

## PECULIARITIES IN THE SOCIO-ECONOMIC DEVELOPMENT OF THE REGIONS IN BULGARIA

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**ABSTRACT.** The socio-economic development of the regions in Bulgaria is strongly dependent on strategic planning at national level and on the definition and formation of policies and priorities for economic development and the establishment of areas for impact by the central government. A particular influence on the degree of development of the individual regions in the country plays the presence of large cities in which production, services, education, science and cultural life are concentrated. On the one hand, the uneven distribution of large cities has a direct impact on the socio-economic development of the individual regions, on the other hand the demographic processes are important and have an impact on the development of the regions in the country. Special importance with regard to the socio-economic development of the regions should be given to the autonomy of regional authorities as well as the availability of financial and managerial independence of local authorities, which can be considered as additional factors in promoting interregional cooperation and integration processes in individual countries and regions. Additional attention and efforts should be directed towards improving interregional cooperation that is emerging and functioning in response to community-recognized socio-economic needs, legislative measures and financial incentives, which will create prerequisites for the use of interregional cooperation as an effective tool for regionalization of public governance.

**Keywords:** regional economy, strategic planning, regional development, regional economic growth, regional policy

### ОСОБЕНОСТИ В СОЦИАЛНО-ИКОНОМИЧЕСКОТО РАЗВИТИЕ НА РЕГИОНИТЕ В БЪЛГАРИЯ

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**РЕЗЮМЕ.** Социално-икономическото развитие на регионите в България е силно зависимо от стратегическото планиране на национално ниво и от определянето и формирането на политики и приоритети за икономическо развитие и обособяването на зони за въздействие от централната изпълнителна власт. Особено влияние върху степента на развитие на отделните региони оказва наличието на големи градове, в които са концентрирани производството, услугите, образованието, науката и културният живот. От една страна неравномерно разпределение на големи градове се отразява пряко върху социално-икономическото развитие на отделните региони, от друга страна демографските процеси притежават важно значение и оказват влияние върху развитието на регионите в страната. Особено значение по отношение на социално-икономическото развитие на регионите трябва да се отдаде и на самостоятелността на регионалните органи, както и наличието на финансова-управленската независимост на местните органи, което може да се приеме като допълнителни фактори за насърчаване на междурегионалното сътрудничество и интеграционните процеси в отделните страни и региони. Допълнително внимание и усилия трябва да бъдат насочени към подобряване на междурегионалното сътрудничество, което се заражда и функционира в отговор на осъзнати от общността социално-икономически потребности, предприети законодателни мерки и предоставени финансови стимули, което създава предпоставки за използването на междурегионалното сътрудничество като ефективен инструмент за регионализация на публичното управление.

**Ключови думи:** регионална икономика, стратегическо планиране, регионално развитие, регионален икономически растеж, регионална политика

### Introduction

In a socio-economic perspective, our country is gradually overcoming the consequences of the economic crisis as there is an increase in aggregate production at levels higher than the pre-crisis indicators, but we should note that the recovery of most of the regions in Bulgaria is still ahead. This assertion is confirmed by the fact that in 19 areas the gross domestic product (GDP) in real terms has not yet reached its pre-crisis level, taking as a basis data from 2008. The distribution of the 19 districts is in all regions of the country, with the exception of the Northwest Planning Region, where all areas GDP levels are below pre-crisis levels, i.e. the districts of Vidin, Vratsa, Montana, Pleven and Lovech. The real picture regarding the North Central Planning Region and the Northeast Planning Region is also similar, only the area of Veliko Tarnovo and Razgrad in the North Central Region and, respectively, Varna

and Dobrich in the North-East region are close to their pre-crisis indicators. In the South Central Planning Region, in the Plovdiv region, through large investments over the last few years, aggregate production is 8.5% higher in real terms than reported in 2008. While real production in the Southwest and Southeastern Planning Region is 2-3% higher than the pre-crisis year (2008), overall the positive trends are mainly attributed to Sofia (the capital) and the large Sofia region in the Southwest region, as well as to Stara Zagora and Yambol for the Southeastern Planning Region. On the other hand, it has to be taken into account that there is economic recovery in most areas of the country, especially if the labor market processes and income dynamics are observed. Again at the bottom of the ranking are the districts of Vratsa, Montana and Silistra, where the process of restoration has either not started or is not convincing. For example, in the Silistra District, less than half of the working-age population is employed. Although there is a downward trend in unemployment, the causes should be

explored and the responsible institutions should carefully examine what are the reasons for this situation, as the fall in unemployment may be due to the passage of some of the unemployed to the ranks of the economically inactive people, including because of the discouragement that they can't find a job. An example in this regard is the Montana region, where unemployment is doubled in 2015, but this is due to the fact that economic activity is collapsing. At this moment, we cannot identify a clear link between decisions to do business or to live in a given territory and the determination of local tax and levy levels as it is apparent that the setting of local tax rates is arbitrary and conjectural rather than strategically oriented. We can definitely say that there is even a lack of comprehensive local fiscal policy, as well as a strategic vision for the development of individual local communities. On the other hand, in the last five years, the world economy has been trapped by low growth, which has an impact on expectations, which is why spending (especially investment) is limited, and this directly affects potential growth. Meanwhile, weak levels of global trade and investment limit opportunities for increased factor productivity and, respectively, income growth, resulting in a decline in growth based on domestic demand. In order to influence the low growth trap, fiscal policy instruments can be used, there should be no doubt, that when used the correct and timely fiscal instruments, they can catalyze economic activity in the private sector and thus accelerate growth, when properly and timely used. But if protectionist measures are used by large economies such as the US, for example, the benefits of fiscal initiatives will be blunted. This is why a global plan for action has to be coordinated between leading economic centers. This is the reason why adequate support for monetary policy should be provided through the use of fiscal and structural policies as well as the denial of all forms of protectionism in foreign trade. Looking at Bulgaria, it is clear that the economic outlook is rather positive, but the risks remain relatively high, as, in addition to the traditional external environment risks and changes in external demand, account needs to be taken of the internal ones related to the formation of a stable government to finish a full mandate. But above all, the Bulgarian economy is open and heavily dependent on external demand and financing. However, given the observed trend of world trade decline as well as the European orientation of foreign trade flows, the importance of exports as a factor of growth should not be considered as significant over the past two years, and for the next two years. Looking at the share of foreign direct investment, it appears that the levels are much lower than the levels achieved in the years before the global financial crisis. For this reason, we must once again, as a major source of external financing, look at the funds under the European programs, especially as the programming period progresses. At international level, especially with regard to the formation of a common European budget, the risk of the impact of the UK's coming out of the European Union remains significant. These are the two factors that we can expect in both short and medium term, to influence the growth to remain rather low and unstable and below what is necessary to achieve accelerated development. Especially in view of the fact that for 2017, the growth of our country will be around 3% and the dynamics of economic activity will be determined by domestic demand and especially private consumption, which will be a consequence of the increase in disposable income

and a result of the moderate improvement of the labor market situation, which may slightly change the picture over the next two, three years, and especially at the end of the current programming period. As can be seen from the presented data, the absorption of the funds in the European programs in the past 2016 was weak, which is typical of the beginning of the programming period. Expectations are for a gradual acceleration of absorption, which will increase government investment, and an increase in gross fixed capital formation in both nominal and real terms should be expected. In 2017 inflation is expected to remain around 2% on average per the year, but we can expect that the trade balance will deteriorate in the coming years, on the one hand, due to the retention of export rates and on the other hand, due to the expected increase of imports because of the increased internal search. Ultimately, net exports in the coming years are expected to have a negative contribution to GDP growth. Regarding the development of the private sector, which should be expected to be cautious when opening new jobs, especially under conditions of pressure to raise wages, employment growth is likely to be the same as the previous year.

### **Demographic situation and opportunities of development**

The population in Bulgaria is decreasing and aging, and regional imbalances in the distribution of inhabitants are getting worse. By 2015 only Sofia-city increased its population compared to the previous year. This increase, however, is mainly due to the mechanical growth, i.e. people from other areas move to the capital, mainly for studying and finding a job. This continues to exacerbate depopulation in rural and peripheral areas. Namely, the observed demographic picture should be the main reason for the development of a Targeted Investment Program in support of the development of Northwest Bulgaria, the Rhodope Mountains, Strandzha-Sakar Mountains, the bordering areas, mountainous and semi-mountainous, the less developed areas, as well as in all areas of the country, which have socio-economic problems except Sofia area (capital). The main objective of the Targeted Investments Program is precisely defined to be the reduction of the inter-regional and intra-regional differences in the economic, social and territorial development, accompanied by the provision of conditions for accelerated economic growth and a high level of employment. The need for the development and implementation of the targeted investment program is reinforced by the population data by districts in the country, where with the smallest population is Vidin area, with permanent residents of 1.3% of the country's population, while the largest permanent residents are in the Sofia city region (capital) - 18.4% of the country's population. The distribution of the population by districts for the country is the following: less than 200 thousand people live in 16 districts, 200 thousand to 300 thousand people live in six districts that cover 20.4% of the country's population and six are the districts with population of over 300 thousand, and in three of them - Sofia (capital), Plovdiv and Varna, lives more than one third of the country's population (34.5%). The regions of Kyustendil, Pernik and Gabrovo have a demographic state characterized by a deteriorated age structure of the population, threatened

opportunities for reproduction of the labor force and very low levels of natural growth, and in these regions the birth rate is the lowest in the country. In Gabrovo, the ratio of the population aged 65 and over to the population aged 0-14 is deteriorating in the district and is already 65% higher than the average for the country. When reviewing the labor market situation in 2016, we can note that there is a significant contraction of the economically active persons, which led to both a drop in the number of employed by 0.5% and a drop in the unemployment rate to 7.6%. In the medium term, a smooth recovery of the labor market and an increase in employment should be expected at rates close to 0.5%, while the unemployment rate will decrease to 6.3% in 2019. Naturally, the average wage will continue to grow at about 8%. In total, the number of unemployed in the country between 15 and 64 years dropped by 57.2 thousand in 2016. According to the socio-economic characteristics of the unemployed, age and education are again the social prerequisites for getting out of unemployment, leaving the problem of long-term unemployed who find it difficult to make a transition to employment. Their relative share of the total unemployed remained at around 60% for the period 2012-2015 and for 2016 it is 59.1%. The workforce, i.e. persons aged 15-64, decrease their number by 76.4 thousand and are already 3199.6 thousands. Considering the aging population, we should not be surprised at the fact that people aged 55-64 years are 3.6 times more active than those aged 15-24 years or we can conclude, that activities will increasingly depend on the labor market participation of people in high age groups especially the people between 55 – 64 years of age. Naturally, the realization of the labor market depends not only on professional qualification and working conditions, but also on a set of other social prerequisites that determine life expectancy in good health. Of significant interest is also the increase in the number of inactive persons in 2016, which is 21.1 thousand more, especially considering that this is the second largest in the period 2010-2016. The most likely causes are the long-term unemployed leaving the national labor market, as it is assumed that after two years of absence from work, these people easily make a transition to inactivity and / or move to labor markets in other countries.

### **Economic situation and opportunities for development of planning regions**

In socio-economic terms Sofia (capital) region is the most developed and differs from other regions in terms of income and volume of investments, and has the best overall demographic situation and the strongest labor market, mainly due to the fact, that it is an attractive center for economically active people, the unemployed and young people seeking educational services. Naturally, for these reasons, Sofia district (capital) is the populated area with the highest GDP per capita, the highest average annual household income, the highest average salary and the lowest poverty level, as a result of which the capital is in the best situation on the labor market and is leading the size of the investments - both domestic and foreign. The primary importance of Sofia (capital) region in comparative terms is further outlined by comparing the average salary in the capital, which is about 35% higher than the average salary in the second area of this indicator, namely

Stara Zagora, and has reached a difference of about 2 times with the last region of Vidin. Naturally, as an attractive center, our capital has the worst indicators of security and justice in the country. Secondly, the regions of Bourgas, Varna, Stara Zagora, Plovdiv and Rousse are growing in the overall socio-economic development of the country, characterized by relatively good economy and labor market, relatively high local taxes and fees, comparatively good condition of education and healthcare, of course, in terms of order and security, the indicators are also negative, but better than Sofia (capital). These areas are characterized by a negative natural population growth and a relatively good age structure, with even some of them having a positive mechanical growth as they are local attractiveness center. Naturally, with regard to local taxes and fees, we should not be surprised that these are higher than the average for the country, especially given that these are the areas at the top of the population's ranking. At the bottom of the socio-economic development list are the Vidin, Pleven, Montana and Vratsa districts, characterized by a deteriorated demographic situation, a weak economy and relatively low levels of investment. These areas constitute the Northwest Planning Region, which further reinforces the extremely poor socio-economic situation of North-West Bulgaria. Exactly, the region of Vidin is with the lowest average annual gross salary of the employees under labor and official legal relations in the country and the Montana region had for 2015 the lowest household income. The two areas rank third and fourth in terms of poverty. As expected, all four areas have a negative mechanical growth, with extremely low levels of natural growth and poor age structure.

Of course, other areas in the country also have significant labor and labor market problems, namely Kardzhali, Silistra, Razgrad and Targovishte. In these areas, the level of income and the level of investment per capita is well below the national average. The four areas mentioned are also placed at the bottom of the employment-level ranking of persons aged 15-64.

According to the forecasts for this year, an increase in the contribution of domestic demand should be expected, especially given that consumption dynamics will be driven by wage growth, moderate employment growth, and positive credit growth in the country. The amount of investments made will be in a fairly proportional relationship with the pace of absorption of EU funds as well as with the higher internal and external demand. Expectations in the medium term are that economic growth in Bulgaria will remain around 3 - 3.5% per annum and the increase in the amount of investment will be mainly determined by the progress of the 2014-2020 programming period and the expectations for accelerated absorption of European funds in Bulgaria. The gradual acceleration of domestic demand will lead to an annual average inflation rate of around 2-2.5%, with a larger increase in consumer prices this year due to a nearly 30% increase in the price of gas and subsequent increases in electricity and heat, and of the water. This means that a large increase in prices of other goods and services from the consumer basket is to be expected.

From the current picture of the situation in the country, we can draw the conclusion that, in the first place, the capital is emerging from the socio-economic point of view, while the socio-economic situation of more and more areas in the country deteriorates. In particular, this can be said for the socio-economic situation of North-West Bulgaria, and at the same time it can be seen for the districts constituting the North Central Planning Region, which follow and are coming closer to the socio-economic development in the Northwest Planning Region. This shows that, as a whole, the regional policy in Bulgaria does not produce results, which means that it is necessary to rethink it as well as to take adequate measures in order to achieve in the first place the levels of indicators for socio-economic development, and secondly, to look for opportunities to improve them. Exactly, the deepening of interregional disparities and the lack of effectiveness of the implemented measures and the implemented plans and strategies in the areas, impose, even oblige to make a large-scale expert discussion to improve and update the concepts and technology of regional policy, as well as the organization of a new redistribution of the necessary means for its implementation.

### **Opportunities to use a targeted investment program for the development of the region.**

The identification of problem areas requires the adoption of adequate measures in order to have a positive impact on the achievement of social and economic development of the individual administrative and territorial units in the country, namely the districts and the municipalities, even in individual settlements. In this regard, particular attention should be paid to the targeted investment program, which is to be seen as a specific instrument for the implementation of the National Spatial Development Concept for the period 2013-2025 (SCRCP), as well as a tool for impact and implementing an active regional policy in the areas. In the National Concept for Spatial Development for the period 2013 - 2025, there are specific territories that need stimulation of development. It is up to them to implement targeted and integrated policies to preserve and exploit specific local resources and overcome the accumulated problems. By its very nature, the targeted investment program should also be seen as an upgrade of the existing planning documents for the regions concerned, spilling additional resources and "energy" to directly achieve the main objective - "revived economy - new stable jobs - retained / attracted human resources" (Atanasova, M., Naydenov, Kl., 2016). Problem areas need more than a classic targeting program even if it has significant resources. To ensure the success of a program, it must be developed and implemented on the basis of an integrated multisectoral approach. The implementation of the principle of integration of natural, cultural, organizational, intellectual, financial and time resources, strategic goals and priorities, ideas and projects, representatives of all stakeholders from public, private and non-governmental sectors, sources of funding, creates prerequisites for successful implementation of the program and for achieving the desired synergic effect (Atanasova, M., Naydenov, Kl., 2016). In chronological plan, Bulgarian experience shows a number of unsuccessful attempts of

targeted support for achieving regional cohesion and overcoming interregional disparities. The main conclusions that can be made and suggested as recommendations for future planning to influence the development of planning regions can be linked to the need to build a vision for development for a longer period, not to limit the duration of programs outsourced within 5 or 7 years, i.e. in order to obtain a lasting result, it is necessary to apply a coherent policy that guarantees simultaneous continuity, but also allows timely updating during the implementation of short-term plans and strategies. Moreover, it is necessary to apply direct management and implementation of directly targeted state intervention in individual territorial communities to avoid the formation of numerous inapplicable planning documents and strategies that are highly overrated in the analyzes and reflect or rather show simulation of the support for overcoming interregional disparities. It must be made clear that, in order to achieve lasting, tangible and irreversible processes in the right and desired direction, targeted planning actions are needed to provide permanent and lasting support for decades.

### **Conclusion**

Reconsideration and use of the targeted investment program will create an opportunity to overcome the economic backwardness, attract investment and increase employment in the different territorial units in the country. The implementation of a Targeted Investment Program must be carried out simultaneously with the implementation of the strategic goals set for the stimulation of the socio-economic development of the underdeveloped regions of the country, using the possibilities for absorption of funds from the European Social and Structural Funds. One of the important tasks of the targeted investment program should be to achieve a real impact on the economy of the lagging regions in the long run, to support the development of human capital and, at the same time, to create conditions for more effective territorial coordination of investments in the regions. For this reason, it is imperative that the targeted investment program includes a package of measures such as reduced tax rates for firms opening new jobs in the underdeveloped region, creating opportunities to subsidize 50% of the value of interest rates on investment loans, as well as providing opportunities for the renting of land and buildings in industrial areas/parks/ by enterprises operating on the territory of the underdeveloped region. In order to have a lasting and visible effect, it is vital to adopt such an approach for creating an economically attractive area through targeted state action and by applying a package of business preferences by the local administrative structures, which must be guaranteed for a period of at least 10 years. Naturally, significant efforts should be made by state institutions to provide opportunities for qualification and re-qualification of the population, especially in backward areas, where „unfortunately, the collaboration between the educational institutions and the private sector is far from satisfactory. The appropriate link between theory and practice has not been established yet. Many employers are not satisfied with the practical skills that the graduates have. It is especially important to increase investment in human capital with the state employers, local authorities and regional communities

sharing the burden without ruling out individual responsibility. Concrete tools for implementing the policy of continuing vocational training and life-long learning could be: the establishment of sectoral funds for improving the qualification of the employed and setting up individual training accounts (Naydenov, Kl., 2017)".

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