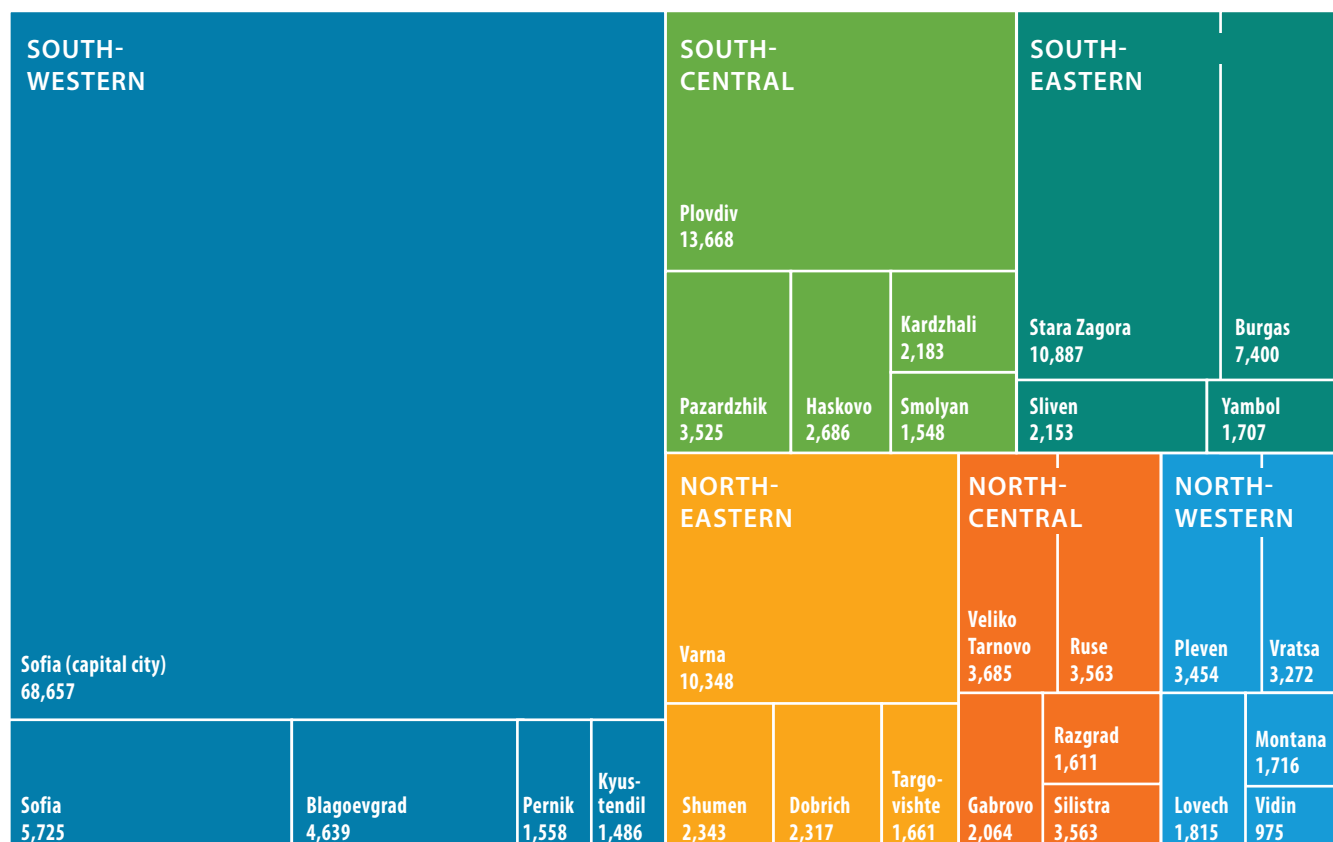


Regional Profiles 2024: Resume

ECONOMIC DEVELOPMENT: THE DISTRICTS ARE REBOUNDED FROM THE CRISIS BUT AT DIFFERENT RATES

In 2022, strong economic growth in several of the smaller districts led to a slight decline in the capital's share of the country's GDP. Sofia contributed 41% of GDP to the national economy, or 68.7 billion BGN in 2022, against 43% a year earlier. Plovdiv ranked second with 6.5%, or 13.7 billion BGN. However, Stara Zagora came in third with 6.2% of the total Bulgarian economy, mostly under the impact of the good performance of the energy sector during that year. The leading five districts were complemented by the traditionally strong economies of Varna and Burgas, whose dynamism was supported by the gradual recovery of tourism. Sofia (district) came closer, driven by the rapid development of industry and logistics in the capital's broad periphery. Bringing up the rear was Vidin – the only district with a GDP of less than 1 billion BGN. A cause for concern are the growth rates of the regional economies, with the most developed economies – those of Stara Zagora, Plovdiv, Sofia (district) and Varna – leading the way in terms of GDP growth compared to 2021, while the districts at the bottom of the ranking – Vidin, Lovech, Silistra, Dobrich and Kyustendil – registered

Fig. 1. GDP by district, 2022 (million BGN)

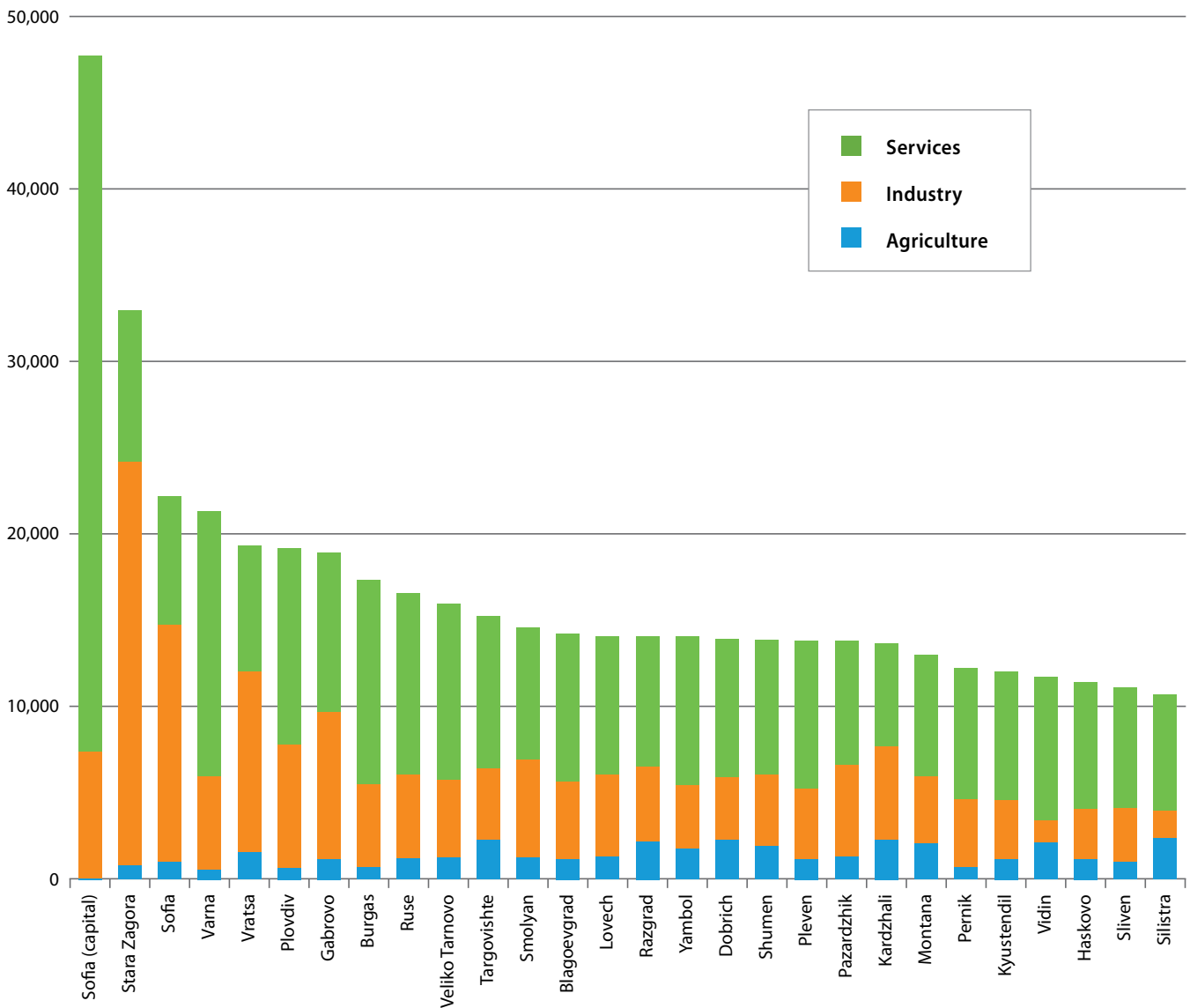


Source: NSI.

anemic growth in 2022, thus creating preconditions for a further widening of the gap in the standard of living between the districts.

Only two districts – Stara Zagora and Sofia (capital), exceed the national average value of gross domestic product per capita for 2022, with the capital already generating on average over 50,000 BGN per capita. Seven districts already have GDP per capita above 20,000 BGN, with Sofia joined by Stara Zagora, Sofia (district), Varna, Vratsa, Plovdiv and Gabrovo. That year again there was a shift in the bottom of the ranking, with the lowest GDP per capita being in Silistra (12,100 BGN), followed by Sliven (12,600 BGN) and Haskovo (12,900 BGN). Almost half – a total of 13 – of the districts generated GDP between 15,000 and 18,000 BGN per capita, which indicates a relatively even degree of economic development outside the leaders and the most backward regions in the country. These small margins also allow for rapid shifts in the districts’ ranking as a result of different growth rates, such as we have seen in recent years among the least developed regions.

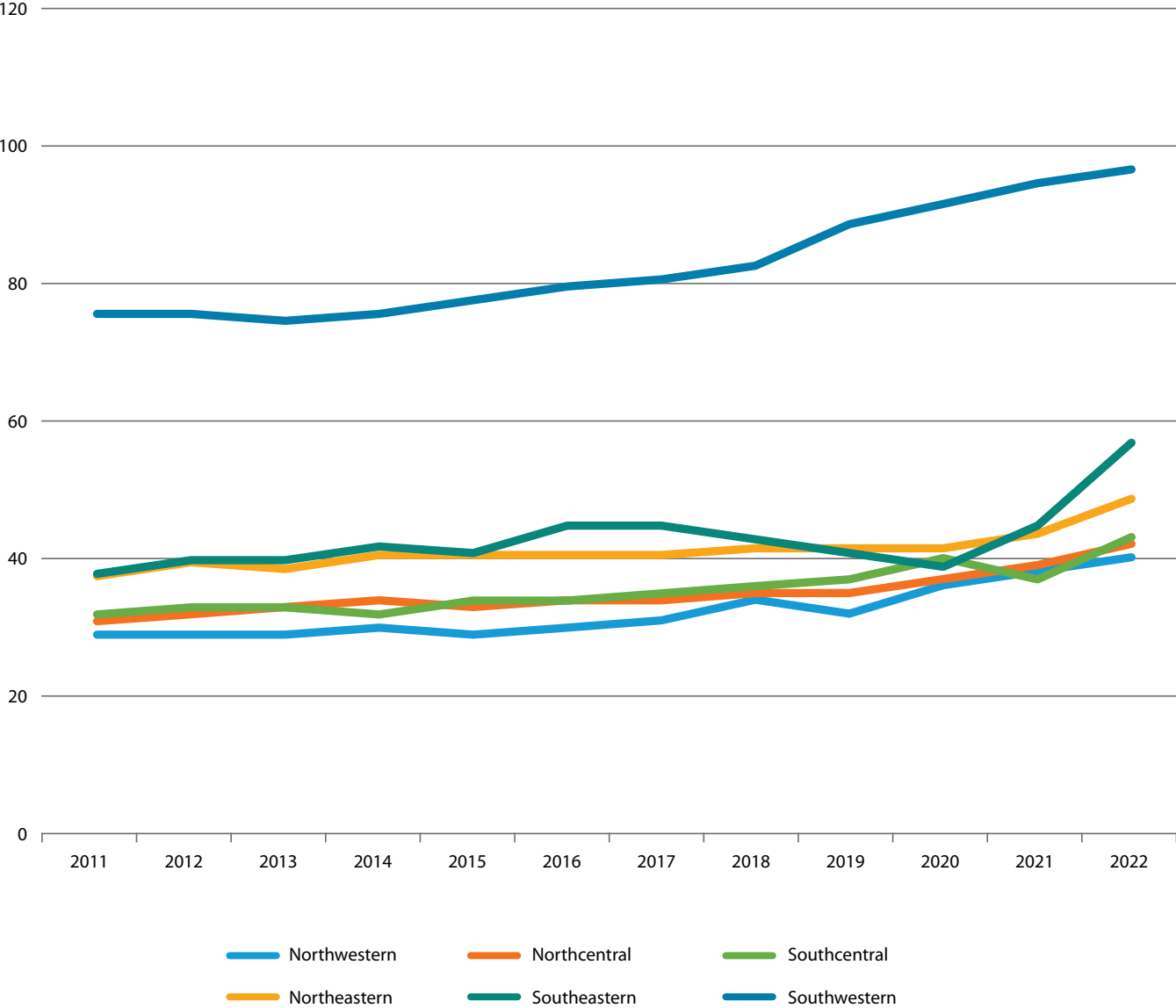
Fig. 2. Gross value added per capita by broad economic sectors, 2022 (thousand BGN)



Source: NSI, calculations by IME.

The distribution of value added per capita clearly outlines the main patterns of development of the regional economies. In Sofia, the capital, it is driven by the services which generate 84% of value added, but over the past year there has been a slight increase in the role played by industry in its economy (15%). A high share of services is also present in the two coastal districts of Varna (72%) and Burgas (68%), as well as in most of the major economic centers of northern Bulgaria – Pleven (62%), Ruse (63%) and Veliko Tarnovo (64%). The exception in this region is Gabrovo, where there is a relative balance between industry (45%) and services (49%). Also moving towards an increased role of the services is the southern industrial centre of Plovdiv, where they already account for 60% of value added. Industry plays a major role in the structure of the economies of several of the leading districts, most prominently in Stara Zagora (71%), Sofia (district) (62%) and Vratsa (54%). By contrast, most regions with a significant share of agriculture are positioned at the bottom of the ranking and only in the least developed district of Silistra does it generate more than 1/5 of value added.

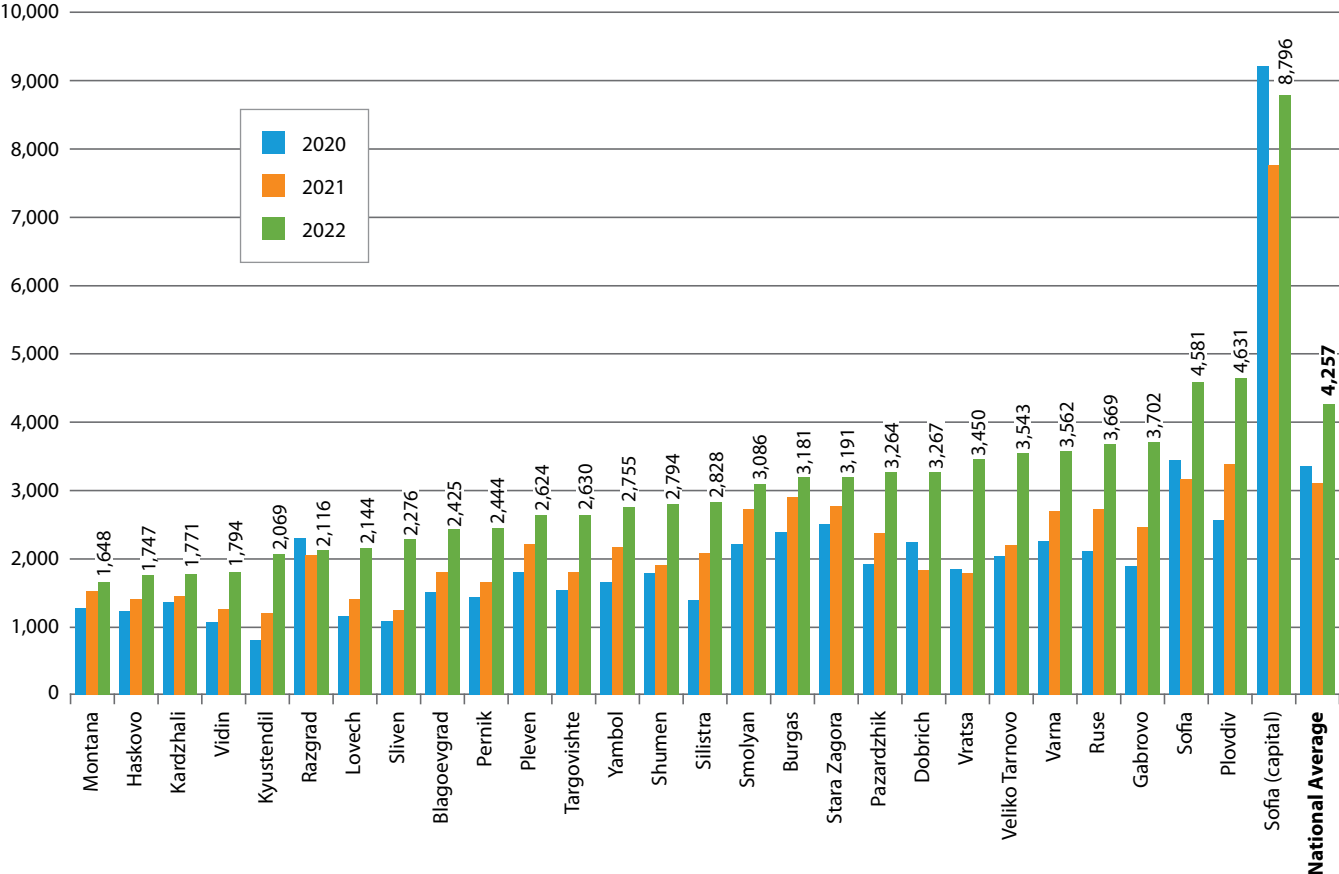
Fig. 3. GDP, measured in PPS per capita in the planning regions as a share of the EU-27 average, 2011–2022 (%)



Source: Eurostat.

An important insight into the economic growth of the regions is the degree of convergence towards the European average. Measured in purchasing power standards (PPS), the GDP per capita of the Southwestern region, which includes the capital, has already reached 97% of the European average, while in the least developed part of Bulgaria – the Northwest – it remains at only 40%. Also noteworthy is the very even pace of catching up – in terms of PPS, four of the country’s planning regions have closed the gap with the EU-27 average GDP per capita by 11 points compared to 2011. A faster convergence is visible in the Southeastern region – by 19 points, with much of this increase occurring in 2022 and reflecting the energy industry’s very strong performance in Stara Zagora, and in the Southwestern region – by 21 points. This offers yet more proof that the stratification of economic development increasingly perpetuates the “Sofia and everyone else” phenomenon.

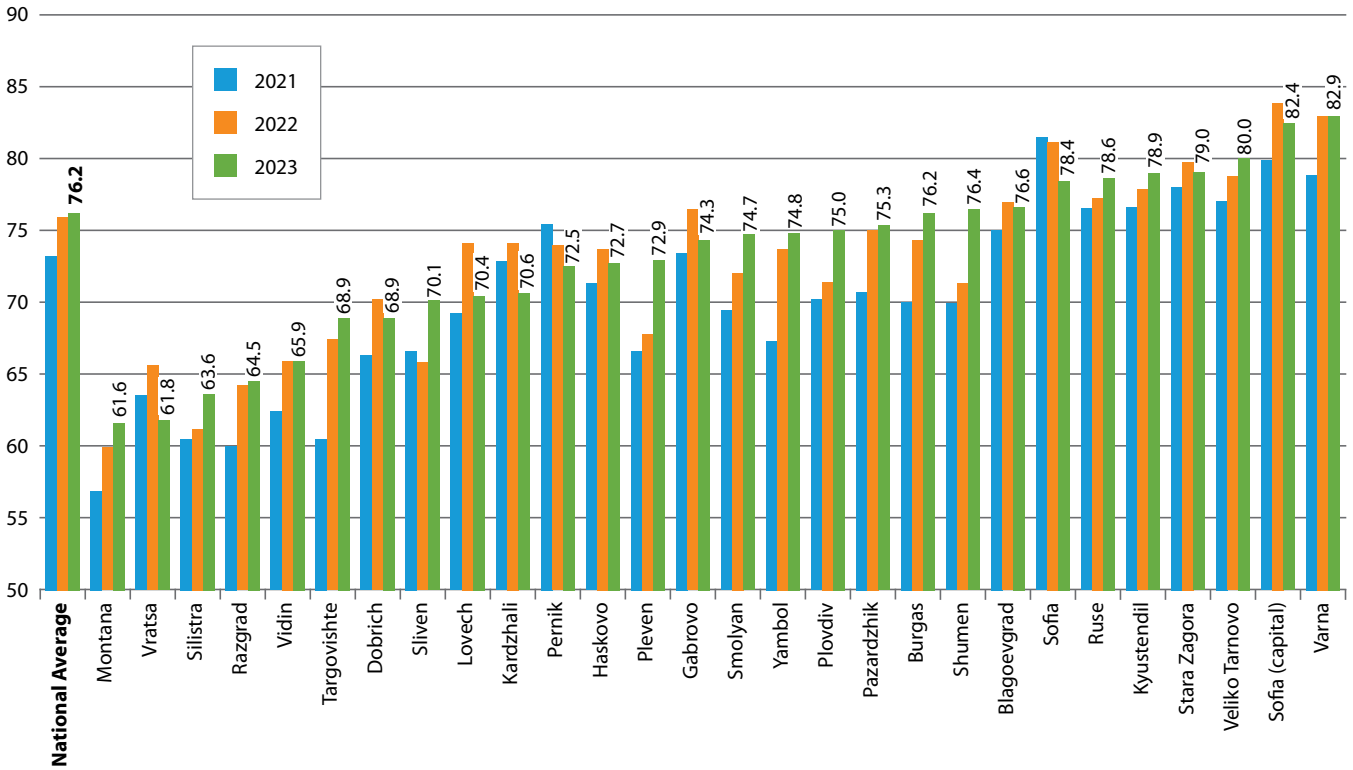
Fig. 4. Expenditure on acquisition of tangible fixed assets per capita, 2020–2022 (BGN)



Source: NSI, calculations by IME.

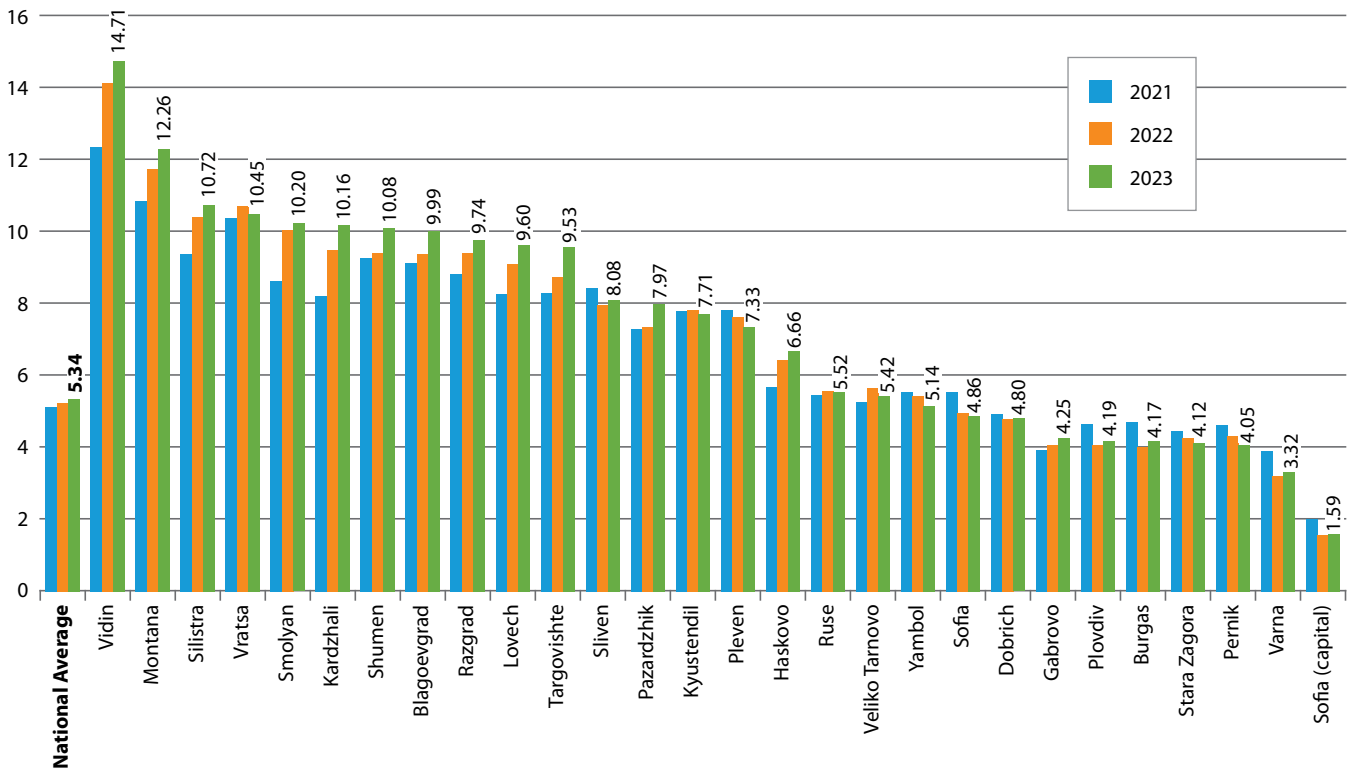
In terms of investment in the districts, 2022 brought a rapid recovery from the impact of the crisis and a new expansion not only compared to the pandemic years but also to the high levels of the pre-crisis period. The differences in investment activity are significant, with the capital city approaching 8,800 BGN per capita in TFA expenditures, followed by Sofia (district) and Plovdiv, where the indicator reached 4,600 BGN per capita. At the bottom of the ranking, with less than 2,000 BGN per capita, are the districts that are also last in terms of economic development: Montana, Haskovo, Kardzhali and Vidin have TFA expenditures of less than 2,000 BGN per capita, while the remaining districts are in the range of 2,000–4,000 BGN per capita. This stratification determines the preservation of and even the future increase in inequality between the districts’ economic development. Less clear-cut are the dynamics of foreign investment – although at the national level there was a significant growth of accumulated flows from 4,100 to 4,500 EUR per capita towards the end of 2022, a number of districts, including Stara Zagora, Silistra, Plevan, Vidin, Vratsa and Burgas, reported a decline in foreign cap-

Fig. 5. Employment rate of the population aged 20–64, 2021–2023 (%)



Source: NSI, calculations by IME.

Fig. 6. Unemployment rate of the population aged 15–64, 2021–2023 (%)



Source: EA.

ital. Against this backdrop, in several districts – Veliko Tarnovo, Gabrovo, Pazardzhik – FDI grew significantly, by over 1,000 EUR per capita within the year. The differences in the levels of FDI remain impressive, with the capital city approaching 12,000 EUR per capita and 9 districts still below 1,000 EUR per capita.

Although in 2023 the labor market expansion continued at national level, albeit at a more moderate pace, in more than half the districts the employment rate of the population aged 20–64 either went into decline or remained without change. The most visible downturns, of more than 3 p.p. on an annual basis, were in the less developed districts of Vratsa, Lovech and Kardzhali. At the opposite side, with over 4 p.p. increase, were Pleven, Shumen and Sliven. The employment rate of the active population was broadly spread across a range from 62% to 83%, with Varna, Sofia (capital) and Veliko Tarnovo performing best, while the share of the working population remained lowest in Montana, Vratsa and Silistra. In many districts, most notably Blagoevgrad, Sofia (district) and Veliko Tarnovo, the employment rate remained below the 2019 labor market records.

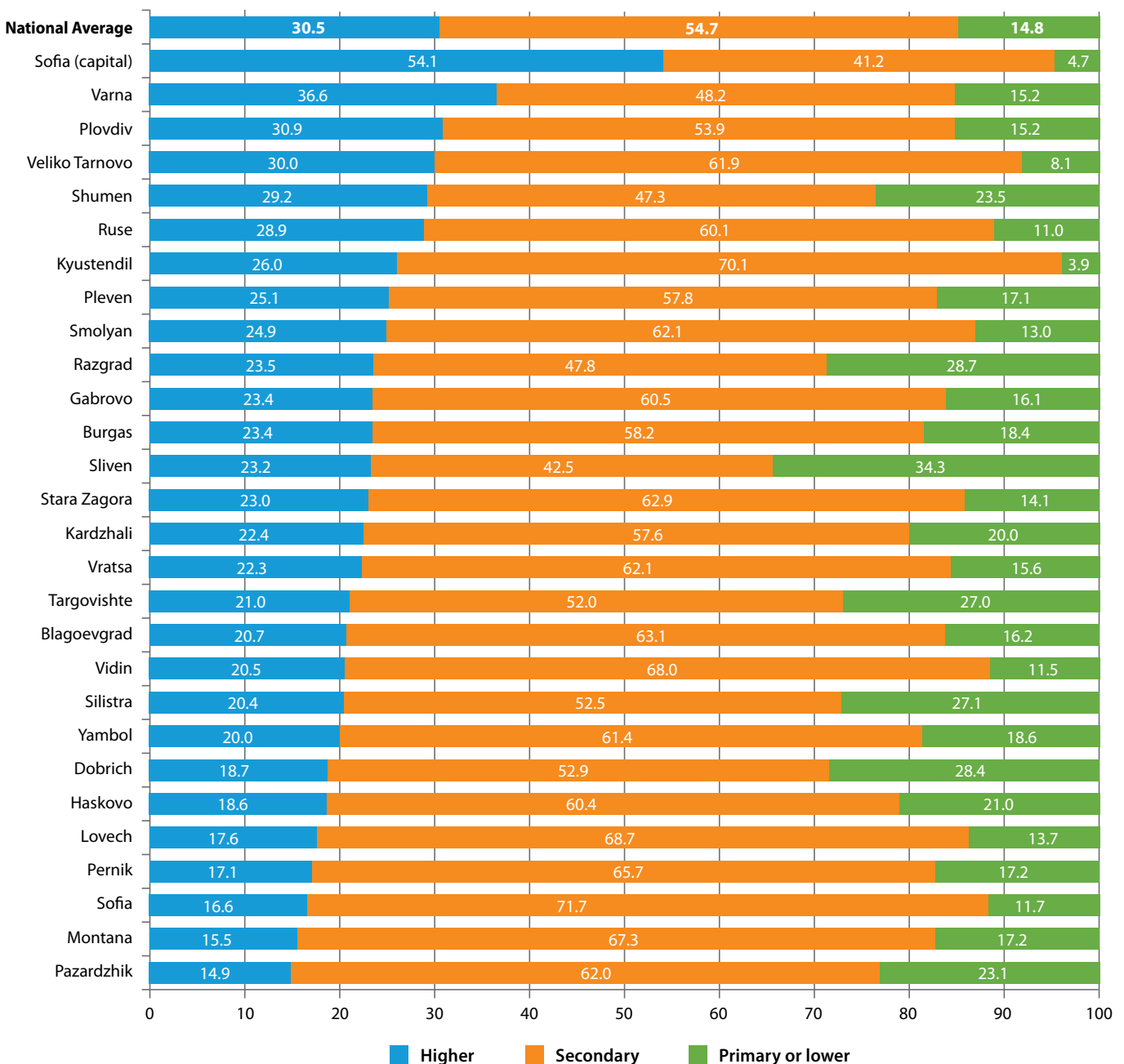
Unemployment dynamics were more moderate, with no district showing a change of more than one p.p. based on the rates reported by the Employment Agency. The share of jobseekers in most places remained close to that reported in the pre-pandemic period, suggesting that the achievable minimum may have already been reached. However, the large gaps between the different regional labor markets are still there – while in the capital the unemployment rate for 2023 was 1.6% for the population aged 15–64, and in Varna it was 3.3%, in Vidin it approached 15%, in Montana it exceeded 12% and in Shumen, Smolyan, Kardzhali and Vratsa it remained above 10%. A cause for concern is also the opposite dynamics, as a slight increase in unemployment is observed precisely in the regions where it is already the highest; on the contrary, there is a more visible decline in the regions with well-functioning labor markets.

Already more than double is the difference in average salaries between the first and the last district: in the capital the average gross salary reached 3,129 BGN by the second quarter of 2024, while in Blagoevgrad it was 1,519 BGN. The distance between the leader and the district in the second place remains in the order of 1,000 BGN per month, with three more districts – Varna (2,147 BGN), Vratsa (2,123 BGN) and Sofia (district) (2,048 BGN) – with average salaries above 2,000 BGN. The rate of salary growth varies between 13% in the districts growing at a slower pace and 26% in the leaders, with the largest increases registered in regions such as Dobrich, Haskovo and Vidin, which probably also reflects the significant increase in the minimum wage. Nevertheless, the faster rate of salary growth in the poorer districts creates the preconditions for a convergence of the working population's living standards. Pension growth is more uniform, with increases in all districts in the range of 13–18% in 2023. The average monthly pension in the capital has reached 957 BGN, while the lowest one – 633 BGN – is in Kardzhali, which is also the district with the slowest pension growth in the whole country.

SOCIAL DEVELOPMENT: THE ARENA OF LONG-TERM CHALLENGES

Both economic dynamics and labor market growth are driven by the knowledge and skills of the regions' human capital. If we consider the share of people with higher education – a key indicator for the development of the high-tech sector as well as most services and many segments of industry – the absolute leader in the country for 2022 is the capital, where university graduates form 54% of the population aged 25–64. The second place, a whole 17 points away, is held by Varna with 37% graduates, while only Plovdiv and Veliko Tarnovo have more than 30%. At the same time, in the districts at the tail end – Pazardzhik, Montana, Pernik and Lovech, people of working age with higher education constitute only 15–17%, which in effect blocks opportunities for certain types of investments.

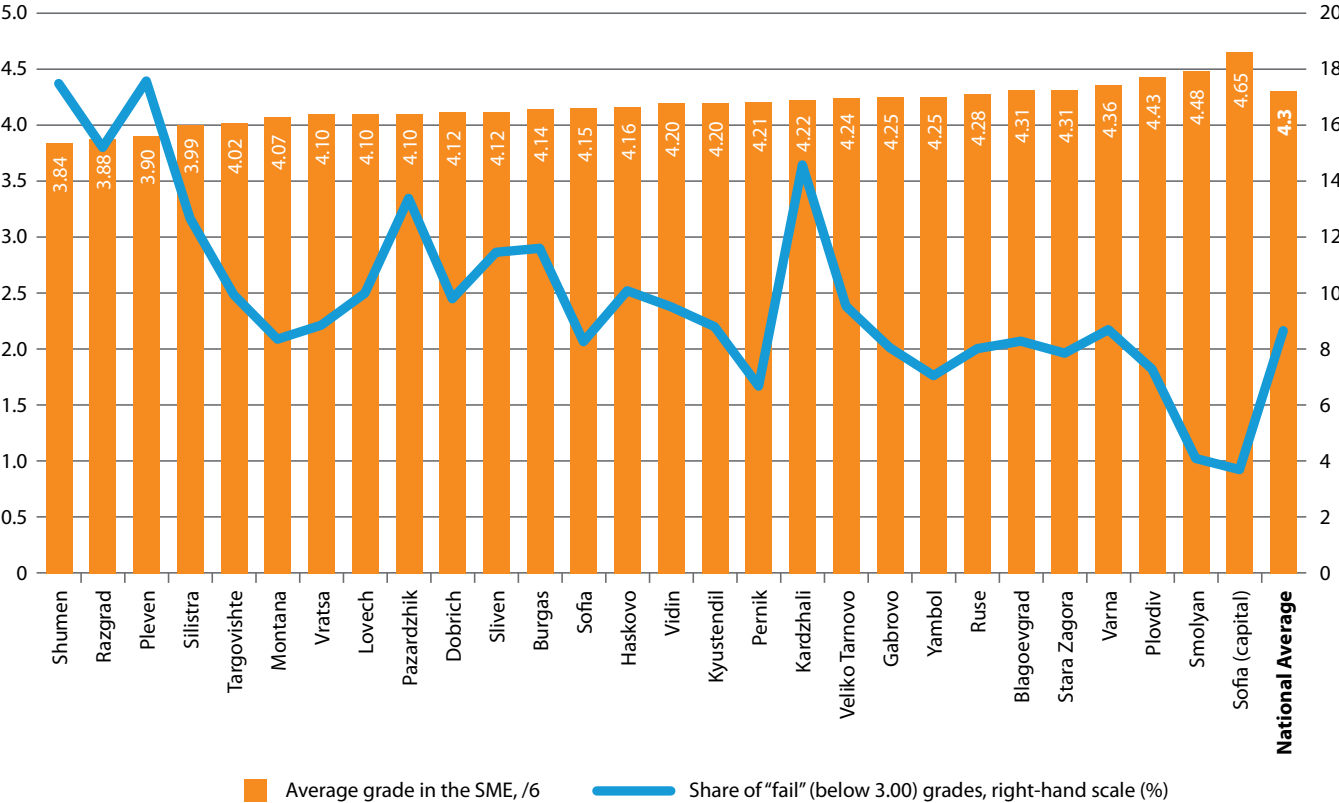
Fig 7. Population aged 25–64 by highest completed education level, 2022 (%)



Source: NSI.

Even more important for the potential for economic development, however, is the share of people with primary and lower education, as jobs for low-skilled workers are increasingly scarce. In 2023, this share again remained high in many places, exceeding 34% in Sliven and 28% in Razgrad and Dobrich each. Expectedly, these are also the regions where schools with some of the weakest results in the country are concentrated, so overcoming the human capital deficit will be among the key challenges for the further development of these districts.

Fig 8. Average results in the State matriculation exam in BLL and share of “fail” grades, spring session 2024



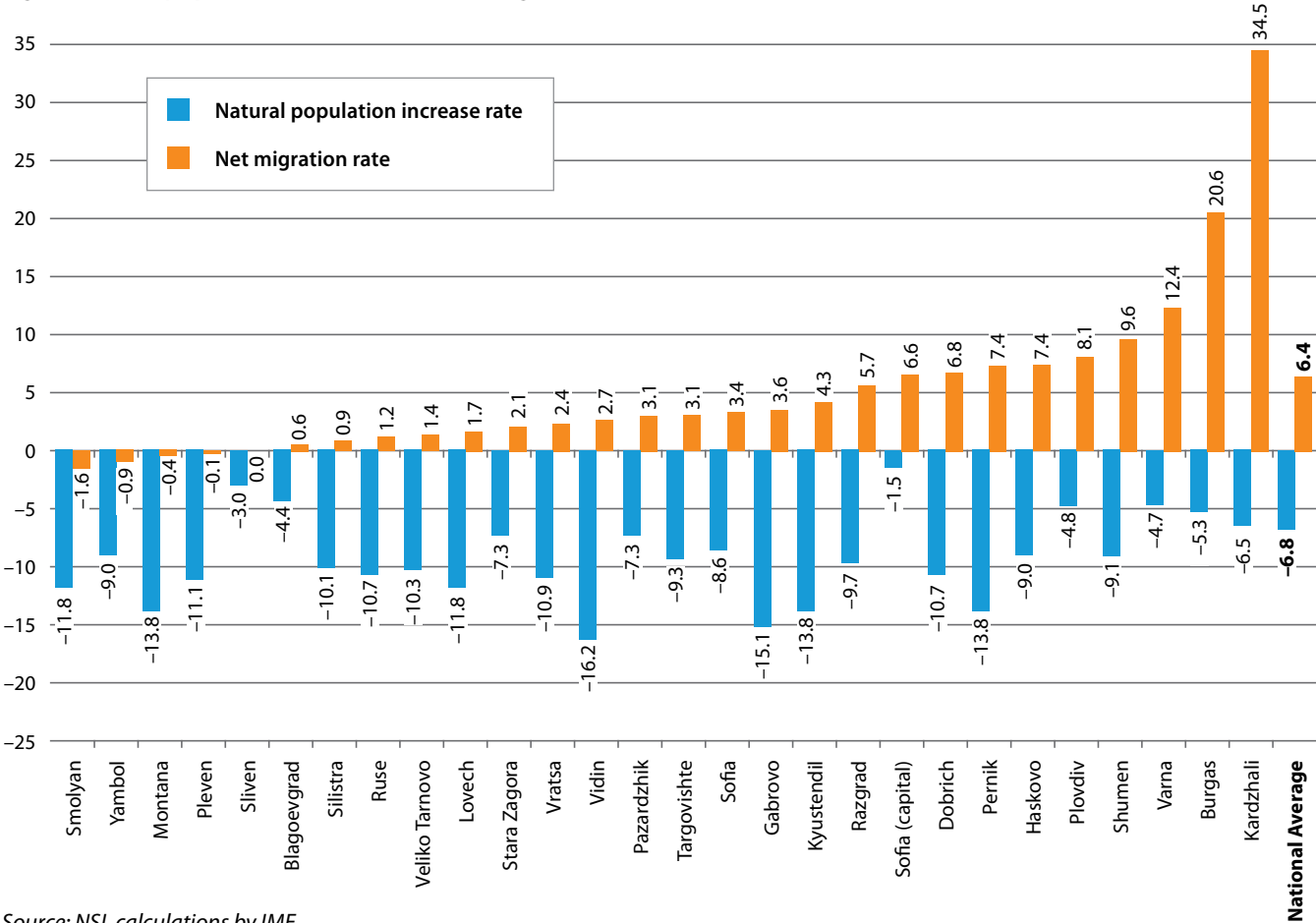
Source: MES.

A review of the results in the 2024 State matriculation exams reveals a widespread improvement in the results for Bulgarian language and literature at district level, coupled with a significant – in some places more than double – reduction in the share of students with “fail” grades. However, large gaps between the districts remain, with the capital (4.65) and the established educational leader among the other districts – Smolyan (4.48), as well as Plovdiv (4.43) and Varna (4.36) achieving the highest scores for yet another year. The lowest-performing schools are in Shumen (3.84), Razgrad (3.88) and Pleven (3.90), with the Northeast emerging as the region with the highest concentration of low-performing schools in recent years. Despite some improvement, the share of low achievers exceeds 17% in Shumen and Pleven, and in as many as 14 districts one in ten students has failed the Bulgarian language exam. This indicates a low level of general literacy in those districts, something that will have real consequences for the productivity of the upcoming workforce in the regional labor market. It is also important to note that comparisons between different sessions of both the matriculation examination and the external assessments after 7th Grade should be considered conditional, as comparability and uniform difficulty from year to year is not necessarily among their goals.

After the big improvements in 2022, there has been a decline in the coverage of the school education system in most districts, with a 0.8 p.p. drop in the net enrolment ratio between 5th and 7th grade at the national level,

while the greatest deterioration is observed in districts where coverage is weak to begin with – in Silistra the enrolment ratio dropped by 3.4 p.p. to just 78.7%, and in Kardzhali by 2.6 p.p. to 84%. There are also declines of about one p.p. in the educational leaders – the capital, Plovdiv, Varna and Smolyan. This is accompanied by an almost universal increase in the share of repeaters, which is also an indication of a worsening quality of local school systems and of their ability to meet the educational minimums.

Fig. 9. Natural population increase and net migration rates, 2023 (%)

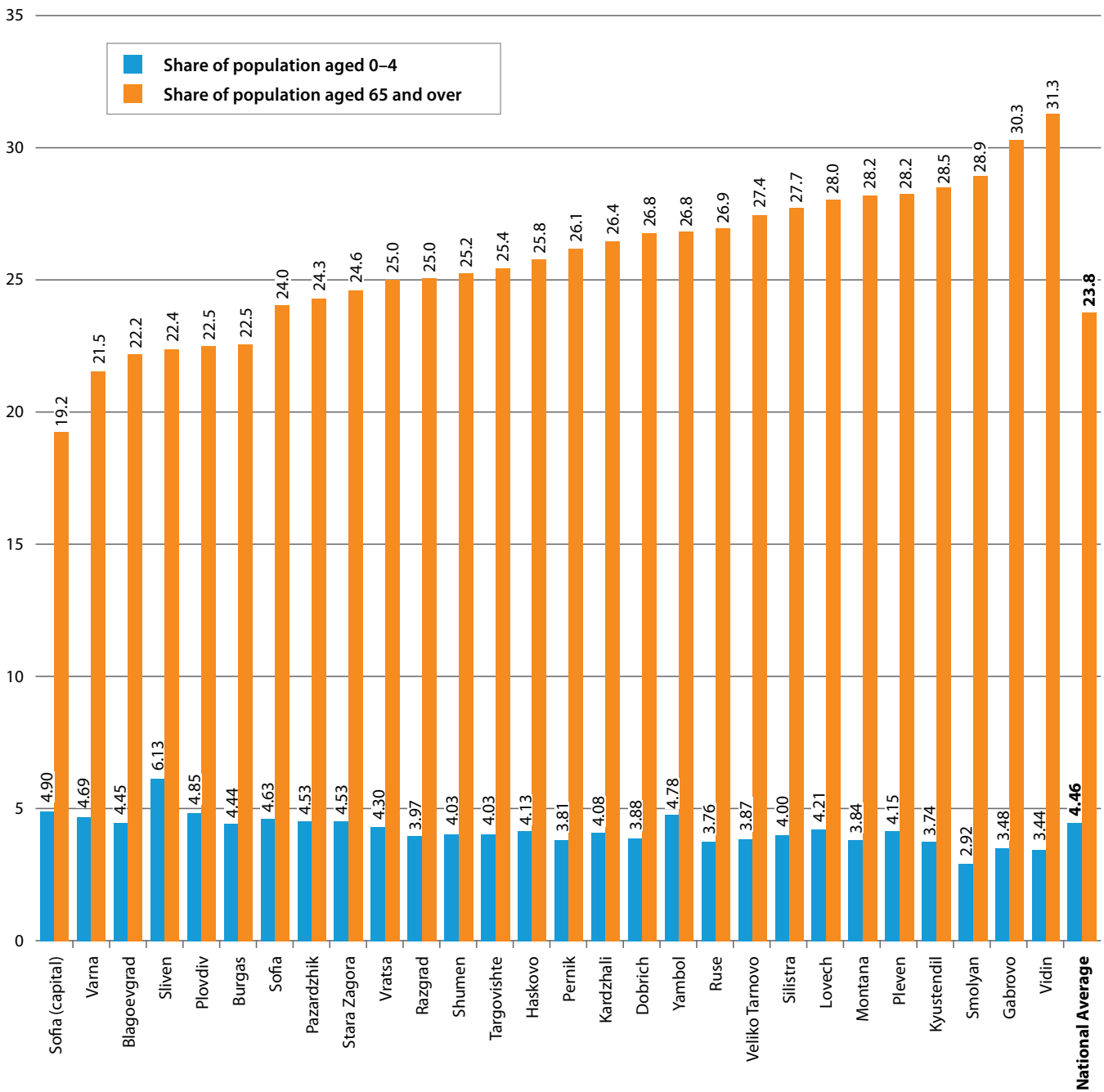


Source: NSI, calculations by IME.

Despite the markedly negative long-term trend, some positive changes in the main demographic indicators were again visible in 2023. The most significant improvements have come mainly through the migration processes, with the net migration remaining negative in only five districts – Sliven, Plevan, Montana, Yambol and Smolyan, though even in those districts the trend is towards a slowdown in the outflow of population. In 2023, Kardzhali still ranked first for positive net migration with 3.5% net migration growth, mainly due to the influx of people from across the border with Turkey. Burgas (2.1%) and Varna (1.2%) also have a favorable migration balance, influenced by the normalization of tourism and the restoration of jobs in hotels and restaurants. Judging by the changes since the beginning of the decade, migration back to the country will have a positive impact on the population size and age structure in almost all districts.

In 2023, natural population increase was largely normalized after the peak mortality during the COVID-19 pandemic, with a 0.1% difference compared to 2019 at the national level. However, large disparities in the balance of mortality and birth rates between districts persist – while in the capital the difference is now only -1.5%, meaning that in a few years the population of Sofia is likely to grow as a result of natural processes, half of the districts are losing more than 1% of their population per year due to negative natural population increase.

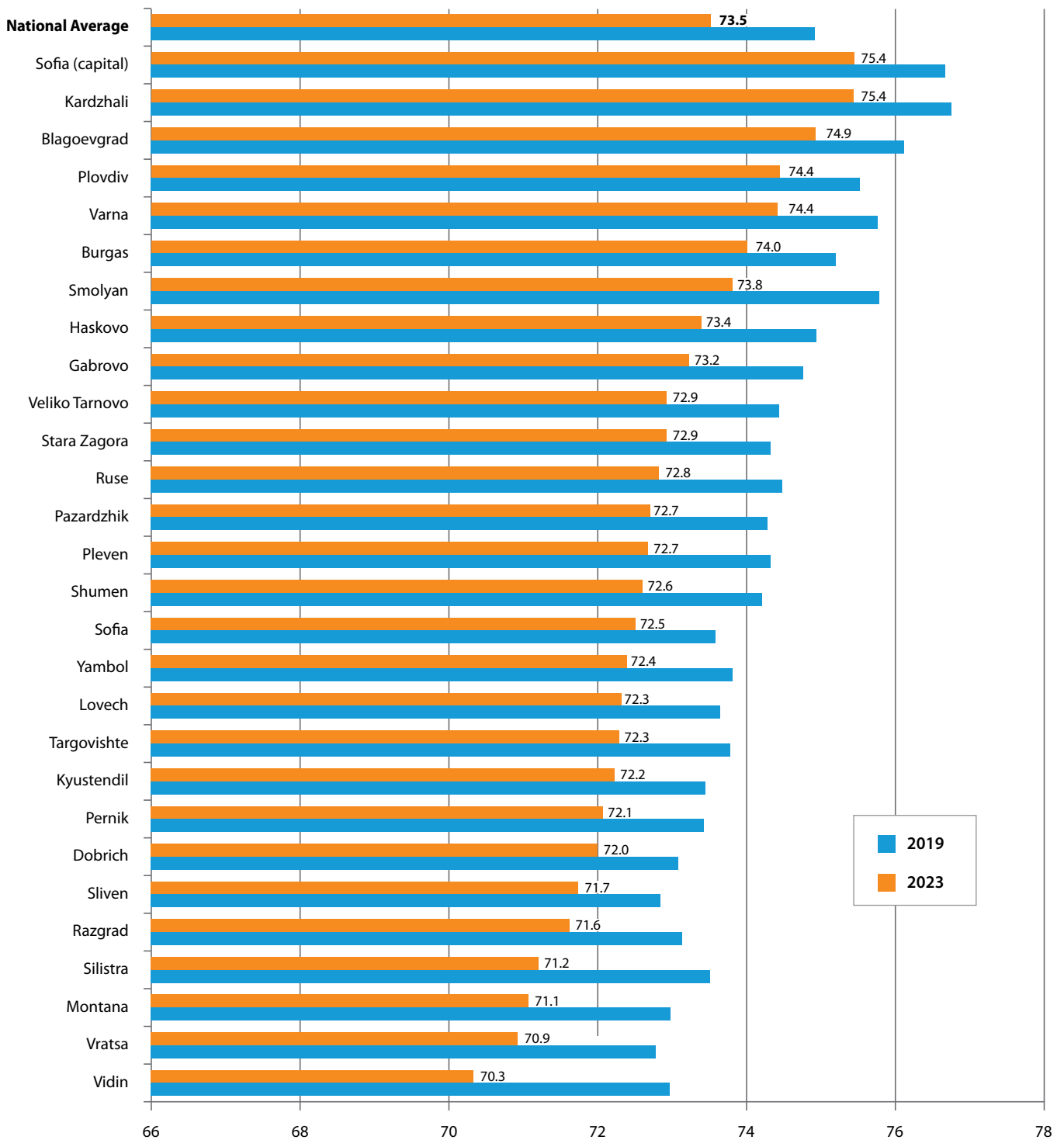
Fig. 10. Shares of population aged 0–4 and 65 and over, 2023 (%)



Source: NSI.

The dynamics of the demographic processes are also a determinant for the differences in the districts' population structure which has a direct impact on the potential for economic growth and for the expansion of labor supply. In 2023, Vidin had the highest share of population at retirement age (65 years and over) – 31%, while Gabrovo also exceeded 30%. It is noteworthy that among the more visibly ageing districts are also some in southern Bulgaria – Kyustendil and Smolyan (29% each), and Yambol (27%). Only the capital city remains with less than 20% of the population aged over 65. As for young children (0 to 4 years), differences in their relative share are not so significant, with most districts in the range of 3.5–4.5% of the total population; the highest number of children is in Sliven (6.1%), and the lowest in Smolyan (2.9%).

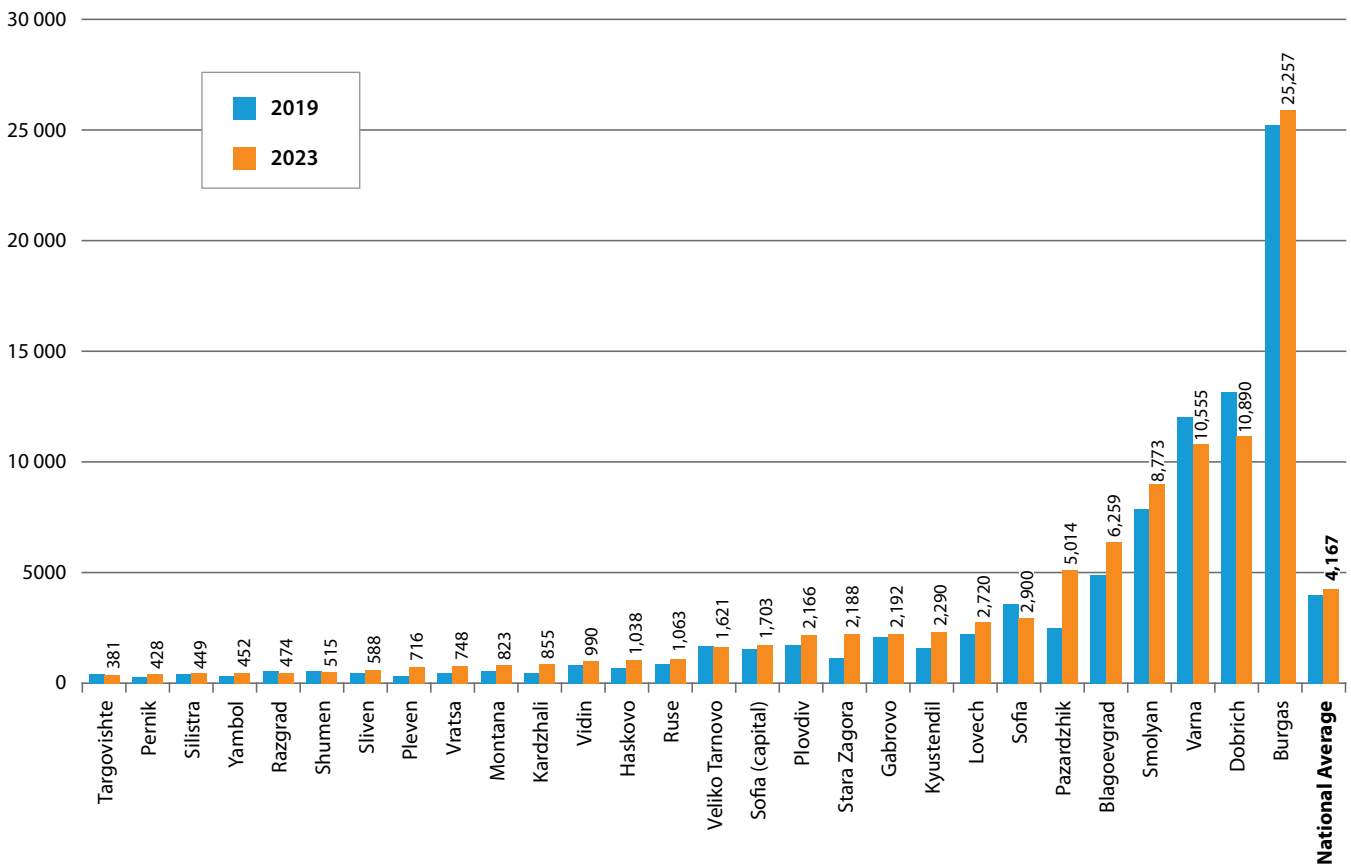
Fig. 11. Average life expectancy, 2019 and 2023



Source: NSI.

A key measure of quality of life in general and of the performance of the healthcare system in particular in each district is life expectancy. None of the districts have reached the best values of this indicator recorded in 2019, but the elimination of the outlier mortality from COVID-19 should have allowed them to come close to those values by mid-decade. However, the large regional disparities remain – while in the capital and Kardzhali life expectancy at birth is 75.4 years, in Vidin it is 70.3 years and in Vratsa – 70.9 years.

Fig. 12. Overnight stays in accommodation per 1,000 population, 2019 and 2023



Source: NSI, calculations by IME.

Among the key indicators of recovery from the impact of the pandemic is also the performance of the tourism sector. While at the national level population-weighted overnight stays in accommodation in 2023 already exceeded those of 2019, among the Black Sea districts this is true only for Burgas; Varna and Dobrich will likely need at least another year to reach the pre-crisis levels. Smaller tourist districts – Smolyan, Blagoevgrad, Pazardzhik – are also showing positive dynamics.