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## WINE DRINKS IN BULGARIA: KEY TRENDS AND FUTURE PERSPECTIVES

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### ABSTRACT

This paper reviews the market for wine drinks in Bulgaria. It charts the key trends, as it utilizes latest data on production, volume and value by category of wine drinks, by transacted deals, import and export, profitability, liquidity, indebtedness. The paper discusses the impact of several microeconomic and macroeconomic factors of this industry. For the purposes of this paper, the market has been defined to include: sparkling wines, still (table) wines, special wines.

**Key words:** alcohol drinks market, wine drinks.

### 1. Main trends in the development of wine market in Bulgaria in the period 2011 – 2015.

Bulgaria has long traditions in wine growing and wine production. The country enjoys favourable natural and climatic conditions for the development of viticulture, good potential of local and introduced grape varieties and specialized areas and regions for healthy growth and development of vineyards. Wine industry is an important sector for the Bulgarian economy. It is competitive, high-tech and export-oriented. International markets are familiar with Bulgarian wine and there is a growing potential for developing and advancing its market position overseas.

#### 1.1. Macroeconomic framework

##### Gross domestic product

Since 2013 onwards, the economic activity in Bulgaria has been gradually accelerating. Although the growth of the gross domestic product (GDP) is still significantly lower than the rates before 2008, it reached 3% in 2015 supported mainly by the positive tendencies in the external sector. Data of the Bulgarian Ministry of Finance (1) show that in 2016 GDP marked a stable growth by 3.4% of real

economic gains. It is a balanced growth substantiated by both internal demand (1.6%) and by net export (1.8%).

##### Gross value added

The gross value added (GVA) produced by the national economy industry sectors in 2015 was reported at 39 134 million EUR at current basic prices. In real terms it increased by 3% in comparison with the preceding year. The added value of agricultural sector entities in 2015 amounted to 1 873 million EUR at current basic prices, shrinking by 6.8% per annum in real terms. The share of agriculture in the total GVA drops under 5% for the first time since there is GVA statistics in the country.

Gross value added in 2016 was reported at 79.9 billion BGN. The estimated value is 2.9% higher than in 2015. The most significant contribution to the growth is made by the service sector, accounting for 67.6% of GVA. The industrial sector accounts for 28.0% of gross value added and the agricultural sector - 4.4%.

##### Employment and unemployment

The positive trend of onward developments in the labour market from recent years has remained in place. The unemployment level decreased substantially in 2015 to 9.2% (2). As this ongoing decrease continued, it reached 6.7% in the fourth quarter which is the lowest estimate since the middle of 2009. However, the decline in unemployment had no

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significant impact on employment largely due to the reduced labour supply. The employment coefficient in 2016 indicated decline for all age groups (except for people over 65) as compared to the previous year.

### Foreign direct investment

Despite positive economic developments in the country, the growth of investment activity in Bulgaria gradually slowed down and resulted in decline in foreign direct investment over the last year. According to the reports of BNB (3) the amount of FDI in Bulgaria for the entire 2016 was 682.8 million EUR which is approximately 1 billion EUR less than in 2015. If a longer comparison period is covered, the FDI flow in 2016 remains more than two times smaller than the average annual rate for 2010 – 2015.

### Inflation

The average annual inflation for 2015 was - 0.1%. Consumer price change (according to the harmonised index of consumer prices) has been negative for the entire 2016 with the annual deflation rate slowing down to -0.5% in December. The average annual inflation remains negative (-1.3%).

### Commodity exchange

In 2015, Bulgaria's export hit a record high reaching nearly 29 billion Euro and 1 billion EUR growth as against 2014. The total export of goods to the EU countries increased by 7.9% and the registered growth to third parties was insignificant – 0.6%. Foreign trade data show that export exceeded the value of

imports. In 2016, Bulgaria's exports figure was increased by 325 million EUR or 5.7% in comparison to the preceding year. The value of imported goods increased by 177 million EUR or 2.7%.

### 1.2. Production

Wine production in Bulgaria in the period 2011 – 2013 is characterized by positive trends on annual growth reaching its highest level in 2013 (165 898 000 litres). The total growth rate for 2013/2014 reached negative value of – 40.9%. In comparison, the figure for 2012-2013 is 0.2%. However, this negative trend is considered not to be widening. 2015 registered upward move of production in comparison to the preceding year (by 40.3% or 39.5 liters). As shown in **Table 1**, in 2015 production increased in all product classes in comparison to 2014. The best performing segment is the one of high quality red wines and rosè registering growth rate by 86.5% for 2014/2015 or 1.5 million liters, followed by sparkling wines (48.2%), table wines (39.8%), vermouths and other aromatised wines (32.7), and high quality white wines (2.8%).

The biggest share in the product mix of wine production enterprises in 2015 have the table wines (non –PDO<sup>1</sup> still wines) – 96%. The changes as against 2014 are:

- Increase in the share of PDO still wines by 0.4% and of sparkling wines by 0.02%.
- Decrease in the share of non-PDO still wines – by 0.4%, of vermouths and other aromatised wines – by 0.1%.

**Table 1.** Production of grape wine (2011 – 2015), in '000 liters

Year	2011	2012	2013	2014	2015
<i>Product line</i>					
<b>Sparkling wines</b>	<b>1 298</b>	<b>705</b>	<b>739</b>	<b>307</b>	<b>455</b>
<b>Still wines</b>	<b>121 024</b>	<b>140 308</b>	<b>161 361</b>	<b>96 658</b>	<b>135 674</b>
PDO still wines	3 458	3 579	3 104	2 395	3 928
Red wines and rosè	2 982	3 021	2 582	1 751	3 266
White wines	476	558	522	644	662
Non PDO still wines	117 567	136 729	158 257	94 263	131 746
<b>Special wines</b>	<b>990</b>	<b>2 147</b>	<b>2 314</b>	<b>1 135</b>	<b>1 506</b>
Liqueur wines	.. <sup>2</sup>	17	..	..	..
Vermouth and others aromatised wines	990	2 130	2 314	1 135	1 506
<b>Grape must</b>	<b>2 175</b>	<b>335</b>	<b>1 484</b>	..	..
<b>Total</b>	<b>125 487</b>	<b>143 495</b>	<b>165 898</b>	<b>98 101</b>	<b>137 635</b>

Source: SFB Capital Market

<sup>1</sup>Protected Designation of Origin, wines produced in EU

<sup>2</sup>.. – Confidential data

### 1.3. Wine sales

From the analysis of the data shown in **Table 2** it can be concluded that there is a positive trend of annual increase in the physical volume sales in the period 2011 – 2013. Wine consumption reached its highest level in 2013

when wine sales amounted to 125.4 liters. In comparison to 2014, the volume sales of producers in 2015 increased (by 5.1% or by 4.7 million liters), and the sales in value registered substantial change (decrease by only 11 000 EUR, or 0.01%).

**Table 2.** Grape wine sales (2011 – 2015)

Year Product lines	2011		2012		2013		2014		2015	
	'000 liters	'000 EUR								
<b>Sparkling wines</b>	<b>748</b>	<b>1060</b>	<b>745</b>	<b>1033</b>	<b>639</b>	<b>932</b>	<b>280</b>	<b>475</b>	<b>399</b>	<b>601</b>
<b>Still wines</b>	<b>109022</b>	<b>106630</b>	<b>107662</b>	<b>108812</b>	<b>122529</b>	<b>119604</b>	<b>92616</b>	<b>104812</b>	<b>95691</b>	<b>103586</b>
PDO still wines	1893	6420	1750	6857	1763	7548	2040	8468	2588	11810
Red wines and rosè	1549	5056	1215	5039	1286	5455	1479	6301	2001	9496
White wines	344	1364	536	1819	477	2092	561	2167	586	2314
Non-PDO still wines	107129	100210	105912	101955	120765	112056	90576	96344	93104	91777
<b>Special wines</b>	<b>977</b>	<b>..</b>	<b>2284</b>	<b>2279</b>	<b>2276</b>	<b>2697</b>	<b>..</b>	<b>..</b>	<b>1542</b>	<b>1089</b>
Liqueur wines	..	..	18	53	..	..	..	..	246	..
Vermouth and other aromatized wines	977	..	2266	2226	2276	2697	..	..	1296	1089
<b>Grape must</b>	<b>..</b>	<b>..</b>	<b>476</b>	<b>225</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>Total sales</b>	<b>110747</b>	<b>107690</b>	<b>111167</b>	<b>112350</b>	<b>125444</b>	<b>123233</b>	<b>92896</b>	<b>105287</b>	<b>97632</b>	<b>105276</b>

Source: SFB Capital Market

As evident by the figures, the best performing segment in the period 2011 – 2015 is the one of table wines (non-PDO still wines) which has clearly reaffirmed it as the fastest growing product line in the period.

The trends in the **average price** of sold quantities are as follows (4):

- increase by 45% for PDO still red wines and rosè – from 3.26 EUR per liter in 2011 to 4.74 EUR per liter in 2015;
- the price for PDO still white wines is wavering – decrease by 0.3% as compared to 2011, but in comparison to 2014 it is increased by 2.2%;
- increase by 5.4% for non-PDO still wines

as compared to 2011 and decrease by 7.3% as compared to 2014;

- the price for sparkling wines was highest in 2014 and in 2015 the decrease against 2014 is by 11.2%. In comparison to 2011, the price for sparkling wines increased by 6.3% in 2015.

### 1.4. Commodities exchange

Bulgaria's commodities exchange with wines from fresh grapes in the period 2011 – 2015 follows a wavering trend of growth and decline (**Table 3**). In 2012 the commodity exchange registered highest values and in 2015 – lowest values. The total growth rate in 2014/2015 was by -0.9% or 525 100 EUR.

**Table 3.** Commodities exchange of wines from fresh grapes and foreign trade balance (2011 – 2015)

Year Index	2011		2012		2013		2014		2015	
	'000 liters	'000 EUR								
<b>Commodities exchange</b>	-	<b>63 684</b>	-	<b>65 244</b>	-	<b>63 558</b>	-	<b>57 187</b>	-	<b>56 662</b>
Export	60 381	51 828	60 287	51 606	53 948	49 200	45 556	43 359	39 859	37 279
Import	5 961	11 856	5 853	13 637	5 499	14 358	3 771	13 828	7 409	19 383
<b>Foreign trade balance</b>	-	<b>39 973</b>	-	<b>37 969</b>	-	<b>34 841</b>	-	<b>29 531</b>	-	<b>17 896</b>

Source: National Statistical Institute

The foreign trade balance for the entire period is positive with a decreasing trend. For 2015 it declined by 39.4% or 11.6 million EUR in comparison to the previous year.

### Import

In the period 2011 – 2014, the import volume of wine decreased (except in 2012) but its value increased (except in 2014). In 2015, 9.2 million liters were imported amounting to 19.4 million EUR. As compared to 2014, the quantities registered growth by 75.2% (or 3.9 million liters) and the value increased by 40.2% (or 5.5 million EUR).

In 2014, still red wines and rosè had the biggest share (42.5%) in the distribution of imported quantities of wine in terms of product lines, followed by still white wines (38.2%).

Still white wines had biggest share in imported value (34%) and still red wines and rosè (28.9).

### Export

As evident by the data shown in Table 3, there is an ongoing decline in wine export in the period 2011 – 2015. In 2015 Bulgaria exported 39.9 million liters at 37.3 million EUR. The growth of export in 2014/2015 was a negative figure (both in volume – 12.5% and in value – 14%). Still red wines and rosè had biggest share in the distribution of exported products lines in the last year.

### 1.5. Financial indicators of the enterprises from “Production of grapes wine”

As evident by Table 4, the liquidity of wine producers in 2015 was lower than in the preceding year.

**Table 4.** Financial indicators of the enterprises from „Production of wine from grapes“ (2011 – 2015)

Indicator/Year	2011	2012	2013	2014	2015
General liquidity ratio	1.48	1.51	1.19	1.40	1.38
Fast liquidity ratio	0.65	0.67	0.48	0.59	0.63
Return on sales	-0.07	-0.07	-0.03	-0.07	-0.14
Return on equity ratio	-0.06	-0.07	-0.03	-0.07	-0.14
Debt ratio	1.737	2.149	2.548	2.359	2.170
Sales revenue ('000 BGN)	250561	250293	243790	237423	248277
Financial result ('000 BGN)	-17778	-16982	-8251	-17366	-35954

Source: Independent calculations and SFB Capital Market

The total liquidity ratio in 2015 was highest in (4):

- Bulgarian wine and spirits AD – Sofia;
- Papas Vineks AD – Yambol;
- Vinprom Montana AD – Montana;
- Slaveykovo Cellar EAD – Harmanli;
- Koveks 2 EOOD – Panagyurishte.

The profitability of the sector enterprises is negative for the entire period which is a logical consequence of the financial result.

Profits exceeding 1 million BGN for 2015 registered the following companies (4):

- Villa Yambol EAD – Yambol: 3 673 000 BGN;
- New Industrial Company AD – Sofia: 2 289 000 BGN.

Loss exceeding 1 million BGN registered the following companies:

- Angels Estate AD – Stara Zagora: -1 047 000 BGN;

- LVK Vinprom AD - Targovisthe: -1 258 000 BGN;
- Ivena Commerce – Valentin Shotev Sole Proprietorship – Sofia: -1 327 000 BGN;
- Domain Menada EOOD - Sofia: -1 399 000 BGN;
- Vinprom Haskovo EAD - Sofia: -1 434 000 BGN;
- Karabunar Cellar OOD - Sofia: -1 456 000 BGN;
- Bulgarian Wine and Spirits AD - Sofia: -1 500 000 BGN;
- Noviko Nord EOOD - Chipran: -1 769 000 BGN;
- Telish AD - Sofia: -24678 000 BGN.

Companies debt in 2015 was lower than in the previous year.

Lowest debt ratio over the last year registered the following enterprises (4):

- Koveks 2 EOOD – Panagyurishte;
- Dionisiy AD – Nikopol;
- Midalidare Vineyards EOOD – Mogilovo;
- Balar AD – Skalitsa;
- Wine Mansion Santa Sara AD – Goritsa.

## 2. Perspectives on the development of wine market in Bulgaria

Wine producers in Bulgaria have a number of technical, operational, business and innovation resources at hand. Part of their perspectives for development can be sought in the maximum absorption of the EU funds and more active participation in the national programmes for supporting the business.

The National Vine and Wine Programme 2014-2018 aims to provide assistance to Bulgarian wine makers in the form of financing for renewal and restructuring of vineyards, improving the vineyard management methods and techniques, improving market positions in the non-EU countries. It kept operating in 2015. The programme includes four measures – “Restructuring and conversion of vineyards”; “Green harvesting”, “Promotion on third countries markets”, “Company investments”. After a wide-ranging discussion between representatives of the administration and the wine sector, the Permanent working group for operational problem solving in Wine department made a decision to exclude the measure “Company investments” from the scope of the Programme, and allocate the funds amounting to 66 497 200 BGN (16 624 300 per annum) to the measure “Restructuring and conversion of vineyards” (5).

“**Restructuring and conversion of vineyards**” is the measure with the most successful implementation. Its significance for the sector is key. It sustains considerable interest on behalf of the producers. Eligible for receiving financial support are activities related with: change in plant variety; vineyard restructuring; improving the vineyard management methods and techniques. The maximum amount of financial aid is up to 75% of the amount of the actual costs for the implementation of each specific activity.

**Measure “Promotion on third countries markets”** aims to improve the competitiveness, to strengthen the prestige and to enhance the demand (outside the EU) of PDO and PGI<sup>3</sup> Bulgarian wines. The financing with European funds is up to 50% and the national co-financing – up to 30% of the total amount of the implemented activities.

**Measure “Green harvesting”** is a safety tool applicable in crisis situations. It helps to recover the balance between demand and supply on the wine market in the European Union. In 2015, this measure was not implemented in Bulgaria and its annual budget amounting to 1 173 480 BGN was transferred to the budget of “Restructuring and conversion of vineyards”. According to data of the Ministry of Agriculture and Food in the period from the beginning of the financial 2016 (16.10.2015) to 14.06.2016, there were 198 applications submitted for financial aid by the measure “Restructuring and conversion of vineyards”. 127 agreements have been signed amounting to total financial aid of 48 565 960 BGN. The amount of payments made is 7 597 525 BGN (5).

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<sup>3</sup>Protected Geographical Indication wines