# REGIONAL PROFILES

INDICATORS OF DEVELOPMENT

2014

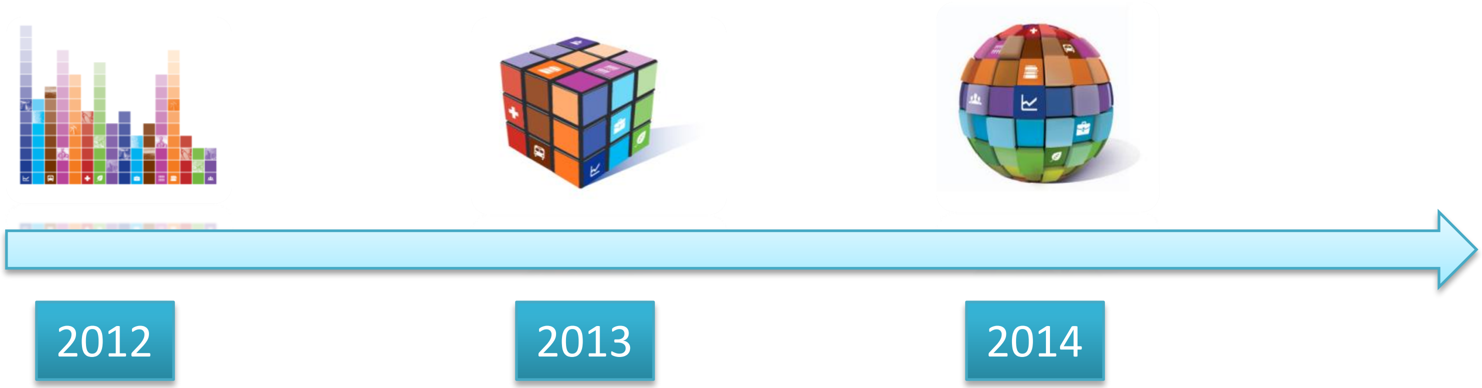
regionalprofiles.bg

AMERICA FOR BULGARIA FOUNDATION
Фондация Америка за България

IME
Institute for Market Economics

Regiostat
predictive analytics

# REGIONAL PROFILES: THE STUDY




- Third annual edition
- Contents:

- Social and economic profiles of each of the 28 districts
- Focused analyses on the following topics:
- Which districts attract most investment - factors and effects
- Local fiscal independence and regional development
- Post-crisis recovery of local labour markets
- Clusterisation of districts by similarities and differences

# VISIBLE TRENDS OF RECOVERY IN MOST REGIONS

- The gap between Northern and Southern Bulgaria keeps widening
- Nevertheless: discernible trends of recovery in most districts
- Employment rates and economic activity increase in most regions, but remain below their 2008 levels
- Employment remains below the critical level of 40% in some of the least developed districts – Lovech, Montana, Vidin, Vratsa, Turgovishte, Razgrad, Silistra
- Most of the newly created jobs – in Southern Bulgaria

# INVESTMENT ACTIVITY – BELOW 2008 LEVELS

- Investment (both local and FDI) – below their 2008 levels
- Sofia (capital city) – net withdrawal of FDI in 2010-11 г.
- At the same time, FDI to Burgas between 2009 and 2011 rises more than threefold to some 5 bn euro

# BUSINESS ENVIRONMENT DETERIORATES IN MOST DISTRICTS

- Local administrations do not invest efforts into improving the local business environment
- Businesses' assessment of the performance of local administrations and the quality of e-services - more negative
- Corruption perceptions - worsened
- A possible explanation – the political crisis in 2013-2014

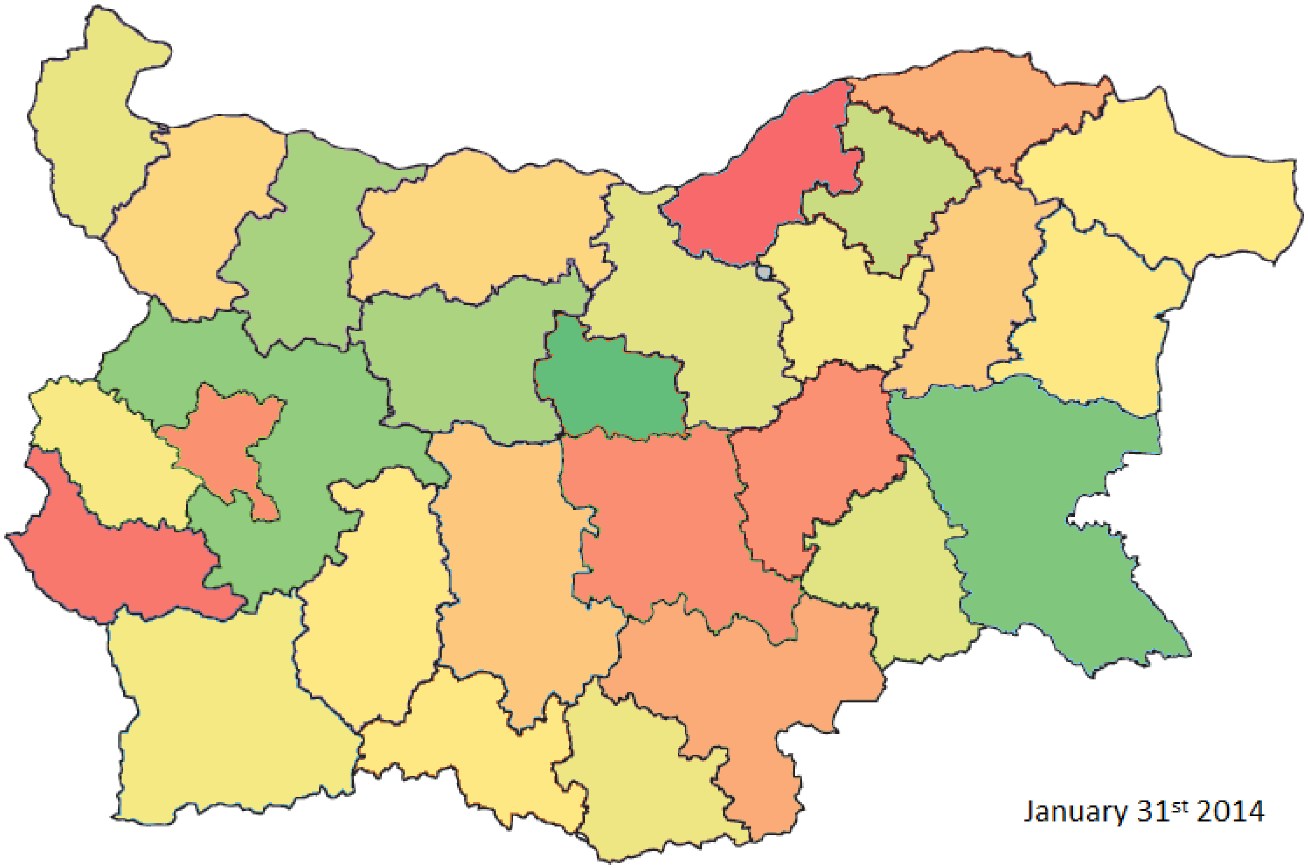
# SOFIA AND VARNA – WEAK RATING ON BUSINESS ENVIRONMENT

- Negative surprise in 2014 – Varna district; the overall rating of local business conditions deteriorates from "average" to "weak"
- The deterioration – due to higher corruption perceptions and lower assessment of the performance of local administrations
- Overall business conditions worsen also in Blagoevgrad, Veliko Turnovo, Sliven, Turgovishte and Yambol
- At the same time, they improve in Haskovo, Pleven, Dobrich, Kurdzhali, Burgas, Stara Zagora, and Shumen

# NOTABLE IMBALANCES IN UTILISATION OF EU FUNDS

- Utilisation of EU funds speeds up in most districts
- But: there are serious differences in the pace of utilisation among districts
- The total value of payments from EU SCFs varies between 0 leva to more than 4 000 leva per capita depending on the municipality (as of Jan 31 2014)
- Burgas: second best place in terms of utilised EU funds after the all-time leader, Gabrovo
- Utilised funds in more than 50 municipalities are less than 100 leva per capita as of end-Jan, 2014 (including the district centres of Plovdiv and Kyustendil)

## Utilization of EU operational program funds by Bulgarian municipalities in different districts, BGN per capita




| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Blagoevgrad | 399,3 | Dobrich | 365,2 | Pleven | 327,9 | Sofia (c.) | 218,8 |
| Burgas | 835,4 | Kardzhali | 427,4 | Plovdiv | 305,3 | Sofia | 768,2 |
| Varna | 357,0 | Kuystendil | 176,3 | Razgrad | 558,1 | Stara Zagora | 212,2 |
| Veliko Tarnovo | 466,9 | Lovech | 671,2 | Ruse | 152,1 | Targivishte | 399,7 |
| Vidin | 444,9 | Montana | 330,7 | Silistra | 266,1 | Haskovo | 259,7 |
| Vratsa | 687,0 | Pazardzhik | 356,8 | Sliven | 217,7 | Shumen | 314,3 |
| Gabrovo | 939,8 | Pernik | 390,1 | Smolyan | 357,4 | Yambol | 471,7 |

Low rate of utilization — High rate of utilization

# UNEVEN DEVELOPMENT OF INFRASTRUCTURE

- Infrastructural development remains uneven
- Key projects in 2012-2013 – in Southern Bulgaria
- The share of roads in good condition declines, despite the launch of the full-length Trakiya highway
- The successful implementation of environmental projects leads to improved perceptions of environmental quality by citizens
- The share of the population with access to sewerage and the one of those connected to waste water treatment plants rises fast

# DEMOGRAPHICS – PERSISTENT NEGATIVE TRENDS

- The demographic picture deteriorates rapidly and ubiquitously:

- Since 2010 г. no district has reported a positive natural growth rate

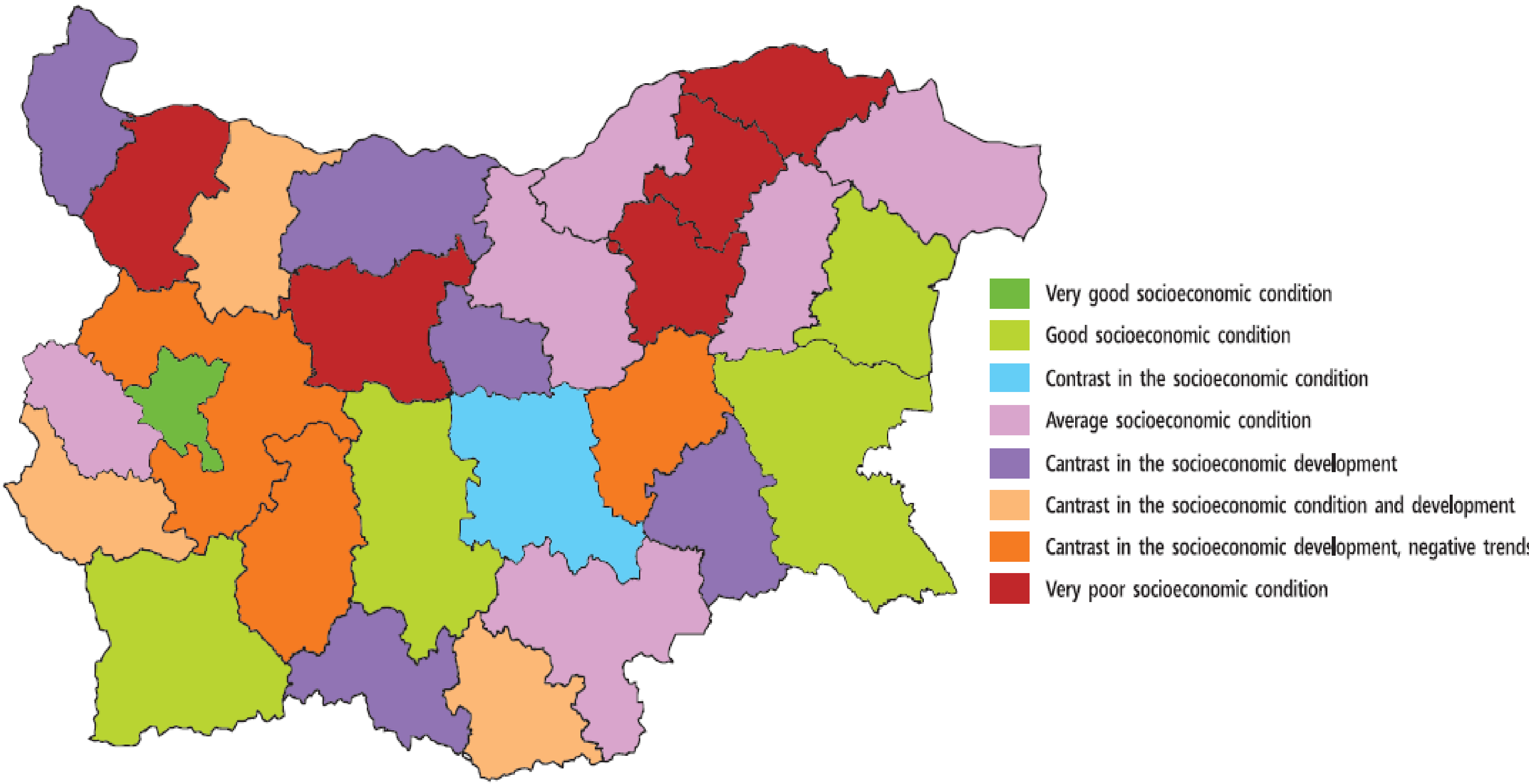
- The lowest natural rates of increase: Vidin, Kyustendil, Montana, Pernik, Lovech, Vratsa and Gabrovo

- The news in 2013: no district has more children (0-15 years of age) than those aged 65 years and more

- Only seven districts feature a positive net migration rate: Sofia, Burgas, Varna, Plovdiv, Stara Zagora, Shumen, and Rousse

- The only districts where the population keeps growing in 2013 are Sofia (capital) and Burgas

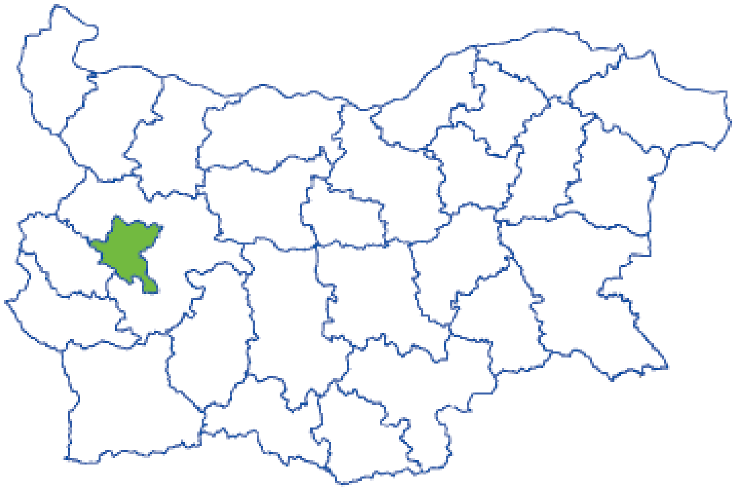
# TYPES OF REGIONAL PROFILES



# TYPES OF REGIONAL PROFILES

## Very Good Socio-Economic Condition

Sofia(capital)



- Again, isolated in a separate cluster
- Economically most developed – GDP per capita is about two times bigger than that of the second ranking Sofia district; employment is highest and unemployment – lowest; incomes are highest, too.
- One of few districts featuring a stable trend of immigration and hence, the biggest positive net migration rate, 7,1‰ in 2013

# TYPES OF REGIONAL PROFILES

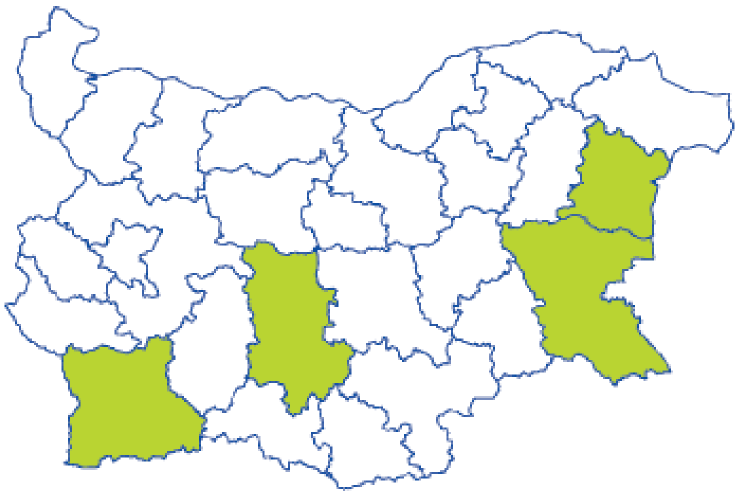
## Good Socio-Economic Condition

Blagoevgrad

Burgas

Varna

Plovdiv

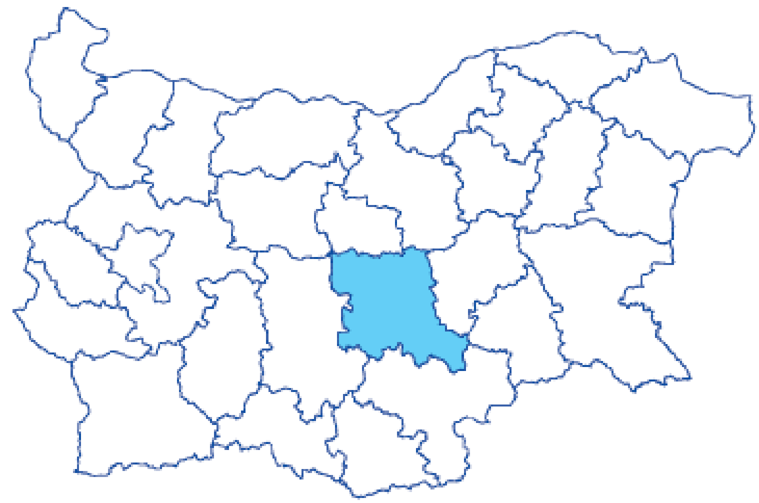


- The economy of the cluster is well developed (it follows closely the one of Sofia (capital)). The districts of Blagoevgrad, Plovdiv and Burgas show higher rates of employment in comparison to the country average
- The demographic trends in the districts of Varna and Plovdiv are among the most favourable ones in the entire country
- Blagoevgrad, Varna and Burgas are characterised by the second best age structure of the population after Sofia (capital)

# TYPES OF REGIONAL PROFILES

## Contrasts in the Socio-Economic Condition

**Stara Zagora**



- Relatively unstable development
- An outstanding feature of the district - worst condition of the environment among all districts in the country;
- Carbon dioxide emissions are 12 times more than the country average;
- Contrasts in other categories: the state of its economy ranks it fourth (right after Varna), but the trend of development is negative;
- Yet, the district is characterised by a relatively good state of its heath services, infrastructure, and business environment.

# TYPES OF REGIONAL PROFILES

## Contrasts in Socio-Economic Development

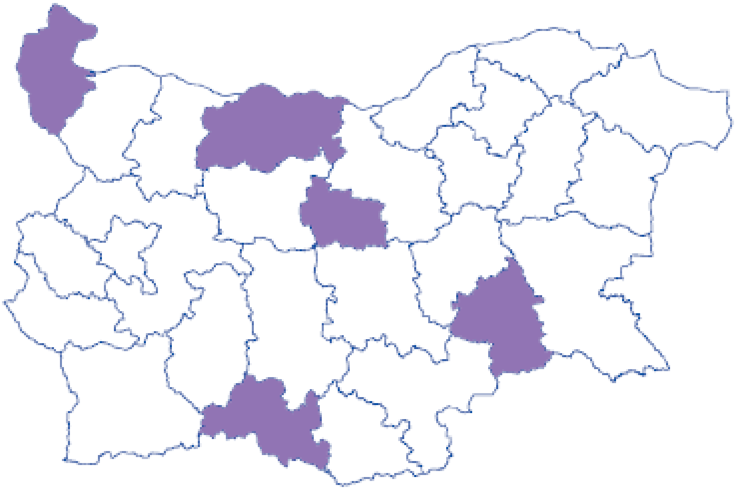
Smolyan

Gabrovo

Vidin

Yambol

Pleven



- On certain aspects of socio-economic development, the cluster ranks among the country leaders, while on others, it ranks at the bottom;
- All five districts exhibit positive trends of economic development, as well as good tendencies in education.;
- Demographic trends in the cluster are one of the most negative in the entire country. This applies particularly to the districts of Smolyan and Vidin.

# TYPES OF REGIONAL PROFILES

## Very Poor Socio-Economic Condition

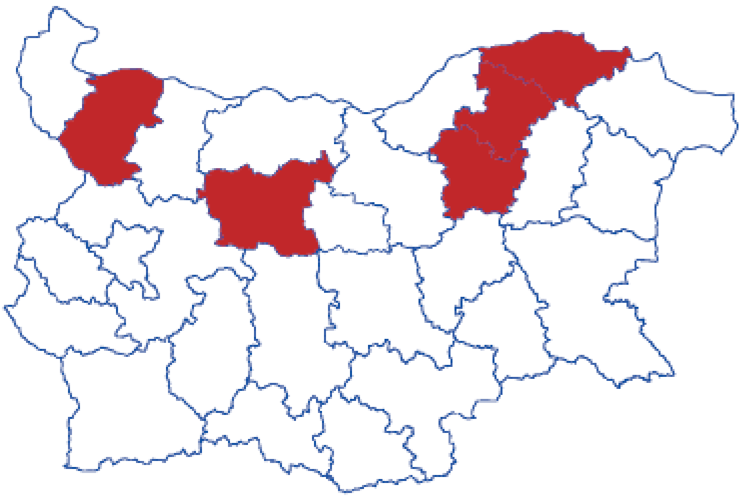
Razgrad

Silistra

Turgovishte

Lovech

Montana

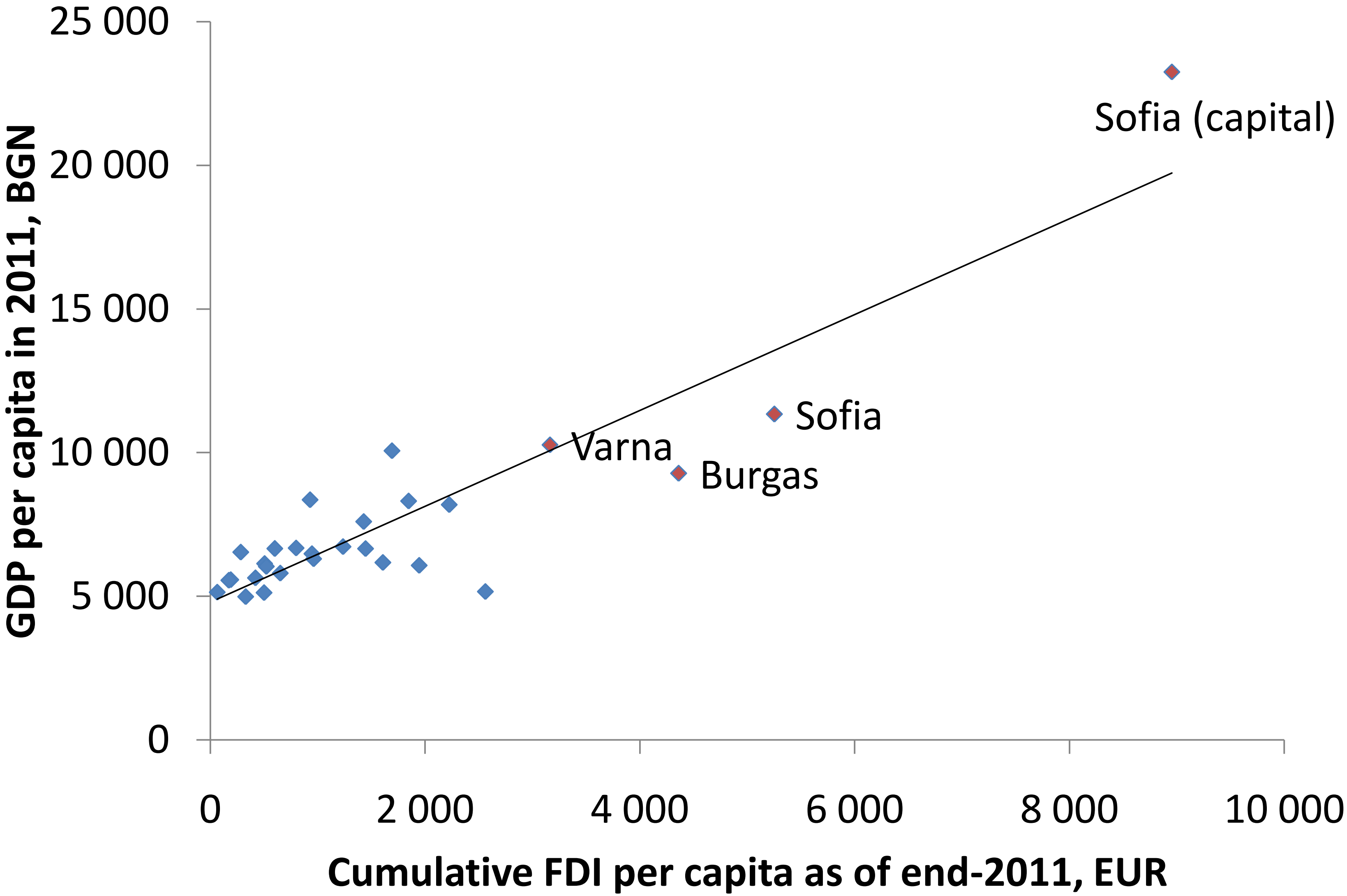


- The state of the economy in the cluster is characterised by some of the worst indicators – Silistra and Montana rank as the two least developed economies in the latest study;
- Infrastructure in the districts of Turgovishte, Lovech, and Montana – most negative condition;
- The educational environment in the district of Turgovishte is second worst (second to Sliven);
- The districts of Silistra, Razgrad and Turgovishte rank among the worst performers in terms of healthcare (it is worse only in Shumen).

# FDI – KEY FACTOR FOR DEVELOPMENT

- A boom of FDI inflow in the pre-crisis period
- But: serious difference among districts in their capacity to attract FDI – hence deepening rift between rich and poor districts
- Significant inflows of foreign and local investments = high incomes and standard of living (a two-way relationship)
- FDI are a key factor for economic growth and development, but they are also attracted by big economic centres (i.e. more advanced areas).

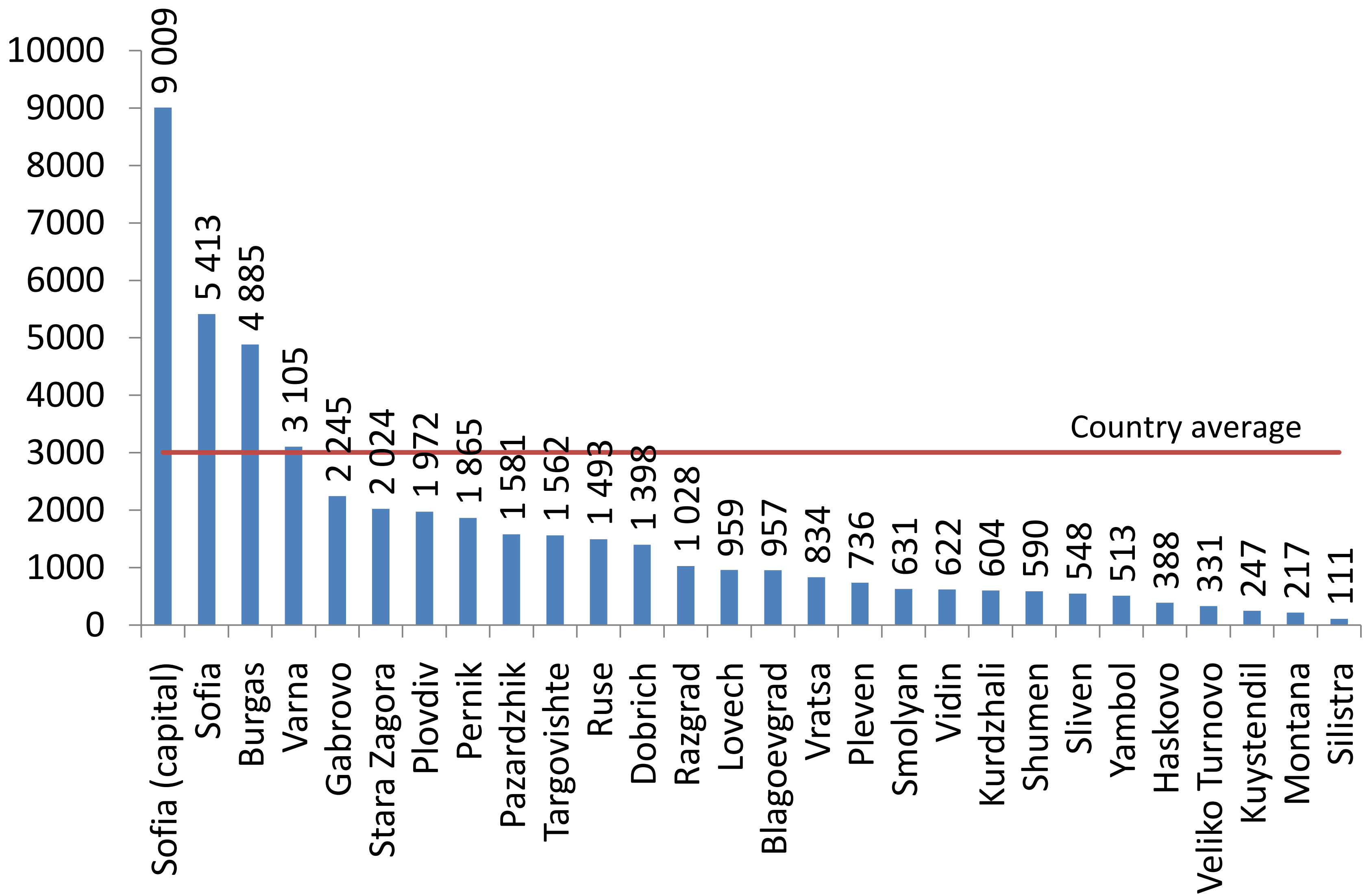
# More developed regions attract more investment, and vice versa



# WHICH DISTRICTS ATTRACT MORE FDI?

- Up until 2008 FDI was driven primarily by the construction boom: Sofia (capital), Varna, Burgas, Pernik, Sofia district
- After 2008 – significant FDI inflow towards industrial centers such as Plovdiv, Stara Zagora and Gabrovo
- A possible explanation - the rapid growth of industrial exports in the period of post-crisis recovery
- Despite the net withdrawal of foreign capital in 2010-2011, the capital remains leader in terms of attracted FDI as of end-2012
- Strong positive relation between FDI and investment in long-term tangible assets

# FDI by districts as of end-2012, euro per capita



# STRONG RELATIOSHIP BETWEEN INVESTMENT AND HUMAN CAPITAL

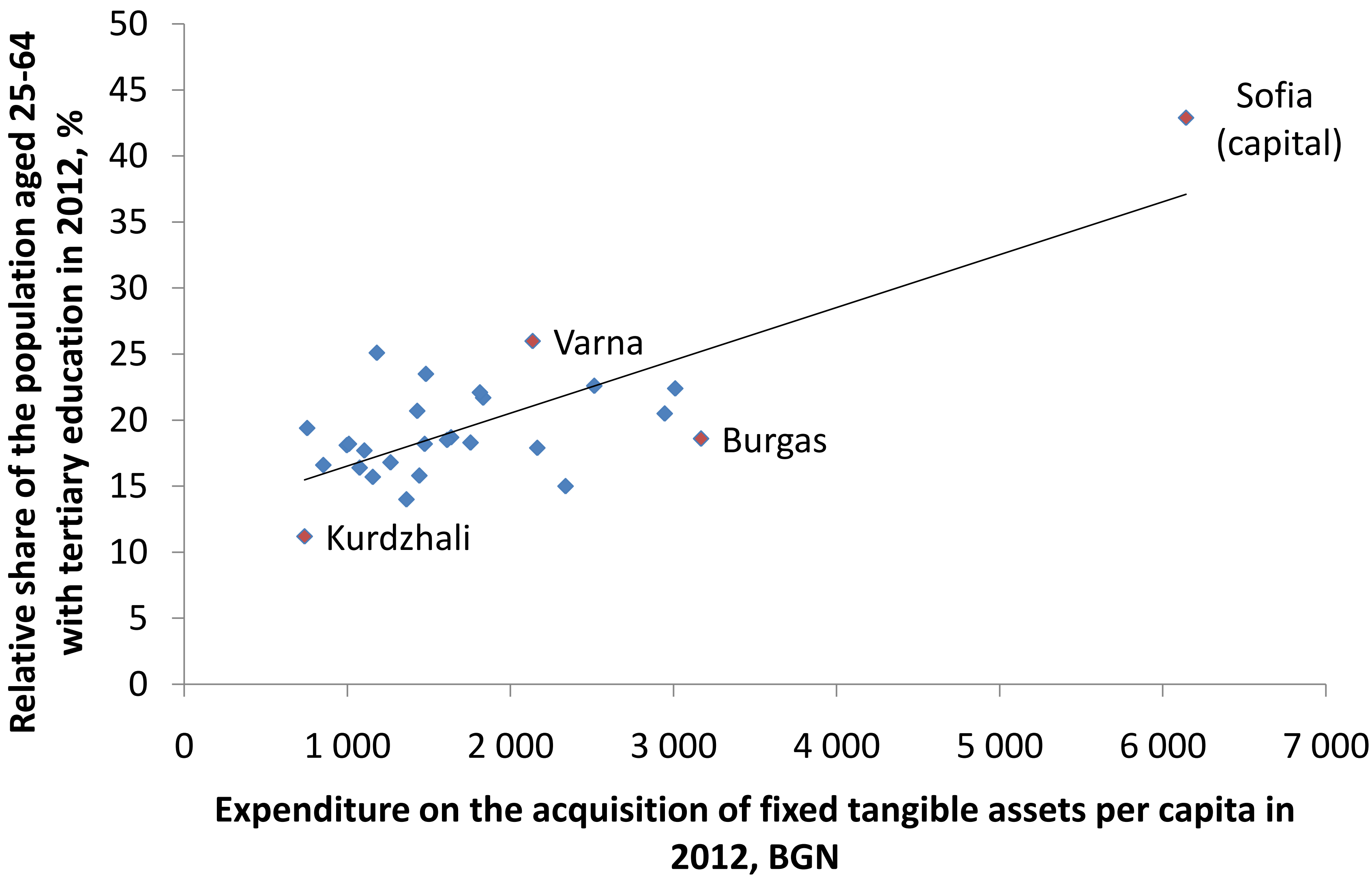
- Investment – strong/moderate correlation with a bunch of indicators on human capital:

- Investment and the share of people with tertiary education
- Investment and net migration
-Investment and age structure of the population

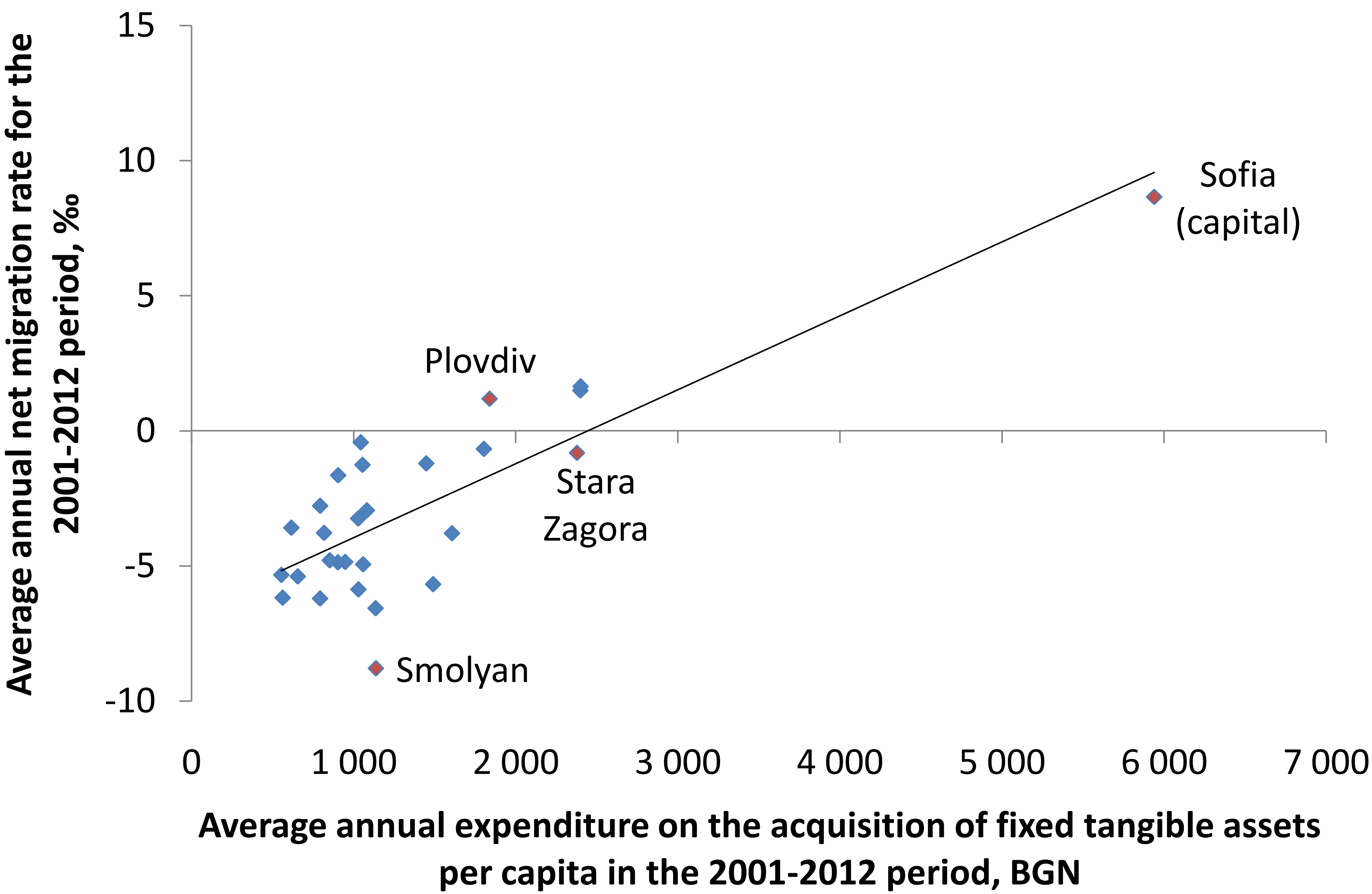
- All relations are two-way
- Conclusions:

 - Policies for mitigating the demographic crisis in some regions should include improvement of local business conditions
- If you seek to attract investment, put more effort into educating your workforce

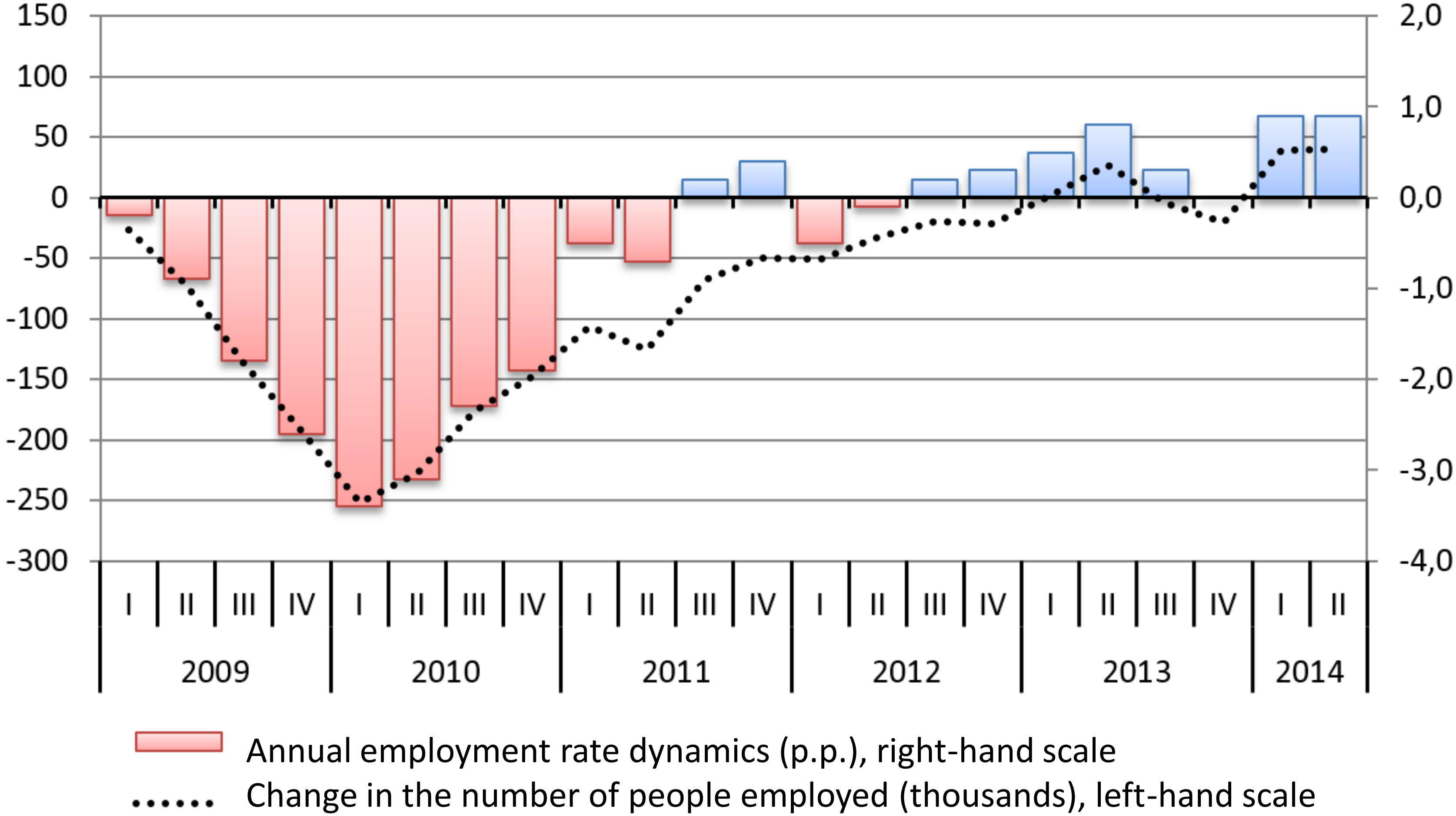
# Local investment and share of people with tertiary education, 2012



# Local investment and net migration, average for 2001-2012



# EMPLOYMENT 2009-2014



# THE LABOR MARKET RECOVERY

- The first signs of labor market recovery were evident in the beginning of 2013

- Districts, in which there are no signs of labor market recovery - Lovech, Ruse, Targovishte, Silistra, Blagoevgrad and Kuystendil

- Districts in which the labor market remained stable throughout the crisis, but is showing signs of weakness recently – Stara Zagora

# NORTHERN BULGARIA REMAINS IN CRISIS, THE SITUATION IN THE SOUTH IS IMPROVING

- Most of the positive momentum is due to the fast recovery in the South Central Region of the country

- Positive employment trends in leading economic centers – Sofia (cap.), Varna and Burgas

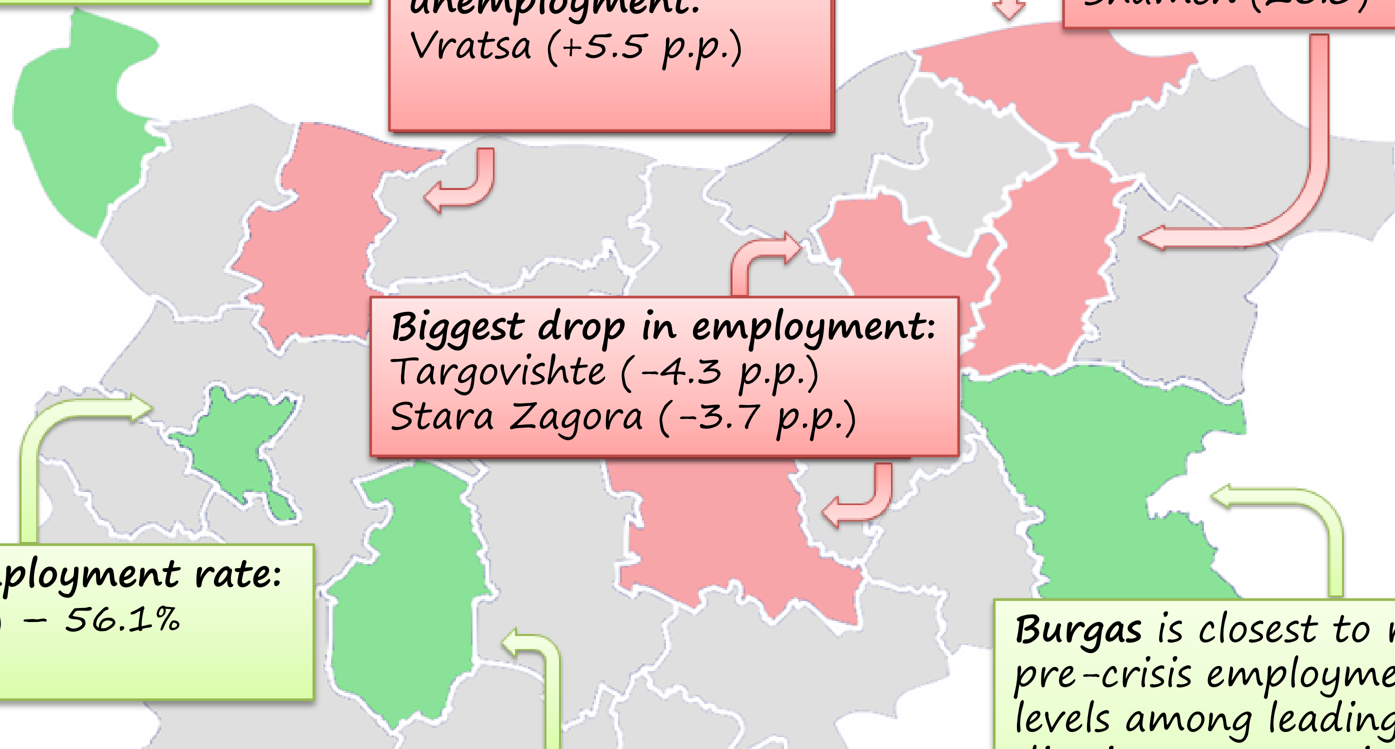
- With the exception of Gabrovo and Veliko Turnovo, the situation in Northwestern and North Central Bulgaria continues to be critical

# KEY OBSERVATIONS

Employment levels in **Vidin** reached a record 39.6% in 2013, which is still one of the lowest in the country

**Fastest growth in unemployment:**
Vratsa (+5.5 p.p.)

**Lowest employment:**
Silistra (37.1%)
**Highest unemployment:**
Shumen (26.0)



**Biggest drop in employment:**
Targovishte (-4.3 p.p.)
Stara Zagora (-3.7 p.p.)

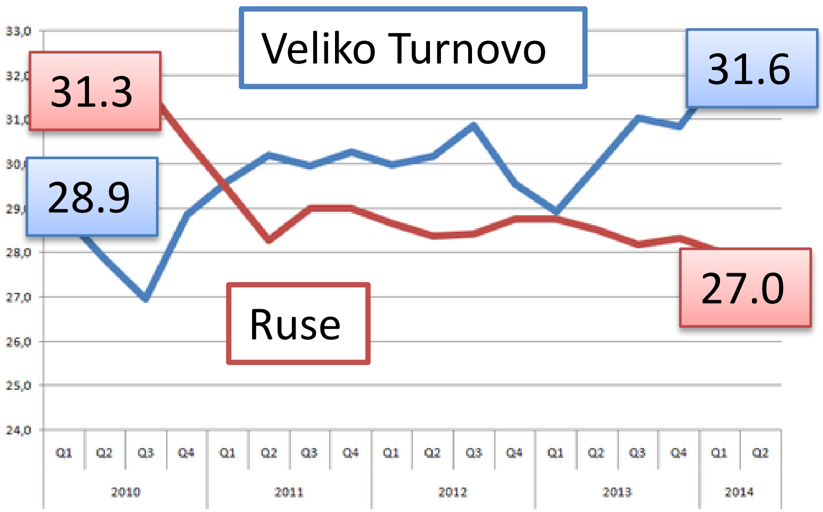
**Highest employment rate:**
Sofia (cap.) – 56.1%

**Biggest decline in unemployment**
Pazardzhik (-5.5 p.p.)

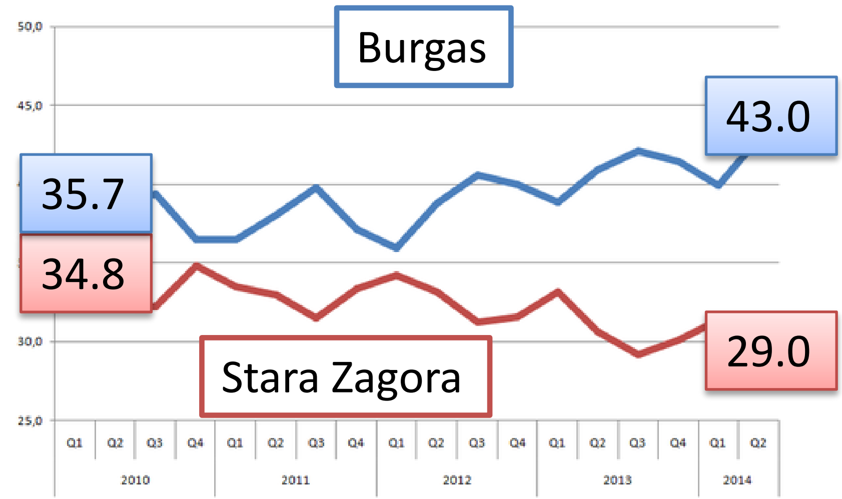
**Burgas** is closest to reaching pre-crisis employment levels among leading districts – 47.8% in 2013, compared to 49.1% in 2008.

# SOME INTERESTING REGIONAL TRENDS

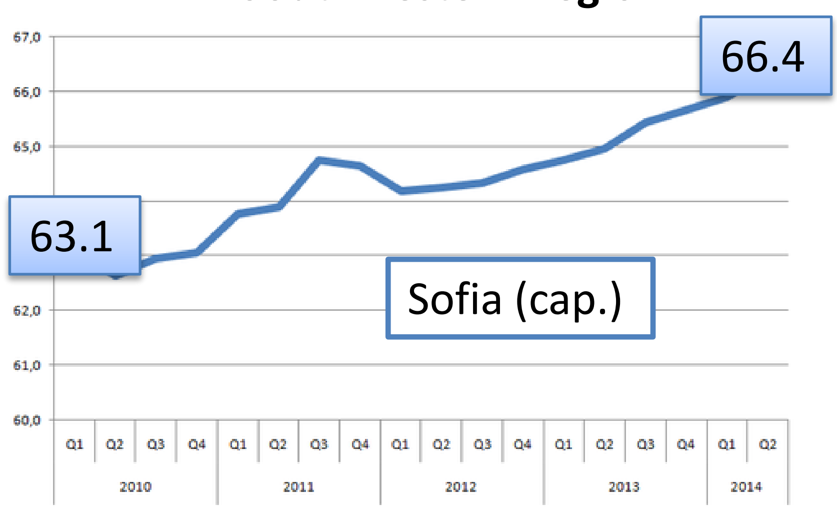
## North Central Region



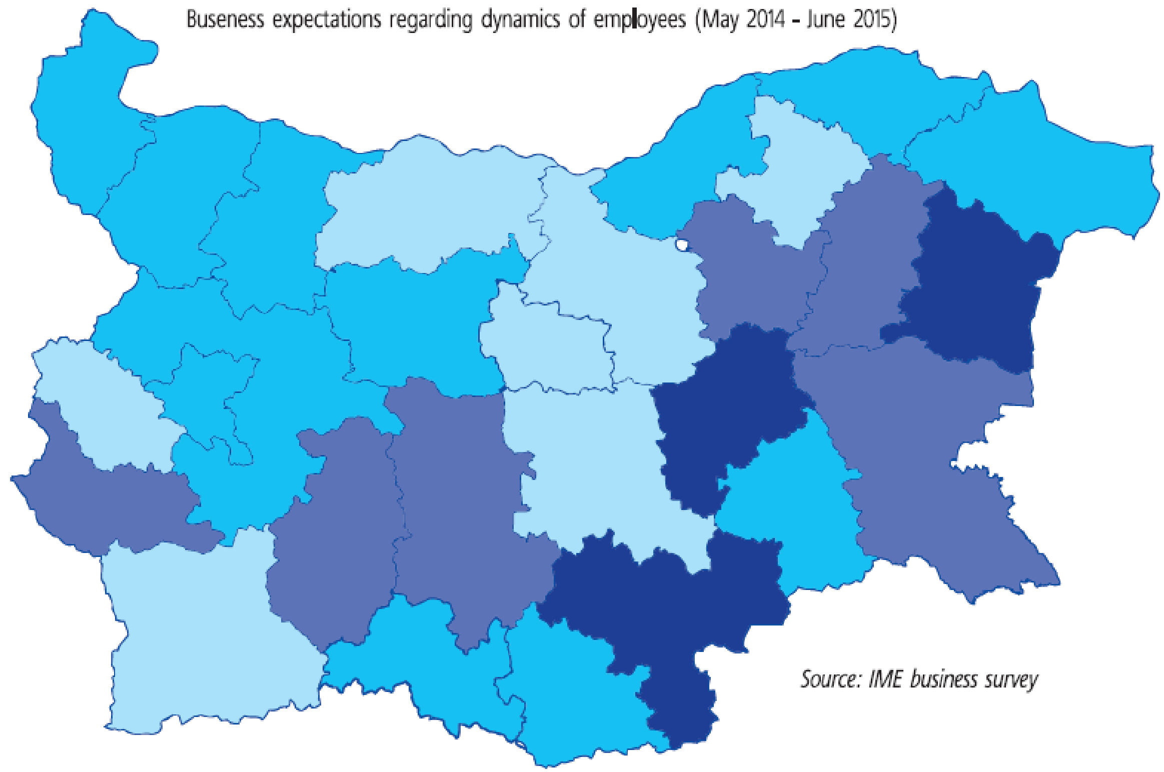

## Southeastern Region




## Southwestern Region



# BUSINESS EXPECTATIONS – NUMBER OF PEOPLE EMPLOYED




**Minimal increase**

Veliko Tarnovo
Stara Zagora
Razgrad
Pleven
Pernik
Gabrovo
Blagoevgrad

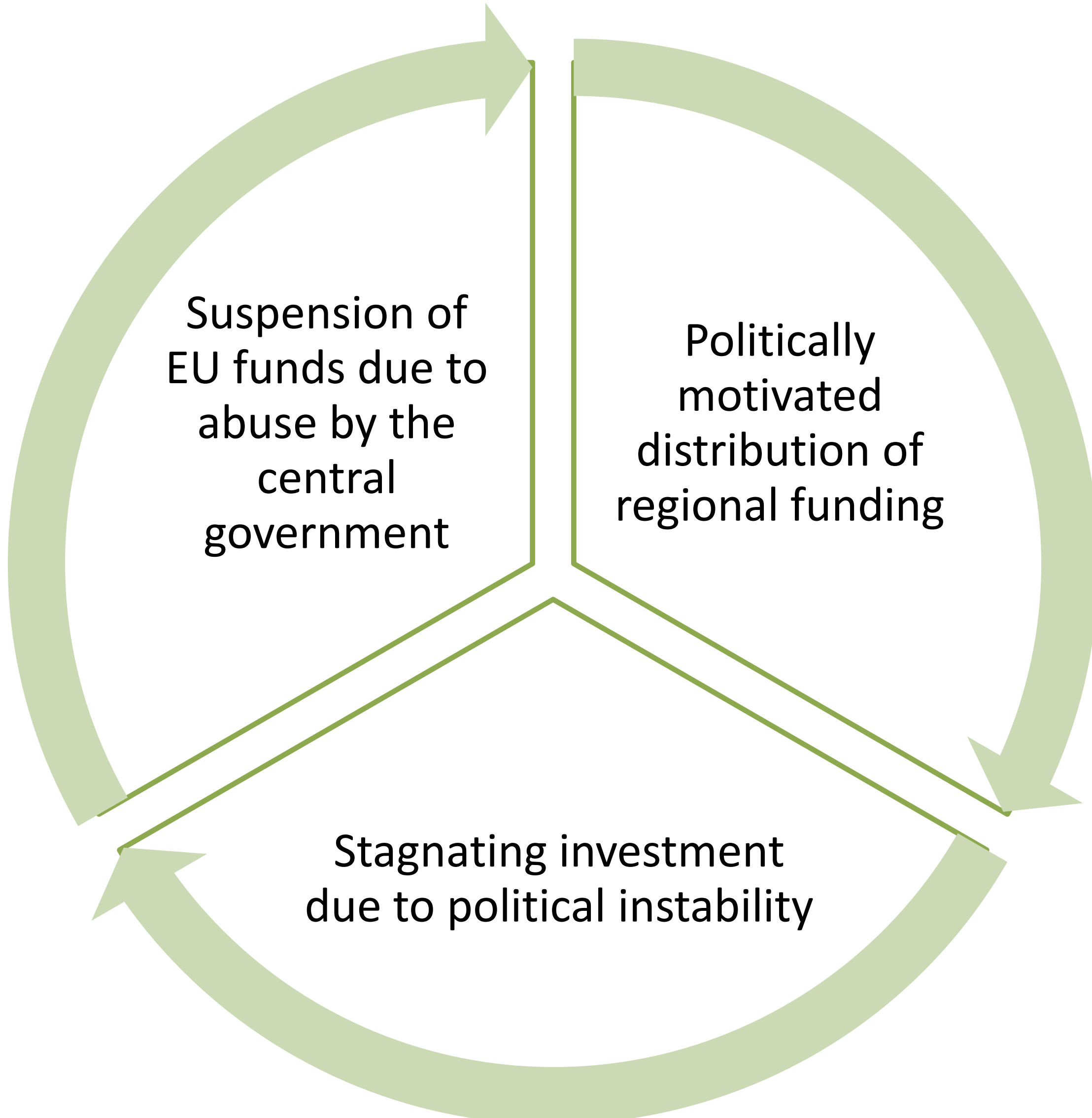
Ruse
Vidin
Sofia (c.)
Sofia
Dobrich
Smolyan
Montana
Yambol
Vratsa
Silistra
Kurdzhali
Lovech

**More substantial increase**

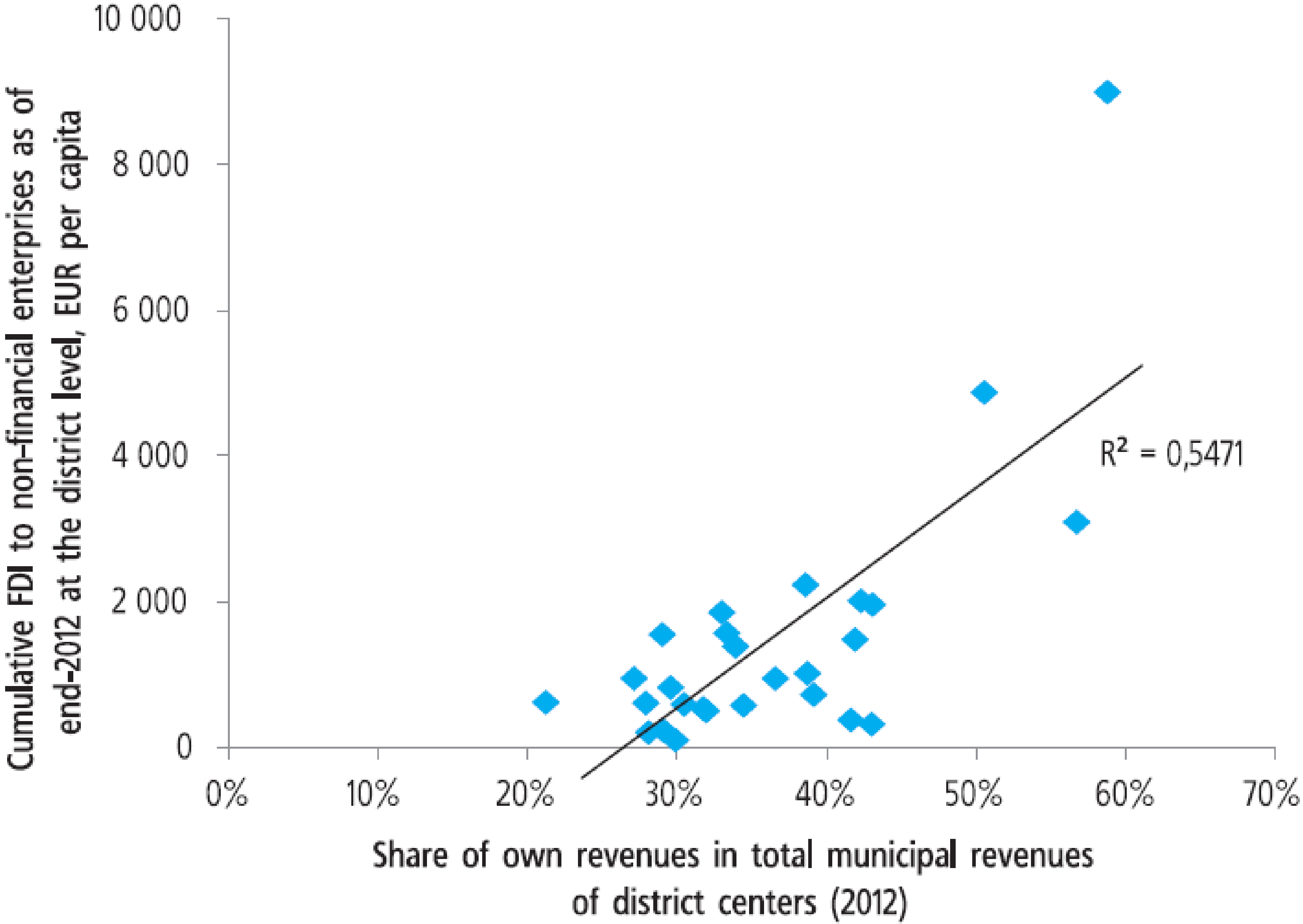
Shumen
Kyustendil
Pazardzhik
Burgas
Targovishte
Plovdiv

Varna
Haskovo
Sliven

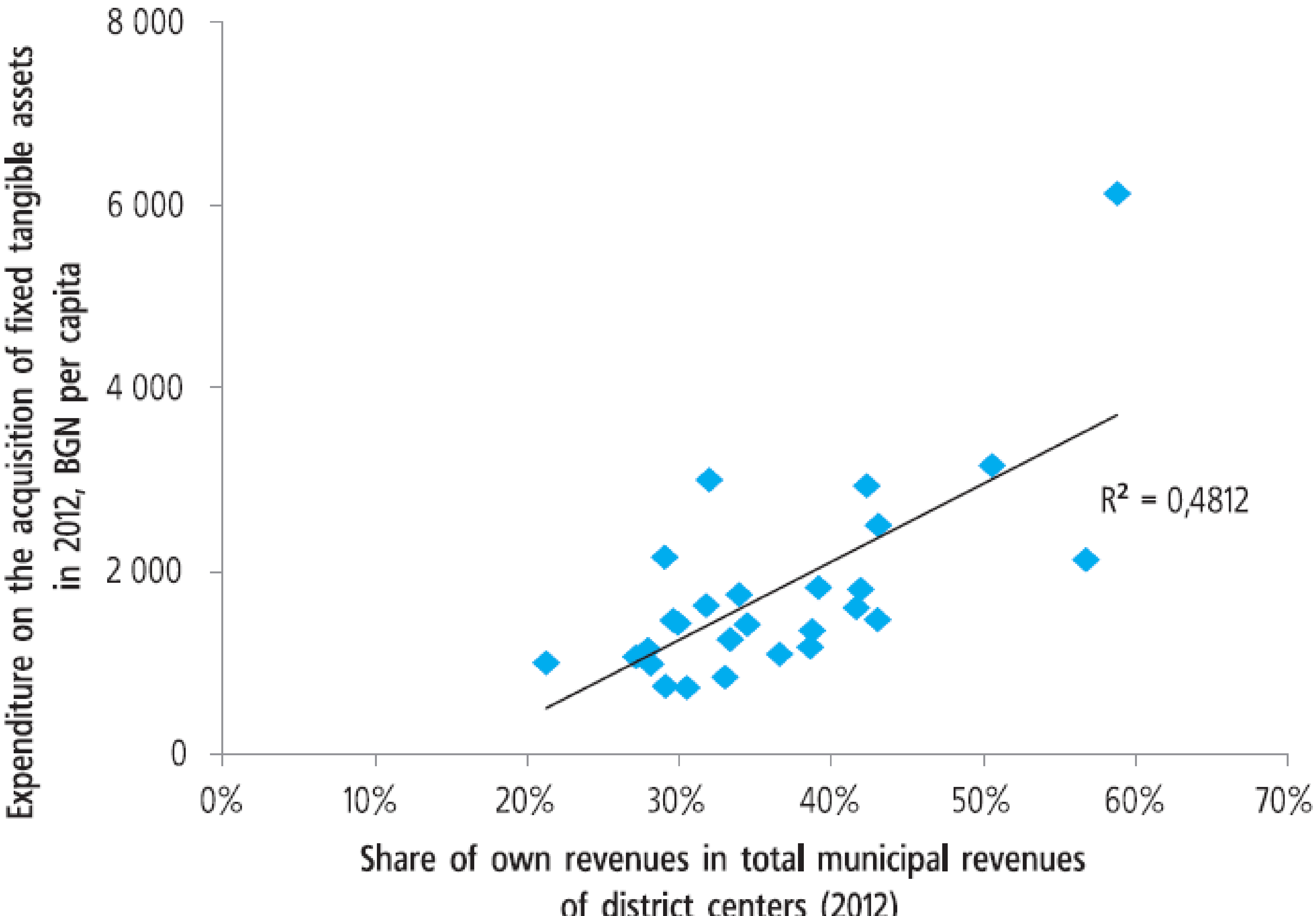
# MUNICIPALITY FINANCES



# FDI AND FINANCIAL INDEPENDANCE



# FTA AND FINANCIAL INDEPENDANCE



# DEPENDENT MUNICIPALITIES

- Distorted local democracy
  - The principles of representation and taxation have been infringed
  - No real power in the hands of municipal councils
- Lack of incentives for development
  - No interest in attracting investments and supporting job creation
  - The main focus is on redistribution of influence and absorption of EU funds

## POSSIBLE SOLUTIONS

- Automatic redirection of 1/5 of income tax revenues to municipal budgets (2016)
- Introducing the principle: “money follows the ID card”

- Recovery period – The additional resources are to pay down existing obligations and for investment

# CONCLUSIONS

- The district of Sofia (capital) differs markedly from all other districts – hence its separate cluster
- The gap between Sofia and the rest of the territory keeps widening during the period under study (since 2000)
- The cluster of districts featuring the worst socio-economic state demonstrates a tendency to increase its members
- The scope of districts in poor socio-economic state and/or featuring negative trends of development remains much wider
- The registered positive trends of development in some of the districts (Stara Zagora, Sofia and others) remain fragile
- Regional policy DOES NOT work – no social and economic cohesion among the districts is being observed

# THANK YOU FOR YOUR ATTENTION!

AMERICA FOR BULGARIA FOUNDATION
Фондация Америка за България

IME
Institute for Market Economics

Regiostat
predictive analytics