 40% of the total number of students in Bulgaria. In 2016, the number of students per 1 000 people in Sofia decreased to below 80 students per thousand people for the first time. In 2018, the city has 73 students per 1000 people.

Source: NSI

⁴ The data is from the Ministry of Education and Science, Registry of the accredited higher education institutions
The rating system of the higher education institutions in Bulgaria, maintained by the Ministry of Education and Science, puts Sofia's universities at the forefront for students' performance in almost all majors. Data on acquired knowledge and skills, as well as the link between education and the labour market are also the highest in Sofia.

Sofia University "St. Kliment Ohridski" has the biggest share of students who apply their education to the labour market (60-70%, depending on the major) and the lowest unemployment rate among graduates (2-3%) in 2018.

### 2.3. Labour market

#### 2.3.1. Workforce

Sofia attracts an increasing share of the available workforce in the country. In 2018, the workforce aged 15-64 in Sofia was 697,000, representing 21% of the country total, compared to 650,000 or 19% in 2010.

In recent years, and especially after the recovery of the post-crisis labour market in 2013, the economic activity of the working-age population had risen significantly and in 2018 it continues to surpass the pre-crisis levels. In 2018, the economic activity rate of the population aged 15-64 in Sofia was over 77%, compared to 72% for the country.

The number of people not in the workforce shrank by three per cent in 2018 and constituted 22% of the working-age population of Sofia (compared to 29% in the country).

### Workforce aged 15-64 in Sofia, thousands of people

<table>
<thead>
<tr>
<th>Year</th>
<th>Not in the workforce</th>
<th>Employed</th>
<th>Unemployed</th>
<th>Workforce (total number)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>652,1</td>
<td>608,7</td>
<td>43,5</td>
<td>1,304,3</td>
</tr>
<tr>
<td>2011</td>
<td>664,8</td>
<td>623,8</td>
<td>49,0</td>
<td>1,337,6</td>
</tr>
<tr>
<td>2012</td>
<td>666,7</td>
<td>620,2</td>
<td>49,0</td>
<td>1,336,0</td>
</tr>
<tr>
<td>2013</td>
<td>676,3</td>
<td>636,6</td>
<td>43,5</td>
<td>1,356,4</td>
</tr>
<tr>
<td>2014</td>
<td>680,1</td>
<td>655,8</td>
<td>30,0</td>
<td>1,365,9</td>
</tr>
<tr>
<td>2015</td>
<td>685,8</td>
<td>660,5</td>
<td>26,7</td>
<td>1,372,1</td>
</tr>
<tr>
<td>2016</td>
<td>687,2</td>
<td>665,8</td>
<td>19,7</td>
<td>1,372,7</td>
</tr>
<tr>
<td>2017</td>
<td>696,0</td>
<td>676,6</td>
<td>14,5</td>
<td>1,387,1</td>
</tr>
<tr>
<td>2018</td>
<td>697,0</td>
<td>682,6</td>
<td></td>
<td>1,389,6</td>
</tr>
</tbody>
</table>

**Source:** NSI

Another feature of Sofia is the much larger proportion of young people within the working age population. While more than half of the people in Sofia are under 40 years old (51%), their share is less than half (45%) of the overall population of Bulgaria. The main reason behind this is the decision of many young people from other regions of the country to stay in Sofia after graduating from a university in Sofia, as well as the better job opportunities in the Capital.
These findings confirm the fact that Sofia attracts mainly people of working age, predominantly at the start of their careers looking for professional development and drawn by Sofia’s labour market. Furthermore, according to the data on education, jobseekers in Sofia are relatively well-educated.

### 2.3.2. Employment

According to latest data, Sofia has the highest employment levels, compared to any other region in the country. In 2018, there were 682,000 people of working-age, and the employment rate among the 15-64-year-old population reached an average of 76%, compared to 68% in the country. 2018 was the second year, when the employment rate levels exceeded the pre-crisis peak of 2008. Employment data by economic activity shows the restructuring of Sofia’s economy due to the rapid growth of IT and outsourcing industries over the past few years.

After the burst of the construction bubble in 2009, job creation in Sofia shifted to the accelerating sectors of IT services and Outsourcing, with the number of employed in these sectors increasing by nearly 80,000 people between 2008-2018 and accounting for almost 30% of the total employment in the city.

### The share of those employed in the sectors of Trade and Automobile and motorcycle repairs in Sofia remains the largest – over 180,000 or nearly 1/4 of the total employment in the city.

Between 2009-2018, the number of people employed in this sector increased by 22,000 people, as opposed to the other key sector in the Capital – Manufacturing, where the number of employees decreased by 14,000 between 2008 and 2018. The fact that the value added at factor cost of the

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5 These activities are mainly concentrated in the “Creation and distribution of information and creative products; Telecommunications” and “Professional activities and research” sectors.
sector and its share in the local economy increased during the same period, while the number of employees decreased, implies an increase in output efficiency and decrease in the need for human capital due to modernisation and capital investments, for example in new technologies.

<table>
<thead>
<tr>
<th>Number of people, employed in non-financial enterprises in Sofia by economic activities</th>
<th>2008</th>
<th>2018*</th>
<th>Change 2018 compared to 2008</th>
<th>Change 2018 compared to 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL FOR SOFIA</td>
<td>657 987</td>
<td>733 422</td>
<td>75 435</td>
<td>11.5</td>
</tr>
<tr>
<td>AGRICULTURE, FORESTRY AND FISHING</td>
<td>3 662</td>
<td>4 105</td>
<td>443</td>
<td>12.1</td>
</tr>
<tr>
<td>EXTRACTIVE INDUSTRY</td>
<td>1 535</td>
<td>616</td>
<td>-919</td>
<td>-59.9</td>
</tr>
<tr>
<td>MANUFACTURING</td>
<td>85 268</td>
<td>71 183</td>
<td>-14 085</td>
<td>-16.5</td>
</tr>
<tr>
<td>GENERATION AND DISTRIBUTION OF ELECTRICITY AND HEATING AND GAS</td>
<td>14 281</td>
<td>13 429</td>
<td>-852</td>
<td>-6.0</td>
</tr>
<tr>
<td>WATER SUPPLY, SEWERAGE, WASTE MANAGEMENT AND RECYCLING</td>
<td>7 847</td>
<td>9 958</td>
<td>2 111</td>
<td>26.9</td>
</tr>
<tr>
<td>CONSTRUCTION</td>
<td>77 734</td>
<td>49 826</td>
<td>-27 908</td>
<td>-35.9</td>
</tr>
<tr>
<td>TRADE; AUTOMOBILE AND MOTORCYCLE REPAIRS</td>
<td>158 124</td>
<td>180 491</td>
<td>22 367</td>
<td>14.1</td>
</tr>
<tr>
<td>TRANSPORT, STORAGE AND POST</td>
<td>81 114</td>
<td>69 576</td>
<td>-11 538</td>
<td>-14.2</td>
</tr>
<tr>
<td>HOTELS AND RESTAURANTS</td>
<td>29 821</td>
<td>36 357</td>
<td>6 536</td>
<td>21.9</td>
</tr>
<tr>
<td>CREATION AND DISTRIBUTION OF INFORMATION AND CREATIVE PRODUCTS; TELECOMMUNICATIONS</td>
<td>47 849</td>
<td>85 146</td>
<td>37 297</td>
<td>77.9</td>
</tr>
<tr>
<td>REAL ESTATE OPERATIONS</td>
<td>14 412</td>
<td>16 951</td>
<td>2 539</td>
<td>17.6</td>
</tr>
<tr>
<td>PROFESSIONAL ACTIVITIES AND SCIENTIFIC RESEARCH</td>
<td>46 498</td>
<td>65 028</td>
<td>18 530</td>
<td>39.9</td>
</tr>
<tr>
<td>ADMINISTRATIVE AND SUPPORTING ACTIVITIES</td>
<td>47 142</td>
<td>69 506</td>
<td>22 364</td>
<td>47.4</td>
</tr>
<tr>
<td>EDUCATION</td>
<td>3 238</td>
<td>6 598</td>
<td>3 360</td>
<td>103.8</td>
</tr>
<tr>
<td>HUMAN HEALTHCARE AND SOCIAL WORK</td>
<td>23 452</td>
<td>30 461</td>
<td>7 009</td>
<td>29.9</td>
</tr>
<tr>
<td>CULTURE, SPORT AND ENTERTAINMENT</td>
<td>9 442</td>
<td>11 493</td>
<td>2 051</td>
<td>21.7</td>
</tr>
<tr>
<td>OTHER ACTIVITIES</td>
<td>6 568</td>
<td>12 698</td>
<td>6 130</td>
<td>93.3</td>
</tr>
</tbody>
</table>

Source: NSI. Note: * Preliminary data

2.3.3. Salaries

Salaries in Sofia are significantly higher than the average for the country. This is due to the high level of employment, as well as the large share of industries requiring high qualification. In 2018, the average annual salary for Sofia was BGN 19 000, or 38% higher than the average salary in Bulgaria (BGN 12 500).

Compared to 2008, salaries in Sofia rose by nearly 110% on average, a percentage similar to that of the country. Thus, the difference between the remuneration levels in Sofia and the country as a whole remains stable.
In Sofia, some of the highest pay increases were in the rapidly developing IT services and Professional services sectors (outsourcing of business services). The Creation and Distribution of Information and Creative Products; Telecommunications and Professional Activities and Scientific Research sectors (including IT and outsourcing) offered the highest salaries in Sofia. The average salary in ‘Creating and distributing information and creative products; telecommunications” in 2018 already exceeds BGN 36 000, showing a 35% increase since 2015. The growth of salaries in the Construction, Real Estate and Hotel and Restaurant sectors is relatively low.

2.3.4. Unemployment

In 2018, the number of working-age unemployed people in Sofia decreased to 14 500 after the steady increase in employment rate in recent years. The unemployment rate in 2018 approached pre-crisis levels, remaining significantly lower than the national average in the last 10 years – 2.1% in Sofia, compared to 5.3% in the country.

By the end of 2018, nearly 12 000 unemployed have registered in the labour offices in Sofia, over 47% of which (or nearly 6 000 people) had higher education and 31% (or almost 4 000 people) had a professional secondary education. More than 50%, or 7 400 of the registered unemployed, were specialists (mainly in services, transport, economy and law).

Given the specialisation and the relatively high education of the registered unemployed, it is not surprising that only 5% of the unemployed in Sofia remained registered for over a year, compared to 37% for the country. These data suggest that a large part of the unemployment in Sofia is frictional, i.e. it is due to the natural dynamics of the labour market and the transfer of the working population from one job to another. The unemployment insurance system in the country is another important factor, as it encourages unemployment to continue as long as the unemployed is eligible to receive unemployment benefits (the length of eligibility for unemployment benefits depends on the years of service and can reach a maximum of one year).

Unemployment rate of the population aged 15-64, %, NSI

Source: NSI

Registered unemployed by education, 2018, NEA

- higher; 5 651
- secondary; 1 882
- secondary professional; 4 492
- primary or lower; 649
- elementary; 616

Registered unemployed by qualification, 2018, NEA

- specialists; 7 461
- without qualification; 2 673
- with profession; 1 967

Source: National Employment Agency
2.3.5. Job Vacancies

In 2018, a total of 35,000 job vacancies were listed in the labour offices in Sofia. Employers were mostly seeking employees for the service sector (over 85%), in particular in the sectors of Trade and Repairs (combined 19%), followed by the Administrative and Supporting Activities (including call centres) with 17%, Manufacturing (8%) and Real Estate operations (13%).

The number of job vacancies listed in the last two years exceeded the number during the previous economic boom, in the conditions of higher employment. This is indicative of the increasingly acute shortage of people in the rapidly growing sectors of the city’s economy.

Job vacancies listed in employment offices in Sofia

Source: National Employment Agency

3. Local taxes and fees

None of the major local taxes and fees\(^6\) in Sofia Municipality has been changed during the last 8 years (2012-2019), indicating a relatively stable and predictable tax environment. Most major local taxes in Sofia Municipality are slightly higher than the average for Bulgaria and the other regional centres in the country. This can be explained by the concentration of business activity and population in the Capital – the largest city in the country. The fact that the local taxes and fees in Sofia are slightly higher is not a significant incentive to relocate people and companies away from the city. Local taxes and fees have a relatively small share in the overall tax weight. The bulk of the tax weight on individuals and legal entities is owed to the national budget and is the same for all parts of the country.

Real estate tax (for non-residential properties owned by legal entities) is one of the main taxes for companies owning and operating property. It was at 1.88‰ in 2019 and has not been changed over the last eight years. Its value is very close to the average for the country.

\(^6\) "Local Taxes and Taxation“ Database of the Institute for Market Economics on the basis of APIA applications to all municipalities in Bulgaria for the purposes of the ”Regional Profiles: Development Indicators“ survey.
**Real estate transfer tax** (%) in Sofia Municipality was 2.50% in 2019, and is also close to the average in the country. Since 2007, this tax has legally defined limits of 0.1 to 3%. In most municipalities in the country it is 2%, but in the regional centres, including Sofia, it is slightly higher - 2.50%. Its value has not been changed since 2012.

**Tax on vehicles and automobiles** (with power of 74 kW to 110 kW) in Sofia Municipality during the eight years under review remains at the level of BGN 1.10/kW, with limits set in the law from BGN 1.10 to BGN 3.30 per 1 kW. However, we should bear in mind that the structure of this tax has recently been modified to include an environmental factor. In fact, the lower limit coincides with the baseline level in 2007 and perhaps that is why BGN 1.10/kW is the most common value among all municipalities in the country.

**The main differences in taxation between Sofia and the other regional cities in the country is in the levels of the patent tax for retail and the waste collection tax.** Both are significantly higher in Sofia. **In the last 8 years, the annual patent tax for retail** (of up to 100 sq. m. commercial area and at prime location) in Sofia Municipality was BGN 20 /sq. m. In comparison, in recent years, in most regional centres of the country, the rate was BGN 10 /sq. m, which is also the most common value in the country for 2019.

In Sofia Municipality, **waste collection tax** is at a constant level of 10‰ and this value remains the same in 2019. It is significantly higher than the average for the country - 7.9‰.

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### 4. Infrastructure

#### 4.1. Transport Infrastructure

**Road Infrastructure**

Sofia has a strategic location as an international crossroad and a European transport centre. Three important trans-European transport corridors of key economic importance - Corridor 4, Corridor 8 and Corridor 107 intersect in Sofia. The fastest route from Sofia to Greece runs through the Kulata Border Crossing Point, 190 km south of Sofia. The Kalotina Border Crossing Point (BCP) and Serbia is 58.9 km from Sofia, Stanke Lisichkovo BCP and the road to Skopije is 122 km from Sofia.

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7 Corridor 4 connects Dresden, Prague, Bratislava, Budapest and Istanbul.
Corridor 8 connects Drach, Skopje, Plovdiv and Burgas.
Corridor 10 connects Salzburg, Ljubljana, Belgrade, Plovdiv and Istanbul. Corridor 10 is also integrated into Corridor 9 for Helsinki, St. Petersburg and Moscow.
Sofia and the Kapitan Andreevo BCP on the road to Turkey is 292 km from Sofia. The border with Romania – either via the Oryahovo ferry or the Vidin-Calafat bridge across the Danube river – is 184 km and 194 km from Sofia respectively.

The highways which connect (or will connect in the future) Sofia with the two Black Sea ports of Bulgaria and with the border crossing points with Turkey (Kapitan Andreevo), Greece (Kulata) and Serbia (Kalotina) are of particular importance for the city's development. At this point, the construction of two of the highways is completed. These are the “Trakia” highway (360 km) connecting Sofia with Plovdiv and Burgas, and the “Lyulin” highway (19 km) connecting the Sofia ring road with the Daskalovo junction and the “Struma” highway. The construction of “Struma” highway (150 km) that will connect Sofia (the Daskalovo junction) with the Greek border (Kulata) continues, and the entire highway should be built by 2022.

The Maritza highway was fully completed in October 2015, connecting Sofia to the Bulgarian-Turkish border (Kapitan Andreevo) – first via the Trakia highway to the “Orizovo” road junction (182 km) and then from road junction "Orizovo" via the „Maritsa” highway to the border (117 km).

“Hemus” highway, which will connect Sofia with Varna in 2022, is still under construction. The construction of two of the lots of Hemus highway (totaling 26 km) began in 2018 and is to be completed in March 2020.

Railway Infrastructure

Sofia is the biggest railway network centre in Bulgaria. The railway density is 12.8 km per 100 sq.km. of the territory in 2017, which is almost four times the country’s average of 3.6 km/100 km.

In Sofia, as in the rest of the country, both the length of the railway network as a whole and the number of passengers have been decreasing in recent years. The main reasons lie in the lower demand due to the lowered quality, the absence of modernisation in this type of transport as well as the development of competitive transport modes (road and air transport).

The length of railways in Sofia dropped from 203 km in 2005 to 172 km in 2017; their density fell from 15.0 to 12.8 km/100 sq.km. At the same time, the annual number of passengers shrank from over 3 mln. to 2.2 mln.

| Density of the railway network, length of railway lines in km/100 sq.km territory |
|-----------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Bulgaria                                | 3,7    | 3,7    | 3,7    | 3,7    | 3,7    | 3,6    | 3,6    | 3,6    | 3,6    | 3,6    |

Source: NSI

The first and only metro in Bulgaria also operates in Sofia. At present, it operates 2 lines with a total length of 40 km and 35 stations; the construction of the third line started in 2015. In 2017, the number of daily passengers reached about 380 000 and underground transport was established as a quick, cheap and convenient means of transportation in the city. According to the general scheme for the metro development, it is expected to have three diameters with branches in the periphery, with a total length of 75 km and 69 metro stations, with possible further enlargement reaching up to 80 km. After the final stage of construction, the Sofia underground railway is planned to carry about one million passengers a day.

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**Air Transport**

The largest airport in Bulgaria, with two passenger and two cargo terminals, is located in Sofia. Over 35 airlines operate regular passenger or freight flights, as well as seasonal charter flights to and from Sofia. The 2019 summer schedule of Sofia Airport offered over 30 airlines, operating direct flights to 75 destinations in Europe and the Middle East.

A report by Sofia Investment Agency\(^9\) shows that for the period 2015-2018 Sofia Airport has opened lines to 44 new destinations and the number of passengers has increased by a record 30.3% in 2017. This is also among the highest increases among the 100 busiest airports in Europe. Of nearly 6.5 million passengers at Sofia Airport in 2017, over 58% flew with low-cost airlines.

Several new routes and new charter flights are planned by the end of 2019, and each month since the beginning of the year, the airport experiences an increased monthly number of passengers and cargo compared to the same period of last year. Latest data indicate that a total of 6.95 million passengers (up with 7%) and over 20 thousand tonnes of cargo (7% more) were serviced at Sofia Airport in 2018.

**4.2. Digital Infrastructure**

Internet infrastructure has been improving in recent years, not only in Sofia, but in Bulgaria as a whole. **In Sofia Municipality, the internet speed of 18 Mbps (testmy.net) at the end of October 2019 exceeds the average for the country**, which is an important factor for the business development in the Capital.

**Sofia also has the largest share of households with internet access: 82%** in 2018, while in the country the average was 72%. All this comes to show that Sofia Municipality provides good conditions for internet access and the relatively young and educated population uses it.

<table>
<thead>
<tr>
<th>Share of households with Internet access, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sofia</td>
</tr>
<tr>
<td>Bulgaria</td>
</tr>
</tbody>
</table>

*Source: NSI*

**5. Sofia as a Business Destination: Comparative Regional Analysis**

Sofia has a number of advantages over its main competitors in the region: Belgrade, Bucharest, Skopje and Thessaloniki. **The main advantages of Bulgaria’s capital come from its relatively low rate of direct taxes** (profit and income taxes) as well as the low utility and transport costs. The information infrastructure in Sofia is also very well-developed as the city has one of the highest internet speeds in Europe.

**Direct taxes in Bulgaria are the lowest in the region:** only Macedonia has an identical personal and corporate income tax rate of 10%, although in 2018 Romania and Serbia reduced their personal income tax rates to the same level. All other countries (respectively cities) under consideration have higher corporate and personal income tax rates.

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\(^9\) Sofia Investment Agency, Sofia Tourism and Air Transport Market, 2019
Sofia: Economic and Investment Profile

**Direct Taxes (October 2019), %**

<table>
<thead>
<tr>
<th>Country</th>
<th>Corporate tax</th>
<th>Income tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Romania</td>
<td>16</td>
<td>10</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Serbia</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Greece</td>
<td>29</td>
<td>45</td>
</tr>
<tr>
<td>Macedonia</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

*Source: Trading Economics, IME*

**Monthly net average salary, regional comparison (October 2019)**

<table>
<thead>
<tr>
<th>City</th>
<th>Monthly average salary (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bucharest</td>
<td>642</td>
</tr>
<tr>
<td>Sofia</td>
<td>687</td>
</tr>
<tr>
<td>Belgrade</td>
<td>419</td>
</tr>
<tr>
<td>Thessaloniki</td>
<td>665</td>
</tr>
<tr>
<td>Skopje</td>
<td>389</td>
</tr>
</tbody>
</table>

*Source: Numbeo*

According to the latest data for October 2019, the average net salary in Sofia (after taxes and social security contributions) was €687 per month. Compared to Belgrade and Skopje, average salaries in Sofia are significantly higher. Salaries in Sofia are lower than those in Thessaloniki and are comparable with those in Bucharest.

**Prices of utilities and local transport (September 2018)**

<table>
<thead>
<tr>
<th>City</th>
<th>Monthly expenses for basic utilities (electricity, heating, water, waste collection) for an 85 sq.m. apartment</th>
<th>One-way ticket (public transport)</th>
<th>Average rate of taxi services for 1 km.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bucharest</td>
<td>€91</td>
<td>€0,27</td>
<td>€0,40</td>
</tr>
<tr>
<td>Sofia</td>
<td>€94</td>
<td>€0,82</td>
<td>€0,40</td>
</tr>
<tr>
<td>Belgrade</td>
<td>€137</td>
<td>€0,76</td>
<td>€0,60</td>
</tr>
<tr>
<td>Thessaloniki</td>
<td>€164</td>
<td>€1,00</td>
<td>€1,00</td>
</tr>
<tr>
<td>Skopje</td>
<td>€107</td>
<td>€0,57</td>
<td>€0,41</td>
</tr>
</tbody>
</table>

*Source: Numbeo*
Prices of basic utilities (electricity, heating, water and waste collection) in Sofia are among the lowest in the reviewed cities in the region – an average of about €94 per month for a medium-sized apartment of 85 sq.m.

Expenses in Bucharest are at about the same level and in all other cities in the region they are significantly higher. The price of public transit in Sofia, however, are the second highest in the region after Thessaloniki. Taxi rates in the Bulgarian capital, however, are relatively low – an average of €0.40 per kilometer.

Sofia has one of the highest Internet speeds in Europe. The city has the second highest average internet connection rate in the region, both for downloading and uploading – 24 and 21 megabits per second respectively. Of all the major cities in the region, the average download speed is significantly higher only in Belgrade, but the upload speed in Sofia is the highest.

**Average internet speed in megabits per second (MBPS) as of October 2019**

<table>
<thead>
<tr>
<th>City</th>
<th>Download (MBPS)</th>
<th>Upload (MBPS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bucharest</td>
<td>15.5</td>
<td>25.5</td>
</tr>
<tr>
<td>Sofia</td>
<td>7.7</td>
<td>24.3</td>
</tr>
<tr>
<td>Belgrade</td>
<td>5.8</td>
<td>21.1</td>
</tr>
<tr>
<td>Skopje</td>
<td>4.0</td>
<td>18.6</td>
</tr>
<tr>
<td>Thessaloniki</td>
<td>13.1</td>
<td>36.7</td>
</tr>
</tbody>
</table>

*Source: testmy.net*
6. Perspectives for the Development of Sofia Region

Sofia Region will continue to concentrate a growing share of the economic activities in the country. Both the positive demographic processes and Sofia’s leadership in the development of the fastest growing sectors provide the prerequisites for that. By 2018, Sofia was one of the six regions in the country with a positive net migration growth and the only one with more people settling in than leaving the city since 2000. Even though since 2010 the natural growth in Sofia has been negative, as in the rest of the country, it is relatively favourable compared with any of the other regions.

Apart from attracting highly educated people of working age from other regions of Bulgaria, Sofia also educates the greatest number of university students in Bulgaria. The city has the greatest number of elite high schools (with emphasis on languages, sciences etc.), which score highest at state matriculation exams. Sofia is characterised by the highest number of university students: close to 100 000 or 40% of all university students in the country. Furthermore, Sofia has the highest share of people with higher education in the local population aged 25 to 64 years – 51% compared to 28% in the country for 2018.

The highly qualified workforce will keep attracting investment in fast growing sectors such as the IT industry, the outsourcing of business services and some high value-added manufacturing activities. Data about high investment in these sectors in recent years also come to support their development: manufacturing has been the second largest investor in TFA after the crisis as well as the most stable foreign investment recipient in recent years.

Sofia is also very well-positioned to develop some new forms of economic relations such as the services of the digital and shared economy. This is possible both because of the suitable IT infrastructure: highly educated people, high average internet speed, numerous IT companies and specialists, and because of the large size of the local population. The fast growth of some of the companies in the shared economy sector in recent years has confirmed the availability of good conditions for the development of such services. Judging by the ongoing processes in other European capitals, the potential for development of such services is huge and they are just making their first steps in Sofia.

The shortage of people with suitable engineering and technical education is a major limitation for the further growth of the IT sector and the digital economy. It forces companies to allocate considerable investment to education and training or to attract personnel from competitors. The faster universities and professional schools respond to the demand for such specialists, the more the potential for the development of these sectors in Sofia will increase.

Most of the companies, involved in the so-called creative industries, are also concentrated in Sofia (over 60%), and the share of their output in the local economy was more than double that of the country in 2016. For the period 2012-2016, the companies, the number of employees and the output of the creative industries in the Capital have been growing significantly and a further growth can be expected in the future.

The population and business concentration in Sofia, as well as the continuing growth of the local population, offer good conditions for the development of the Trade and Repairs; Transport, Storage and Post; Hotels and Restaurants sector. Apart from the fact that the purchasing power of the population is high because of the higher incomes, which stimulate consumption and trade, Sofia is also a key transport and logistics centre, both nationally and

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10 These include the publishing of books, music and computer games, the production and distribution of films and television programs, radio and television activities, computer programming, architectural, photographic, artistic, creative and advertising activities and those in the field of design.
internationally. Therefore, it is not surprising that this wider services sector in the Capital has also attracted the highest TFA investments in recent years.

**There is a noticeable growth of tourists in Sofia** in 2017-2018. This is mainly due to the availability of convenient flights from a number of European cities to Sofia by two low-cost airlines. The growth in the number of passengers serviced at Sofia Airport in 2017 was substantial – a 30% increase from a year earlier; there has also been a consistent growth in 2018. Furthermore, Sofia registered a 13% growth in the number of tourists and a 15% increase in overnight stays in 2017. All this shows that Sofia is becoming a more attractive tourist destination.

**The construction industry in Sofia also has all the preconditions for growth in the coming years.** The record number of building permits issued in 2016 exceeded their pre-crisis peak levels. Factors that support the further growth of the sector in the city are the natural expansion of the city due to the influx of people from other parts of the country and the concentration of business activity. Housing prices in Sofia continue to rise, although their growth has been slowing down in the first half of 2019. However, the rapid increase in prices in recent years has created a risk of unsustainable market development. Apart from new housing, these processes also require constant infrastructure development.

Building permit figures point to a certain **restructuring of the construction sector in Sofia.** While prior to 2008 the share of residential buildings under construction in the total area of building permits was 88%, by 2018 this share shrank considerably to about 66%. Permits for non-residential buildings (manufacturing facilities, sports facilities, recreation and hotel buildings, culture and education buildings, healthcare facilities and so on, and administrative buildings – those used for office and administrative activities) grew almost three times, from 8% in 2008 to 24% in 2018. The share of administrative buildings alone grew from 4% in 2008 to 10% in 2018.

*Source: NSI*
This restructuring reflects both the rapid construction of business, manufacturing and other non-residential buildings in recent years and the considerable public investment in urban infrastructure, including EU funds.

In conclusion, Sofia has all the prerequisites for an on-going development at fast rates, and is likely to remain the centre of economic activity in the country, expanding even further its share in the national economy. The education system and its capacity to prepare specialists for sectors with high workforce demand remains the main challenge to the city's development. This is especially true for such fast growing sectors as some manufacturing branches, software design and development, the digital economy and business services.

Another important challenge to Sofia's development is the city's road and other infrastructure, as well as its surrounding territories, the development of which is lagging behind the demographic and economic processes.

Last but not least, the ongoing emigration of highly qualified specialists to other countries (the so-called "brain drain") will continue to put pressure on the labour market, increasing the salaries in some of the most dynamic sectors and limiting their growth potential.

Source: NSI