

Annual Report 2016

In contrast to the previous year, in 2016, the construction industry in Bulgaria is characterised by slow dynamics and by a relapse to a negative balance.

An analysis of the results in the construction industry for 2016 shows varying tempo in achieving the goals and results of the development. The statistical of the main economic indicators for the construction industry have negative value. The important steps leading to positive levels are still unfulfilled.

A year ago the construction industry registered growth close to the volumes realised before the crisis. The facts show that at the end of the programme period 2007-2013 the construction industry registered significant progress. The beginning of the transition to the new programme period for contracting European projects and the determining of the frameworks for the economy, in general start with 2016. This is the main reason for the reported low levels and the reduction of the achieved results in the Annual plan, compared to 2015. The projects financed by the European structural and investment funds remain the driving force for progress in the construction industry.

The statistics: The preliminary data about the contribution of the construction industry in the Gross Added Value for the whole economy for 2016, show 3.7%.

Compared to 2015, **the Foreign Direct Investments** in the construction industry for 2016, registered growth of 25.9 %, a positive tendency in view of the negative data from the past years. More than 4 years **the investment activity in the construction industry was realising negative values in real terms.**

However, despite the growth of investments, the projects remaining in the focus of the investors still did not reach the required levels.

The expectation that the construction industry will increase the levels during 2016 were not fulfilled. It is necessary to change completely the policy of attracting investments, in order to progress in the process.

It is necessary to undertake key steps to accelerate the process.

The number of the announced public procurements in the construction industry for 2016 is 2811 and they have the value of 2049 million Euros. The observed tendency is a decrease of 2.9 % in the number of the announced public procurements and an insignificant growth of the value of 2.4% compared to the previous year.

The concluded contracts in connection with announced public procurements in the construction industry for 2016, are 2991 and have a total value of 1253 million Euros, and show the increasing tendency of the number of concluded contracts of 4.8 % and continuing decrease in the value of yearly 7.4%.

The registered construction companies in CPRB (Central Professional Register of Builders) at the Bulgarian Construction Chamber (BCC), to date 22.02. 2017, are 4823, and of them, 4775 are registered Bulgarian legal persons and 48 foreign companies.

Due to non-complying with the procedure under Art.20, Par.2 from the CA, **438 companies are deleted from the CPRB for 2016.**

The construction industry for 2016 consists mainly of 86.7% small companies, according to the number of employees, 11.5% middle size companies, and 1.8% big companies.

Preliminary statistical data show that the production for 2016 of the construction industry is 5753 million Euros, which is a significant decrease of 37.0% per year. The tendency is decreasing.

The sector “Construction of buildings”, which includes residential and non-residential construction, registered significant decrease of 32.8%, and its production is 3051 million Euros. The production of sector “Construction of buildings” has a 53.0% shareholding.

The sector “Civil engineering infrastructure” has production of 2702 million Euros, or decreasing of the yearly levels by 41.1%. The projects in road and water infrastructure registered negative values for 2016.

For 2016 the construction industry in the sector “Civil engineering infrastructure” slowed down the development and as a result, there was a significant decrease. The reasons for this are the beginning of the new programme period 2014 -2020 and the initial negotiations and contracting of the European projects. As a whole, the civil engineering construction depends fully on the state budget, local structural funds and the funds from the EU. This sector has special significance for the development of the construction industry and the economy as a whole, so the priorities should be directed toward it.

By the prognosis data, the “Civil engineering” represents 47.0% of the production, and compared to the previous year, the tempo of the development slowed down. The prognosis for a positive tendency in the civil engineering construction is to be realised in the middle of 2018.

The expectations for 2017 are that the construction industry will increase the projects in the area of energy construction and energy efficiency. This is the future platform for the development of the sector.

The analysis based on statistical prognosis shows that the revenues from the activity for 2016 (the final data will be published on 15.08.2017) will be of negative value. The tendency of significant decrease of the costs of acquiring FA (Fixed Assets) in the construction industry remains. The data show a yearly decrease of 57.4%.

Residential construction. The preliminary data prognosis for 2016 shows that the share of the residential construction in the revenues of the sector is only 10.7%, and a significant decrease of 32.4% is observed, compared to the period before the crisis. During 2016, a stabilisation of the prices of homes was observed. However, the buyers still remain cautious, although the real estate market became alive again. As a whole, the tendency in the residential construction continues to show a growth and compared to 2015, registered an increase of 15.3%. The indicators of residential construction, during 2016, by the preliminary data, give hope and show signs of restoration from the crisis and a revival of the sector. This tendency is seen from the statistical representing the started construction and the commissioned residential buildings. One of the main priorities for the sector is the improving of energy efficiency. “European Strategy 2020” with different ways of co-financing. The residential construction in Bulgaria during 2016 started projects directed mainly toward renovation and rehabilitation, optimisation, modernization and energy efficiency of the existing buildings.

According to the prognosis, the non-residential construction will be within the frame of 23.4% of the revenues in the construction industry.

The total number of issued building permits for 2016 show a tendency toward an increase of 5.8% per year and a growth of built-in area by 10.2%.

The permits issued for **residence buildings** have registered growth of 4.7%, and growth of a built-in area with 4.8% per year. The permits issued for **administrative (office) buildings** registered growth tendency by 3.8% per year with a continuous tendency of significant growth of a built-in area by 65.3%.

For other purpose buildings, the growth is by 6.9%, compared to the previous year, and the growth of the built-in area is by 11.5%. During 2016, the tendencies of the real estate market show certain development, with positive results; despite this, the results from before the crisis hardly will be repeated.

The started construction of residential buildings in 2016 registered yearly growth of 8.6% and the homes in them show an insignificant increase of 1.5%. In the category of residential built-in area, there is a yearly decrease of 1.2%.

The started construction of administrative (office) buildings shows a decrease of 1.1% and a significant decrease of the built-in area by 25.9%.

For 2016, **the commissioned** completed residential buildings show decreasing tendency of 3.9%, and growth in the number of the homes in them by 20.0%. The analysis shows an increase in the category of built-in used residential area in the commissioned residential buildings by 8.9%, compared to 2015.

The positive results of the builders during the second half of 2016, gives hope for positive prognosis, and a reason for more dynamic changes in the residential construction also during 2017.

The completed buildings are mainly from reinforced concrete and represent 74.0% of the total number of the commissioned residential buildings, while the share of the brick buildings is 22.9%, with a registered tendency toward increase. The panel buildings and other types of completed buildings represent 3.1%.

Employment: Construction industry. The employed persons in the construction industry represent 5.1% of the total employed persons in the economy of the country, and the levels from the previous year are without change. The analysis shows a tendency of ageing of the workforce in the construction industry, a reflux of the younger generation from the builder's profession.

During 2016, **the unemployed** in the construction industry are 11.4% of the total number of unemployed persons in the country. In the construction industry, the number of newly registered unemployed for 2016 shows a constant tendency of maintaining the yearly levels. The changes are a result mainly of the increase in the number of projects with European financing.

The prognosis of the Bulgarian Construction Chamber for 2017 has a more optimistic character. After the record-low levels of the construction volumes, the construction industry shows a tendency toward a slow return to the positive values for 2017. Still, there are negatives, which have to be eliminated.

Key steps for accelerating the process

- The fulfilment of the strategy directed toward construction industry progress requires constant effort and involvement by the state. A number of projects are completed, other projects from the new programme period are currently under development or in the preparation stage.
- More planned funds in state budget for public investments – public procurements, more investments in “the green economy”
- Development of small and middle size business.

● **The challenges before the construction industry are to look for and to find the right mechanisms for accelerating the process of contracting and realisation of projects with European financing.**

The construction industry should draw conclusions from all analyses and plan the path of development. During 2017, the construction industry should demonstrate the capacity for achievement of lasting results.