

# FINANCIAL AND ECONOMIC ASPECTS OF DEVELOPMENT OF THE TRADE, REPAIR OF MOTOR VEHICLES AND MOTORCYCLES SECTOR IN BULGARIA

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**Abstract:** The paper analyzes the development of key financial measures in the Trade; repair of motor vehicles and motorcycles industry in Bulgaria. The study refers to data for the 2009-2019 period, retrieved from an official source – the NSI. The analysis of one of the key economic sectors in Bulgaria – Trade, repair of motor vehicles and motorcycles, and the measures studied from a financial and economic point of view, in particular, leads to the conclusion that it is highly dependent on everything that happens in the country in economic and social terms. In structural terms, the study consists of two main parts, covering the characteristics and trends in the Trade, repair of motor vehicles and motorcycles” industry in Bulgaria for the 2009-2019 period. The positive and negative factors affecting the sector are drawn as a result.

**Keywords:** production and trade in auto parts, car repair, centers of automotive industry in Bulgaria, auto parts manufacturers in Bulgaria.

**JEL:** G30, L11, L25, M51.

## Introduction

Transport industry is of key importance to the economic life of any country. It is characterized by a high degree of importance for developing all other dependent sectors. The Motor vehicle service and repair sector is related to ensuring good technical security and efficiency of vehicles (cars, motorcycles, etc.). It is affected by a variety of factors, such as road

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infrastructure, trade in vehicles, the quality of acquired driving skills, the quality of maintenance, etc. The timely analysis of the main parameters and trends related to the development of structural units such as number of enterprises in the sector, production output, turnover and staff costs, wage costs, employees, purchase of goods and services, etc. are essential for the sector development.

The research problem of the article is the Trade; repair of motor vehicles and motorcycles industry, while the research area is the structure and trends in the sector development. The purpose of the study is to analyze and outline the positive and negative factors affecting the “Trade; repair of motor vehicles and motorcycles” industry. It is against this background that the study sets the following four main tasks:

**First.** To characterize the nature of the Trade; repair of motor vehicles and motorcycles industry.

**Second.** To determine the contribution of the sector to the Bulgarian economy.

**Third.** To present the trends in the Trade; repair of motor vehicles and motorcycles industry.

**Fourth.** To bring out the positive and negative factors affecting the Trade; repair of motor vehicles and motorcycles industry in Bulgaria.

The multifaceted nature of financial and economic processes in the Trade; repair of motor vehicles and motorcycles industry requires that the restrictive conditions, under which this study was conducted, be indicated. They can be formulated as follows:

**First.** The analysis of the financial and economic aspects of the Trade; repair of motor vehicles and motorcycles industry development in Bulgaria is carried out in terms of the trends in the Trade in motor vehicles and motorcycles, maintenance and repair subsector.

**Second.** The main source of information on the object of study is the National Statistical Institute of the Republic of Bulgaria.

The article is structured in three parts. Part one presents the general characteristics and the role the Trade; repair of motor vehicles and motorcycles industry plays in the Bulgarian economy. The second part analyzes the trends in the development of the sector for the 2009-2019 period, while part three describes the findings and the final conclusions drawn as a result of the study.

### **1. Characteristics and role of the Trade; repair of motor vehicles and motorcycles industry in the Bulgarian economy**

Since the end of the last century, the automotive industry has been undergoing a transition, during which a great number of local industries are adapting to the integrated global market. It takes place mainly in the buyer-supplier relationships, especially between car manufacturers and their suppliers. At the beginning of the 21st century (Vaz, Rauen, & Rojas Lezana, 2017), the automotive industry, already reaching a level of maturity and high structure, is under pressure from globalization, government regulations – on energy consumption, emissions and safety – and technological advances in electronics, communications and design solutions. The Trade; repair of motor vehicles and motorcycles industry is one of the main economic sectors, regularly monitored by the statistical institute at national and European levels. It covers the wholesale and retail trade in goods intended for repairing cars and motorcycles, as well as the repair services to maintain their good condition. In Bulgaria, it refers to non-financial enterprises and is among the sectors employing a large number of employees and generating a high level of production output. The sector is a major structural element of the country's economic activity. The other sectors (ISIP, 2021) are as follows: industry, services, mining industry, processing industry, production and distribution of electricity and heat and gaseous fuels, water supply; sewerage, waste management and remediation services, construction, transport, storage and post, hotel and restaurant management, creation and dissemination of information and creative products; telecommunications, financial and insurance activities, real estate activities, professional and research activities, administrative and support service activities, government, education, human health and social work activities, culture, sports and entertainment, etc.

The production and trade in auto parts and car repair in Bulgaria is one of the developing sectors in the country. In recent years, the sector has grown and become a kind of an economic engine. Most enterprises are private and produce goods that mainly meet the objectives of the internal market. A great number of companies operating with Bulgarian capital, as well as foreign invested enterprises work in the sector. It is characterized mainly by the predominance of small and medium-sized enterprises generating cheap production and services compared to other European countries. Production

is organized on a flexible principle, according to customer requirements, and very often, it is necessary to quickly reorient it for the purposes of maintaining the market position. The sector is extremely diverse, producing parts that require low-skilled labour and up-to-date technological and engineering solutions. Local production is oriented in the fields of electrical and electronic equipment; production of aluminum and steel elements; production of batteries, glass, paints, filters, sensors, modules, etc. Most transport equipment activities are structured on the basis of complex pyramidal relationships between large manufacturers and several levels of component suppliers, ranging from system suppliers to very small, specialized manufacturers that can provide a single component for a vehicle.

In Bulgaria (Sofia News Agency, 2019), three major centres, operating with foreign investments, exist in the automotive industry – the American “Viseon” and “Seneca Texolojis” and the German “Ber-Hella Thermocontrol”. The presence of foreign investors in the industry is indicative of a good environment. The interest is caused mainly by the attractive business conditions in the country, such as low labour costs. The following companies are among the largest manufacturers of automotive parts in Bulgaria: ALC Bulgaria, Alucom, Arkomat-Bulgaria, Arexim Engineering, Garant, Kaumet, Dreaming Technologist, Magnetic Media Mechanics, Preskov, Yazaki-Bulgaria, Integrated Micro-Electronics Bulgaria, Festo Production, Fransizkup, Grammer, Iksetik, Johnson Controls Electronics Bulgaria, Kostal Holding, Liebherr Transportation Systems Marica, Melexis Bulgaria, Montupet Bulgaria, Nursan Otomotive, Oscar Ruegg Bulgaria, Sensata Technologies, Sumitomo Electric Bordnetze - Bulgaria, William Hughes Bulgaria, Wit Wurth Elektronik, etc. The sector includes both manufacturing companies and service units for repairing and maintaining cars and motorcycles.

The study of the sector development can be considered on the basis of a number of financial measures that are subject to annual survey by the National Statistical Institute in Bulgaria. Among the leading measures, subject to dynamic research, are the following: the number of enterprises, the number of local units, turnover, production output, value added at factor cost, purchase of goods and services, staff costs, wage costs and employees. Essentially, measures consider the following (NSI, 2021):

**First.** Number of enterprises. The measure covers the number of active enterprises in the sector that have submitted statistical and financial data on their activities to the relevant units of state institutions.

**Second.** Number of local units. The indicator presents independent on local units’.

**Third.** Turnover. This category contains the revenues from sales of goods and services from the activity performed, invoiced during the period.

**Fourth.** Production output. The measure represents ‘the value of turnover reduced by the carrying amount of assets sold’.

**Fifth.** Value added at factor cost. This reflects the ‘value of production output reduced by the value of excise duties and operating costs’, excluding staff costs and depreciation and added revenue from financing.

**Sixth.** Purchase of goods and services. Within this category the value of purchased goods and services during the reporting period is presented.

**Seventh.** Staff costs. The indicator represents the value of remuneration and insurance of people servicing the activity, payable at the expense of employers.

**Eighth.** Number of employees. The category covers people working in an enterprise, who are employed on full-time or part-time employment contracts.

A great number of the analyzed indicators are related to human capital management (Zahariev, 2017), which is an important part of the process of generating economic growth in the country and at the same time is part of the assessment of the business environment (Ganchev, Kanaryan, Sirkakov, & Dimitrov, 2018).

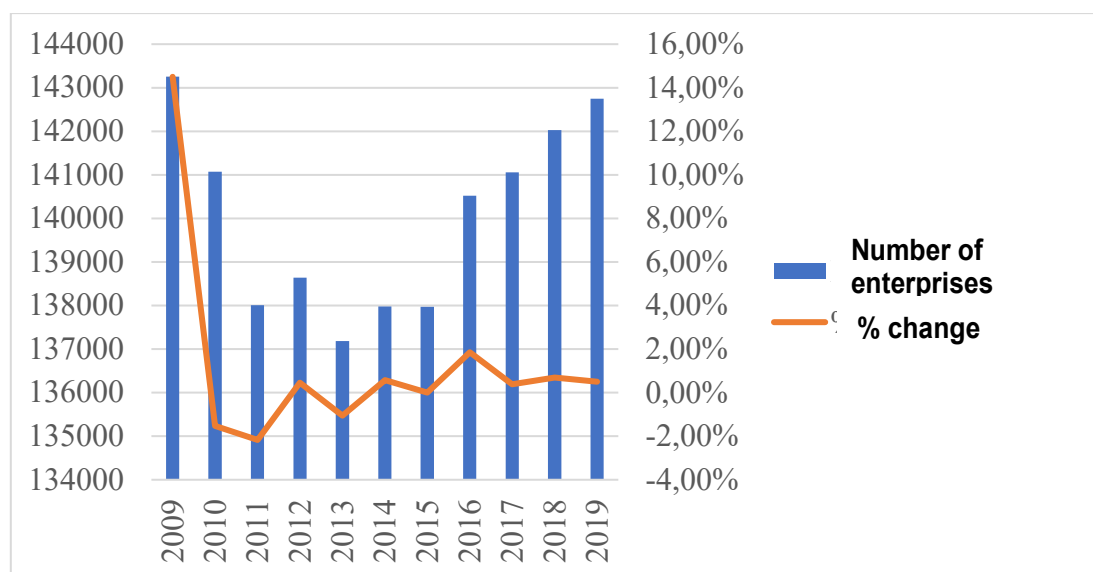
Data are retrieved from the official source for the country – the NSI, and present dynamically the trends in the changes of indicators for a period of 10 years (2009-2019), according to the latest available current data. The chosen ten-year period determines the process of gradual recovery and development of a large part of the economic sectors in the country. At the same time, factors contributing to stagnation and reduction of market power also exist.

## **2. Analysis of measures and trends in the development of the Trade; repair of motor vehicles and motorcycles industry in Bulgaria for the 2009-2019 period**

The development of the Trade; repair of motor vehicles and motorcycles industry has made significant progress in recent years. Its dynamics is a reflection of the widespread use of vehicles for implementing a number of activities in other sectors. In Bulgaria, the sector relies on dynamic development, due to the great number of market participants. In

comparative terms, the sector is fundamental in providing employment among the population. Compared to the other economic sectors, the Trade; repair of motor vehicles and motorcycles industry ranks second in terms of employment – 16.7% (539,800 people) according to a report by (BCRA, 2021). The processing industry is the leader among the sectors providing employment for individuals – 18.8% (607,300 people).

After 2009, the largest number of enterprises in the sector was observed for the entire period – 143,258. Shortly afterwards, their number decreased significantly. This is due to the recovery process after the economic crisis of 2007-2008 and the progress in the sector. After a significant reduction in the number of enterprises, the sector has grown in recent years, increasing by more than 500 companies, reaching 142,747. This is mainly due to the high availability of vehicles in need of repair and maintenance and the strong investor interest in the services sector by external companies.

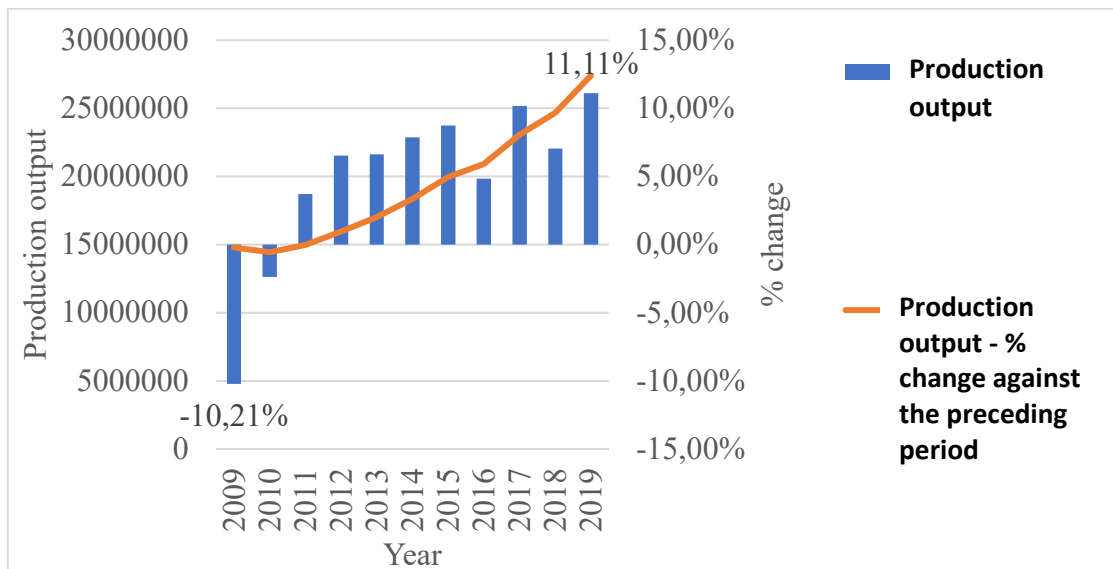


Source: NSI and calculations by the author

*Figure 1. Number of enterprises and its change with a chain base in the Trade; repair of motor vehicles and motorcycles industry in Bulgaria for the 2009-2019 period*

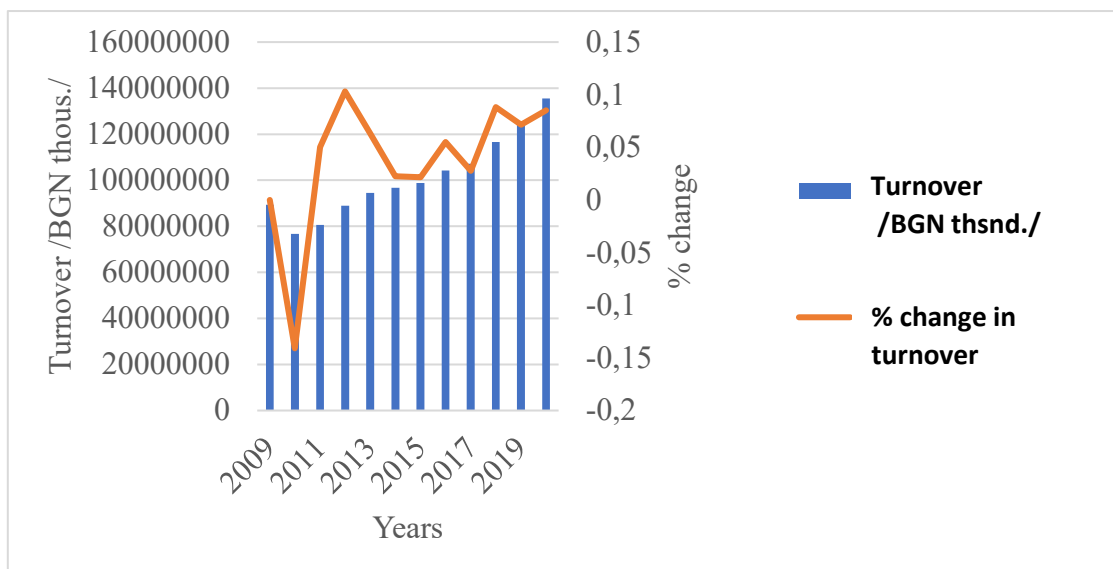
Due to the increase in the number of enterprises there was an increase in the amount of production output, which marked a significant increase, reaching over BGN 25,000,000. Figure 2 shows a positive development of the volume of production. At the beginning of the period under study, there was a recovery of the sector after 2009 for companies that presented the

value of their turnover, reduced by the carrying amount of assets sold. The increase in the use of cars led to an increase in the need for repairs, parts and consumables for their maintenance.



Source: NSI and author's calculations

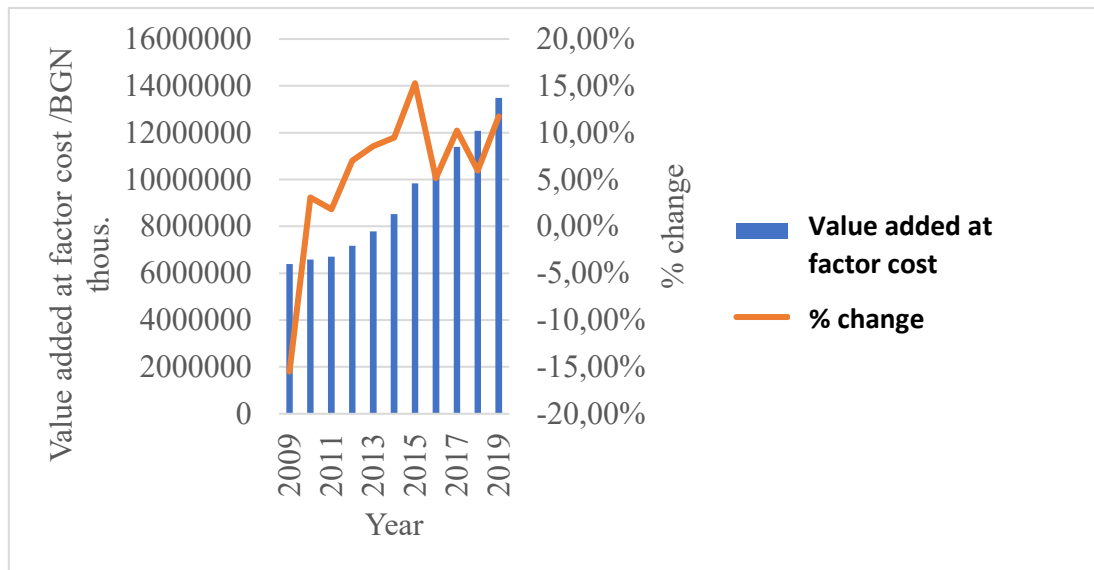
*Figure 2. Volume of production and its change with a chain base in the Trade; repair of motor vehicles and motorcycles industry in Bulgaria for the 2009-2019 period*



Source: NSI and author's calculations

*Figure 3. Turnover and its change with a chain base in the Trade; repair of motor vehicles and motorcycles industry in Bulgaria for the 2009-2019 period*

Significant growth is also observed in the revenues from sales of goods and services from the activity performed, invoiced during the period (Fig. 3). The significant increase in the use of cars led to a logical increase in turnover in the repair and maintenance sector. The imposed regulations for environmental standards, the high number of requirements for roadworthiness and technological stability had a positive impact on the 'turnover' indicator and its percentage change for the 2009-2019 period.



Source: NSI and author's calculations

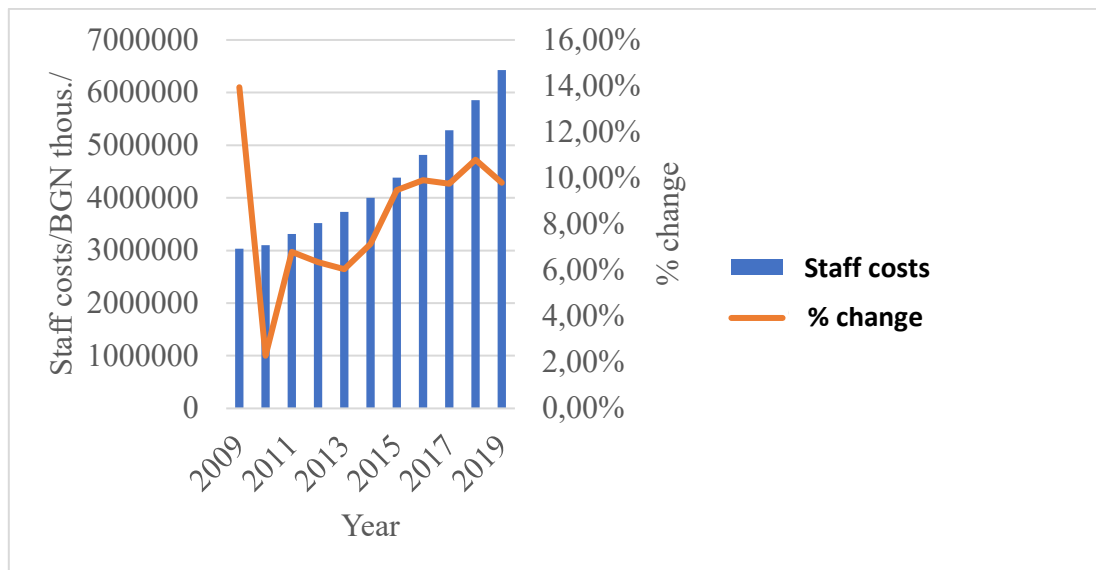
*Figure 4. Value added at factor cost and its change with a chain base in the Trade; repair of motor vehicles and motorcycles industry in Bulgaria for the 2009-2019 period*

The value of production output, reduced by excise duties and operating costs, excluding staff costs and depreciation and added revenues from financing, measured by the "value added at factor cost" indicator (Fig. 4) also show a significant increase, which in numerical terms reached nearly BGN 14,000 million or doubled compared to the starting year, considered the year of recovery from the global economic turmoil (2009).

The increase in the value added at factor cost in the sector and the costs of staff remuneration in the Bulgarian economy as a whole led to a sectoral increase in remuneration costs. For the 2009-2019 period, expenditures increased by more than 8% due both to the increase in the minimum wage during the period and to the increasing social and health

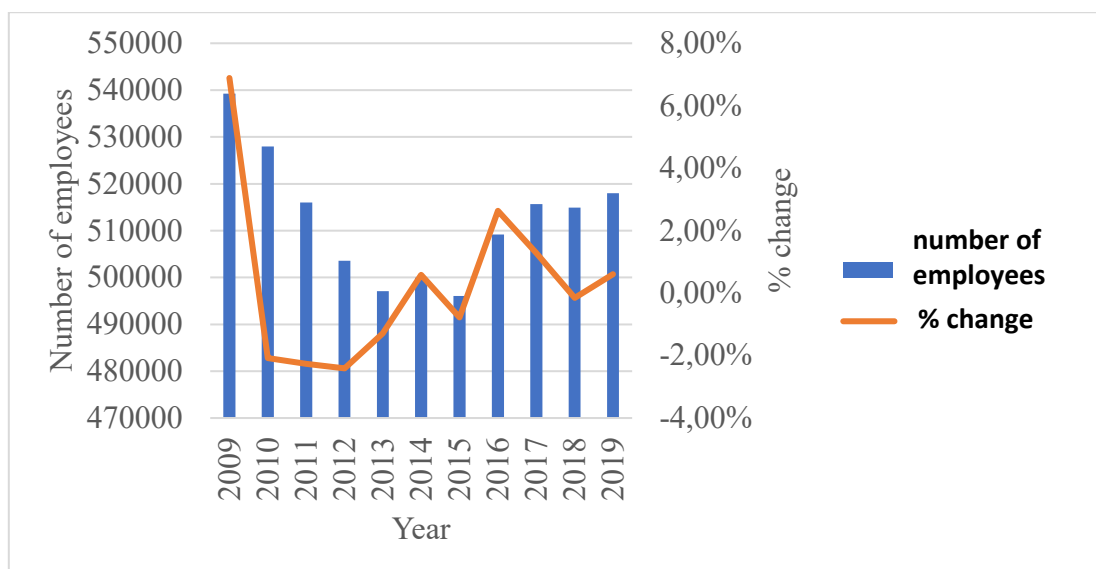


insurance costs, which inevitably affected the sector, as graphically presented in Figure 5.



Source: NSI and author's calculations

*Figure 5. Staff costs and their change with a chain base in the Trade; repair of motor vehicles and motorcycles industry in Bulgaria for the 2009-2019 period*

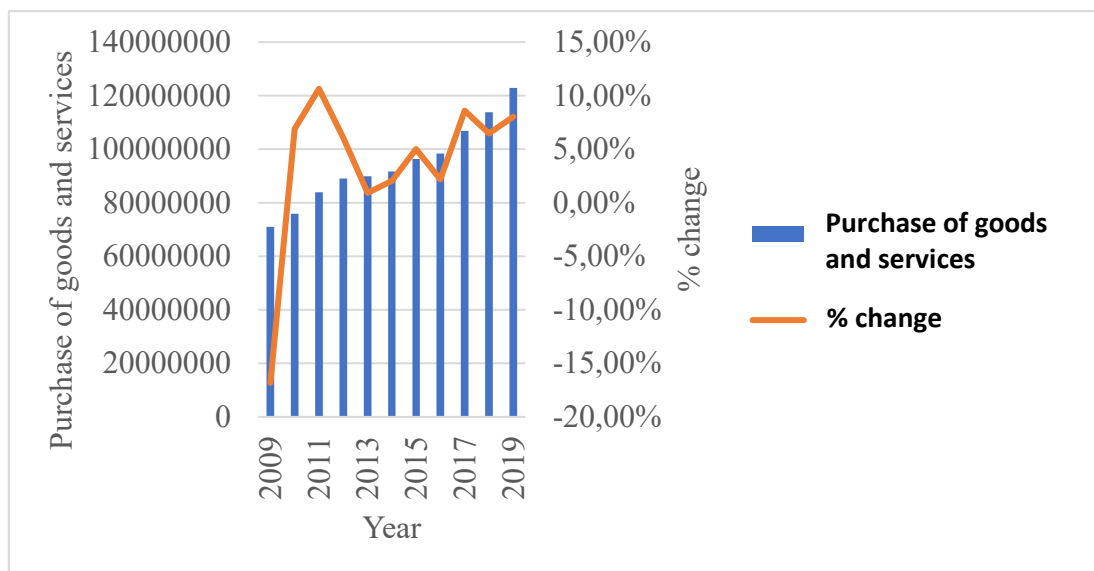


Source: NSI and author's calculations

*Figure 6. Number of employees and its change with a chain base in the Trade; repair of motor vehicles and motorcycles industry in Bulgaria for the 2009-2019 period*

The increase in staff costs had a direct impact on employment in the Trade; repair of motor vehicles and motorcycles industry in Bulgaria. Figure 6 shows a decline in the number of employees by 2013, reaching 497,070. A rise was observed after 2015, reaching 517,996, with the significant assistance given by the Employment Agency (MLSP, 2020) and programs offered by them, where employers received funds to cover the minimum wage and insurance costs. The most sought after jobs were in the Processing industry, Hotel and restaurant management and Trade and car repair.

The employment in the sector was directly related to the process of purchasing goods and services, as shown in Figure 7. This process reflected the significant use of vehicles for both personal and business purposes.



Source: NSI and author's calculations

*Figure 7. Purchase of goods and services and its change with a chain base in the sector Trade; repair of motor vehicles and motorcycles industry in Bulgaria for the 2009-2019 period*

After 2017, there was a decrease in the indicator, mainly reflecting laying up or decommissioning vehicles due to unpaid "Third party liability" insurance (Nikolov, 2021). However, the measure shows a significant development and rise, reaching up to BGN 122,918,309.

As a result of the brief analysis of the factors affecting the trends in the Trade; repair of motor vehicles and motorcycles industry, several leading positive and negative findings can be pointed out. The positive ones for the sector development in recent years are as follows:

**First**, the great number of vehicles in need of repair and maintenance and the considerable investor interest in the services sector shown by external companies.

**Second**, the increase in the use of cars leads to an increase in the need for repairs, parts and consumables for their maintenance.

**Third**, the imposed regulations for environmental standards, an increase in the number of requirements regarding roadworthiness and technological sustainability.

**Fourth**, the assistance of the Employment Agency and programs offered by them, where employers receive funds to cover the minimum wage and social security contributions.

The negative factors affecting the sector include the following:

**First**, the increase in the value added at factor cost in the sector and the costs of staff remuneration in the Bulgarian economy as a whole, leading to a sectoral increase in wage costs.

**Second**, the increase in the minimum wage during the period, as well as the increasing social and health insurance costs, which inevitably have a negative impact on the sector.

### Conclusion

The analysis of one of the key economic sectors in Bulgaria - Trade; repair of motor vehicles and motorcycles, and the measures considered from a financial and economic point of view in particular leads to the conclusion that it is highly dependent on everything that happens in the country in economic terms: imports, exports, productivity, qualified human resources, infrastructure, etc. To this end, the analysis of the indicators shows that the sector is in the process of development and its ongoing analysis from different points of view gives a good idea of the existing problems and challenges facing the industry.

The problems discussed in the article do not exhaust all possible aspects for the sector analysis. Therefore, the issues related to the regional development and the role the Trade; repair of motor vehicles and motorcycles industry has in the different regions of Bulgaria must be studied in the future. This will help to identify key statistical regions, with a focus on the industry and the opportunity for new investment prospects in the field.

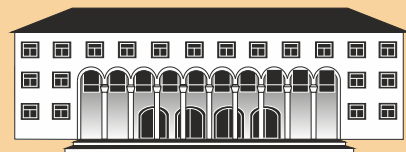
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