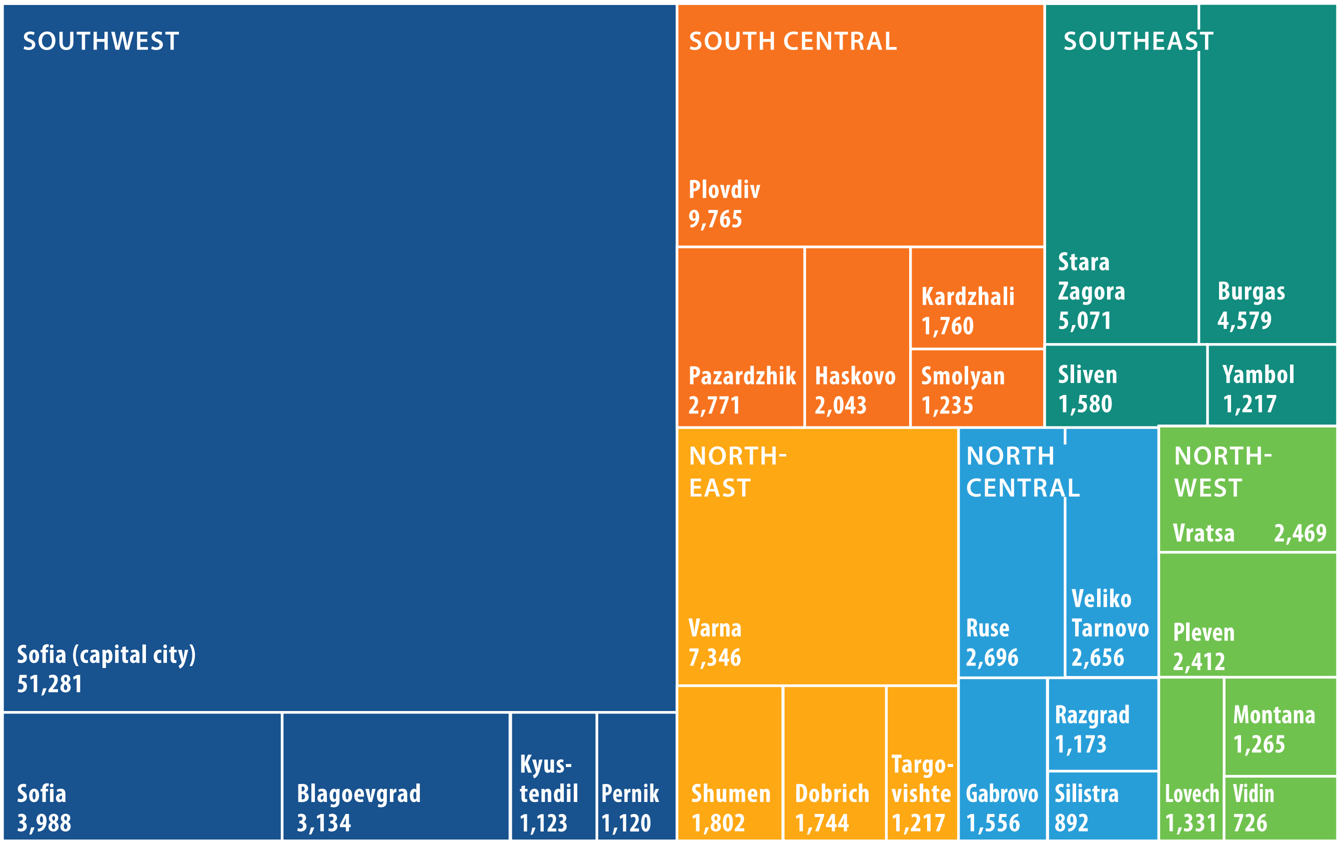
Regional Profiles 2022: Persisting Differences and Potential for Development

ECONOMIC DEVELOPMENT: POTENTIAL AT THE THRESHOLD OF NEW CHALLENGES

The pandemic left its mark on the regional map of economic development in Bulgaria, with at least 10 districts showing a shrinking of their economy in nominal terms. The gross domestic product (GDP) of Sofia (capital city) remained practically unchanged – slightly over 51 billion BGN, which was nearly 43% of the country's economy. In southern Bulgaria, the district that stands out is that of Plovdiv (9.8 billion BGN), which traditionally makes for over half of the GDP of the Southern Central Region. In the southeast, Stara Zagora (5.1 billion BGN) for a time outperformed Burgas (4.6 billion BGN) – the district hardest hit by the pandemic.

In the north, the undisputed leader is Varna district (7.3 billion BGN), which also showed a decline in the service sector but retained the robust industries at the maritime capital's periphery. Veliko Tarnovo sailed through the pandemic relatively smoothly and almost equaled Ruse at levels of around 2.7 billion BGN. For decades, the two districts have been "racing" each other as regards the scale of their economies, but in the past few years Ruse has been winning by a neck. The smaller scale of the economic centers in northern Bulgaria, with the exception of Varna, as well as the weaker connection among them, is the main factor determining the difference between Bulgaria's north and south.

Fig. 1. Gross domestic product of the districts in Bulgaria in 2020 (in million BGN)



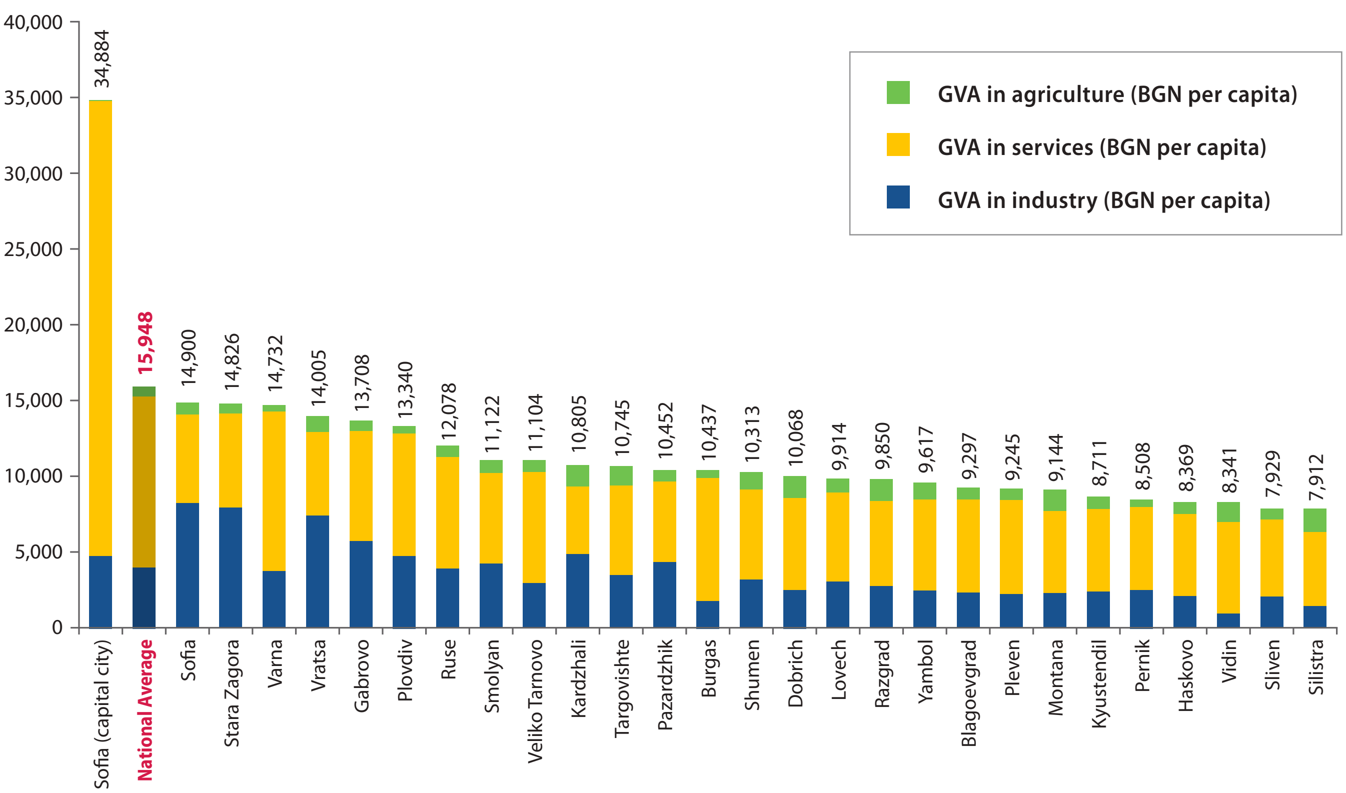
Source: NSI.

Gross value added (GVA) per capita[1] by district varies from over 35,000 BGN in Sofia (capital) to less than 8,000 BGN in Silistra. Sofia's economy differs considerably from the rest and is strongly dominated by the service sector, which brings nearly 86% of value added. The second place in the country is again occupied by Sofia district (15,000 BGN per capita), which includes the industry in the immediate periphery of the big capital city, but also a large part of the mining and metallurgy in the Srednogorie region. Along with the district of Sofia, industry also plays a more significant role in the districts of Stara Zagora and Vratsa, where GDP per capita is also high – some 14,000–15,000 BGN – thanks to the high value added by the energy companies. A relatively high share of industry is also characteristic of Gabrovo district, due to the long traditions in process manufacturing, as well as in Kardzhali and Pazardzhik, where successfully functioning alongside process manufacturing are also mining industrial enterprises – in Krumovgrad and Panagyurishte respectively – which reported good results in 2020.

Traditionally, a high share of the service sector is a feature of the coastal districts of Varna and Burgas – around 70–80% of value added to the local economy. In Plovdiv, the indicators are more balanced, amounting to slightly over 60% of the value added. Nevertheless, in absolute figures, the value added in the services in Plovdiv outstrips that in Varna and Burgas, which reflects the larger scale of Plovdiv's economy. Agriculture brings over 10% of the value added in the districts of Silistra, Vidin, Montana, Razgrad, Dobrich, Targovishte, Shumen, Yambol, and Kardzhali. Clearly, these are the relatively poorer districts located mainly in the northern part of the country.

In spite of the economic recovery of 2021, employment rates failed to return to pre-pandemic levels. The employment rate of the population aged 15–64 remained slightly over 68% in the country on average, vary-

Fig. 2. Gross value added per capita by district in 2020



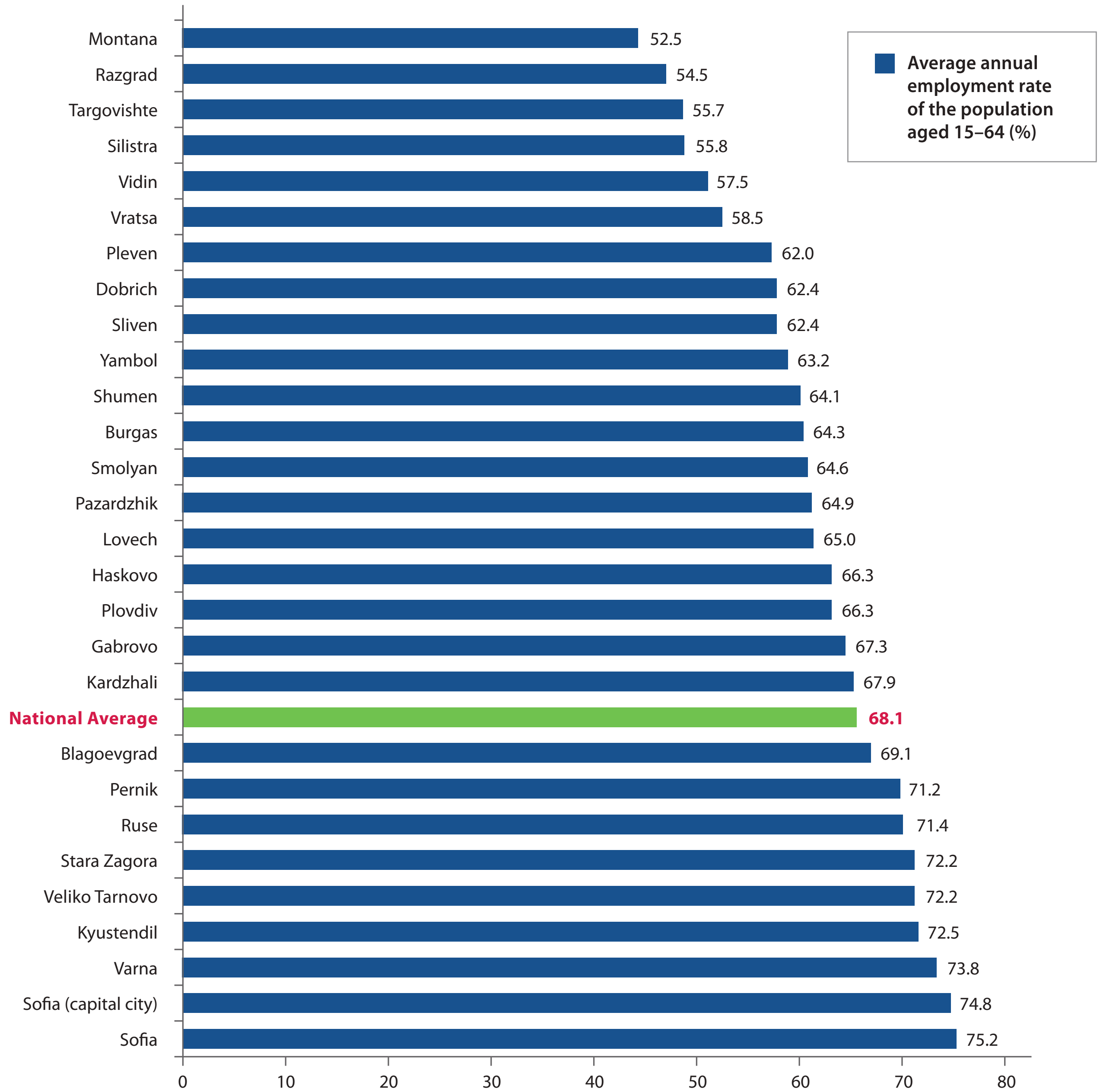
Source: NSI, calculations by IME.

[1] The IME team has estimated GDP per capita based on the results of the last census. The official results show that the country's population in 2021 was slightly over 6.5 million.

ing from 52.5% in Montana to around 75% in Sofia (capital) and Sofia district. Notable here is the extremely strong performance of Sofia district which again outstripped Sofia (capital). Third comes Varna district with an employment rate of 73.8%, which marks a historical record for the local economy. Despite the pandemic, however, wide differences in the labor market continue to exist. In 2021, eight districts recorded an employment rate of over 70%, which is 15 to 20 p.p. greater than that of the districts at the bottom of the ranking. All six districts with an employment rate of the working population below 60% are located north of the Balkan mountain – Montana, Razgrad, Targovishte, Silistra, Vidin, and Vratsa.

A continuing trend over the past few years is the growth of salaries on a national scale. Toward the middle of 2022, the average gross monthly salary in the capital exceeded 2,300 BGN. Next comes Sofia district with an average salary of over 1,600 BGN, followed by the districts of Varna, Plovdiv, Stara Zagora, Vratsa, and Gabrovo – between 1,400 and 1,500 BGN. The lowest average salaries in 2022 were those in Blagoevgrad and Kyustendil – around 1,100 BGN a month, as well as in Vidin, Haskovo, and Smolyan. At a municipal level, the highest pay-

Fig. 3. Employment rate of the population in 2021 by district (%)

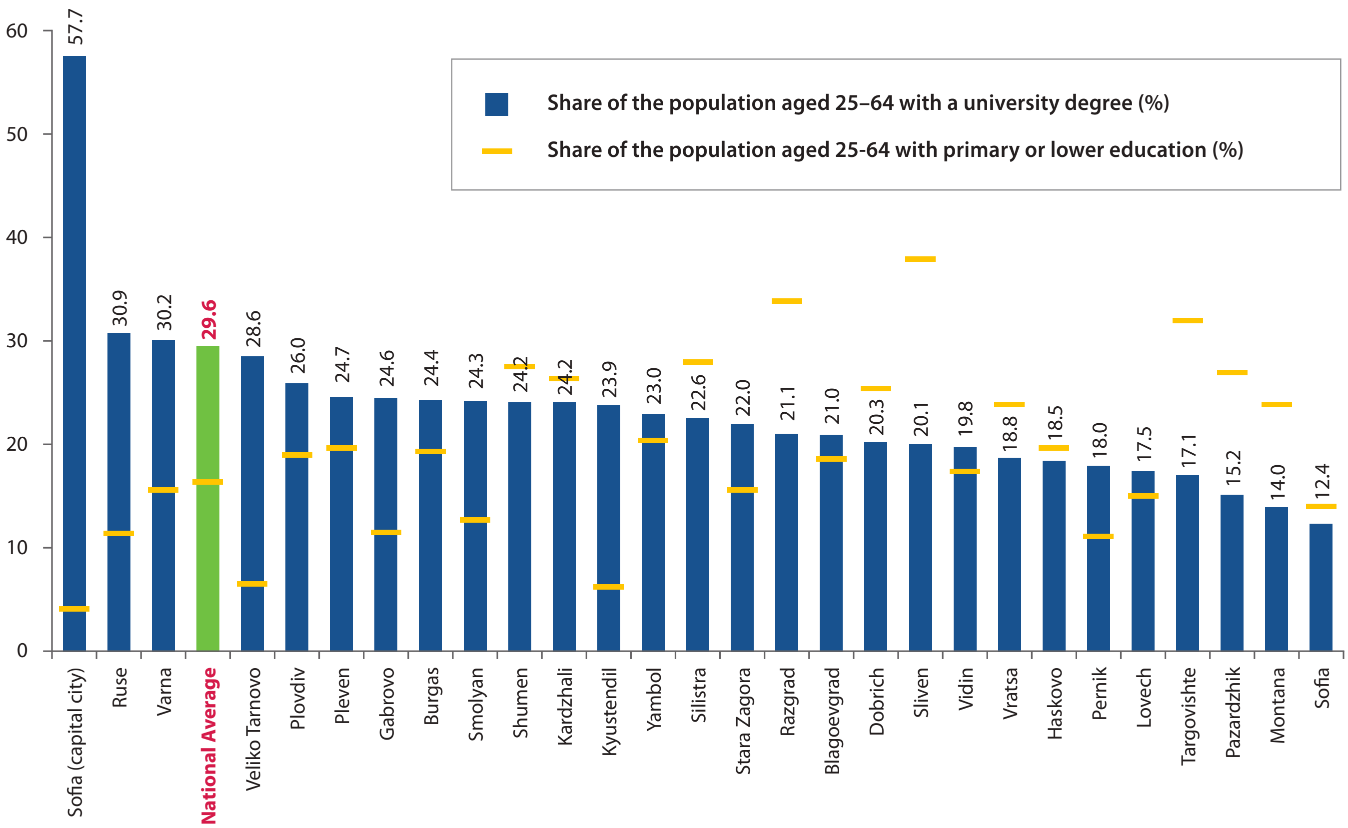


Source: NSI.

ments went to employees in and around the three leading centres – Sofia, Varna, and Plovdiv, as well as in the Srednogorie area and several municipalities that are home to large energy companies.

Human capital and the profile of the workforce are key to the process of transformation of the Bulgarian economy. In 2021, nearly 30% of the workforce (aged 24–64 years) had a university degree, a share that has been rising in recent years. The unquestioned leader is Sofia (capital city), where 57.7% of the workforce have higher education. Next come the districts of Ruse (30.9%), Varna (30.2%), and Veliko Tarnovo (28.6%), which have traditionally performed strongly in this indicator. It is notable that several districts in north Bulgaria are among those with top positions in this ranking. In at least 12 of the country's districts the share of people in the workforce with primary or lower education is higher compared to the share of university graduates. The share of people with primary or lower education in the districts of Sliven, Razgrad, and Targovishte remains excessively high.

Fig. 4. Educational structure of the workforce by district in 2021



Source: NSI, calculations by IME.

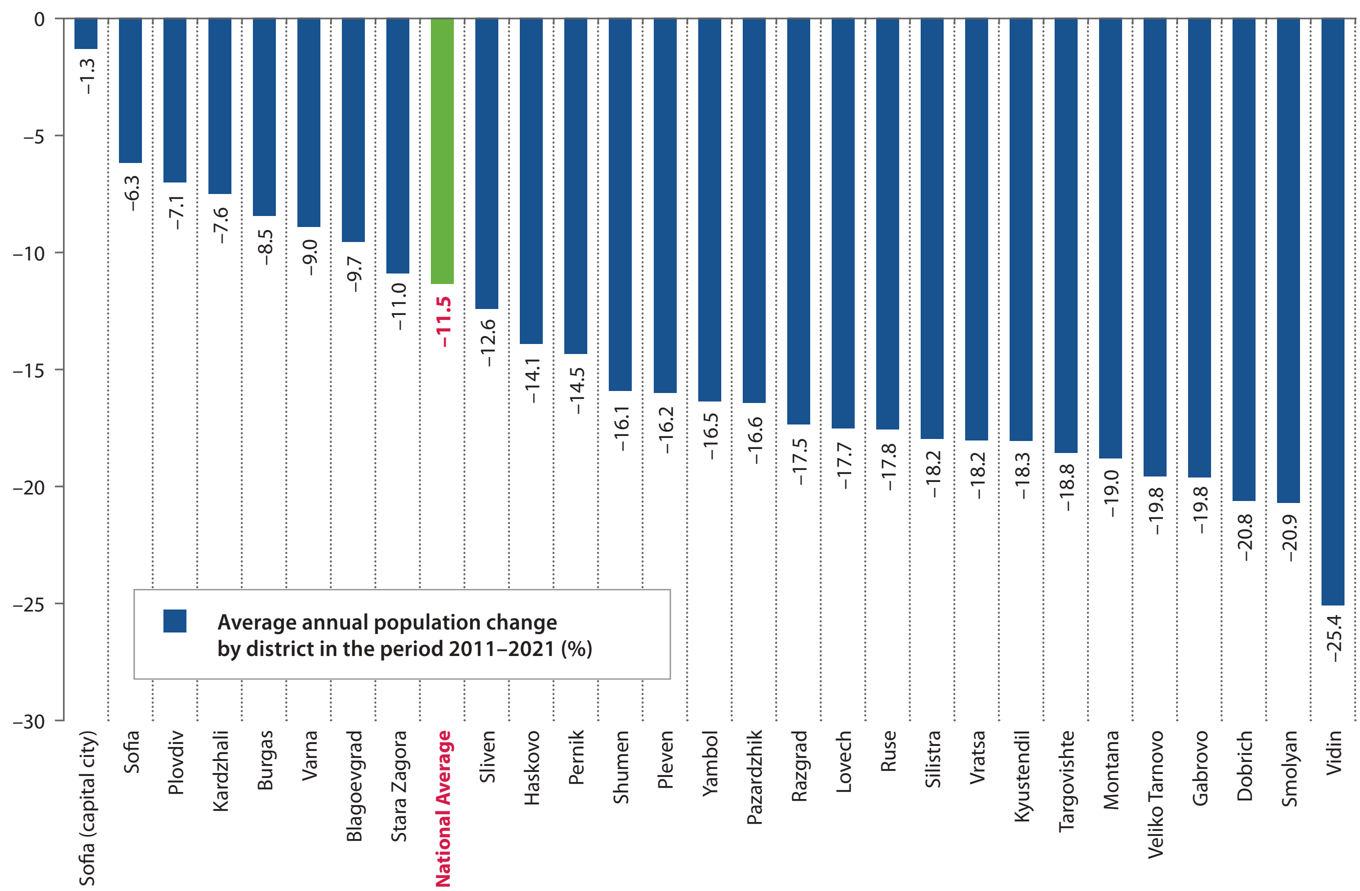
The regional profiles offer a clear indication that although the impact of the pandemic and the subsequent economic recovery is visible on the regional map, the large differences dating back to before that period still persist. As 2022 draws to an end and against the background of the continuing political instability and the challenges facing the economy, developing and unleashing the regions' potential will be of crucial importance. The local governments need to be exceptionally active and put all their efforts into transforming their respective economies through increased productivity and competitiveness, not least by attracting investment and developing industrial areas, cooperating with educational institutions and supporting investment in human capital, staying open to regional partnerships and thinking beyond the usual administrative boundaries. In these efforts, municipalities need support and, above all, real steps towards financial decentralization and more own resources.

SOCIAL DEVELOPMENT:
PERSISTENT DIFFERENCES IN QUALITY OF LIFE

In 2021, Bulgaria's population was slightly over 6.5 million, and throughout the past decade it has been on the decline in each of the 28 districts. The downward trend has been in evidence even in Sofia (capital city), where it was also partly provoked by the pandemic. This is shown by the data from the 2021 census which presents a much more reliable demographic picture. The loss of population is a consequence both of the deteriorating demographic structure – respectively a strongly negative rate of natural increase in all districts – and of the mechanical population outflow from most of them. Some districts, mostly in the north, have lost between 20% and 25% of their population over the last ten years. Areas that have lost less than 10% of their population are considered good examples.

The districts with the lowest population decline are those that over the years have managed to attract people, i.e. they have recorded positive net migration. These processes are most stable in Sofia (capital city) and Sofia district, as well as in Plovdiv, Burgas, and Varna. In each of these examples, the fringes of the big city – whether industrial or tourist – have attracted people. It is interesting that in recent years there has been a steady trend of population inflow in Kardzhali, and moreover, in almost all its district municipalities. At the same time, one of the major challenges facing the secondary centres – for example Stara Zagora, Ruse, and Veliko Tarnovo – is the inability to attract/retain their populations sustainably, especially young and economically active people.

Fig. 5. Population change by district in the period 2011–2021*



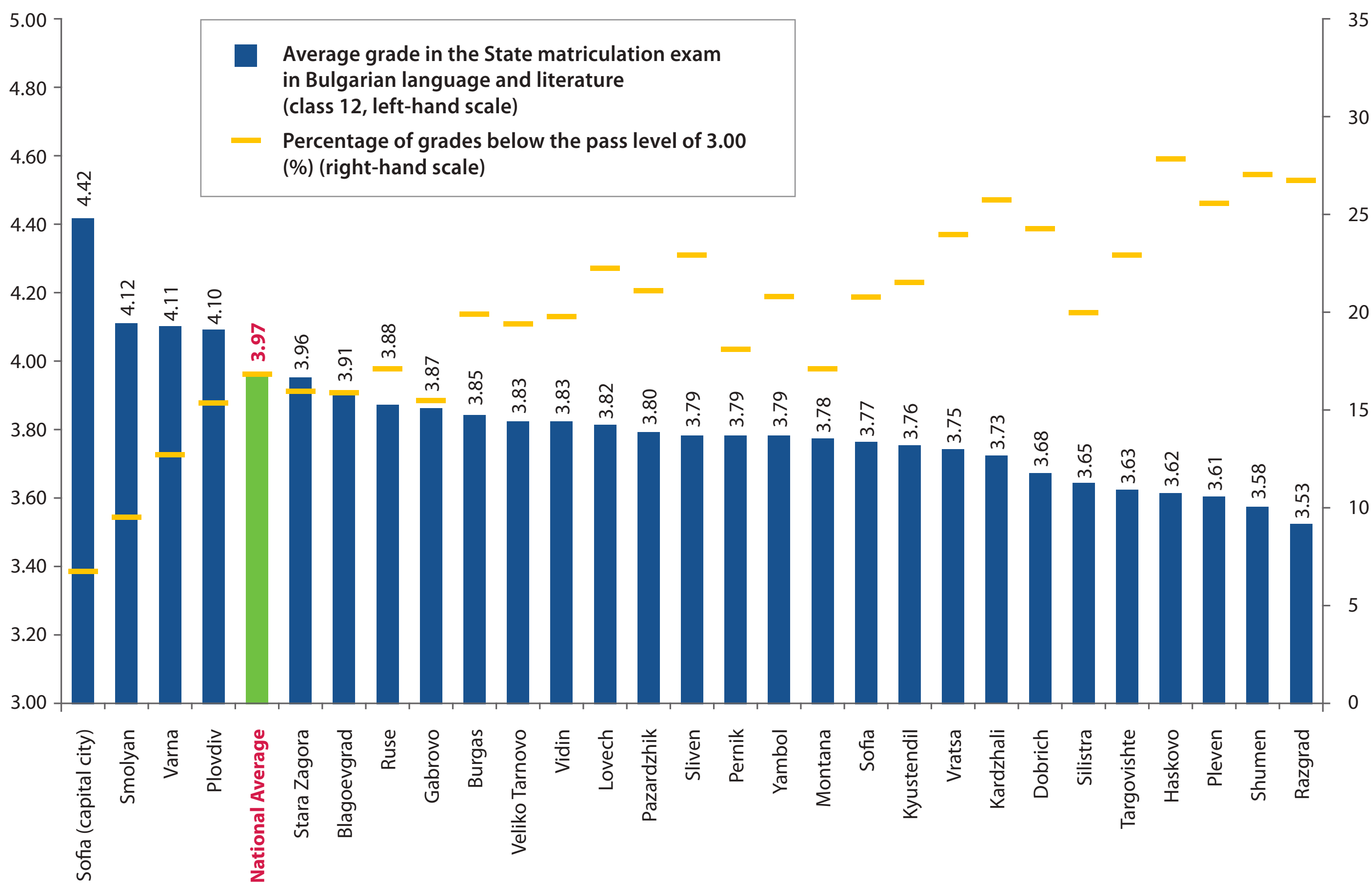
* Data based on the 2011 and 2021 censuses.

Source: NSI.

Education has also been severely affected over the past two years, with students going into online learning for long periods of time. This is undoubtedly one of the reasons for the lower results in the State matriculation exams in 2022. The country's leaders in the State matriculation exam in Bulgarian language and literature are not a surprise – they are Sofia (capital), Smolyan, Varna, and Plovdiv. The four districts are the only ones to record an average grade higher than 4.00. Sofia (capital city) and Smolyan are also the only districts with a lower share (below 10%) of poor grades. The districts at the bottom of the ranking show very worrying results, with an average result in the exam in Bulgarian language and literature of slightly above the level of 3.50, and the share of poor grades reaching over 25%, i.e. one in four children received a poor grade.

Despite the pandemic and the challenges to the educational process, the intake of children in the education system has remained relatively good, although there are still districts where this is a problem. In about ten districts, the net enrollment rate in 5th–7th grade is above or around 90%, while in another seven districts the enrollment rate is below the 80% mark. The relative share of those who dropped out of primary and secondary education has fallen to 2.5%, and the share of repeaters is consistently below 1%. All this goes to show that even if some success has been achieved in terms of keeping children in school, there is still work to be done in the poorer areas of the country. It is also clear that the biggest challenge in the system remains that of quality, as measured by educational outcomes and skills acquired.

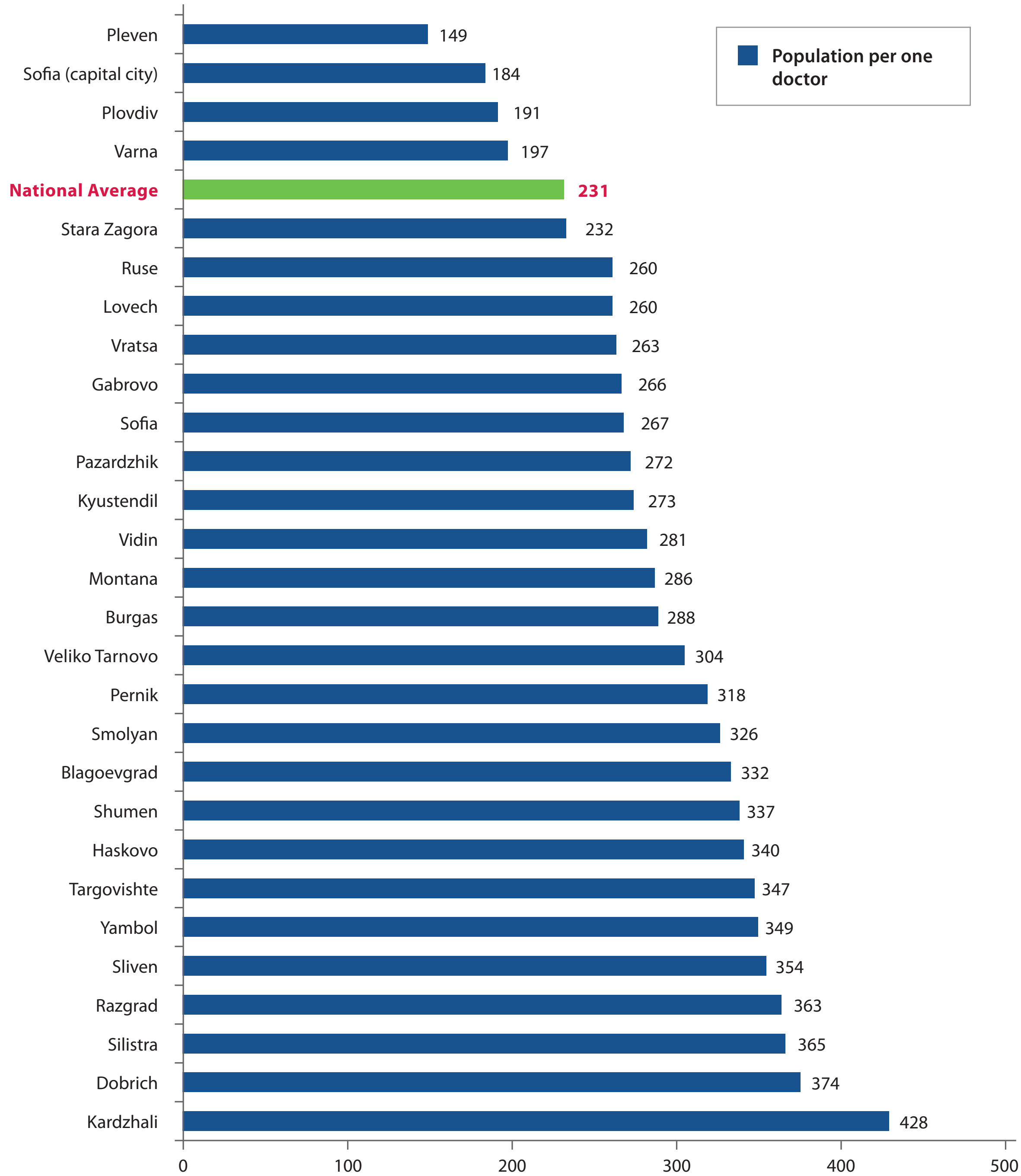
Fig. 6. Average grade in the 2022 State matriculation exam in Bulgarian language and literature



Source: MES, calculations by IME.

The pandemic gave special prominence to the area of healthcare and the ability of the healthcare system to respond to an emergency. At one point, data such as the number of hospital beds and access to doctors became the most crucial indicators for the quality of life in the different regions. Regional differences in the area of healthcare are especially visible when considered from the perspective of access to GPs. While in some districts – Pleven, Sofia (capital city), Plovdiv, and Varna – less than 200 persons on average were served by one GP, in half of the others one doctor cared for over 300 persons. Regional centers with good medical universities performed significantly better on indicators of access to health care, especially in terms of access to specialist physicians. The numbers of hospital beds also vary from nearly 11 beds per 1,000 persons in Pleven district to under 3 beds per 1,000 people in Pernik, Dobrich, and Shumen.

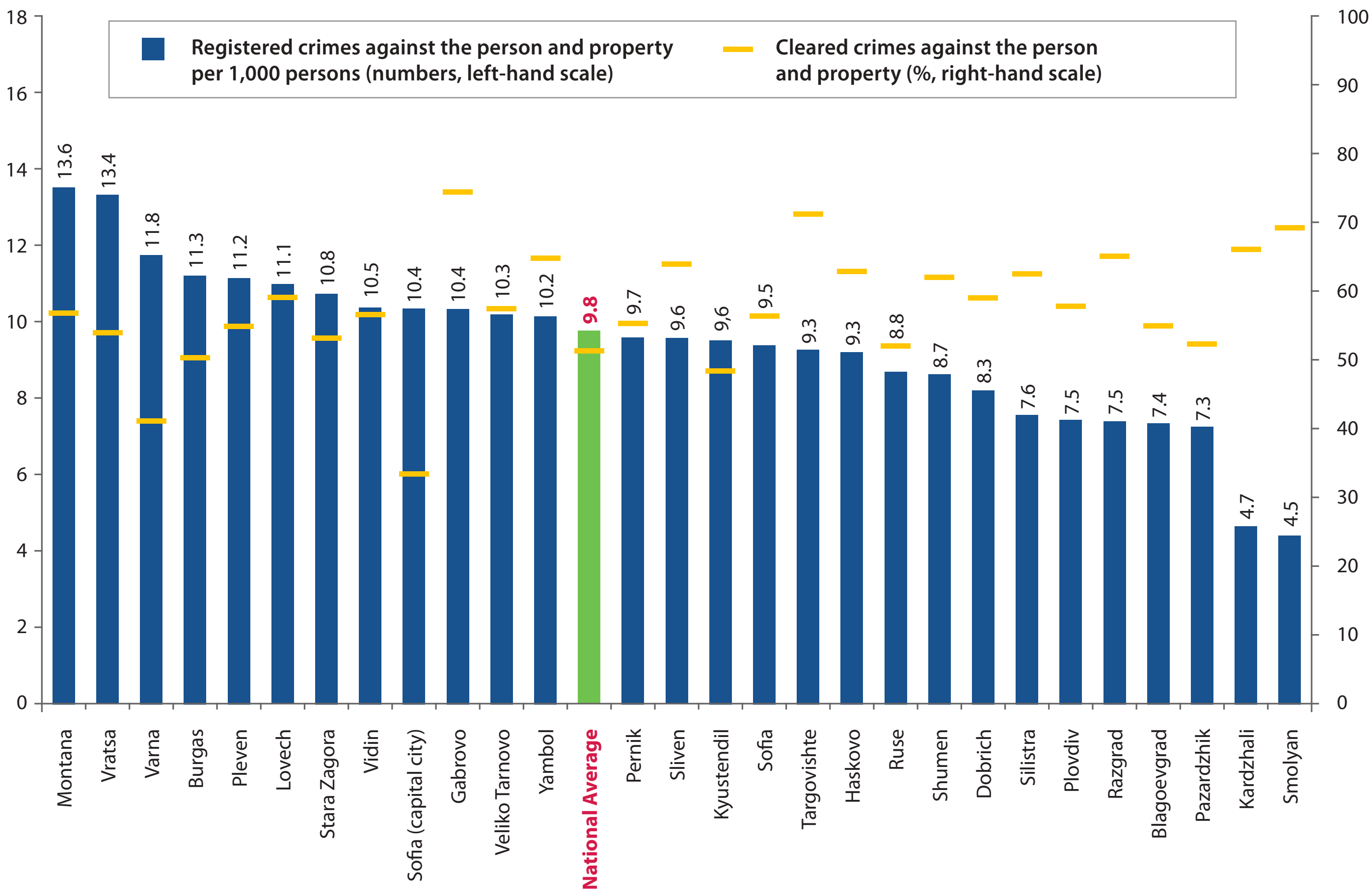
Fig. 7. Access of the population to GPs in 2021 by district



Source: NSI.

Over the past few years, the country has witnessed a steady decline in the number of registered crimes against the person and property. In 2021, an average of 9.8 crimes against the person and property were registered per 1,000 population, while ten years ago this indicator was at least 1.5 times higher. Kardzhali and Smolyan were yet again the safest districts, with under 5 crimes against the person and property per 1,000 persons. The districts in the Bulgarian north-west – Montana, Vratza, and Vidin, as well as Varna and Burgas – were notable for the high number of registered crimes, though in the coastal districts the trend in the past few years has been towards a serious decline. The average detection rate was highest in Gabrovo district, where nearly 75% of the crimes against the person and property registered throughout the year were cleared. Again, In Sofia (capital) and Varna, the tendency is for detection rates to remain low, with under 50% of the registered crimes against the person and property having been cleared within the year.

Fig. 8. Registered crimes against the person and property and detection rates in 2021



Source: SJC, calculations by IME.

The current edition of *Regional Profiles: Development Indicators* reveals for yet another year the economic potential as well as the deep social differences between Bulgaria's regions. The publication covers a period in which the economy has started its recovery from the heavy blow of the pandemic, but has at the same time encountered new challenges under the conditions of a severe political crisis. The census highlighted more clearly than ever the extreme demographic problems facing the country and limiting the potential for growth in places. However, successful patterns of development in certain districts show that there are no insurmountable factors and that an upturn, economic transformation, and revitalization in demographic and social terms are entirely possible in some places. If at the moment three regions have shown sustainable positive dynamics and stand out from all the others, then the goal of the regional policy in the medium term should be to unlock the potential of the secondary centers. This depends on a number of policies at the national level, but also on the powers, capacity, and financial independence of the local authorities.