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**AN INTEGRATIVE APPROACH TO REGIONAL DEVELOPMENT:
THE NEW TERRITORIAL ZONING
AND BULGARIA'S PATH TO THE EUROZONE**



AN INTEGRATIVE APPROACH TO REGIONAL DEVELOPMENT: THE NEW TERRITORIAL ZONING AND BULGARIA'S PATH TO THE EUROZONE

SOFIA

2026



**AN INTEGRATIVE APPROACH TO REGIONAL DEVELOPMENT:
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This volume comprises papers presented at the international scientific forum “*An Integrative Approach to Regional Development: The New Regionalization and Bulgaria’s Path to the Eurozone*,” organized by the Department of Regional Development at the University of National and World Economy.

The event is dedicated to contemporary scholarly and applied research addressing regional policy, territorial development, and the challenges facing Bulgaria in the context of the new administrative regionalization (NUTS 2) and the country’s process of accession to the Eurozone.

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FOREWORD

This volume comprises the papers presented at the international scientific forum “*An Integrative Approach to Regional Development: The New Regionalization and Bulgaria’s Path to the Eurozone*,” held on 17–18 February 2026 at the University of National and World Economy and organized by the Department of Regional Development.

The forum aims to establish an academic and expert platform for in-depth scholarly debate on the contemporary challenges and opportunities facing Bulgaria’s regional policy in the context of the new regionalization (NUTS 2) and the process of accession to the Eurozone. It brings together established scholars, early-career researchers, representatives of public administration, the business sector, and European institutions.

The published contributions reflect the diversity of scientific approaches and research interests in the field of regional development. Particular emphasis is placed on the integrative approach, which conceptualizes economic, social, spatial, and institutional dimensions as interrelated factors underpinning sustainability and competitiveness. The volume presents analyses and research findings addressing the effects of the new regionalization on territorial cohesion, the economic and social implications of euro adoption, as well as the role of public policies, innovation, and investment mechanisms in fostering balanced regional development.

This collection seeks to contribute to the advancement of scholarly discourse and to support the formulation of effective policies in the field of regional development in Bulgaria.

Project Director:
Chief Assist. Prof. Nikola Tanakov, PhD

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REGIONS IN MOTION: DEMOGRAPHIC FLOWS AND THE FUTURE OF REGIONAL DEVELOPMENT

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Abstract:

This paper explores the interconnections between regional development and demographic dynamics within the European Union (EU), emphasizing the importance of theoretical frameworks in explaining persistent regional disparities. Demographic processes such as population aging, fertility decline, migration, and urbanization significantly shape economic trajectories across European regions. Drawing on neoclassical growth models, new economic geography, and endogenous growth theories, the paper highlights how demographic shifts affect labor supply, innovation capacity, and long-term competitiveness. The analysis points to the unequal distribution of human capital, selective migration patterns, and institutional differences as key drivers of regional divergence. Furthermore, the study underscores that while certain regions benefit from favorable demographic structures and agglomeration economies, others face depopulation, fiscal pressures, and reduced economic dynamism. Addressing these challenges requires policy interventions that integrate demographic, social, and economic dimensions, with a focus on enhancing human capital, supporting balanced migration, and fostering innovation ecosystems. By combining theoretical insights with demographic trends, the paper contributes to a deeper understanding of how population dynamics influence regional development pathways in the EU.

Keywords: regional development, demographic change, migration, European Union.

JEL:R23, J11, R11, J61

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Introduction

Regional development and demographic change are deeply intertwined processes that shape the economic and social landscape of the European Union (EU). Persistent disparities between core and peripheral regions cannot be understood solely through economic indicators but require the integration of demographic dynamics such as population aging, fertility decline, migration flows, and urbanization.

These processes affect labor supply, innovation potential, fiscal sustainability, and long-term competitiveness, making them crucial determinants of regional performance. Theoretical frameworks provide valuable insights into these relationships. Neoclassical growth theory suggests that convergence should occur through capital mobility, while new economic geography emphasizes the role of agglomeration and spatial concentration in reinforcing inequalities. Endogenous growth models highlight the significance of human capital and knowledge diffusion as drivers of regional success. Within this context, demographic shifts act as both constraints and opportunities for development. Some regions benefit from younger populations and migration inflows, whereas others face depopulation, shrinking labor markets, and fiscal pressures. Understanding these patterns is essential for designing policies that foster balanced growth, strengthen social cohesion, and ensure resilience across EU regions.

At the same time, demographic transformations in the EU are unfolding within a broader framework of globalization, technological change, and institutional reforms, which intensify their impact on regional development. The decline in fertility rates, combined with rising life expectancy, creates unprecedented pressures on welfare systems, labor markets, and intergenerational solidarity. Selective migration further reshapes regional demographics, concentrating human capital and economic activity in dynamic urban centers, while peripheral and rural areas experience depopulation and social decline.

These asymmetric demographic patterns exacerbate existing regional inequalities, limiting the potential for convergence across the EU. Consequently, demographic change is not merely a background variable but a structural driver of development trajectories. Examining its interaction with theoretical approaches to regional growth allows for a deeper understanding of the mechanisms behind divergence and provides a foundation for evidence-based policy responses aimed at reducing disparities and promoting sustainable development. This paper



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does not aim to provide an econometric assessment, but rather to offer an integrative conceptual interpretation of how demographic shifts reinforce or mitigate regional disparities across the EU.

1. Theoretical Framework and Analytical Approach

Regional disparities within the European Union (EU) represent an important issue shaped by a combination of economic, institutional, and demographic factors. Demographic changes, including population growth, aging, migration, and labor force dynamics, significantly influence regional economic development and disparities. Several economic theories provide a foundation for understanding regional disparities in the EU, such as the neoclassical growth model, new economic geography, and endogenous growth models.

Neoclassical growth models (Solow, 1956; Swan, 1956) suggest that regional disparities should decrease over time due to capital mobility and diminishing returns to capital. This model assumes that labor and capital move freely, leading to convergence of income levels across different regions (Barro & Sala-i-Martin, 1992). However, in reality, market imperfections and demographic variations often obstruct this automatic convergence. Structural differences in productivity, industries, and institutional quality contribute to persistent regional disparities. Moreover, external shocks and historical economic trajectories may prevent lagging regions from catching up. Regional convergence is therefore neither automatic nor uniform (Heidenreich, 2022). Several factors, such as market imperfections, demographic changes, and different productivity levels, hinder the equalizing forces of neoclassical growth theory. Barriers to labor mobility, institutional constraints, and lack of infrastructure can prevent the free flow of capital. Differences in birth rates, population aging, and migration patterns affect regional labor supply. Technological progress and knowledge diffusion do not occur evenly across regions, leading to persistent productivity gaps (Cai et al., 2022). While some EU regions have experienced convergence, others have lagged, underscoring the limitations of the neoclassical model in explaining regional disparities.

New economic geography (Krugman, 1991) emphasizes the role of agglomeration economies in shaping regional disparities. Krugman (1991) argues that economic activity tends to concentrate in key regions due to increasing returns to scale and network effects, leaving peripheral regions at a disadvantage. Agglomeration effects arise from pooled labor markets,



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knowledge spillovers, and shared infrastructure, reinforcing regional inequalities (Fujita, Krugman, & Venables, 2001). In addition, transport costs and trade linkages influence spatial distribution, with core regions benefiting from economies of scale, while peripheral areas face stagnation or decline. Migration trends, as highly skilled workers cluster in major centers, further aggravate demographic imbalances. Firms benefit from proximity to other companies and consumers, leading to the formation of economic hubs. Regions with better infrastructure and access to large markets attract more investment and labor. Innovation and knowledge spillovers occur more easily in dense economic clusters, strengthening regional advantages (Fujita, Krugman, & Venables, 2001). These forces create a self-reinforcing cycle in which core regions continue to attract investment and skilled labor, while peripheral regions experience stagnation or decline. In the EU, disparities between Western Europe and Eastern/Southern Europe provide a strong example of this dynamic.

Endogenous growth models (Romer, 1990; Lucas, 1988) highlight the role of human capital and innovation in regional economic performance. Regions with higher levels of education and skills tend to experience faster economic growth, while regions with aging populations and declining labor force participation may face difficulties. These differences may be exacerbated by demographic changes such as brain drain and varying fertility rates (Howitt, 2010). Key factors influencing regional disparities according to endogenous growth theory include human capital accumulation, innovation capacity, and demographic shifts. Regions with higher levels of education and skills experience faster economic growth, reinforcing existing advantages. Investment in research and development and technological progress varies across regions, leading to uneven productivity growth. Brain drains (the migration of skilled workers) and population aging may negatively affect economic growth in less developed regions (Howitt, 2010). In the EU, disparities in innovation capacity and human capital explain why some regions, particularly in Northern and Western Europe, maintain high economic performance, while others struggle with slow growth and a shrinking labor force. Investment in research and development, infrastructure, and educational policies is essential for fostering regional convergence. Knowledge-based economies, supported by strong institutional frameworks, drive productivity growth, while regions lacking innovation capacity risk further lagging behind (Melicinai et al., 2022). In addition, technological diffusion and regional



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specialization shape EU development trajectories. High-tech clusters emerge in innovation hubs, which benefit from spillovers and network effects, while less developed regions may struggle to integrate into global value chains. Policy interventions, such as smart specialization strategies, aim to reduce regional disparities by fostering innovative ecosystems.

Beyond these core economic theories, institutional and structural approaches provide additional insights into regional disparities. Institutions, such as governance quality, regulatory efficiency, and policy frameworks, play a crucial role in shaping regional development (Rodrik, 2004). Structural factors, such as historical legacies, geographical constraints, and economic structure, also influence regional economic trajectories. For example, corruption, bureaucratic inefficiency, and weak legal frameworks may deter investment and slow growth in some regions. Regions dependent on declining industries may struggle with economic transition compared to those specialized in high-tech sectors. Understanding regional disparities in the EU requires integrating multiple theoretical perspectives. While neoclassical theory predicts convergence, real-world evidence aligns more closely with new economic geography and endogenous growth theory, which emphasize persistent inequalities driven by agglomeration economies, human capital, and institutional quality. Addressing these disparities requires targeted policy interventions, including investments in education, innovation, and regional infrastructure to promote balanced economic growth across the EU.

The European Union (EU) is undergoing significant demographic changes, with population aging being one of the most pressing challenges. However, the rate of demographic aging is not uniform across regions, leading to different economic consequences. According to the theory of demographic transition, as fertility rates decline and life expectancy increases, the share of older individuals in the population grows, ultimately reducing the size of the working-age population (Lee, 2003). This demographic shift can create labor market challenges, greater dependency ratios, and increased pressure on public pension and healthcare systems, particularly in less dynamic regions struggling to attract younger workers (OECD, 2020).

Migration and urbanization play a key role in shaping regional labor markets and economic structures across the EU. Internal migration, particularly movement from rural to urban regions, continues to concentrate economic activity in large urban centers, reinforcing regional economic imbalances. The core-periphery model suggests that labor mobility should



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theoretically help reduce disparities by reallocating workers to regions with better employment prospects (Harris & Todaro, 1970). However, selective migration patterns often have the opposite effect. Young and highly skilled workers disproportionately relocate to dynamic urban regions, draining human capital from peripheral and less developed areas, thereby worsening rather than reducing disparities (Rodriguez-Pose et al., 2017). International migration also plays a role in regional demographic differences, with some EU regions benefiting from inflows of skilled migrants while others face depopulation. Regions struggling to attract migrants often experience labor shortages and declining economic activity, reinforcing cycles of economic stagnation (Eurostat, 2022). Meanwhile, urban centers with high concentrations of immigrants tend to experience economic dynamism but may also face challenges related to housing affordability, infrastructure demand, and social integration (OECD, 2021). Effective migration policies that distribute labor across regions and encourage investment in lagging areas are essential for balancing these differences.

2. Demographic Processes in EU Countries

The European Union (EU) is undergoing significant demographic changes, with population aging being one of the most important challenges. However, the pace of demographic aging is not uniform across regions, leading to different economic consequences. According to the theory of demographic transition, as fertility rates decline and life expectancy rises, the share of older individuals in the population increases, which ultimately reduces the size of the working-age population (Lee, 2003). This demographic shift may result in lower labor force participation rates and increased pressure on public pension and healthcare systems, particularly in less dynamic regions struggling to attract younger workers (OECD, 2020).

Population aging represents a change in the age structure of the population, with a declining share of children and young people and a relative increase in the proportion of those aged 65 and above, who are considered the elderly group (Eurostat, 2024). In other words, it is an increase in the ratio of older to younger population. Population aging is linked to declining fertility rates and rising life expectancy. The impact of aging on regional disparities is multifaceted. In some regions, particularly in Southern and Eastern Europe, aging is exacerbated by youth migration and low fertility, placing additional strain on the local economy and public services. This trend has led to the phenomenon of „demographic deserts,” where



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depopulation and aging reinforce economic stagnation, limiting the ability of local economies to recover or grow (European Commission, 2021). Since older populations require more healthcare and social services, local governments face rising fiscal burdens, especially in economically weaker areas that already have limited public finances (European Commission, 2019). By contrast, regions with younger demographics benefit from more dynamic labor forces, higher levels of innovation, and stronger economic growth. Countries such as Ireland, Sweden, and Luxembourg have relatively younger populations due to higher fertility rates and net positive migration flows (Eurostat, 2022). These regions often experience higher productivity, greater capacity for economic adaptation, and stronger demand-driven growth, as younger populations actively contribute to both consumption and investment (OECD, 2021).

Population aging is associated with declining fertility and longer life expectancy. In nearly all European countries, the total fertility rate has fallen below the replacement level of 2.1 (Eurostat, 2023). According to the 2004 report of the European Council, the major wave of aging in the EU began when the post-war baby boom generation reached the age of 65 and over in 2010. Projections prepared by the United Nations support this thesis. For example, in Italy, the average age of the population rose from 32 to 42 years between 1950 and 2005 (Rowland, 2009). Life expectancy has also steadily increased in candidate countries, while the average age of the population continues to rise. Today, the most serious demographic challenge for the EU is the sharp increase in the old-age-to-youth ratio. According to the European Commission, the ratio of those under 20 to those over 60 will change by 2025. Meanwhile, the working-age population will shrink by 13 million people between 1995 and 2025. As a result, the number of retirees will increase by 50%, reaching 37 million in the EU-15 (Schoukens, 2024). According to some estimates, by 2050 the population aged 60 and above will increase by approximately 60%, while the share of the young population in the total will decline by 20% (European Commission, 2010). Figure 1 shows the age structure of the EU population in 2019 and projections for 2100. In 2019, the middle-aged and elderly population was already relatively larger, reflecting demographic aging. By 2100, the share of younger age groups is expected to decline further, highlighting persistently low fertility rates. At the same time, a significant increase in the oldest population group (80+ years) is projected, indicating longer life expectancy.



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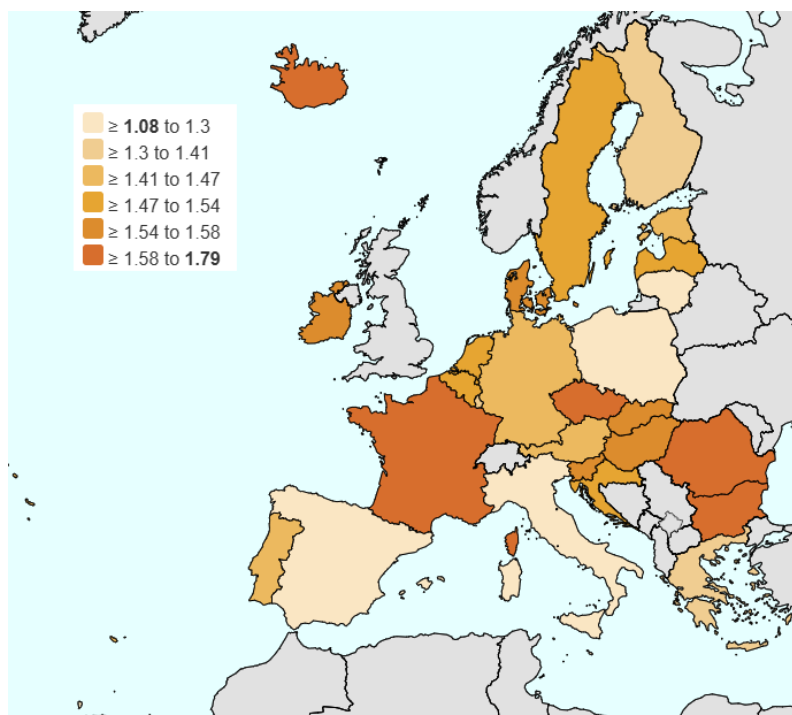


Fertility rates are declining in Europe and many other countries. Fertility rates in EU member states vary considerably, reflecting different demographic trends, socioeconomic factors, and family support policies. According to Eurostat, the total fertility rate in the EU in 2022 was 1.53 live births per woman, well below the replacement level of 2.1. Countries such as France record relatively high fertility rates. In 2022, France had a fertility rate of 1.79, the highest in the EU. Countries such as Malta, Spain, and Italy record lower fertility rates. In 2022, Malta had the lowest rate in the EU at 1.08, while Spain and Italy had rates of 1.16 and 1.24 children per woman, respectively. Some countries have experienced an increase in fertility rates. For instance, the Czech Republic raised its rate from 1.51 in 2010 to 1.83 in 2021.

Since 2008, the number of births in the EU has been steadily declining, from 4.68 million that year to 4.09 million in 2021. This trend highlights the demographic challenges facing the EU, including population aging and a shrinking labor force. Differences in fertility rates between Northern and Southern Europe can partly be explained by variations in family support policies. Northern countries such as France and Sweden provide significant social and financial support to parents, which may encourage higher birth rates. On the other hand, Southern European countries often have less developed family support systems, which may contribute to lower fertility rates. These differences point to the need for tailored policies that consider the specific socioeconomic and cultural contexts of each country in order to effectively address demographic challenges.

Migration and urbanization play a crucial role in shaping regional labor markets and economic structures across the European Union (EU) (Šantić et al., 2023). These processes affect labor mobility, demographic trends, and regional economic disparities, ultimately influencing growth trajectories at both national and local levels. Internal migration, particularly the movement from rural to urban areas, continues to concentrate economic activity in large urban centers, reinforcing regional economic imbalances. The core-periphery model suggests that labor mobility should theoretically help reduce disparities by reallocating workers to regions with better employment prospects (Harris & Todaro, 1970).

Figure 1. Fertility rates in EU countries, 2022



Source: https://ec.europa.eu/eurostat/databrowser/view/DEMO_FIND__custom_15378551/

However, selective migration patterns often produce the opposite effect, leading to widening economic inequalities between urban and rural regions. One of the key characteristics of migration within the EU is its selective nature. Young and highly skilled workers disproportionately move to dynamic urban regions where they find better job opportunities, superior infrastructure, and higher-quality social services. This trend results in a brain drain from peripheral and less developed areas, depleting these regions of their human capital and economic potential (Rodriguez-Pose et al., 2017).

Consequently, rural areas and economically weaker regions face challenges in maintaining a competitive labor force, further reinforcing structural weaknesses in their labor markets. In addition to internal migration, international migration significantly shapes regional demographic patterns. Some EU regions, particularly those with greater economic opportunities, attract skilled migrants, thereby increasing their labor supply and productivity levels. This inflow of talent can positively contribute to innovation, entrepreneurship, and overall economic dynamism (Eurostat, 2022). However, other regions, especially those



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experiencing continuous labor outflows, struggle with demographic decline and economic stagnation. As the working-age population shrinks, these regions face difficulties in sustaining public services, supporting local businesses, and fostering economic resilience.

Urbanization trends further reinforce regional imbalances. Cities serve as centers of economic activity, offering employment opportunities, modern infrastructure, and access to essential services such as education, healthcare, and digital connectivity. This urban advantage attracts both domestic and international migrants, intensifying the growth of large metropolitan areas. However, rural and less developed regions face a contrasting reality, characterized by inadequate public services, lower investment rates, and reduced access to quality employment (OECD, 2021). This urban-rural divide exacerbates socio-economic inequalities, worsening disparities in income, living standards, and overall well-being across regions. The effects of migration and urbanization are also evident in housing markets, labor supply, and social integration. Rapid urbanization and increased migration flows put pressure on housing availability, infrastructure, and social cohesion in major urban centers. Housing shortages, rising rents, and greater demand for public services often lead to social tensions and calls for improved urban planning and governance. At the same time, depopulated rural areas may struggle to maintain public services such as schools, healthcare facilities, and transport networks, making them even less attractive to potential residents and investors. These contrasts highlight the need for balanced regional policies that address both urban congestion challenges and the economic decline of peripheral areas (European Commission, 2021).

Policy responses aimed at mitigating these differences include targeted regional investments, incentives for businesses to establish operations in less developed areas, and measures to improve rural infrastructure. EU Cohesion Policy, for example, seeks to reduce regional disparities by directing structural funds toward underdeveloped regions, supporting job creation, and strengthening innovation capacity. In addition, initiatives promoting circular migration, where migrants return to their home regions with enhanced skills and experience, can contribute to revitalizing lagging areas (OECD, 2021). A comprehensive approach to addressing regional migration disparities should take into account economic, social, and infrastructural factors. Policies should aim to create an environment in which both urban and rural areas can thrive, fostering inclusive and sustainable regional development. Enhancing



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digital connectivity, investing in education and skills development, and improving transport networks can help make peripheral areas more attractive to both businesses and residents. Although demographic aging represents a significant challenge for the EU, its effects are not uniform across regions. Policymakers must adopt regionally tailored approaches to address the economic consequences of population aging. Strategies that increase labor force participation, facilitate migration, and promote technological adaptation can help mitigate disparities and sustain economic growth across the EU. Achieving a balance between urban growth and rural revitalization is essential for ensuring long-term economic cohesion and social stability throughout the Union.

3. Regional disparities in EU countries

The economic implications of population aging also extend to labor markets and productivity. As the share of older workers increases, skill shortages may arise in critical industries, reducing overall economic efficiency (European Central Bank, 2020). Some sectors, such as healthcare and social services, may experience increased demand, leading to shifts in employment but also challenges in meeting workforce needs. Furthermore, although older workers are experienced, they may have lower adaptability to new technologies, potentially slowing productivity growth in certain industries (Bloom et al., 2010).

Policies aimed at mitigating the negative effects of demographic aging and regional disparities include encouraging labor market participation among older workers, promoting lifelong learning to improve workforce adaptability, and implementing targeted migration policies to attract younger, skilled labor (European Commission, 2022). Investments in automation and digitalization can also help alleviate labor shortages by increasing productivity in aging regions (IMF, 2021). Additionally, redistributive fiscal policies and EU structural funds can play a key role in supporting less dynamic regions in addressing the economic consequences of aging (Rodriguez-Pose & Ketterer, 2020). Population aging represents one of the greatest challenges for public finances in the European Union (EU).

According to data from the European Commission, age-related expenditures, including pensions, healthcare, and long-term care, account for more than 40% of total public spending (European Commission, 2021). These demographic changes impose additional fiscal pressures, particularly in countries with well-developed social systems and high shares of elderly



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populations. An illustrative example is the Netherlands. According to the Dutch Social and Economic Council (2015), age-related expenditures increased from 5% to 6% of GDP between 2000 and 2015. Furthermore, ensuring the sustainability of public expenditures affected by aging requires an additional 1.8% of the national budget.

To ensure the sustainability of public finances in the context of demographic changes, EU member states are implementing various measures, such as reforms of pension systems and productivity increases. These include raising the retirement age and encouraging longer labor market participation (European Commission, 2021); developing systems of individual capitalized savings to reduce pressure on public pension funds (OECD, 2020); promoting the employment of older workers and improving working conditions to extend working life; and introducing policies that encourage the inflow of working-age populations as a compensation for the decline of the domestic workforce (Eurostat, 2022).

Population aging poses a serious challenge to the fiscal sustainability of the EU, primarily due to pressures on pension systems and healthcare expenditures. To ensure long-term stability, structural reforms in the pension system, increased labor productivity, and sustainable financing of social protection are essential. EU policymakers must continue adjusting their economic and fiscal strategies to respond to these challenges (Milijić et al., 2025).

Education and human capital development play a key role in determining regional economic outcomes. Human capital theory posits that investments in education and skills increase individual productivity and drive long-term economic growth (Becker, 2009). Education is a crucial determinant of labor market outcomes, affecting employment rates, wage levels, and overall economic dynamics.

Figure 2. Lowest level of lower secondary education (18-64), by the level of urbanization, 2023



Source: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Urban-rural_Europe_-_education_and_training

Regions with a well-educated workforce tend to attract high-value industries, foster innovation, and maintain competitive advantages in an increasingly knowledge-based global economy (Romer, 1990). However, significant differences in education levels exist across EU regions, with economically advanced areas benefiting from higher levels of education and skill development. This disparity sustains economic inequalities, as highly educated individuals gravitate toward regions with better employment prospects, further intensifying regional disparities (Crescenzi & Rodriguez-Pose, 2011). The phenomenon of brain drain exacerbates these inequalities, as talented individuals from less developed regions migrate to urban and



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economically prosperous areas, leaving behind a workforce with lower levels of skills and productivity (Faggian & McCann, 2009).

Analysis by level of urbanization reveals that the largest share of working-age adults with lower secondary education is observed among people living in cities and suburbs of the EU, at 23.30%. This is significantly higher than the shares recorded for working-age adults living in rural areas (21.00%) or in urban centers (18.80%) (Figure 2) (Eurostat, 2024).

In addition to formal education, the availability of vocational training and lifelong learning opportunities also plays a key role in regional economic resilience. Many less-developed regions suffer from outdated vocational training systems that are not aligned with the needs of modern labor markets, creating a skills mismatch that further hinders economic growth (European Commission, 2021). Addressing these challenges requires targeted investments in workforce development, ensuring that training programs are designed in collaboration with local industries to meet the demands of the regional economy (Rodriguez-Pose & Vilkie, 2017). To bridge these gaps, policymakers should focus on expanding access to high-quality education, enhancing vocational training programs, and fostering stronger connections between universities and local industries. Promoting the establishment of research and innovation centers in lagging regions can also help attract and retain human capital. Moreover, digital education initiatives and remote learning opportunities can play a vital role in equalizing access to education across regions, ensuring that individuals in rural and less-developed areas acquire the skills needed for the modern labor market (European Commission, 2021).

Lifelong learning policies, including continuous professional development programs and retraining initiatives, can further enhance human capital formation in lagging regions (Markovic et al., 2022). These policies should be tailored to meet the specific needs of regional labor markets, ensuring that individuals acquire skills in line with growing economic demands. Public-private partnerships can also play a significant role in facilitating skills development by leveraging industry expertise to provide practical training and real-world knowledge application (World Bank, 2018). Additionally, targeted incentives, such as scholarships, grants, and subsidized training programs, can help encourage participation in education in disadvantaged areas (Bassanini & Scarpetta, 2001).



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By investing in education and human capital development, the EU can promote economic convergence and create a more inclusive and resilient regional economy. Strengthening regional educational systems not only improves labor market outcomes but also fosters social cohesion and reduces economic disparities among member states. In the context of ongoing technological transformations and labor digitalization, ensuring equal access to quality education and skills development opportunities will be crucial for sustainable regional development and long-term economic prosperity.

Conclusion

The analysis presented in this paper highlights the intricate interplay between demographic dynamics and regional development within the European Union. Persistent disparities across regions are not solely the result of economic factors but are deeply intertwined with demographic structures, migration patterns, urbanization trends, and human capital distribution. Population aging, declining fertility, and selective migration exacerbate regional inequalities, particularly affecting peripheral and less-developed areas, while urban centers and economically dynamic regions continue to benefit from favorable demographic conditions and agglomeration economies.

Theoretical frameworks such as neoclassical growth models, new economic geography, and endogenous growth theory provide essential insights into these processes. While neoclassical models predict convergence through capital mobility, real-world evidence aligns more closely with endogenous growth and spatial economics perspectives, emphasizing the importance of human capital, innovation capacity, and institutional quality in shaping regional outcomes. Agglomeration effects, knowledge spillovers, and uneven access to education and vocational training further contribute to persistent disparities.

Policy implications emerging from this study underscore the critical role of targeted interventions aimed at enhancing human capital, promoting lifelong learning, and supporting innovation ecosystems in lagging regions. Measures to improve access to quality education, vocational training, and digital learning, coupled with public-private partnerships and incentives for skill development, can mitigate the negative effects of demographic challenges and strengthen regional economic resilience. Furthermore, regionally tailored migration



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policies, investments in infrastructure, and support for research and innovation centers are essential to balance the urban-rural divide and foster inclusive growth.

Demographic change is a structural driver of regional development in the EU, shaping labor markets, productivity, and long-term competitiveness. Addressing regional disparities requires a holistic approach that integrates economic, social, and demographic dimensions, ensuring that all regions are equipped to adapt to ongoing technological transformations and global economic pressures. By fostering human capital, innovation, and balanced regional growth, the EU can achieve a more cohesive, resilient, and sustainable economic landscape, ultimately enhancing both social cohesion and economic prosperity across member states.

Ultimately, the convergence of demographic trends and regional development challenges underscores the necessity for proactive and evidence-based policymaking. Sustainable growth in the European Union depends on the ability to leverage human capital, address skill mismatches, and foster innovation across all regions, particularly those lagging behind. Ensuring equitable access to education, vocational training, and digital resources is pivotal not only for economic competitiveness but also for social cohesion and intergenerational equity. Demographic change should therefore be understood not as a background condition of regional development, but as one of its central structural determinants in contemporary Europe.

Acknowledgements

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ALBANIA „S PATH TO EUROZONE: COMPARING PROGRESS WITH BULGARIA

Valbona SAKOLLARI*

Abstract:

The expansion of the euro area has been considered as both an economic and political milestone for European states seeking deeper integration within the European Union (EU). Bulgaria adopted the euro officially in 2026, after decades of institutional reform and monetary stabilization. Meanwhile, Albania remains in an earlier stage of convergence, mostly characterized by partial euroization, structural transformation, and ongoing EU accession efforts. The paper shows Albania „s trajectory toward potential euro adoption through a comparative analyzes, using Bulgaria as a benchmark case. Based on the reports from the International Monetary Fund (IMF), the European Central Bank (ECB), and different literature, the analysis highlights differences in macroeconomic conditions, institutional development, exchange-rate regimes, and political economy dynamics. The findings suggest that the absence of EU membership and the persistence of structural vulnerabilities of Albania, despite the macroeconomic progress done by the country, imply a longer and more complex path toward the euro than Bulgaria experienced.

Keywords: Euroization, de-euroization, exchange rate regime, European integration, monetary convergence.

JEL:F15,E42,O52

Introduction

The adoption of Euro is considered as one of the most important milestones in European economic integration system. Beyond meeting the technical requirements of the Maastricht convergence criteria, euro membership seems like a sign of institutional maturity, macroeconomic credibility, and alignment with the broad European project (ECB, 2025; AP

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News, 2026). The accession of Bulgaria to the eurozone, in January 2026, represents the culmination of a long and complex reform process that began with the severe financial instability that the country faced, in the late 1990s, due to hyperinflation and banking collapse (Nenovsky et al., 2001). For its part, Albania, which is still outside the EU, is focused on gradual macroeconomic stabilization, meanwhile it is facing the challenges of structural transition and ongoing efforts for EU membership (IMF, 2025; European Commission, 2022).

Analyzing the experiences of both countries provides a useful tool for understanding the complexities of euro adoption. Bulgaria „s experience demonstrates how sustained policy discipline, particularly through the arrangement of the currency board, can help and facilitate convergence and build credibility (Tutor2u, 2025). Albania, on the other hand, represents a hybrid case: an economy highly euroized that operates without formal monetary integration, but foreign currency use coexists with the domestic lek (IMF, 2018). Comparing these trajectories highlights the importance of structural development and policy sustainability for countries to successfully adopt the euro. The critical role of institutional readiness in this process is also analyzed.

1. Theoretical Background: Convergence and Euroization

Adopting the euro needs to meet the Maastricht criteria, which mainly is focused on maintaining price stability, sustainable public finances, exchange-rate stability within the Exchange Rate Mechanism (ERM II), and convergence of long-term interest rates (ECB, 2025). However, economists emphasize that these nominal indicators alone are not enough for successful integration into the euro area. Real convergence, which is reflected in productivity, income levels, and overall competitiveness, is at the same importance for ensuring that an economy can withstand the pressures of a common currency (IMF, 2025).

Euroization increases complexity. In partially euroized economies like Albania, foreign currency deposits and loans circulate alongside the local currency. According to the IMF, the widespread use of foreign currency can help reduce exchange rate risk for businesses and households, but it also limits monetary policy and the central bank „s ability to respond to economic shocks (IMF, 2018). Euroization is driven by sectors such as tourism, service exports, construction, and foreign direct investment, which have been the main drivers of Albania „s



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economic growth over the past five years. Informal and illegal foreign exchange flows also contribute to this phenomenon. Therefore, policymakers face the task of promoting financial stability and reducing or containing foreign currency dependence and strengthening the resilience of the domestic economy.

2. Methodology

This paper takes a qualitative, comparative approach, using Bulgaria as a reference point to assess Albania „s progress toward euro adoption. The analysis relies mainly on reports from the International Monetary Fund, the European Central Bank, and the European Commission, complemented by academic studies and reputable media sources on euroization, convergence, and monetary integration.

By comparing these two countries, the study identifies both similarities and differences across four key dimensions: institutional development, monetary strategy, political economy, and economic convergence. Harvard-style in-text citations are used throughout to maintain academic consistency and traceability.

3. Discussion: Convergence, Credibility, and the Limits of Monetary Integration

Comparing Bulgaria and Albania provides a chance to rethink the assumption that joining the euro automatically ensures economic stability or convergence. Bulgaria is often highlighted as a model of disciplined policymaking; yet, the strict currency board arrangement it adopted effectively outsourced monetary policy to the European Central Bank long before formal euro adoption (Nenovsky et al., 2001). While this enhanced credibility and stabilized expectations, it also limited the government „s ability to respond to economic shocks and did not fully address income disparities within the EU. Rising GDP per capita has not always translated into evenly shared welfare gains, reinforcing the idea that nominal convergence does not automatically produce real economic cohesion.

Albania faces diverse and complex challenges. The high degree of euroization reflects on the one hand confidence in the euro, but on the other hand persistent skepticism towards domestic institutions, as much of its monetary credibility is anchored externally (IMF, 2018). While recent IMF assessments point to macroeconomic stability and improvements in fiscal



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management, structural obstacles - such as governance issues, lack of productivity and informality of the labor market - continue to slow down real convergence (IMF, 2025; European Commission, 2022). In this context, premature adoption of the euro could expose Albania to the risk of a lack of flexibility to economic pressures, limiting its effective response. Therefore, the Bulgarian experience serves less as a step-by-step guide and more as a cautionary tale: monetary integration can support stability only when accompanied by strong institutions and sustainable economic growth.

3.1. Bulgaria: From Crisis to Monetary Integration

The 1997 financial crisis, which brought hyperinflation and banking collapse, marked the beginning of Bulgaria „s journey towards the euro. The introduction of a currency board that pegged the lev first to the Deutsche Mark and later to the euro effectively imposed monetary discipline and restored confidence (Nenovsky et al., 2001).

Fiscal control and sound policy design allowed Bulgaria to gradually converge with European monetary standards. The country joined ERM II in 2020 and has since closely synchronized its policies with the European Central Bank. The ECB later confirmed that Bulgaria had made significant progress towards economic convergence (ECB, 2025). On 1 January 2026, Bulgaria officially joined the eurozone, becoming its 21st member and gaining representation on the ECB „s Governing Council (Reuters, 2026). Beyond the initial difficulties of practical implementation and mistrust among key stakeholders, based on the experience of countries that have adopted the euro, benefits are expected, including increased investor confidence and improved access to European financial mechanisms (Financial Times, 2026).

The main concerns of public opinion are related to possible price increases and the continuing distrust of political institutions (AP News, 2026). Despite these challenges, GDP per capita increased from around 28% of the EU average in 2000 to around 66% by 2026, reflecting considerable - albeit incomplete - real convergence (Le Monde, 2026). Bulgaria „s experience shows that euro adoption can coexist with development gaps when macroeconomic credibility is firmly established..



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3.2. Albania: Macroeconomic Progress Without Formal Integration

Albania has made macroeconomic strides in recent years. Economic growth, supported by tourism, combined with prudent fiscal management, has reduced public debt and external imbalances (IMF, 2025). Inflation has also been moderated thanks to proactive monetary policies and currency appreciation.

At the same time, Albania operates under a flexible exchange rate regime, maintaining high levels of euroization. This arrangement allows monetary transmission to function partially, but also means that the use of foreign currency continues to shape financial behavior (IMF, 2025). Previous IMF research suggests that euroization in Albania exceeds optimal levels, highlighting the need for gradual „de-euroization” policies to protect financial stability (IMF, 2018). The Bank of Albania has taken several steps to „de-euroize” the economy.

Structural reforms linked to EU membership remain central to national policy, particularly under the Stabilisation and Association Agreement (European Commission, 2022). However, Albania cannot join ERM II without first joining the EU. This means that it cannot formally progress towards adopting the euro in the short term.

3.3. Comparative Discussion

Institutional Anchors. Bulgaria benefited from a strong institutional commitment mechanism through its currency board, which constrained discretionary policy and enhanced credibility. Albania retains greater monetary flexibility but lacks an equivalent external anchor.

Monetary Strategy. Bulgaria effectively aligned with ECB discipline decades before adoption. Albania must instead balance exchange-rate flexibility with financial stability in a euroized environment.

Political Economy. EU membership provided Bulgaria with stronger incentives for reform and reinforced geopolitical alignment with Western institutions (AP News, 2026). Albania continues to advance toward accession but remains outside the formal decision-making framework.

Economic Convergence. Although Albania has made progress, income gaps and institutional challenges indicate that real convergence is still evolving. Bulgaria „s experience suggests that such transformation typically unfolds over decades rather than years.



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3.4. Structural Challenges for Albania

Albania faces a number of structural obstacles that make euro adoption a long-term challenge. High levels of euroization limit the central bank „s ability to implement independent monetary policy, while vulnerabilities in the financial sector-such as historically elevated non-performing loans-could amplify the impact of economic shocks (IMF, 2020). Reforms in areas like judicial capacity, governance, and regulatory alignment remain critical for advancing EU accession. Perhaps most importantly, without participation in ERM II, Albania cannot formally begin the convergence process required for euro adoption.

Despite these challenges, Albania „s consistent macroeconomic management offers some reassurance. These barriers are not insurmountable, but overcoming them will require steady, sustained commitment to reform and institution-building over time.

4. Conclusion

The comparison between Albania and Bulgaria demonstrates that euro adoption is the result of a prolonged process of institutional strengthening and economic alignment rather than a single policy decision. Bulgaria „s journey-from crisis-driven stabilization to full eurozone membership-demonstrates the value of credible policy frameworks and external anchors in supporting convergence. Albania, while making steady progress, is still earlier on this path.

Albania „s high degree of euroization presents a paradox: it shows that the economy is already closely linked to the euro, but it also exposes vulnerabilities because policy tools remain constrained without formal membership protections. Looking ahead, Albania „s prospects for joining the euro will depend on continued economic convergence, successful EU accession, and the strengthening of domestic institutions. Rather than trying to replicate Bulgaria „s path exactly, Albania can view it as evidence that monetary integration rewards patience, credible policymaking, and persistent reform over the long term.

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**STRATEGIC RESILIENCE AND TECHNICAL INTEROPERABILITY
OF THE SERBIAN RAILWAY INFRASTRUCTURE IN THE FACE OF
GLOBAL SUPPLY CHAIN VOLATILITY AND GEOPOLITICAL
DISRUPTIONS (2024-2026)**

Aleksandar Simonović* and Dragan Kostić*

Abstract:

This paper provides a multi-layered analysis of the Serbian transport and logistics sector, positioned within the context of escalating global instability and rapid technological transformation. The research integrates the technical and operational parameters of the Serbian Railway Infrastructure (IŽS) with macro-economic data on trade flows and the projected impact of the 2026 Gulf War on global energy and transportation costs.

The first part of the study details the physical and regulatory framework of the Serbian rail network, covering its 3,333.4 km extent, electrification standards (25 kV, 50 Hz), and international connectivity via Corridor X. It examines critical operational constraints, including load profiles (UIC GA/GB), axle load limits (up to 22.5 t), and specialized safety protocols for hazardous goods (RID) in sensitive zones like the Vračar tunnel.

The second part correlates this infrastructure with empirical trade data, identifying key industrial drivers such as Zijin Mining, HBIS Group, and the automotive cluster (ZF, Leoni), which dictate the demand for high-capacity freight solutions. Despite a 2.2% dip in total goods transport in early 2023, the paper highlights a significant surge in rail passenger traffic (+141.5%) and the growing necessity for intermodal solutions.

Finally, the paper addresses „Logistics 4.0“ trends, exploring how AI, Blockchain, and cloud-based PaaS models are being deployed to mitigate the „Permanent Disruption“ caused by geopolitical shifts and climate change. The abstract concludes that the modernization of the Serbian rail corridor is not merely a regional necessity but a strategic imperative for European

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supply chain resilience, offering a cost-efficient and technologically evolving gateway between the East and West.

Keywords: *Railway infrastructure; Strategic resilience; Technical interoperability; Supply chain disruptions; Transport corridors; Logistics 4.0; Intermodal transport; Freight transport; Infrastructure modernization; Corridor X*

JEL: R40, R42, L92,

Infrastructure review for railway network in Serbia

The purpose of this paperwork is to provide information about the railway infrastructure that is owned by the Republic of Serbia and managed by IŽS, to provide a description and overview of the characteristics of the railways and associated devices and facilities that can be used by anyone who is granted access and use of the infrastructure in accordance with the provisions of the Law on Railways. Other information about the IŽS network can be found on the website www.infrazs.rs.

The information on railway infrastructure published in this document is based on facts known at the time of writing.

The size of the railway network

The total construction length of normal gauge railways on the territory of „Serbian Railway Infrastructure“ a.d. is 3,333.4 km, of which 3,044.7 km are single-track and 288.7 km are double-track. Of the stated length, 1,744.4 km belong to main lines, and 1,589.0 km to other lines.

In total, 1,273.7 km of open-track tracks with main transit tracks were electrified (985.0 km of single-track and 288.7 km of double-track tracks). The total length of the electrified tracks of the open railway and the main transit tracks is 1,563 km. All the above data refer to railways with a normal gauge of 1,435 mm.

In addition, „Infrastruktur železnice Srbije“ a.d. also manages the museum-tourist railway „Šarganska Osmica“, which is 22.5 km long and has a track width of 760 mm.



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Borders

In the Republic of Serbia, in terms of ownership and management of public railway infrastructure, there is only one railway network, the state railway network managed by IŽS, so the term „border“ means state borders, which at the same time represent borders with neighboring railway networks.

The borders of the IŽS railway network with neighboring railway networks are border stations: Subotica, Horgoš, Kikinda, Vršac, Bogojevo, Šid, Brasina, Preševo, Đeneral Janković, Vrbnica and Dimitrovgrad. When crossing state borders, there is no change in track width. Changes in the type of traction are made only at the border crossing with the Republic of Bulgaria at the Dimitrovgrad station on the Niš-Dimitrovgrad-state border railway.

Connecting railway networks

The railway network of the Republic of Serbia is connected to the railway network of seven countries: Croatia, Hungary, Romania, Bulgaria, North Macedonia, Montenegro and Bosnia and Herzegovina. Traffic can be organized through ten border crossings, while one is under the administration of UNMIK.

The term joint border station means a border station where border control is jointly performed by the competent state authorities, as well as the transfer of traffic between carriers. Common border posts are determined by bilateral state acts. Shifting of traffic in other border stations is in the domain of decisions and agreements of the carrier.

Table number 2. Border crossings, border railways and border stations

	Neighboring country	Border lines	Border stations	Adjacent infrastructure manager	Note
1	Croatia	Šid-state border-Tovarnik	Sheed Freight forwarder	HŽI	
		Bogoevo-state border-Erdut	Bogoevo Erdut	HŽI	
2	Hungary	Subotica - state border - Kelebia	Subotica Celebia	MAV Zrt	



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		Horgoš-state border-Roszke	Horgosh Roszke	MAV Zrt	
3	Romania	Vršac-state border-Stamora Moravita	Vrsac Stamora Moravita	CFR SA	
		Kikinda-state border - Jimbolia	Kikinda Jimbolia	CFR SA	
4	Bulgaria	Dimitrovgrad-state border Dragoman	Dimitrovgrad Dragomaniac	NKŽI	Common border station Dimitrovgrad
5	North Macedonia	Preševo-state border Tabanovci	Preševo/Ristovac Tabanovci	IŽRSM	Joint border station Tabanovci
		General Janković - state border - Volkovo	General Jankovic	IŽRSM	Temporarily under the supervision of UNMIK Railways
6	Montenegro	Vrbnica - state border - Bijelo Polje	Vrbnica/Priepolje ter. Bijelo Polje.	ŽICG	Joint border station Bijelo Polje
7	Bosnia and Herzegovina	Brasina - state border - Zvornik Novi	Brassina Zvornik Novi	ŽRS	

Within the national network, the public railway infrastructure managed by IŽS is connected to other railway infrastructures within the Republic of Serbia. The national network of IŽS includes railways for own needs of Elektroprivreda Srbije and HBIS Group Serbia Iron & Steel“ doo. These are railways for transporting goods for own needs (industrial railway) and do not belong to the national railway network. The railway infrastructure managed by IŽS is also connected to a certain number of railway industrial tracks that are owned by economic entities.

Description of the railway network

Construction lengths of tracks on the network



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Total length of the network	3,348.1 km
Single-track railways	3,059.4 km
Two-track railways	288.7 km
Narrow gauge railways	22.5 km*
Not electrified railways	2,074.4 km
Electrified railways	1,273.7 km

*Shargan Vitasi-Mokra Gora railway line-state border-(Višegrad)

Types of stripes

Based on the Decree on the categorization of railways belonging to the public railway infrastructure („Official Gazette of RS“, no. 92/20 and 6/21) which is applied in the IŽS, railways are divided into main, regional, local, manipulative and museum- tourist tracks.

Railway lines, in accordance with the law governing railways, are categorized as follows:

highways - important for international and national traffic;

regional railways - important for regional and local traffic;

local railways - important for local traffic;

manipulative tracks - important for economic subjects;

tracks of the museum tourist railway.

The trunk lines with the corresponding track number are:

101 Belgrade Center - Stara Pazova - Šid - state border - (Tovarnik);

102 Belgrade Center - Rasputnica „G“ - Rakovica - Mladenovac - Lapovo - Niš - Preševo - state border - (Tabanovce);

103 (Belgrade Center) - Rakovica - Jajinci - Mala Krsna - Velika Plana;

104 (Jagodina) Rasputnica Čuprija - Čuprija - Paraćin;

105 (Belgrade Center) - Stara Pazova - Novi Sad - Subotica - state border - (Kelebia);

106 Niš - Dimitrovgrad - state border - (Dragoman);

107 Belgrade Center - Pančevo Glavna - Vršac - state border - (Stamora Moravita);

108 (Belgrade Center) - Resnik - Požega - Vrbnica - state border - (Bijelo Polje);



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109 Lapovo - Kraljevo - Lesak - Kosovo Polje - Djen. Janković - state border - (Volkovo);

110 Subotica - Bogojevo - state border - (Erdut);

111 Belgrade Shunting station „A“ - Ostružnica - Batajnica;

112 Belgrade Shunting station „B“ - Ostružnica;

113 Belgrade Shunt „A“ - Shunt „B“ - Shunt „K/K1“ - Resnik;

114 Ostružnica - Rasputnica „B“ - (Rasputnica „K/K1“);

115 Belgrade Shunt „B“ - Shunt „R“ - Shunt „A“ - (Resnik);

116 (Belgrade Railway Station „B“) - Rasputnica „R“ - Rakovica;

117 Belgrade Shunt „A“ - Rasputnica „T“ - Rakovica;

118 Belgrade Shunt „B“ - Rasputnica „T“ - (Rakovica);

119 connecting track in the area of Rasputnica „K/K1“: (Rasputnica „B“) - turnout „K“ - turnout „K1“ - (Jajinci);

120 (Pančevački most junction) - Karađorđev Park junction - Dedinje junction - (G junction);

121 Indjija-Golubinci;

122 Novi Sad - Novi Sad Car park - Rasputnica Sajlovo;

123 bypass track of the Mala Krsna station: (Kolari) - junction number 1 - junction number 28 - (Osipaonica);

124 Rasputnica Lapovo Varoš - Lapovo Ranžirna - Lapovo;

125 Trupale - Niš Ranžirna - Međurovo;

126 Red Cross - Niš Ranjirna;

127 Nis - Rasputnica Most - (Nis Ranjirna);

128 Connecting track of the Niš station: (Crveni Krst) - separate switch number 3 - separate switch number 4 - (Ćele kula).

The regional railways with the corresponding railway number are:

201 Subotica - Horgoš - state border - (Röszke);

202 Pančevo Glavna - Zrenjanin - Kikinda - state border - (Jimbolia);

203 Belgrade Donji Grad (km 7 + 041) - Belgrade Danube - Rasputnica Pančevački most;



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- 204 Topčider Putnička (km 4 + 195) - Rasputnica „G“ - (Rakovica);
- 205 Banatsko Miloševo - Senta - Subotica;
- 206 Pančevo Varoš - Rasputnica 2a - (Jabuka);
- 207 Novi Sad - Odžaci - Bogojevo;
- 208 (Novi Sad) - Rasputnica Sajlovo - Rimski Šančevi - Orlovat Stop;
- 209 Novi Sad Shunt switch number 7 - Novi Sad Lokoteretna - Rasputnica Sajlovo;
- 210 Orlovat - Rasputnica 1a - (Lukićevo);
- 211 Ruma - Šabac - Rasputnica Donja Borina - state border - (Zvornik Novi);
- 212 (Platičevo) - Rasputnica 1 - Rasputnica 3 - (Štitar);
- 213 Stalać-Kraljevo-Požega;
- 214 connecting track of the Kraljevo station: (Mataruška Banja) - junction number 72 -
junction number 73 - (Adrani);
- 215 connecting track of the Požega station: (Uzići) - separate switch number 53 -
separate switch number 54 - (Dragačevo);
- 216 Smederevo - Rasputnica Jezava - Radinac - Mala Krsna;
- 217 Rasputnica Jezava - Smederevo Luka;
- 218 Mala Krsna - Bor - Rasputnica 2 - (Vražogrnac);
- 219 (Niš) - Crveni Krst - Zaječar - Prahovo Pristanište;
- 220 (Rgotina) - Rasputnica 3 - Rasputnica 1 - (Trnavac);
- 221 (Barlovo) - Rasputnica 1 - Kuršumljija;
- 222 Kuršumljija-Kastrat;
- 223 Doljevac - Kastrat - Merdare - Kosovo Polje;
- 224 Kosovo Polje - Metohija - Pec;
- 225 Kosovo Polje Teretna - Rasputnica 1 - (Drenica).
- The local railways with the corresponding railway number are:
- 301 Subotica - Subotica Factory;
- 302 Subotica - Subotica Hospital;
- 303 Novi Sad (km 1+042) - Novi Sad Ložionica;
- 304 (Podbara) - Rasputnica 3 - Rasputnica 2 - (Kač);
- 305 (Rimski Šančevi) - Rasputnica 1 - Rasputnica 3 - (Podbara);



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306 Rimski Šančevi - Žabalj;
307 Vrbas-Sombor;
308 (Brasina) - Rasputnica Donja Borina - Zvornik City;
309 Pančevo Varoš - Pančevo Vojlovica;
310 connecting track of the Senta station: (Čoka) - junction number 22 - junction number 23 (Orom);

311 Markovac-Svilajnac-Despotovac-(Resavica);
312 Metohija-Prizren;
313 Vršac - Bela Crkva.

The manipulative tracks with the corresponding track number are:

401 Vršac - Vršac Vašarište;
402 Kikinda - Methanol vinegar complex (km 6 + 413);
403 Bogojevo - Danube Coast;
404 Paracin - Stari Popovac;
405 Surčin - Jakovo Bečmen;
406 Šid - Sremska Rača Nova - state border - (Bijeljina);
407 Ovča - Padinska Skela.
408 Sonta - Apatin factory
409 Bačka Palanka - Gajdobra

The museum-tourist railway with the corresponding railway number is as follows:

501 Šargan Vitasi - Mokra Gora - state border - (Višegrad).

Due to the technical condition of certain local and manipulative railways, traffic is not possible on them and they are currently completely or partially closed to traffic. The IŽS lines that belong to the main international railway lines according to the AGC (European Agreement On Main International Railways Lines) agreement are:

North - South direction

E 771 Subotica-Bogoevo

E 79 Belgrade - Vrbnica

E 85 Subotica-Belgrade-Niš-Preševo-Kraljevo-Đeneral Janković

West-East direction



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E 66 Belgrade-Vršac

E 70 Šid-Belgrade-Niš-Dimitrovgrad

Track width

The network has a track width of 1435 mm, with the exception of the tourist-museum railway „Šarganska Osmica“, which has a track width of 760 mm.

Cargo profile

The load profile (vehicle profile) is a limited space in the cross-section perpendicular to the track axis, into which no part of the rail vehicle may pass, whether it is empty or loaded with cargo. The UIC load profile is registered on all IŽS lines for international traffic

GB except for parts of the Valjevo - Kalenić and Grlica - Đeneral Janković railways where the UIC GA load profile is applied. These load profiles are in accordance with UIC Publication 506. The load profile ŽS I is valid for internal traffic on IŽS railways. The ŽS I profile is slightly larger than the UIC GA load profile, and slightly smaller than the UIC GB load profile. IŽS tracks are not coded for combined transport profiles in accordance with UIC Publication 596-6.

However, the measurements have shown that it is possible to traffic cars loaded with combined traffic cargo units such as HCC (high cube container) containers, semi-trailers and complete road vehicles. Transportation of these shipments is possible under special security conditions in the special shipment mode.

Permissible mass per axle and permissible mass per long meter In accordance with UIC Publication 700, depending on the ability of the track to receive loads from vehicles on the railway network, different permitted loads are applied, expressed in tons per axle and tons per long meter. The load of a railway vehicle per length meter is the load of an empty or loaded railway vehicle divided by the length of the railway vehicle expressed in meters and measured between the faces of the uncompacted buffers. The axle load of a railway vehicle is the load of an empty or loaded railway vehicle divided by the number of axles on the vehicle.

On the basis of the above, the railways were categorized into categories (Regulation on the categorization of railways 325 published in the Official Gazette of ZJŽ No. 7/89 and 9/90). The classification of the IŽS rail network is shown in the Table:



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Permitted masses per square meter		Permissible axle weights			
		A	B	C	D
		16 t	18 t	20 t	22.5 t
1	5.0 t/m	A	B1		
2	6.4 t/m		B2	C2	D2
3	7.2 t/m			C3	D 3
4	8.0 t/m				D4

The relevant grade and the relevant track resistance

In order to determine the required braking mass of the train, the relevant gradients for braking must be determined on each track or section. Under the authoritative slope of the braking track, we should understand the size of its longitudinal slope, according to which the percentage of train braking is determined, that is, the required braking mass of the train on a certain railway line or section of the line. The highest longitudinal slope (rise or fall) on that railway (part of the railway) over a length of 1000 m or more is taken as the official slope of a railway or section. When determining the relevant slope for braking, resistances from bends and tunnels are not taken into account.

The relevant resistance of a railway or a part of a railway is understood as the size of its specific resistance due to inclines, curves and tunnels, according to which the mass of the train, i.e. the towed mass of the locomotive, is determined.

Speeds

The highest permitted speed in relation to the capacity of the railway is understood to mean the highest speed that is permitted on a certain railway, i.e. on some of its sections, with regard to the upper machinery of the railway and its facilities (track capacity, its arrangement in the direction and curve, radius of the curve, construction of switches etc.), electric traction stable plants and the railway's equipment with signaling - safety devices and cannot exceed at least one of these speeds.



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Limited speeds are permanently prescribed lower speeds than the maximum permitted speed on the railway at which it is permissible to drive over a part of the railway due to its technical condition or the speed at which it is permissible to drive over a switch area.

Maximum train length

The length of each train is determined in the capacity allocation procedure and is expressed in whole meters. The maximum permitted length that trains can have on a certain line in order to receive and meet them at stations, crossings and other official places without interference is determined according to the maximum permitted length of the train at certain stations, crossings and other official places of the respective line, taking into account the useful the length of the main tracks.

The maximum permissible length of the train for the track in the station is obtained when from the useful length of the track in meters, determined in the manner prescribed by the Instruction (Instruction on technical norms and data for the execution of the timetable „Official Gazette of ZJŽ“ No. 9/89, 6/91 , 8-9/91, 4/92 and 9/92), deduct a length of 25 m for locomotive accommodation and 10 m as a reserve for train accommodation.

The actual length of the train is obtained by adding the lengths over the non-compacted buffers of all vehicles included in the train, except for the driving locomotive, whose length was taken into account when determining the maximum permissible length of the train in the stations. If the train has a combined locomotive, pusher or intermediate locomotive, their lengths must be taken into account when determining the length of the train.

The provisions of paragraph 2 of this article also apply to the length of the passenger train. A train for transporting passengers can be longer than the length of the platform and arranged areas in official places, and if the carrier requires their handling in such official places, according to local and/or other specific circumstances, it must prescribe and ensure the necessary safety measures for passengers.

Power system

IZS ensures the transmission of the necessary electrical energy from the public power grid of the Republic of Serbia via stable electric traction facilities (electric traction substations) and the contact network for electric train traction. All electrified railways have a basic power supply system of a single-phase alternating current system 25 kV 50 Hz.

The power supply system has voltage $U = 25 \text{ kV}$, and frequency $f = 50 \text{ Hz}$. The height of the contact conductor is $H_{kpmmin} = 5000 \text{ mm}$, $H_{kpnom} = 5500 \text{ mm}$ and $H_{kpmmax} = 6000 \text{ mm}$. Polygonation of the overhead line is $p = 200 \text{ mm}$ in the direction, and $p = 300 \text{ mm}$ in the curves.

In the 25 kV, 50 Hz power supply system for electric traction vehicles, the use of pantographs (current collectors) is allowed according to the General catalog of the contact network (type POS-III/E). The appearance of the pantograph is shown in the picture:

Picture number 1. - Dimensions of the pantograph

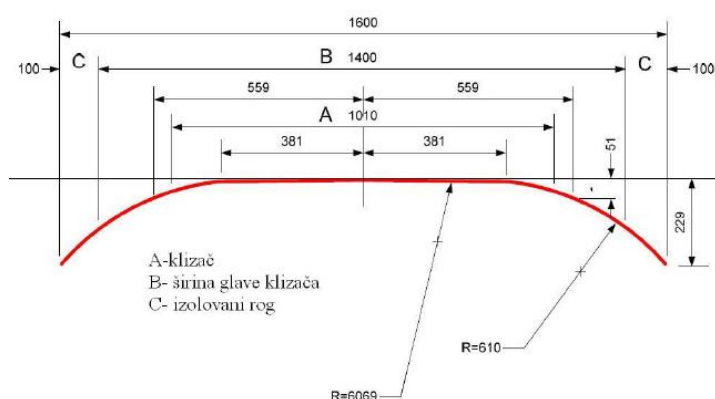


Table no. 5: Parameters for the pantograph

Allowed width of slider head (mm)	Width of metal horns (mm)	Rated current (A)	Contact wire height (mm)	Minimum slider length (mm)	Static force F_a (N)	Maximum aerodynamic force F_a (N)	Maximum speed (km/h)	Slider type
1600	1400	400	6200 5500 5000	800	60-90	70	160	Graphite

Signaling system

Railway signals are signal signs that are used to quickly and reliably inform each other of the railway staff and agreements about train traffic, when maneuvering, about the permission and prohibition of driving over a certain place, about the state of the track, about the need for



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speed limits, and more. Certain signals serve to warn railway workers and other persons to take care of their personal safety.

Regarding the use of signals and signal markings, the Rulebook on types of signals, signal markings and markings on the railway („Official Gazette of the RS“ No. 50/20) applies.

On the railway network of „Serbian Railway Infrastructure“ a.d. all highway routes are equipped with electro-relay signal-safety devices of complete centralization, namely:

Belgrade-Niš-Preševo: with the Siemens SpDrS-64/JŽ system with rail current circuits,

Belgrade Resnik-Vrbnica: with the Siemens SpDrS-64/JŽ system with axle counters,

Belgrade-Shid: with the Siemens SpDrS-64/JŽ system with rail current circuits,

Indija-Subotica: by the Westinghouse system with rail current circuits.

The highway routes Šid-Belgrade-Niš-Preševo and Belgrade-Vrbnica are included in the remote control and traffic control system - remote control (produced by Westinghouse). There are three remote control centers in Belgrade, Požega and Niš. Based on this device, 3 remote control centers were built in Belgrade, Niš and Požega with a total of 140 managed stations.

The Dimitrovgrad station (railway Niš-Dimitrovgrad-State border) is secured by an electronic signaling and security device Simis-W with a control and monitoring system Iltis manufactured by Siemens.

The Beograd Centar, Pančevo Glavna and Čuprija stations are equipped with electronic signaling and security devices.

Other railways are insured by the other mentioned types of insurance, but without the continuity of a single insurance system.

Traffic management systems

The traffic of opposite and consecutive trains is regulated by asking for and giving permission, i.e. consent, by notifying trains, i.e. by registering and notifying trains and giving de-registration.

Consecutive trains can follow each other only in spatial distance. In order to regulate the following of trains in the spatial distance, the tracks can be divided into:



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- station spatial sections, in which two neighboring stations regulate the following of trains in a station gap,
- check-out spatial sections, in which two adjacent check-out offices or a station and an adjacent check-out office regulate the tracking of trains in the check-out gap,
- block spatial sections, where the traffic of consecutive trains is regulated by automatically placing spatial signals to show a signal sign for prohibited or permitted driving by the train.

In addition to the spatial distance, when following trains in the check-out and block distance, a distance in the time of following the trains should be provided to avoid them stopping in front of the spatial signals due to the unequal travel time of the trains through the spatial sections (following interval).

On the tracks of „Serbian Railway Infrastructure“ a.d. there are also Interstation Dependency (MZ) devices that regulate train traffic at station intervals, whereby the occupancy of the interstation track is realized through axle counters. Only one train may be in one spatial section, on the same track and at the same time.

Regulation of train traffic is carried out by the dispatcher from the SP (station switchboard), and on the TK-track by the TK-dispatcher from the CP (central switchboard), except in stations that are not included in the TK- device (remote control system). Traffic of opposite and consecutive trains is regulated by train dispatchers from owned stations, and on tracks included in the remote control system by TK dispatchers.

„Serbian Railway Infrastructure“ a.d. on their territory they use a Westinghouse-type „Flexicode 560“ remote control system. It was performed in semiconductor technology with the application of a code system, with control of the completeness of the instruction in the phase of transmission and reception. It is implemented in a standard form and consists of a TK center, which has the ability to manage 32 stations on one track and one or more data transmission lines, as well as TK-facilities in the stations (satellite).

Based on this device, 3 remote control centers were built in Belgrade, Niš and Požega with a total of 140 managed stations.



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Regarding the use of the traffic management system, the Traffic Regulations (Regulation 2 published in the „Official Gazette of ZJŽ“ No. 3/94) and the Traffic Instructions (Instruction 40) with all associated amendments, corrections and interpretations apply.

Communication systems

When performing the traffic service, communication is carried out by telecommunication devices of telephone and radio-dispatch links. Communicating with means that enable reliable and permanent recording of announcements (teleprinter, telephone or radio connection with recording devices) is considered evidentiary communication. Announcements related to the regulation of train movements (permissions and orders given to the train staff by telephone or RDV) are submitted exclusively by means of evidentiary communication.

Communication between train dispatchers, TK-dispatchers and train drivers is carried out in the Serbian language.

All announcements are submitted in the form and in the manner prescribed by the Traffic Regulations (Regulation 2), the Regulations on Domestic and International Telegraphic, Telephone and Radio Traffic (Regulation 8), the Traffic Instructions (Instruction 40) and the Regulations on Records Maintained by Railways transporter and manager of railway infrastructure (Official Gazette of RS No. 56/19).

On the tracks of „Serbian Railway Infrastructure“ a.d. operates an analog system of radio-dispatch connections (RDV) for the transmission of voice information specially coded in the frequency range of 460 MHz with frequencies of four-frequency groups according to UIC Publication 751-3. The system works in full duplex (mode A and B) with the possibility of selective calling with return identification and sending special calls (group, intervention).

It is possible to connect to local radio networks (mode C) and to the railway automatic telephone network. The devices were produced by the company AEG (now EADS telecom) generation in the 70s and 90s.

On railways with a dispatcher command system, the staff who operate the train are connected to the TK dispatchers with the help of mobile RDV units that are a mandatory part of the equipment of the control room of the traction vehicle.

Automatic traffic management systems - ATS systems



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On the railway network of „Serbian Railway Infrastructure“ a.d. for now, there is no automatic traffic management system.

A punctual inductive auto-stop device (AS) with resonant frequencies of 1000 Hz and 2000 Hz, marked Indusi (I-60), is used to control the movement of trains, and it consists of the following units:

- railway balise (stationary part of the device installed next to the railway),
- of the transmission system (inductive coupling of the track balise and the auto-stop locomotive device) i of the locomotive part installed on the traction vehicle.
- Track balises are placed on the right side of the track in the direction of train movement.

The method of operation and handling of the AS device is prescribed by the Instructions for handling the induction auto-stop device I 60 (Instruction 425), the Instructions for installation, testing and commissioning and maintenance of the locomotive part of the auto-stop device I 60 (Instruction 426) and the Application Instructions , installation, testing and maintenance of railway auto-stop devices on JŽ railways (Instruction 427).

Special infrastructure restrictions

According to Directive 2001/14/EC art. 24 where there are suitable alternative routes, the infrastructure manager may, after consultation with interested parties, determine a special infrastructure for certain types of traffic. This infrastructure will be considered available for all types of traffic that are in accordance with the characteristics necessary for the development of traffic on that route. This will not prevent such infrastructure from being used for other types of traffic when the capacity is available and when the rolling stock corresponds to the technical characteristics necessary for traffic on the railway. There is no special infrastructure in this sense on the railway network managed by IŽS.

Environmental restrictions

Environmental restrictions, such as the permitted noise level is currently not applied on the lines managed by IŽS.



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Dangerous goods

Transportation of dangerous goods on the railway infrastructure managed by IŽS is regulated by international and national regulations for the field of dangerous goods transportation in accordance with point 3.4.4 Transportation of dangerous goods.

Loading, unloading, or transshipment of dangerous goods can only be done in places that meet the prescribed conditions. Stations (official places open for receiving and sending goods) on the railway infrastructure, in most cases, do not meet this condition, and for this reason, the manipulation of dangerous goods in the area of stations (official places) is prohibited.

Manipulation of dangerous goods (loading, unloading, transshipment) for certain types of dangerous goods and under certain conditions can be performed on certain tracks or on certain parts of the tracks of certain stations.

Tunnel restrictions

On the railway Belgrade Center - Pančevo Main - Vršac - State border through the „Vračar“ tunnel, i.e. On the section of the Karađorđev park junction - the junction and the Pančevački most stop and through the „Vezni“ tunnel, i.e. on the route Karađorđev Park - Dedinje junction, trains with diesel traction vehicles, diesel motor trains, diesel motor railway vehicles, as well as vehicles that have their own diesel aggregates (energy cars, refrigerator cars that have an aggregate station) may not be dispatched on a regular basis. An exception to the above is made by diesel engine trains of the 711 series and auxiliary trains with diesel traction of the infrastructure manager if they are urgently sent to the scene of an accident or accident and diesel engine railway vehicles for the purpose of urgent referral to the removal of obstacles that prevent traffic, while respecting the restrictions that the tracking interval and time the interval between the passing of any two diesel-powered vehicles cannot be shorter than 30 minutes.

In other cases, the infrastructure manager's diesel-powered rail vehicles can operate on the mentioned sections when the official place of Vuk's monument does not organize the traffic of trains for the transportation of passengers.



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In addition to the obligation to respect the restrictions regarding vehicle operation, the following conditions also apply to the traffic of freight trains that have wagons marked RID (loaded or empty wagons for the transport of dangerous goods):

- on the part of the Pančevački bridge - Rakovica and Pančevački bridge - Belgrade Centar railways, traffic can only be carried out during the period when no trains are organized for the transport of passengers at the station Vukov spomenik, i.e. when the station is closed for passenger transport on the part of the Pančevački most - Rakovica and Pančevački most - Beograd Centar lines, there can be only one train that has RID-marked cars in its composition, i.e. two freight trains are not allowed to meet if at least one of them has RID-marked cars in its composition;
- during the traffic of every train that includes cars with the RID mark, an additional technical inspection must be carried out, which includes checking the heating of the bed and increased visual control of the load (valves, couplings, etc.), for the train traveling in the direction of Pancevački most - Rakovica and Pančevački most - Belgrade Centar at the Pančevo Glavna station, and for the train traveling in the direction of Rakovica - Pančevački most either at the Rakovica station or at the Belgrade shunting station (if it was done at the Belgrade shunting station, it does not need to be done at the Rakovica station);
- it is the responsibility of the carrier to perform additional technical inspection of the train at the stations

Pančevo glavna, Rakovica and Beograd shunting station with the dispatcher of the trains of these stations enter in the telegraph and telephone log the clause „On ____ at ____ hours, an additional technical inspection of train number _____ (signature of the authorized person of the carrier) was carried out“, thereby notifying the dispatcher of the trains in a proven way that the mandatory additional inspection was carried out technical inspection of the train before dispatch to the section of the Pancevački Most-Rakovica railway. In the event that the carrier does not have an organized inspection service at the Pancevo Glavna, Rakovica or Beograd



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shunting stations, and a technical inspection of a train that includes loaded or empty cars with the RID mark has not been carried out, such a train may not operate on the Pančevački most-Rakovica railway section.

Freight trains, which have loaded or empty cars marked RID, may not drive in the direction of Belgrade Center - Pančevački most.

Restrictions on bridges

There are no restrictions related to bridges in terms of specially determined conditions that are not a consequence of the structural parameters of the bridges. Exceptionally until the installation of the fifth longitudinal girder in the construction of the „Pančevo Bridge“ over the Danube River, on the Belgrade Centar - Pančevo Gl.st. - Vršac - State border, between the official crossing points Pancevački most - Krnjača most, the meeting of two freight trains on the „Pancevački most“ is prohibited.

Availability of railway infrastructure

All railway lines managed by IŽS are open for traffic from 0.00 a.m. to 24.00 a.m., except for lines on which traffic is temporarily impossible due to technical conditions. Official posts are open to rail traffic permanently, and some may have limited working hours of the designated executive staff of the traffic service. On the railway lines where the aforementioned staff of the official post work with limited working hours, train traffic can exceptionally take place outside of the prescribed working hours, when due to the occurrence of an accident or accident, trains are diverted by an alternative transport route. Certain tracks that can be used as an alternative transport road can be of different categories compared to the category of tracks on the regular transport road in terms of the permitted load per axle or per length meter.

The carrier can submit a request for the allocation of a train route even outside of office hours. In that case, he bears all the costs of the entire traffic organization caused by the change in the working hours of the offices.

If several carriers use changes in working hours, they bear the costs incurred jointly.

The infrastructure manager is responsible for the maintenance, repair and modernization of the infrastructure in order to provide adequate service and safe execution of traffic. In this sense, IŽS plans regular maintenance of railway lines that have an impact on the availability of



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infrastructure, in terms of closing certain sections of the railway for traffic for a certain period of time or introducing temporary restrictions on the speed of train movement.

The infrastructure restrictions required for regular infrastructure maintenance are part of the capacity allocation procedure and are published in the timetable material in the timetable booklets. IŽS will inform all railway carriers three months in advance of all planned longer works on the railway infrastructure that could have an impact on the execution of transport and timetables. driving due to reduction of train speed, change of train transport route, use of buses to transport passengers, etc.

For all freight trains traveling in the south-north direction and transiting part of the railway infrastructure between the Velika Plane station and the Belgrade junction, the regular transport route is the railway (Belgrade) - Rakovica - Jajinci - M. Krishna - V. Plan, so the construction of routes is carried out in this way.

For all freight trains traveling in the north-south direction and transiting part of the railway infrastructure between the Belgrade junction and the Velika Plana station, the regular transport route is the railway section (Belgrade) - Resnik - Mladenovac - V. Plan, so the construction of routes is carried out in this way.

Railways on the territory of Kosovo and Metohija are temporarily under the supervision of UNMIK according to the Interim Agreement between ŽTP Belgrade and UNMIK Railways dated 05/31/2002. year (official number 300/2002 - 153 of 31.05.2002), so requests for the use of routes in this territory will not be taken into consideration.

Development projects in railway infrastructure

The railway infrastructure managed by IŽS is constantly renewed and modernized in order to provide users with the best possible quality of service.

Development projects of the infrastructure are defined within the Strategic Plan of IŽS „(Decision of the Assembly of the Joint-Stock Company for the Management of Public Railway Infrastructure „Infrastructure of the Railways of Serbia“, Belgrade No. 5/2017-116-49 dated June 29, 2017)“, which was prepared based on National infrastructure program („Official Gazette of RS“, number 53/17).

The development of railway infrastructure is directed towards the modernization of railways that are part of the Pan-European Corridor.



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The possibility of realizing the planned works depends on the financial resources that the Republic of Serbia allocates every year from the state budget and from other sources of financing.

The National Assembly, at the proposal of the Government, adopts the National Railway Infrastructure Program, which includes:

- existing characteristics and condition of the railway infrastructure of the Republic of Serbia;
- the strategy of construction, reconstruction and maintenance of railway infrastructure;
- development components in the construction of new infrastructure capacities of special importance for the Republic of Serbia;
- defining the structure, the dynamics of the implementation of priorities, the amount and sources of financial resources required for the execution of activities from the National Program.

The national program is adopted for a period of five years.

On the basis of the National Program, the infrastructure manager prepares an annual program of construction, reconstruction and maintenance of railway infrastructure, organization and regulation of railway traffic.

R.B.	Project Name	Estimated start of works (date or quarter)	Duration of works	Method of execution of works
1	Modernization (extension and reconstruction) of the railway Belgrade - Subotica - state border (Kelebija) section Novi Sad - Subotica	December 2021	First quarter of 2025	Interruption of traffic on the part of the railway Belgrade - Subotica - state border between the official places Novi Sad (exclusive) - Subotica (exclusive)
2	Construction reconstruction of the railway Niš - Dimitrovgrad, section Sićevo - Dimitrovgrad	IV quarter of 2022.	III quarter of 2025	Development of traffic and performance of works according to dynamics 36/36/36/60 with a prison of 100 days from April 1, 2023.
3	Electrification of the Niš - Dimitrovgrad railway,	IV quarter of 2022	III quarter of 2025	The development of traffic and the execution of works will be carried out



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	Sićevo - Dimitrovgrad section			alternately at intervals that will be agreed with The contractor.
4	Reconstruction of the Niš - Brestovac section, from km 244+600 (exit from Niš station) to km 267+430 (entrance to Brestovac station)	18.10.2021.	3rd quarter of 2023	Development of traffic and execution of works according to dynamics 36/36/36/60. From the second quarter of 2022, traffic will be carried out by diesel traction
5	Construction of the northern ring road around Niš 1. Red Cross-Pantelej-Matejevac 2. Trupale - Red Cross 3. Trupale - Niš shunting station	3rd quarter of 2022.	It is estimated that the works will be completed by the third quarter of 2024.	The development of traffic and the execution of works will take place alternately at intervals agreed with the contractor.

Note: As works numbered 2 and 4 will be carried out simultaneously, with the same dynamics (36 hours of traffic - 36 hours of railway closure), train traffic will be organized alternately (train traffic on the route Niš - Brestovac will take place during the closure Niš - Dimitrovgrad and vice versa).

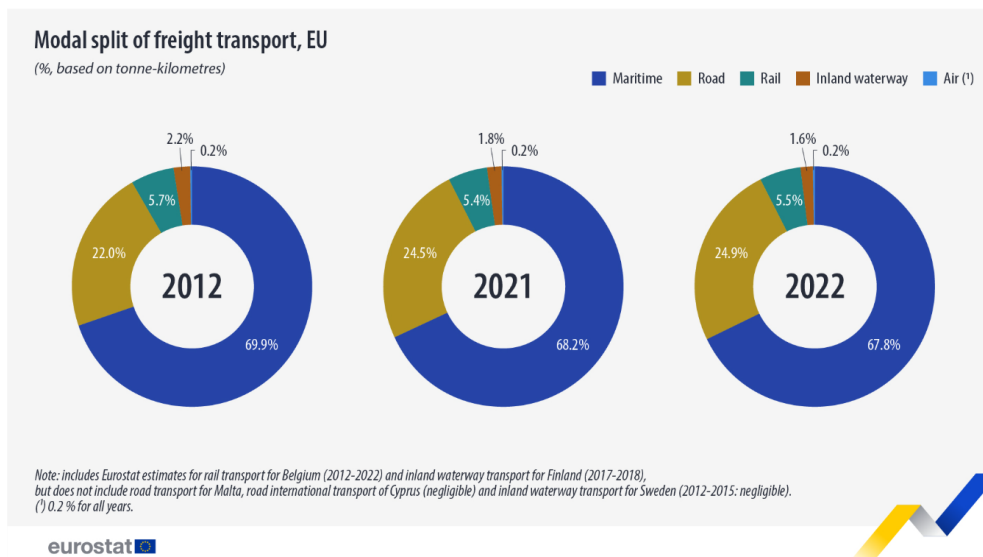
Transport flows data



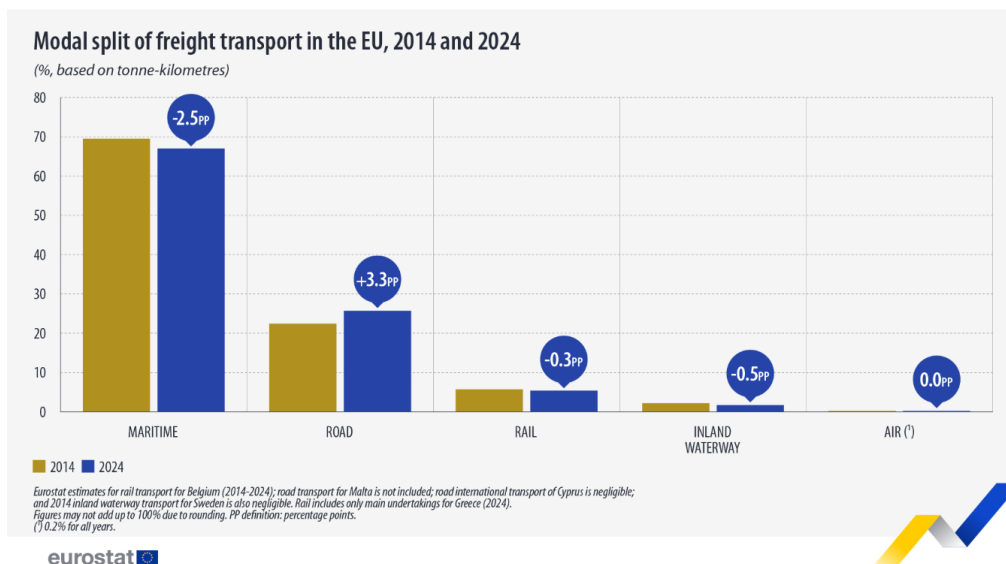
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Modal Split of freight transport EU, 2012-2022¹



Modal Split of freight transport in the EU, 2014-2024²



The latest studies of goods flows on Corridor X were financed from EU funds:

- Project Ital-Balk - Integration of Logistics and Transport in the region of Italy and the Balkans PREFEASIBILITY STUDY

¹ <https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20240416-1>

² <https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20260326-1>



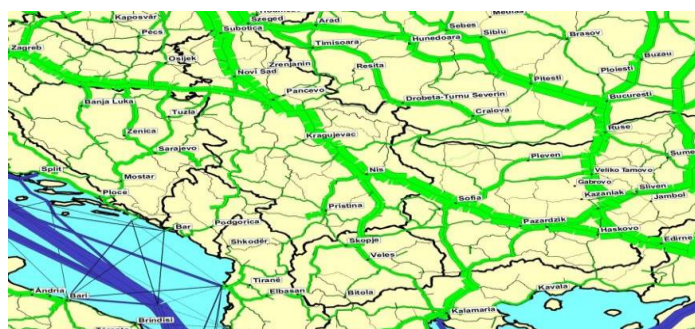
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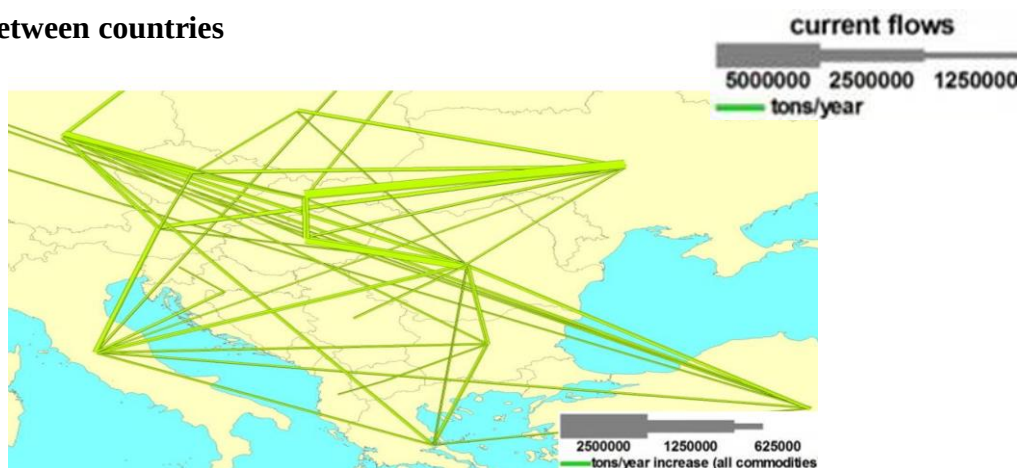
- ADB Adriatic Danube Black Sea Multiplatform Project - TRANSPORT FLOWS
- MISP FEASIBILITY STUDY (Municipal Infrastructure Support Program)

Research results

Yearly flows (t) on Corridor X



Trade flows between countries



Last statistic data for Serbia



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The biggest import of goods in Serbia by weight 1.1.2025. to 30.6.2025.

ORDER NUMBER	TARIFF NUMBER	TRADE NAME OF THE GOODS	NET WEIGHT IN KG
1	2702	Brown coal and lignite	1,097,960,392.20
2	2601	Iron ores and concentrates	752,614,392.00
3	2710	Oils obtained from petroleum and bituminous minerals	493,887,849.19
4	2523	Cement	343,572,394.99
5	2510	Natural calcium phosphates, natural aluminum calcium phosphates and phosphate chalk	318,291,694.56
6	2704	Coke from hard coal, brown coal, lignite or peat	235,422,444.00
7	3102	Nitrogen fertilizers, mineral or chemical	160,763,318.11
8	3105	Mineral or chemical fertilizers	159,514,640.28
9	8703	Passenger cars	130,470,253.43
10	1201	Soybeans in beans, including broken or crushed	130,011,633.96
11	4707	Paper or cardboard for recycling, waste and scrap	104,206,427.06
12	2701	Coal, including briquettes of various forms of coal	96,302,889.00
13	2501	With	95,481,889.76
14	2713	Coke and bitumen	90,807,176.85
15	4407	Beech wood with a thickness greater than 6 mm	90,080,624.91
16	6907	Ceramic tiles for paving and cladding	88,718,323.52
17	7214	Bars and rods of iron or non-alloy steel, forged, hot-rolled	88,083,728.51
18	7210	White iron sheet, coated	81,574,929.86
19	3104	Potassium fertilizers, mineral or chemical	80,112,843.35
20	4410	Boards, chipboards	77,143,207.77

- 1) Data includes C4 - putting goods into free circulation (regular import of goods)
- 2) No data for Kosovo



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The biggest import of goods in Serbia by value 1.1.2025. to 30.6.2025.

ORDER NUMBER	TARIFF NUMBER	TRADE NAME OF THE GOODS	VALUE IN EUR
1	2711	Petroleum gases and other gaseous hydrocarbons	782,253,824.96
2	8703	Passenger cars	683,382,498.81
3	2709	Crude oil	646,210,072.05
4	3004	Medicinal products consisting of mixed or unmixed products prepared and measured out for retail sale	507,058,315.80
5	2716	Electricity	445,982,701.02
6	2710	Oils obtained from petroleum and bituminous minerals	372,669,044.68
7	8517	Telephones, videophones	241,312,396.11
8	8544	Insulated wire, cables, optical cables	235,612,606.80
9	3002	Human blood; Animal blood prepared for therapeutic, prophylactic or diagnostic uses; Antisera and other blood fractions and modified immunological products, whether or not obtained by means of biotechnological processes; Vaccines, toxins, cultures of microorganisms, etc.	215,541,355.49
10	8802	Other aircraft	188,179,091.01
11	8411	Turbojet engines, turboprop engines and other gas turbines	150,688,961.21
12	7408	Copper wire	142,068,830.96
13	8502	Electric generating sets and rotary converters	133,700,277.21
14	8708	Motor vehicle parts and accessories	124,610,015.67
15	3926	Other plastic products and products of other minerals	124,214,160.94
16	8536	Other plastic products and products of other minerals	122,639,879.54
17	8471	Automatic data processing machines	121,786,691.86
18	3402	Organic surfactants for washing	118,606,839.01
19	2106	Food products, tea, ice cream pastes, yeasts, sauces, ketchup	112,641,106.37
20	8704	Motor vehicles for the transport of goods	112,510,926.87

- 1) Data includes C4 - putting goods into free circulation (regular import of goods)
- 2) The customs value was used to calculate the value



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3) No data for Kosovo

The biggest export of goods in Serbia by weight 1.1.2025. to 30.6.2025.

ORDER NUMBER	TARIFFS NUMBER	TRADE NAME OF THE GOODS	NET WEIGHT IN KG
1	1005	Corn	701,662,364.52
2	1001	Wheat and wheat	548,754,325.90
3	2603	Copper ores and concentrates	494,685,760.59
4	7208	Hot-rolled iron sheet, uncoated	283,306,395.39
5	2710	Oils obtained from petroleum and bituminous minerals	257,801,838.89
6	3105	Mineral or chemical fertilizers	236,714,455.30
7	6904	Ceramic masonry bricks, floor blocks, blocks	230,728,795.02
8	2202	Water, including mineral water and aerated water with added sugar or other sweetening agents	176,395,292.87
9	3214	Glass cutting putty, ink putty, resin plasters, fillers Sealing and other whales	176,206,618.35
10	2309	Products used for animal nutrition	174,958,404.77
11	2833	Sulfates; alum; peroxyulfates (persulfates)	138,763,498.32
12	6905	Roof tiles, chimney pieces, ornaments and other constructional products, of ceramics	136,851,565.55
13	2517	Pebbles, gravel, large pebbles	136,682,095.00
14	2619	Ores, slags and ashes	130,913,771.80
15	2807	Sulfuric acid; oleum	129,522,406.50
16	3402	Organic surfactants for washing	94,957,866.49
17	1101	Wheat or spelt flour	92,766,908.20
18	4011	New outer pneumatic tires (including tubeless tires)	92,358,454.23
19	4810	Coated paper and cardboard	87,240,790.21
20	2201	Water, including natural and artificial mineral water and carbonated water	80,147,595.63

1) Data includes C1 - export of goods (regular export of goods)

2) No data for Kosovo



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The biggest export of goods in Serbia by value 1.1.2025. to 30.6.2025.

ORDER NUMBER	TARIFF NUMBER	TRADE NAME OF THE GOODS	VALUE IN EUR
1	2603	Copper ores and concentrates	875,009,821.34
2	8544	Insulated wire, cables, optical cables	827,191,901.98
3	7403	Refined copper and copper alloys	580,164,059.66
4	8708	Motor vehicle parts and accessories	505,284,161.84
5	2716	Electricity	443,585,765.68
6	4011	New outer pneumatic tires (including tubeless tires)	356,450,622.20
7	9306	Different types of ammunition	311,929,820.74
8	8501	Electric motors and electric generators (except generating sets)	288,343,769.77
9	3402	Organic surfactants for washing	258,134,976.33
10	9401	Seats including those that can be converted into beds and their parts	242,435,213.03
11	0811	Fruit, uncooked, cooked, frozen, berries	224,667,983.91
12	8411	Turbojet engines, turboprop engines and other gas turbines	204,489,629.63
13	7208	Hot-rolled iron sheet, uncoated	186,407,689.34
14	2710 Oils	obtained from petroleum and bituminous minerals	178,430,997.93
15	3004	Medicinal products consisting of mixed or unmixed products prepared and measured out for retail sale	174,272,156.43
16	2309	Products used for animal nutrition	166,860,273.06
17	3917	Pipes, hoses and fittings therefor, of plastics	165,082,271.58
18	8703	Passenger cars	161,926,311.30
19	1005	Corn	157,005,171.06
20	9403	Other furniture and its parts	141,736,445.48

- 1) Data includes C1 - export of goods (regular export of goods)
- 2) The customs value was used to calculate the value
- 3) No data for Kosovo

Trucks numbers per border crossing points in Serbia 1st quarter 2024

Trucks numbers on border crossing points in Serbia for period 1-3/2024:

- **Gradina** - **6298**
- **Presevo** - **12640**
- **Batrovci** - **2627**
- **Horgos** - **5126**
- **Kelebija** - **5613**



Foreign trade commodity exchange for Serbia in 2023.

Serbia's total foreign trade in goods in the period January - December 2023 was 65.491 billion euros, which is 1.7 percent less compared to the same period of the previous year, the Republic Statistical Office (RZS) announced³.

According to RZS data, trade exchange in dollars in that period increased by 0.8 percent and amounted to 70.772 billion.

The export of goods, expressed in euros, had a value of 28.631 billion euros, which represents a growth of 3.7 percent compared to the same period of the previous year, while the import of goods had a value of 36.859 billion euros, which represents a decrease of 5.5 percent in compared to the same period last year.

³ <https://www.tanjug.rs/ekonomija/srbija/71608/spoljnotrgovinska-razmena-srbije-u-2023-godini-bila-65491-milijardi-evra/vest>



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The export of goods, expressed in dollars, was worth 30.934 billion, which is an increase of 6.5 percent compared to the same period of the previous year, while the value of imported goods was 39.837 billion dollars, which is 3.2 percent less than in the same period. last year.

Serbia's deficit expressed in dollars is 8.902 billion, which is a decrease of 26.4 percent compared to the same period of the previous year, while expressed in euros, the deficit is 8.227 billion, which is a decrease of 27.9 percent compared to the same period of the previous year.

The coverage of imports by exports is 77.7 percent and is higher than the coverage in the same period of the previous year, when it was 70.6 percent.

Serbia's main foreign trade partners in terms of exports are Germany, Bosnia and Herzegovina, Italy, Hungary and Romania, while the main partners in terms of imports are Germany, China, Italy, Turkey and Russia.

Our second most important partner is the CEFTA countries, with which we have an exchange surplus of 2.939 billion dollars, which is mainly the result of the export of electricity, grain and their products, oil and oil derivatives, beverages and road vehicles.

Observed regionally, the region of Vojvodina had the largest share in Serbia's exports with 33.4 percent, followed by the Belgrade region with 24.2 percent, the region of Šumadija and Western Serbia with 20.8 percent, the region of Southern and Eastern Serbia with 19.4 percent, and about 2.3 percent of exports are not classified by territory.

The largest share in Serbia's imports was the Belgrade region with 43.3 percent, followed by the Vojvodina region with 33.1 percent, Šumadija and Western Serbia 13.3 percent, the region of Southern and Eastern Serbia 8.3 percent, while about two percent of imports were not classified by territory.

In the structure of exports by product purpose (predominance principle), reproduction products are the most represented with 61.7 percent (19.092 billion dollars), followed by consumer goods with 25.8 percent (7.995 billion) and equipment 12.4 percent (3.845 billions), and unclassified goods by purpose is zero percent or 1.2 million dollars.

In the structure of imports by product purpose, reproduction products are the most represented, 55.5 percent (\$22.115 billion), consumer goods, 19.8 percent (7.884 billion), and equipment, 12.1 percent (4.835 billion), while unclassified goods by purpose amount to 12.6 percent or 5.002 billion dollars.



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Foreign trade in goods was the largest with the countries with which Serbia has signed free trade agreements, while the member countries of the European Union account for 59.7 percent of the total exchange.

In December 2023, goods worth 2.389 billion dollars were exported, which is a decrease of two percent compared to the same month of the previous year, while imports amounted to 3.562 billion dollars, which is an increase of 0.5 percent compared to the same month last year.

Expressed in euros, goods worth 2.190 billion were exported, which is a decrease of 5.1 percent compared to the same month of the previous year, and imports amounted to 3.263 billion euros, which is a decrease of 2.7 percent compared to the same month. last year.

Calculated in dollars, the seasonally adjusted December 2023/November 2023 index shows a 2.4 percent drop in exports and a 5.3 percent increase in imports.

Calculated in euros, the seasonally adjusted index in this period shows a drop in exports by 0.3 percent and an increase in imports by 8.1 percent.

RZS data also show that in the list of the top five exported products, the first place is the export of sets of conductors for aircraft, vehicles and ships (\$121 million), the second place belongs to the export of copper ore and concentrate (\$98 million), and the third place is the export of electricity with 89 million dollars, followed by the export of corn with 53 million dollars, and the last place belongs to the export of refined copper with 41 million dollars.

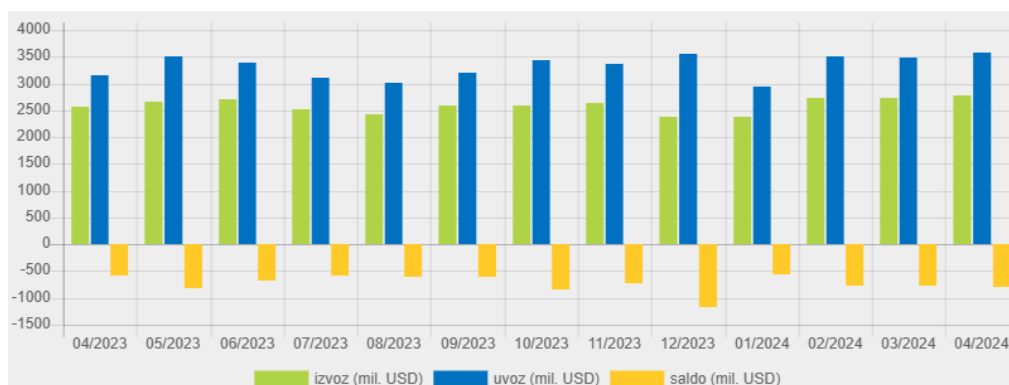
The list of the top five products in imports shows that crude oil (\$207 million) is our first import product, while the second most important import is natural gas (\$168 million), and the third place on the list is the import of drugs for retail sale (\$112 million). , followed by the import of electricity (\$61 million), and the last place is occupied by the import of gas oils with \$50 million.



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Foreign trade goods flows, Serbia, 4/2023-4/2024⁴



Legend: Green - Export, Blue - Import, Yellow - Total

The largest exporters in Serbia

The largest exporters in Serbia in 2023⁵ were the Chinese companies Zijin Mining, Zijin Copper and HBIS Group, the Ministry of Finance announced.

The export of Zijin mining from Brestovac was EUR 1.15 billion, Zijin dill from Bor was EUR 746.3 million, and the HBIS group from Smederevo was EUR 549.1 million.

Zijin Mining is the 100% owner of the Čukaru Peki mine in Timočka Krajina in eastern Serbia, which it bought in 2019 from Canadian Freeport McMoran for \$390 million.

By decision of the Government of Serbia, in December 2018, Zida Koper took over 63 percent of the former Mining and Smelting Basin Bor (RTB), producer of copper and gold, by paying 350 million dollars for recapitalization.

Hesteel of the Chinese HBIS group (Hebei Iron and Steel Group) bought the Smederevo Ironworks for 46 million euros in 2016, while the debts of the steel plant were taken over by the Government of Serbia.

The export value of the 15 largest companies in Serbia last year was seven billion euros.

⁴ Source: Serbian Statistic office, actualized 31.05.2024.

⁵ <https://www.slobodnaevropa.org/a/kineske-kompanije-najveci-izvoznici-srbije-kina-srbija-izvoz/32830656.html>



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The German company in the field of the auto industry ZF Friedrichshafen from Pancevo is in fourth place with exports of 504.8 million euros, while the German car cable factory Leoni from Prokuplje is in fifth place with exports of 489.3 million euros.

It is followed by the car tire factory Tigar tires from Pirot, owned by the French Michelin, with exports of 454.9 million euros.

Seventh is the German technology company Bosch (Bosch) from Belgrade with exports of 453.1 million euros, followed by the German producer of consumer goods Henkel from Belgrade with 405 million.

The South Korean company for the production of cables Jura (Yura) from Rača exported goods worth 394.3 million euros.

Among the largest exporters are the Russian Oil Industry of Serbia (NIS), which was sold to Gazpromneft (Gazprom Neft) in 2008 for 400 million euros, with 386.6 million euros.

The export of the German pharmacy Hemofarm from Vršac in 2023 was 351.9 million euros.

Total transport of passengers and goods, first half of 2023.

The number of transported passengers in the first six months of 2023⁶, compared to the same period of the previous year, is higher by 13.1%, while the transportation of passengers in domestic traffic increased by 10.7%, and in international traffic by 45.4%. In air traffic, there was a growth of 87.2%, while road transport was higher by 7.0%. Transportation of passengers in railway traffic increased by 141.5%. The volume of work, expressed in pkm, is higher by 33.9%. The amount of goods transported in the first half of 2023, compared to the same period of the previous year, is lower by 2.2%. In the same period, the volume of work, expressed in tkm, decreased by 1.0%. Air and road traffic recorded an increase in the amount of transported goods, while traffic on inland waterways, pipeline and railway traffic recorded a decrease.

The transportation of goods by road transport increased by 9.7%, and the volume of work, expressed in tkm, was lower by 5.8% compared to the same period of the previous year.

Air traffic records growth when it comes to passenger transportation. The number of transported passengers in air transport increased by 87.2%, and the passenger kilometers

⁶ <https://www.stat.gov.rs/sr-Latn/vesti/20230929-ukupan-prevoz-putnika-i-robe-i-polugodiste-2023/?s=1501>



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traveled increased by 90.7%. The transport of goods shows a growth in the quantities of transported goods of 13.2%, and in the volume of work, observed in tkm, a growth of 10.1% was recorded.

The growth in the number of transported passengers in rail traffic in the first half of 2023 is 47.8%. A growth in the number of transported passengers in domestic traffic of 48.2% was observed, as well as in international traffic, where the growth was 28.8%. In the same period, the transport of goods recorded a decrease of 17.2%. The volume of work, expressed in tkm, recorded a decrease of 22.9% compared to the same period last year.

Traffic on inland waterways recorded a decrease in the amount of transported goods of 9.6%, and the volume of work, expressed in tkm, decreased by 8.6%.

Oil transportation by pipelines decreased by 4.6% in the amount of oil transported, and in realized tkm a decrease of 5.9%. Natural gas transport is lower by 9.0%.

In the cross-border traffic of road passenger vehicles in the first half of 2023, the number of vehicles with domestic registrations increased by 0.5% compared to the same period in 2022. Of the total number of vehicles with foreign registrations that entered our country, the majority are vehicles with German and Austrian registrations.

Classic postal services in the first half of 2023 recorded a decline compared to the same period in 2022. In the case of letter shipments, a decrease of 18.4% was recorded, and in the case of parcel shipments, there was a growth of 72.6% compared to the same period last year. Payment services recorded a decrease of 4.6%.

A decrease of 17.6% was observed in fixed telephony, as well as in mobile telephony, by 1.2%.

The total number of employees in traffic is 1.3% lower compared to the same period of the previous year.

Conclusions

The comprehensive evaluation of the Serbian transport system leads to the conclusion that technical interoperability and strategic resilience are the two pillars upon which future competitiveness rests. The data suggests that while road transport remains the dominant mode



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for regional trade, its vulnerability to fuel price spikes-exacerbated by the 2026 Gulf conflict-necessitates an urgent and systematic modal shift toward rail and intermodal transport.

Serbia's position as a primary logistics hub is solidified by its role in Corridor X and its connections to major maritime gateways like Piraeus and Constanța. However, the realization of this potential is hindered by existing infrastructure bottlenecks and the complex regulatory requirements for „Green Logistics.“ The skeptical approach of carriers toward new emission-reduction technologies, contrasted with the increasing demand for decarbonized supply chains, creates a „transitional gap“ that can only be bridged through state-supported infrastructure modernization and the adoption of Logistics 4.0 digital frameworks.

Furthermore, the concentration of export power within a few heavy-industry giants (copper, steel, and automotive) requires a specialized logistics approach that balances high-volume bulk transport with high-tech „just-in-time“ deliveries. In conclusion, the Serbian transport sector must evolve from a passive transit corridor into an active, digitally-integrated logistics node. The future success of the industry will depend on its ability to harmonize local technical standards with EU directives while leveraging AI and automation to navigate the volatile global economic landscape of the late 2020s.

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**GEOECONOMIC APPROACH TO THE DEVELOPMENT OF
MOUNTAINOUS REGIONS IN KHANH HOA PROVINCE, VIETNAM**

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Abstract:

The report is based on a broad geo-economic approach to problems specific to regional development in Vietnam. The analysis shows that among the factors influencing household incomes in the mountainous regions of the country, the most prominent are: the ethnic characteristics of minority communities; the size of the traditional local household; the number of livelihood activities; and the household's access to productive land.

The study suggests some suggestions, primarily for local governments, to improve regional resilience through activities to diversify the livelihoods of ethnic households in these regions. First, the local government should have a policy for the allocation of land resources in the region - especially arable land, productive forest land, etc. Secondly, traditional agriculture can be enriched by expanding local agro-forestry activities to give households access to new knowledge and techniques in agricultural activities to transform traditional methods. Thirdly, effective measures should be developed to create jobs and promote off-farm livelihood activities. Last but not least, education and vocational training of young members of the community should be promoted so that they have access to science, technology and new knowledge.

Key words: geoeconomic approach, regional development, agrarian economy, livelihood, agriculture, local authorities, geographical complex

JEL: R11, R58, O18, Q01, F63

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Introduction

The issue of overcoming regional disparities and eradicating poverty is a major theme in the development policy of contemporary Vietnam. It is considered comprehensively and to solve it, the state and local communities have set themselves a number of intersectoral goals.

Due to numerous difficulties and disadvantages, the mountainous region of the country continues to report a high percentage of poor households, although the state has paid very serious attention to this phenomenon over the past decade. Many initiatives, policies, programs, projects and organized implementation have been implemented to promote the socio-economic development of Vietnam. The mountainous regions are gradually undergoing significant change in the face of local communities and the local economy. The sustainability of poverty reduction is still not high enough, but with the deepening of intra-regional integration, a large number of households are beginning to „emerge from the poverty threshold“.

1. Economic significance of the concept of household. Types and main characteristics

Household as a basic concept in the socio-economic fields of science has existed for a long time, and today it is also objectified in the practical-applied field of management and develops thanks to its key role in public relations. On a global, continental, national, regional and local scale, households adapt during different historical periods, and the economic forms of organization associated with them show their vitality by absorbing the resources of the immediately inhabited natural/geographical complex and at the same time building a unique anthropogenic environment.

In the modern geoeconomic conditions of Vietnam's development, it is of utmost importance to characterize the common features and systemic nature of large groups of households for the purpose of their effective integrity at the local, regional and national levels. These are the production and business activities of family and community members who try to build a model through which to create more material goods, guarantee the nutrition of their members and increase their general well-being (Nguyen Thi Huong Diu, 2009).

Three main forming criteria can be mentioned, which are invariably manifested in the definition of the concept of household everywhere in the world: the presence of blood ties and marriage; living together; the presence of a common economic base. Vuong Thi Van (2009)



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notes that the majority of households in Vietnam consist of people who are related by marriage or blood ties. Therefore, the concept of household is often understood synonymously with family, and families in turn can sometimes be grouped under the general concept of household - for example, for statistical purposes.

We will note that households themselves do not form a homogeneous economic sector, because in the long term they are based on generational experience in various economic fields and human activities. But geoeconomic rationality tells us that modern households can belong to individual, private, or collective economic structures and organizations.

2. The household as an object of study of regional science

The determining influence of the natural environment in the initial stages of development of economic science is the main reason why households are the main object of study, mainly in its agrarian direction. Today, regional approaches to planning and forecasting in Vietnam create prerequisites for the application of interdisciplinary science for spatial and territorial development of specific regions in the country. In rural areas, both agricultural and non-agricultural production activities are increasingly being developed and implemented, and under these conditions, the classical agrarian economy turns out to be insufficient. Economic processes there are realized through the active role of households, which are characterized as farmers (Tran Xuan Long, 2009). And today it is not enough to look at these households as using mainly family labor in agricultural production, or to think that they collect means of subsistence from the land, while partially participating in the market and operating with a low degree of resource absorption.

At the turn of the 21st century, Frank Ellis (1988, p. 19) defined „... *farm households as households engaged in agriculture that earn their living on their own land, using mainly the labor of farm families for production, often within the framework of the larger economic system, but characterized primarily by partial participation in markets and a tendency to operate with a high degree of imperfection*”. Around the same time, referring to the concept of farm household, Le Dinh Thang (1993, p. 19) linked the regional development of Vietnam to the systemic role of farmers, who are „... *the socio-economic cell, the basic economic form in agriculture and rural areas*”.



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The application of different approaches and concepts to households does not change the geodemographic fact that they share common characteristics, which are:

First, the household is the basic and common set of members who most often share the same blood and/or genetic lineage. But in modern societies, cases where household members are not related by blood are not uncommon - adopted children, foster parents, value agreement, etc.

Secondly, the household necessarily manifests itself as an economic entity, through the common source of labor and its division; there is a joint capital or program, production or business plan. The household is an economic unit that simultaneously produces and consumes, has a common resource and financial budget and distributes it according to the family agreement/tradition.

Thirdly, in addition to traditional agricultural activities, local residents are increasingly opening up opportunities to participate in non-agricultural activities to varying degrees. In our opinion, it is not enough to determine the exact economic scope of the household's activities, but the spatial-territorial feature and the relationship between habitat/settlement, production and consumption must also be taken into account. For the purposes of analyzing and assessing the economic profile in a given region, households living in rural areas, but whose main income is not from agricultural production, should not be neglected.

3. Socio-economic perspective of the rural household

The most basic argument in the analysis of the economy based on a broad understanding of agriculture is that this mode of production and relations exists in all social regimes, although it conditions them in a different way. Each mode of production has its own natural basis and creates regularities of social development, in all cases striving to adapt to the prevailing economic conditions and mechanisms. The goal of a household is to have a high income, regardless of where it comes from. Agriculture, animal husbandry or the profession as the main and autonomous form of labor in the household are formed and developed in an objective, long-term way, based on private ownership of the factors of production.

- One of the main characteristics of the household in rural areas stems from the fact that economic activities are mainly based on family labor or available labor without the need for



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outsourcing. The members participating in household activities have close relationships with each other in terms of economy and bloodline.

- Land is the most important tool and indispensable resource for organizing the economic production of agricultural households.

- The household has a diversified and complex labor structure, there are many types of workers in a household, so the ability to directly manage all stages of production is evident, through direct participation in the process.

- Due to the coherence between managerial labor and production labor, the agricultural household minimizes production costs and this directly affects the result of labor, so as to consciously improve the efficiency and productivity of labor.

The adopted geoeconomic approach in the present analysis and for the purposes of this report, we will try to outline the socio-economic prospects for households in Vietnam according to their type grouping. According to Pham Anh Ngoc (2008), they are divided into different types:

A) Based on the objectives and operating mechanism:

- Fully self-sufficient agricultural producers who do not respond to the market. This type of household aims to maximize benefits, i.e. to produce necessary products for their own consumption. In order to have enough products, members have to work hard and this is also considered an advantage. In order to be self-sufficient for subsistence, their activities depend on:

- The possibility of expanding the area of land;
- The absence of a labor market, in which they will be prevented from selling their labor power for personal income;
- The existence of a market for products that can be exchanged in a traditional way.

- Agricultural households producing mainly goods. This type of household has a clear goal of maximizing profit and is highly responsive to the markets for capital, land, technology and labor.

B) According to the nature of labor in the manufacturing industry:

- Pure agricultural household. A type of household that is engaged solely in agricultural production;



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- Households specialized in services related to agriculture. These are households specialized in crafts such as mechanics, carpentry, masonry, blacksmithing, production of building materials, transport, crafts, technical services for agriculture.

- Household with a farmer. This is a type of household that simultaneously works in agriculture and is engaged in crafts, but the main source of income is from agriculture.

- Trading households. In densely populated areas, there are stalls or travel between distant markets.

Of course, we assume that the stability of the above types of households is determined primarily by the regional conjuncture, but they can also change when the dynamics of conditions require it.

C) Poor households. The concept of poverty at first glance seemed anti-economic, because since the beginning of the twentieth century, it has been defined as the lack of a certain amount of money necessary to „... *obtain the most necessary things*” (Rowntree, 1910). The World Summit for Social Development held in Copenhagen, Denmark, in 1995 estimated that „... *the poor are all those whose income is less than 1 dollar (USD) per day per person, the amount of which is considered sufficient to purchase the products necessary for survival*”.

In Vietnam, the concept of poverty was used, which was brought out in 1993 at the Conference on Poverty Reduction in Thailand. It is the result of a sub-regional consensus in Asia and states that „... *poverty is a condition in which a part of the population is unable to satisfy basic human needs, which depend on the level of socio-economic development, the style and customs of each region and these customs are recognized by society*” (Ministry of Labour, Invalids and Social Affairs, 2015). The government is considering:

- Absolute poverty. The problems of developing regions put households in living conditions at the very threshold of existence;

- Relatively poor. It is seen as providing inadequate physical and non-material opportunities for those belonging to a particular social class, relative to the well-being of a given society;

- Socio-cultural poverty. It is seen as the lack of opportunity to participate in social life due to financial deprivation.



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4. Identifying poor households in Vietnam as a problem of regional development of the country

One of the main methods used in Vietnam to determine multidimensional poverty is that of Alkire and Foster due to its simplicity and popularity. It is necessary to identify the dimensions of deprivation, determine the measurement indicators and deprivation thresholds in each dimension, determine how to calculate the degree of deprivation and the multidimensional poverty line.

Tables 1. Multidimensional poverty indicators in Vietnam

Poverty Dimension	Indicator	Deficiency Threshold	Score
Education level	1.1. Adult education	Household with at least 1 member aged 15 years or older who did not graduate from lower secondary school and is not currently attending school	10
	1.2. School attendance of children	Household with at least 1 school-age child (5-under 15 years old) who is not currently attending school	10
Medicare	2.1. Access to medical services	Households where someone is sick but does not seek medical care (illness is defined as an illness/injury so severe that he has to stay in bed and has someone to take care of him at his bed or at rest. work/school unable to participate in normal activities)	10
	2.2. Health insurance	Household with at least 1 member aged 6 years or older who currently does not have health insurance	10
Housing	3.1. Housing quality	Households are living in unstable houses or simple houses (Housing is divided into 4 levels: permanent house, semi-permanent house, non-permanent house, simple house)	10
	3.2. Housing area per capita	Housing area per capita of a household is less than 8m	10
Living conditions	4.1 Domestic water sources	Households do not have access to hygienic water sources	10
	4.2. Toilet/latrine	Household does not use hygienic latrine/latrine	10
Access to information	5.1 Using telecommunications services	Households with no members using telephone and internet subscriptions	10
	5.2 Assets for accessing information	The household does not have any of the following assets: TV, radio, computer and cannot hear the commune/village radio speaker system	10

Source: Ministry of Labour, Invalids and Social Affairs, 2015



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The multidimensional deprivation threshold is the level of deprivation that if the household lacks more than this level, it is considered as lacking in accessing basic social services. The Multi-dimensional Poverty Index (MPI) defines the threshold of deprivation for a household as lacking at least one-third of the total deprivation score. In Vietnam, the deprivation threshold for a household is one-third or more of the total deficit.

5. Policies for socio-economic development of the mountainous regions

Viet Nam has 53 ethnic minorities with 14,118,232 people, nearly 3 million households (accounting for 14.7% of the country's population), residing in communities in 51 provinces and cities, 548 districts, and 5266 commune-level administrative units, including 382 border communes (contiguous with China, Laos, and Cambodia). The area resides mainly in the Northwest, the Central Highlands, the Southwest, and the Central Coast, accounting for three-quarters of the country's total area.

This is an area with many valuable mineral resources such as gold, aluminum, tin, coal, antimony and has diverse flora and fauna ecosystems; where there is 14,415,381 ha of forest, is the watershed of aquatic life, associated with national hydroelectric projects such as Hoa Binh, Son La, Lai Chau, Tuyen Quang, Trung Son (Thanh Hoa), Ham Thuan-Da Mi (Thanh Hoa). Both provide electricity and water for downstream and delta areas' production and daily life.

In the strategy for socio-economic development and assurance of national defense and security, the Party and State have identified ethnic minorities in the Northwest, Central Highlands, Southwest, and Central Coast as the key areas, holding important strategic positions in the country.

The ethnic minority and ethnic minority areas have 5,266 communes, of which 1,957 are in zone III and 20,139 are in extremely difficult situations outside of zone III communes. Economic restructuring is slow, the proportion of ethnic minorities and ethnic minorities working in the agricultural sector accounts for a high proportion (more than 80%), and technical infrastructure is still low, not meeting the needs of development. socio-economic development.

Ethnic minorities have access to and enjoy basic social services at a very low level compared to the national average: more than 21% of EM people over 15 years old cannot read



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and write Vietnamese fluently; about 30% of ethnic minority students have not been able to attend school at the right age; The level of access to health services is still difficult. The rate of being granted health insurance cards is high, but the rate of medical examination and treatment is still low. The rate of pregnant women receiving regular check-up is only 71%, the rate of childbirth at home is 36.3%, malnourished children is 32%; Among ethnic minority households, nearly one third of households do not have access to hygienic water sources; More than 15.3% of ethnic minority households live in temporary houses, especially in 14 ethnic groups, which have a rate of temporary housing near 50%; Two-thirds of ethnic minority households lack sanitary latrines. The ethnic minority and ethnic minority areas have been and are „the poor core of the country.“ The average income of ethnic minority households in many places is only 40-50% of the average income in the region. The proportion of the ethnic minority population accounted for 14.7%, but the rate of poor households accounted for 55.27% of the total number of poor households in the country. Currently, there are 9 provinces where the poverty rate of ethnic minorities accounts for over 90% of the total; in 4 provinces, the poverty rate is from 70% to 90%. Some ethnic groups have a very high poverty rate of up to 70-80%, such as: O Du, Co, Kho Mu, Xinh Mun, La Ha, Khang, Mong, and Xo Dang.

High mountains, border, divided terrain, harsh climate, poorest infrastructure in the country, very low starting point; climate change; environmental incidents (landslides, saltwater intrusion in the Mekong Delta; tube floods, flash floods in the Northwest provinces; drought in the Central Highlands and Central Coast provinces) occur frequently and unpredictably. The cost of production and circulation of goods is high, so it is very difficult to attract social resources to invest in socio-economic development in ethnic minority and mountainous areas, greatly affecting the development, sustainable development of ethnic minorities and mountainous areas.

According to the provisions of Decree 05/2011/ND-CP dated 14/01/2011 of the Government on ethnic affairs, there are many ministries and branches (Planning and Investment, Finance, Education, and Training). Creation, Health, Home Affairs, Culture, Sports, and Tourism, Natural Resources and Environment, Information and Communication, Justice, National Defense, Public Security, and Ethnic Minority Affairs Committee) work together to develop, manage, and monitor policies in ethnic minority and mountainous areas.



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This leads to the majority of policies being developed and implemented according to the requirements and responsibilities of each ministry and sector, a lack of general coordination, thereby creating duplication, dispersion, and a lack of connection between policies book.

Ethnic minorities living in poor localities mainly receive support from the central budget, so it is difficult to integrate programmes and projects to implement ethnic policies while the central budget has not allocated enough private capital to implement policies, so many policies, but for lack of resources to implement, fail to achieve the set goals.

Together with the people's efforts and efforts, the economy in the ethnic minority and mountainous areas has made remarkable progress. The economic structure of localities has had positive changes, people's livelihoods are increasingly diversified, incomes are increasing, living standards are constantly improving, and poor households have decreased quite rapidly.

Conclusion

From 2016 up to now, the government have issued 41 documents referring to policies to support socio-economic development in ethnic minority and mountainous areas, including 15 direct projects and policies. So far, there are 118 documents accumulated, including 54 valid projects and policies, directly supporting socio-economic development in ethnic minority and mountainous areas. By the end of August 2018, there were 1,052 communes in ethnic minority and mountainous areas recognised as meeting new rural standards, a rate of 22.29%.

However, the economic situation and living standards of ethnic minorities are still far from the national average, specifically as follows:

Statistics according to reports of 45 provinces in ethnic minority and mountainous areas on economic structure show that:

- There are 11 provinces where the economic structure is industry, service, agriculture and forestry;
- There are 4 provinces where the economic structure is agriculture, forestry, industry, and service;
- There are 30 provinces where the economic structure is service, industry, agriculture, and forestry.



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According to the general trend, the economic structure of the provinces in the ethnic minority and mountainous areas is shifting towards gradually increasing the proportion of industry and services. However, labor restructuring is slow; labourers are still mainly working in the agricultural and forestry sectors. The strength of the provinces in the ethnic minority and mountainous areas is still mainly agricultural and forestry economic development. In which, the main activities are raising cattle, planting industrial crops, medicinal plants, and developing the forestry economy. The main industries are processing agricultural and forestry products mining and processing of minerals; and hydroelectric.

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**EUROPEAN SPATIAL DEVELOPMENT AND REGIONAL POLICY IN
BULGARIA IN THE CONTEXT OF PLANNING REGIONS**

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Abstract:

This article (report) is focused on regional issues and represents a theoretical approach that aims to present the European spatial development to what extent it is embedded in the regional policy of Bulgaria and from the point of view of the formation of new planning regions. In the introductory part, the author argues his views on the problems of regional development from the point of view of the optimal possibilities for indicator and indicative assessment, as well as the framework in a national and pan-European aspect of the built model of connectivity. The report identifies problems related to investment policy, investment process and planning assurance. A methodological framework of regional development processes is examined. Accordingly, possibilities for the formation of a new strategic regional policy are derived. The possibility of planning and development of districts and regions in the country is examined. The conclusion examines the author „s general views on European spatial development and regional policy in Bulgaria.

Keyword: change, development, territory, economy, integration, region

JEL: R11, F21, J18, L51, R38

Introduction

European spatial development and the implementation of regional policy at the national level largely depends on local development plans, which are mandatory for local authorities and are prepared for a 15-20 year period in order to achieve sustainable development indicators more quickly, relying on regional business and European spatial development programs and plans. Any such approach to regional policy requires it to be realistic and visionary, to be able to be implemented over time, to be revised periodically and to reflect important priorities -

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ensuring conditions for habitation and economic development, for commercial services, for recreation and sports, for building adequate communication, transport and engineering infrastructure. It is the duty of regional policy to prepare plans and programs that also indicate the restrictions in land use and development in order to preserve cultural and natural values, characteristic scale and landscape (Atanasov, D., Ivanova, B., Beluhova-Uzunova, R., Shishkova, M., Hristov, K., Sharipov, S., & Khasanov, I. 2023). Regional policy reflects the positive vision of local communities and is necessarily prepared with their participation, problems come to the fore when regional or local authorities lose the rhythm of improving public development. They miss ongoing trends and are thus in conditions of catching up, which affects the capacity of work in these administrations. An important role in the process of evaluating modern regional policy is played by public assessments, but not by administrative units, but by regional business and interested/affected parties, users of public services, which allows the assessment of regional policy to reflect the opinions received in the most transparent way possible. In this direction are also the discrepancies with the European Union policy for better regulation, introduced in the last decade in all EU member states (Tsonkov, N., & Zlatev, M. 2025). It aims to implement a comprehensive reform in the ways of forming sectoral policies and their implementation, to introduce the time component and deadlines for implementation, based on the principle of subsidiarity and distribution of responsibility, transparency and accountability, continuity and democracy. In a regional aspect, the concept of space is of fundamental importance for understanding our surrounding environment and the philosophy of life, as well as regional development policy, there is no unified opinion on whether it should be considered an object, a relationship between objects or part of a method of perceiving the world. A clear definition of the problem that is expected to be solved by implementing regional development policies, or deriving the causes of the problems, the scale of the impacts, the number of people affected, potential risks, expected impacts of changes made, etc. For this reason, this assessment attempts to define the objectives of the Spatial Planning Act (SPA) and the Regional Development Act (RDA) in order to demonstrate the philosophy of the need for positive change in spatial development through the implementation of regional development policies that have added value (Ivanov, M. p.553 -540, 2022). An important role in the overall process of improving the regional and local environment is played by regional business, and



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the regulatory environment that influences business is determined by the framework that shapes the local consumer market and determines business relations with the working classes of society. This affects the overall assessment of the regional environment, because in most EU countries they form their regional policy through a regulatory framework imposed on the public sector, which determines the contours of local economic development. The introduction of the impact assessment of regulatory acts is a relatively new approach, which is planned to be implemented through its institutionalization, part of which will result in the improvement of the regulatory framework in this direction, as well as the development of institutional and administrative capacity through the construction of a network of well-trained experts in the state administration. At the same time, business must try to respond to modernity by occupying local free spaces and new businesses that make it competitive and creative in front of the local society and public sector. Carrying out an impact assessment of spatial development and environmental assessment can have a significant impact on the business environment (Stoychev, K. 2018). On the other hand, regional development itself as a process includes the population-regional business and the public sector as components, with clearly expressed countries we can already deduce as a necessary condition for implementing a typical regional policy and its role on the optimal spatial development of regions in Europe.

Investment policy, investment process and planning assurance

The development of various sectors of the economy of countries such as Bulgaria or part of the European space, as well as the satisfaction of the needs of individuals and legal entities, the state and municipalities are determined by a successfully conducted investment process. In this direction, the imposition of the investment process model brings out the role of the entrepreneur. In this regard, in regional development or the public sector, the investment of financial resources in the construction of new, as well as in the reconstruction, renovation or expansion of existing buildings and facilities is preceded by territorial targeting of these investments, which is carried out through the development and approval of development plans and investment projects. In addition to serving private interests in building sites to satisfy their investment interests, the various plans and projects are also the basis for carrying out all public works activities, the construction of networks and facilities of the technical infrastructure,



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which are the obligations of municipalities and the state for the provision of quality public services (Vladev, I., & Vladeva, R.p.207-229, 2025).. The implementation of the investment policy of the state, municipalities and individuals and legal entities depends on the provisions of the current development plans. In order to implement any construction, it is necessary to first develop and approve a Detailed Development Plan (DDP) for the relevant land properties, which should be in accordance with the provisions of the General Development Plan (GDP). In addition to determining the specific purpose of the properties for development (their regulation for the purpose of development), the development plans ensure the construction of the social infrastructure sites, the networks and facilities of the supply and exhaust technical infrastructure, as well as the construction of transport links (streets and roads) providing transport access to them. As a rule, the construction of all construction sites is carried out in the urbanized territories of the country - the territories of settlements and settlement formations. Over the past 10 years, a serious trend of development of significant parts of the non-urbanized territories (agricultural and forest territories) has also been observed. The boundaries of the urbanized territories, as well as their expansion, are determined by the development schemes and general development plans, developed and approved in accordance with the Spatial Development Act (SDA). But they are not sufficient, a necessary prerequisite for the development of the land properties is that a detailed development plan be developed for them. The main purpose of the PUP provisions is to balance public and private interests in the investment process and to satisfy the needs of both the private owner and the society, to determine the possibilities for using planned investments, their development in compliance with the requirements for environmental protection and preservation of natural and cultural resources. The development of the investment activity of economic entities or in other words the use of planned investments through development with a view to realizing the investment interests of the owners is preceded by spatial planning activities, the ultimate goal of which is the designation of territories for development. Often this process is accompanied by procedures for changing the purpose of the properties, provided for in special laws (on agricultural lands and forests), as well as by compliance with the legislation in the field of environmental protection and biodiversity. The regulation of land properties for development purposes is subject to different rules, depending on whether they fall within the boundaries of urbanized



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territories or outside them, as well as on whether there is a valid detailed development plan for the area in which they are located. The restitution and privatization processes carried out in recent years, the establishment of sites owned by the state and municipalities, as well as the increased needs for the construction of new and the reconstruction of existing networks and facilities of the technical infrastructure owned by the operating companies, the state and municipalities, have increased the interest in the development and approval of new development plans, as well as in the amendment of the current development plans approved under the repealed public development laws. From what has been said so far, it can be concluded that the rules (regulations) laid down in the ZTA, according to which the process of regulating land properties is implemented, have an impact on a wide range of public processes and affect the rights and legitimate interests of various legal entities - legal and natural persons, owners of land properties, investors, municipalities, the state and other participants in the investment process. The design and approval of development plans, both at the initiative of the municipalities or the state, and at the request of interested parties, is regulated by the norms of the Spatial Planning Act. However, the mandatory basis of detailed spatial plans is the cadastre, as a set of data on the location, boundaries and dimensions, permanent purpose and method of permanent use of land properties and buildings. The spatial planning is characterized by publicity and transparency of all actions related to the spatial planning process at all levels of planning - from the territory of the entire country to the individual land property. The priority of public interests in spatial planning is a leading feature of the legal regulation of this activity.

Methodological framework of regional development processes

Public relations in the field of regional development are determined by the framework of regional development policy, but on the other hand it depends on the state of regional business. The entrepreneur has a significant importance in regional development, because in practice he invests capital and funds for the improvement of our surrounding environment, but these measures and programs go a long way in spatial planning, investment design, construction and the process of public works. The realization of some of the subjective rights of legal entities is permissible after verification by the state and municipal authorities of the fulfillment of previously determined legal requirements - for example, regulation of land properties for the



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purpose of construction, construction, operation of constructions for their intended purpose, etc. In addition to the above-mentioned regulations, the ZTA(ZUT) introduces a requirement for persons who carry out certain activities in the field of spatial planning, investment design and construction to meet special legal requirements - for example - designing spatial plans and investment projects, exercising consulting activities, construction, technical control, etc. Along with the procedures for permitting the performance of certain actions (designing spatial plans, performing construction), the ZTA (ZUT) also contains extensive legal regulation of various procedures for the performance of administrative-legal and administrative-technical services, which certify facts of legal significance, recognize or deny the existence of rights or obligations, or perform other administrative actions. The identification and analysis of problems in the process of implementing spatial planning policies require indicating its philosophy, main objectives, essential features and principles, on which both its relationship with other related laws related to the territory and its planning, and the implementation of its regulatory regimes depend (Borisov, P., Petrov, K., & Tsonkov, N. 2024).. The main difference between the registration and registration regime is the possibility that the administrative authority has to assess the appropriateness of issuing a permit and its activity under conditions of bound competence when carrying out registration. Registration regimes are also characterized by the conduct of administrative proceedings before a competent administrative authority during which a certain activity carried out by a specific legal entity is registered. In the registration proceedings, „in a manner similar to licensing, the administrative authority should verify whether the substantive and legal conditions for carrying out the activity are present and issue a decision on whether or not the person can carry out the relevant activity.”

Forming a new strategic regional policy

Current regional policy is focused on increasing economic and social cohesion in the European Union, which means that its main task is financial assistance to the regions. This is a method of distributing European Union funds so that the majority of them reach regions that are socially and economically disadvantaged. It should be remembered that the criterion for distributing European Union funds is the GDP (gross domestic product) of a given region - the level of wealth of citizens is only one of the elements that determine whether a given region



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will be covered by European Union funds. In this direction, a new approach is needed that does not slow down the development of rich regions and countries, but accelerates the development of lagging regions in unison with other territories. In order to help peripheral, suburban and rural areas, it is necessary to develop them further and raise employment levels and living standards. In this order, the European Union „s policy for the development of lagging regions has set three overarching objectives: improving the competitiveness of the regional economy, ensuring sustainable management of natural resources and climate protection, as well as balanced territorial development of rural, mountain and border areas (Georgieva, M. p. 32-34, 2021). EU regional policy supports these objectives. For this reason, the European Regional Development Fund (ERDF) and the European Social Fund (ESF) complement the European Agricultural Fund for Rural Development (EAFRD). The main areas of activity of the ERDF are related to the creation of jobs outside agriculture (new businesses, development of tourism activities, etc.). Developing accessibility and connections between cities and rural areas, in particular in the development of the so-called information society. It is very important to obtain support for regional business by supporting small and medium-sized enterprises (SMEs) operating in rural areas.. agriculture (support for innovation and new product development), the agri-food industry or forestry. Next is risk management and prevention in agriculture and forestry. Programming, planning and development of rural infrastructure, especially in the new EU Member States. An important part of the support framework is the rational use of the European Social Fund programmes, the aim of which is to improve the quality and availability of jobs and employment opportunities, promote active labour market policies aimed at combating and preventing unemployment, combating social exclusion. Especially in terms of developing human resources for the economy, developing entrepreneurship, increasing women „s access to and participation in the labour market and lifelong learning. In recent years, especially after the „coronavirus pandemic (Covid 19)“a new paradigm for regional development and the concept of place-based regional policy have prevailed in the EU. This requires in the next stage to seek opportunities to improve the regional economy at the level of settlements in the planning area. (Georgieva, M. p.40-47, 2023). This process must be accompanied by a new spatial and territorial reform. In fact, the planning area and the settlements within it become the main beneficiary of the network „s activities. Any project



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designed with visitors in mind will indirectly benefit the residents. Without the participation of residents, their ideas and commitment, it is impossible to meet the criteria for participation in the network. Additional support from municipal authorities will be crucial for projects that increase the value of villages. This will be essential for the implementation of action plans that meet the criteria for participation in the network. These plans will be developed based on the assessment of the potential of the settlements in the individual planning area (Tsonkov, N. I. 2025).

Approaches to territorial planning optimization

Within the EU, strong regional governance is generated by the power in territorial planning that regulates public relations that directly affect the physical environment of the territory subject to development. Development is carried out on the basis of spatial planning, which includes the preparation, approval and implementation of spatial plans and investment projects. This very characteristic feature of the law and the matter it regulates makes it not only specific, but also difficult to implement (Tsonkov, N. 2024). On the other hand, the wide range of participants in the process of spatial planning and in the process of implementing spatial plans and schemes is the basis for different points of view of the owner/client, the designer, the chief architect, the investor, the builder, the approver, the controller, the coordinator, each of them wants to see the law that regulates his rights and responsibilities recognize „their law”. But the actions and efforts (rights and obligations) of this entire „bouquet of actors” must be skillfully synchronized and coordinated, which is quite complex and delicate and which greatly complicates the regulatory regimes. The law on spatial planning is related to the operation of many other laws that have a direct or indirect relationship to the territory. The spatial planning is the result of the joint action of this large group of laws. This undoubtedly further complicates and multiplies the regulatory regimes. Some of the related laws further develop, „add” to the SDA in the scope of their subject matter and the interrelationships with them affect both the regulatory regimes of the law and the subject matter and philosophy of the law, in which case overlap, inconsistency, misunderstanding and „conflicts” can be observed. These are the laws whose subject matter is the entire territory, parts of the territory or elements of the territory and territorial resources - agricultural territories, forest territories, protected territories, disturbed



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territories for restoration (Marinov, P., & Mihailova, M. 2024). A characteristic feature of this apparent „overlap“ of the issues is the fact that the ZTA treats general development problems, and the laws in question treat specific technical and development problems. So there are no „conflicts“ and there should not be any. There is only a complementation, further development and specification of the issues of the ZTA. The connection with the Law on the Cadastre and the Property Register and with the Law on Regional Development is particularly significant. The connection with the Law on the Cadastre is clear and traditional, but often disputed. The cadastre provides the basis for development planning and unambiguously defines the main element of the territory - the land property. The connection with the Regional Development Act is also undeniable, although not yet so well-aware and recognized. Because territorial planning is the basis of regional planning. Territorial planning is an organic part of complex planning - economic, social, environmental and physical (spatial) - and thus is a prerequisite and tool for planning sustainable development. Territorial planning requires equality of participants in the process and balancing of individual (private) and public interests. It provides opportunities for the realization of proven public needs while at the same time guaranteeing the protection of the private interest of individuals and legal entities. Of course, the public interest is higher than the individual. The alienation of land properties for the construction of particularly important state and municipal sites - public property - is possible, but only with prior and equal compensation. On the other hand, spatial planning is an expression of state governance (Petrov, K., & Tsonkov, N. 2022) In the process of developing, coordinating and approving spatial plans and plans, legal relations are vertical - the acts by which they are approved are authoritative acts of state bodies, enacted within the limits of their competence by law. This undoubtedly complicates the process and regulations of the law, but is a necessary condition for publicity and democracy.

The structure of the territory is a process that categorically covers the entire territory, and not only the territory of settlements. The law regulates that spatial plans and plans determine the following types of territories: urbanized, agricultural, forest, protected and disturbed territories for restoration. The type of „urbanized territories“ includes not only settlements, but also settlement formations, which are already a serious component of the settlement network in the country. The types of „agricultural“ and „forest“ territories are not tied to the former division



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of funds, but to the actual use of territories with a diversity of land ownership. The introduction of the types of „protected“and „disturbed“territories responds to the current state of use of territories and the increased environmental sensitivity and awareness of society. They suggest that planning measures are needed to actively protect valuable territories with natural and cultural heritage and to carefully restore disturbed territories. Not only nature conservation territories are treated as protected, but also those with cultural heritage and existing green areas that are public property in settlements. The category of „territories for preventive protection” has also been introduced, which allows the preservation of valuable landscapes and territories with a traditional land use character (Vladev, I., & Vladeva, R. 2020). The role that is applied to the village should be similar. For example, according to experts, the village renewal program should be: „beautiful”, beauty has a positive impact on people. It should be functional; „alive“(i.e., develop and adapt to current needs) bringing benefits to residents, including material ones; stimulate further activities; contribute to the well-being of residents; preserve the „spirit of the place“or identify with the place where it was created. To this end, it should provide education at all levels, from primary schools. For example, subjects related to respect for local traditions, architecture, landscape, environment (Vladeva, R. 2024). Thus, adults will receive wishes to maintain moderation and common sense in all actions.

Planning and development of regions and districts in the country

Spatial development plans are developed in different territorial scopes - from the entire territory of the municipality and the entire territory of the settlement with its land to the territory of their smaller parts - zones, neighborhoods and even individual land properties. According to their territorial scope, development plans also have a different degree of detail. General development plans are strategic documents that define the general guidelines for the development of the respective territories to which they apply. They are subject to public discussion, but since they do not address the development and construction of individual land properties, they are not subject to appeal by citizens. This is permissible for detailed development plans that determine the development regime of individual land properties. The entire content of the regulatory regimes - permitting, coordination, licensing, registration, are relevant to the preparation, approval and implementation of development plans. The



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development of settlements largely depends on the measures of cohesion policy, the objectives of which directly affect local development. In general, the concept of cohesion in the context of the development of regional development of urban and rural areas is presented in a multifaceted context (economic, social and territorial), as well as the tourism potential with various methods for measuring it (Kabakchieva, D., & Vasileva, V.2025). Economic cohesion is related to the level of socio-economic development of a given region, which is the result of the state and structure of the economy and the financial condition of local authorities. Social (demographic) cohesion arises from the demographic situation and is quite often the result of economic development (Georgieva, M., p.283-292, 2024).. Therefore, territorial cohesion is related to the state of spatial development, resulting from both natural resources and human activity. Investment activities that improve spatial development should be interpreted as supporting socio-economic cohesion. This means that the territorial dimension refers, on the one hand, to harmonizing the functioning of rural spaces and demonstrating the possibilities for using the socio-economic potential in these areas, and, on the other hand, to creating conditions for the functioning of socio-economic activities. At the same time, in the process of creating EU policy instruments, increasing importance was attached to taking into account local development conditions. The local dimension usually meant the need to manage rural development policy measures that occupy most of the EU territory (Ivanov, M. p. 687-693, 2020). These assumptions were reflected in cohesion policy. The need arose to integrate this policy with the Common Agricultural Policy. As a result of this approach, the concept of rural cohesion policy emerged. In line with the priorities proposed in the Europe 2020 document (2010), it implies promoting rural development, which reduces social exclusion, based on the development of territorial cohesion and social justice. This approach promotes a broad redistribution of socio-economic benefits among all rural residents, with an emphasis on the quality of life and maintaining the vitality of rural areas, which means, among other things, creating jobs outside agriculture and preventing depopulation. In line with the concept of cohesion at the level of planning areas, the emphasis on interaction and the process of creating interdependencies between all sectors of the regional economy (sectoral and cross-sectoral partnerships) should be accompanied by a balanced set of instruments, such as green and tourism activities and other soft measures, to build the potential for cooperation and networking



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between entities and residents of statistical areas (Kabakchieva, D., & Vasileva, V. 2023). The state policy for statistical regions should be implemented by public and private organizations, non-governmental organizations and rural residents, forming strategic partnerships, such as local regional brands and action groups. This approach to the policy of assessing and analyzing the statistical region and its economy implies taking into account the assumptions of the concept of sustainable development and seeking solutions that emphasize the growth of non-agricultural economic activity in each statistical region. Attempts to reconfigure statistical regions are not a very measured move, because new regions will in practice have to start from scratch, and thus a number of strategic projects will be rendered meaningless, which in the new conditions will have to be reshaped and made anew. The main goal of development in any case is to counteract adverse demographic and economic processes, such as depopulation, decline in economic activity, reduction in property values, loss of cultural values, etc. The specificity of the Bulgarian regional development project is a shift in emphasis from the term „working“ to „calm“, which is associated, on the one hand, with the relatively significant degradation of material heritage throughout the country, and also with the emphasis on the role of various socio-economic processes that are currently leading to the growing importance of regional development with rural areas and their targeted impact (Ivanov, M. p. 329-33, 2021). The creation of smart villages, modern and innovative villages is largely a challenge that we are moving towards, but such a network offers an opportunity to cultivate the rural character and preserve the rural cultural heritage, as well as to provide opportunities for the development of rural areas and improve the quality of life of their inhabitants.

Conclusion

Society is called to live in conditions that it has created for itself. It is obvious that in order to implement the state policy for territorial development at the level of regions, districts and municipalities, coordinated work of the executive authorities and their administrations is required. As a result of the established regulatory environment, a regional development policy is being set with more deficits than benefits. On the other hand, although slowly, a regional development policy is being implemented, the connectivity and modeling of which are designed to spread impulses for development from more developed to less developed regions. In parallel,



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in both cases, a cohesive zone is being created by removing barriers to integrated development, but the question is to what extent business and the public sector are aware of the philosophy of regional development policy and how it understands the philosophy of its basing and branding. In other words, an integrated economic environment or zone is created as a result of the actions of various public entities towards territories with similar socio-economic characteristics, functional zones. These processes are spontaneous in nature and often affect the territory in different ways. In terms of legislation, it is distinguished from planning regions by emphasizing policies tailored to permitting, coordination regimes that aim to achieve specific results of spatial planning of the territory or the implementation of certain projects, but without clear economic benefits. The results are the ematization of cities and villages, as well as changes in the economy of the region. A thematic village is a village whose development is subject to a leading idea of the urban way of life, a theme or specific identity of the rural connection to the land is lost. This makes the village distinctive and unique. A thematic village is one of the ways to introduce villages into a new economy, in which services related to local traditions and the experience economy play an increasingly important role. This is a way to create innovative proposals for villages or individual farms with minimal investment does not always work, a specific approach and branding is needed. Given the above analysis, we believe that it is necessary, in the future improvement of the regulatory framework, to assess the appropriateness of preserving the permit and registration regimes for putting constructions into operation and to preserve the permit regime only for constructions of high public importance and those with a high risk during operation - for example, for constructions of the first and second categories. Some municipalities assign detailed development plans for the territories of residential complexes. The purpose of these plans is their comprehensive organization and the study of the potential of the territories on the one hand and the incorporation of the restored land properties of private ownership within the boundaries of the residential complexes. Municipalities assign these detailed plans in accordance with the rules of the ZTA and the Condominium Management Act, but encounter difficulty in providing information about the rules under which the initial plan for the specific residential complex was created. A large part of the planners perceive the requirement to comply with the restructuring plan with the development indicators set out in the initial plan as highly restrictive, motivating themselves with the changed socio-



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economic conditions. Another obstacle when assigning the plans for restructuring housing needs and implementing a new construction policy. It is common practice that when an entrepreneur with an investment intention for a certain property appears in the urban environment, a partial amendment of the current development and development plans with a scope of one property is allowed. This principle applies both to cities with current general development plans and to those settlements that do not have them. The results are a number of unbalanced solutions affecting both the urban environment and the immediate owners of real estate in the neighborhood and across the street. Real or actual costs and benefits are those that lead to a positive or negative net effect on society and measure the reduction in the well-being of society as a result of the regulation.

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**REGIONAL PLANNING IN EUROPE AND BULGARIA IN THE
CONTEXT OF THE 2028-2034 PROGRAMMING PERIOD**

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Abstract:

Regional planning within the European Union is on the threshold of a new programming period with a horizon of 2028-2034. This is a regular process in the planning of European priorities and their national versions, which are to be financially supported at regional and local level during the corresponding new medium-term period of seven years. In this context, several challenges are outlined facing regional planning - the expected completely new approach to European financing of the regions, the new regionalisation in Bulgaria and the technological transformation, which, through big data, digitalization and information systems in various sectors, also affects regional planning processes in a new way. As a result, it takes into account how these factors mutually influence and affect regional development. The research approach is conceptual, theoretically based on the new debate in regional research for a paradigm shift in regional planning.

Keywords: regional planning, regional development, European funding, technological transformation.

JEL:R11, R58,H77

Introduction

In the field of regional development, theoretical frameworks often appear to be subordinated to European regulatory requirements. At times, practical knowledge and approaches to regional intervention seem to derive primarily from the established European strategic framework. In fact, a large part of the theoretical and methodological approach to regional development is based on the European medium-term strategic framework, where not only specific objectives for the EU and their implementation through individual regions are integrated, but also the leading approaches that dominate the understanding of regional development during a given period.

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The thesis of the paper is that large-scale changes, such as the introduction of new national NUTS 2 regions, a new European approach to the development and funding of regional policies, and a technological transformation that influences planning and forecasting processes in the regions, create a qualitatively new environment, conditions, and requirements for strategic regional planning in Bulgaria (Nikolov, 2025). This qualitatively new environment demands much greater compatibility between national sectoral policies and strategies and regional planning. The territorial approach in this concept should be the leading principle for the implementation of policies and investments.

The paper „s focus is on the structural and institutional changes affecting Bulgaria from the regional period until 2027. This is a transformation that necessitates legislative changes, as well as structural ones concerning coordination, management, and horizontal and vertical interaction within the various new regions. Municipalities face the immense challenge of not only creating new development plans for the new programming period and the new regions in which they will interact, but also ensuring these plans connectivity within a completely changed model of European funding.

1. Analytical framework

Planning and programming related to the EU Structural Funds, as a more familiar process for financing activities in regions and municipalities, were not affected as significantly by the unstable political environment as the implementation of the Recovery and Resilience Plan. „This plan encapsulates the government „s strategy for overcoming structural issues in both economic and social domains”, but with normative, regulatory and policy reforms rather than just projects that are to be funded (Nikolov, Tanakov, 2025, p. 150). The reason is in its different nature as regulations and requirements for national governments. In implementing this new strategic document, it became clear that stable local and administrative power within the individual ministries is not enough, and problems in the legislative and executive branches directly affect the opportunities that this strategic document and European policy offer for Bulgaria.

One theoretically applied issue that crystallizes from this practice is about the role of stable political governance in the future strategic European and national planning for the



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development of the regions. This question is necessary because after 2027, the expected changes in the way of financing for the regions are rather in a direction close to the approach of the Recovery and Resilience Plan, which Bulgaria found difficult to implement, primarily due to political instability.

The second theoretically applied question in the EU is aimed at understanding the sustainable development of the Bulgarian regions, which is a leading foundation in strategic planning in the EU. The EU institutions are actively working towards a regional policy that implements sustainable regional objectives in the sense set out in the UN Sustainable Development Goals, with a corresponding European-specific focus on sustainability policies (Nikolov, Vasileva & Botseva, 2021). At the same time, the EU is working towards socio-economic resilience, stability and resilience to crises within the Community. That is why National Recovery and Resilience Plans have this focus and priorities recovery and resilience to crises. Therefore, the debate on sustainability in regional development is more fundamental than ever for the preparation of national, regional and municipal strategic documents in the field of regional development (Tsolov & Tanakov, 2021). In Bulgaria, more focus is needed to reconcile the two terms - resilience and sustainability, which are the product of different paradigms and are achieved with different approaches, policies and activities but are constructing the current regional development paradigm.

The challenges in the strategic regional planning in Europe and the EU could be summarised as follows:

1. Instability in the political governance. Frequent changes of governments, problems with national budgets, and external economic challenges that are common to Europe globally.
2. Lessons from the global Covid-19 pandemic that affect the focus of strategic regional planning and set horizons for prioritizing regional development through a mix of resilient and sustainable policies.
3. A technological revolution that also affects the processes of planning and development in the different states and their regions.
4. Problems facing the common security of the member states, as well as all European countries, have socio-economic consequences.



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For now, the EU „s priorities for the next period are expected to respond to these risks. For Bulgaria, the challenges are also primarily related to political stability, which is a factor in the negotiation process for the new programming period and the potential funding under the new programs and funds. The next challenge is to understand the different aspects of sustainability that it will develop in the regions, so that they complement rather than contradict sustainable development approaches. Strategic planning and development, based on big data, which changes the regional indicator information faster than the previously known practice, is also a new factor in national conditions. These are integrated data systems that will take into account, in a more up-to-date regularity the changes occurring from the implemented sectoral policies in individual regions of the country.

There is also a new trend in which the transformation of the EU approach to strategic regional planning is directed. The new proposal of the European Commission shifts from financing for implementation to reimbursement of costs with already achieved results. The new way of EU financing of regional policy is planned to be based more on reforms and investments, as a result of national political decisions. This approach requires much more effective cross-sectoral coordination at a national level.

2. Expected changes in the EU strategic regional planning 2028-2034

The EU Multiannual Financial Framework (MFF) for the period 2028 - 2034 is of key importance for Bulgaria „s new regional policy and strategic regional planning within the new NUTS 2 regions. The new approach to financing member states includes national and regional partnership plans. With this new approach, it is proposed that countries themselves choose which line of funding to prioritize. Parameters for national co-financing are also being discussed - 15% for underdeveloped regions, 20% for policies and projects related to cross-border cooperation, 40% for transition regions and 60% for developed regions. National Partnership Plans may include national, sectoral, regional, and territorial chapters. A separate chapter is required for socio-climate purposes, and there is a separate new fund for them, through which climate commitments in national and regional partnership plans will be ensured.



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These new plans are proposed to follow more of the approach of the Recovery and Resilience Plans - more reforms, accompanied by measurable milestones and results, so that they can be evaluated and then financed from the European budget. The positive reading of the changes should be in the direction that a simpler management of funds is achieved, because several funds are united in one strategic document. Countries are supposed to have more flexibility in setting their priorities. EU Member States will be able to redirect funds according to their needs or strategic priorities.

At the same time, there are many risks in such a large-scale structural change. In the event of instability in political governance, as in Bulgaria, these financial packages, dependent on reforms and policies, could be a challenge. The regions remain more dependent on the national framework. The leading foundation of the proposed new strategic approach to planning within the member states is based on the term „national-regional „interaction. It seems to work for federal states, but within a unitary state such as Bulgaria, it is rather a change towards more centralization of planning. In Bulgaria, there is no entity that is empowered to plan at a regional level, and at the regional level, planning is a continuation of the functions of the executive. With this new proposal of the European Commission could be expected a whole transformation of the regional funding approach for the period 2028-2034. One fundamental reason is the inclusion of the individual operational programmes into a common fund, which changes the current logic for separate directorates by ministries to deal with the management of sectoral European programmes. Their role is likely to be transformed, with their responsibility redirected to monitoring and shared responsibility with the other ministries „structures. With the new EU structural funding approach, the role of several specialised directorates in the Council of Ministers of Bulgaria has to be significantly strengthened in terms of strategic regional planning at the expense of sectoral ministries and their directorates-general for the management of European funds.

At the same time, the political factor occupies a more leading place than the managerial-administrative one, because thematic projects, divided within the framework of sectoral priorities, give way to nationally planned reforms and investments, which are primarily a political decision. „In the period 2028-2034 the percentage of EU funding under the various programmes, as part of the EU „s cohesion policy, will mainly depend on: the socio-economic



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situation of the region; its ability to attract private and public investment; and to add value to the territorial development aspects of the Union“(Tsolov, 2025, p. 198).

Arguments in favour of the new approach are that the single fund reduces bureaucracy and creates more flexibility for countries. At such an early stage, it is not clear how this approach will actually be in favour of the regional development in Bulgaria. With ongoing political and governmental crises, such a large structural change creates conditions for difficulties in dealing with the expected new EU requirements and a real strategic development of the Bulgarian regions.

3. Expected changes in the strategic regional planning in Bulgaria

Bulgaria will meet these changes with new NUTS level 2 regions. This is a qualitatively new structural situation for the regional development in the country. Such changes affect socio-economic planning, policy implementation and governance collaboration even if citizens have not reflected the transition in their daily life. „Regional changes are slow and rare”, but are impactful for the regional development process (Stoychev, 2019, p. 14). The new level 2 regions adopted by a decision of the Council of Ministers on March 26, 2025, are Northern, Eastern, Southern, and Sofia (including the district of Sofia - capital) (NSI, 2025).

In these conditions, what would the new plans for the development of municipalities for the period 2028 - 2024 look like, if the European path is to reduce the number of strategic documents for regional development? It could be assumed that the municipal development plans are more likely to be preserved as a national requirement for the provision of EU financing, but with a changed philosophy. According to the new directions of the EU regional policy, it is expected that EU funding will be achievable on municipal level, not for projects but for more reforms and investments, in greater synergy with national policies. This makes the derivation of local specifics much more difficult than in the previous period. In any case, in the new municipal documents linked to European funding, it is expected that there will be more requirements for sustainable development issues, but also taking into account the social aspects of this area. It is expected that a certain share of social topics will be maintained, although it is half the size of issues related to sustainable development. The new municipal plans will also have to include security topics, including crisis management and prevention. Demography is



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strongly represented through the topic of migration, and this does not exclude labour migration from third countries, as well as internal migration.

The largest share of priorities in such future documents can be expected from the area of topics covered by the European Regional Development Fund. It can be assumed that macro topics from the scope of the European Regional Development Fund, such as innovation and research, small and medium-sized enterprises, digitalization and connectivity, will remain as the main policy directions for a more competitive and innovative Europe. Mobility and regional transport connectivity also have the potential to remain a topic of connectivity in the regions. Employment and training, together with social inclusion and access to health services, are topics within the scope of the regional fund, but also fall within the required 14% social topics, so it can be concluded that they remain in the priority areas. The greener and low-carbon economy, realised through energy efficiency measures and renewable energy sources, is also part of the topics of the regional fund, but in the new conditions after 2028, these topics can be financed cumulatively by different funds, since their total share in the new plans must be over 40% of the planned activities. Water resources and water sustainability are also a more serious part of the future focus of regional development. A new direction is also the topic of an affordable and fair housing sector. At the same time, EU Member States may even be in a position to be able to choose for themselves which topics have greater weight in their national-regional plans and hence in local development plans.

In the period 2021-2027, a few state, regional and local administrations in Bulgaria opened special positions for regional development specialists. Local administrations, except Sofia Municipality, did not open special departments for strategic planning. With the change in the European approach to regional planning, the need for expert capacity with a profile of regional development is significantly increasing. One of the reasons is that it is not only about managing individual projects within separate sectors, but increasingly about integrated reforms and investments, in interaction with other partners within a given region, to achieve regionally relevant indicators. In this expertise need, regional development specialists will have an increasingly specific, autonomous and leading role in strategic regional planning and development at a local and regional level. Their role is also changing in sectoral governance at a national level, as sectoral ministries will increasingly have to look for the regional effect of



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the policies implemented, both in the planning and implementation of policies, as well as in the implementation of investments and the measurement of the results of the reforms carried out.

Such a change at the EU level, together with the many risks for regional planning and development in countries such as Bulgaria, also creates an opportunity for the establishment of a regional policy as cross-sectoral, coordinated, and structurally significant for the coordination of all sectoral policies.

4. Prospects for the new strategic regional planning in Bulgaria

In this context, it is important to pay attention to the conclusions made in the subsequent impact assessment regarding the implementation of the National Concept for Spatial Development for the period 2013-2025. „The main systematic conclusion of the ex-post evaluation is that the integrated territorial approach has been introduced conceptually, but has not been sufficiently implemented as a leading mechanism for the implementation of regional policy „(MRRB, 2025, p. 45). The biggest problem is the formal, but not the functional coherence of sectoral strategic documents, policies implemented and investments made, on the one hand, and spatial priorities for regional development on the other hand. This formal coherence does not allow for the achievement of results and the actual measurement of the effectiveness and efficiency of the impact of sectoral policies in the regions. It turns out that there is coherence at the level of document preparation, but then the individual ministries remain focused only on their portfolio and goals, and functionally integrate territorial goals into their work.

According to the results in the final report on the implementation of the National Spatial Strategy, coordination is needed over the ministries themselves in order to overcome the sectoral fragmentation of the policies and investments implemented in the regions. This results from the implementation analysis of the national spatial concept 2013-2025 is in line with our conclusions that in the period 2028-2034 the Central Coordination Unit of the Council of Ministers in Bulgaria should have a more major role in strategic regional planning and policy, with the methodological and operational support of the Ministry of Regional Development and its analytical expert unit the National Territorial Center (MRRBa, 2025). Such coordination of regional policy at a macropolitical level would hardly be functionally possible without a



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responsible Deputy Prime Minister who should be responsible for the coordination of the whole regional policy.

There is an insufficient territorial specification of sectoral investments and difficult to track the spatial effect of public investments by sectors. It is underlined that sectoral investments should have clear spatial parameters with separate spatial indicators. There is a weak coordination in the simultaneous preparation of different sectoral strategies. For the needs of regional development, a unified strategic calendar, real coordination and synchronisation in the public consultations during the preparation of national sectoral documents. A gap has been identified between strategic and budgetary planning. Conclusions are drawn about the insufficient spatial measurability of the objectives and results due to the lack of indicators for real spatial impact, and it is proposed to introduce such measurable „territorially sensitive indicators „(MRRBa, 2025). Attention is also drawn to the lack of expert capacity in the growing coordination and monitoring in the implementation of regional policy. There is a weak accounting of intra-regional imbalances and disparities, for which it is proposed that quantitative and qualitative analysis below NUTS level 2 be deepened. „The broad range of government policies (...) need to be well coordinated not only at central government level but also between central government and regional and local authorities“(Nikolov, 2019, p. 12).

From the prepared ex-post assessment and final report on the implementation of the national concept for spatial development and strategic regional planning as a whole, it becomes clear that at a expert level in Bulgaria, there is clarity about the problems related to the implementation of regional policy. It is important to note that the conclusions of the Bulgarian expert reports on the weaknesses in the current planning process, as well as the recommendations for improving the process, coincide with the most up-to-date standards discussed and proposed by the international scientific community in the field of regional research. The country needs to extend the functionality of its „institutional structure, administrative capacity, financial mechanisms, monitoring and evaluation of policies and projects” for enhancement of the conducted regional development measures (Nikolov & Botseva, 2018, p.37).



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It can be summarised that the strategic sectoral documents as a commitment of the individual ministries, have little correlation with regional policy, as well as with program budgeting and financing, which affects the targeted regional results. It concludes that there is limited political support for the quality of documents, emphasising the need for quality standards and external performance evaluation.

Conclusion

A significantly different strategic framework at the EU level for the 2028-2034 programming period is forthcoming. There is reason to expect a structural change in the processes of planning and implementation of management activities in the field of regional development. The transformation discussed at the macro level is in the direction of European financing against reforms and investments, with a clear result on the basis of which to reimburse expenditures incurred by countries. Such a structural change affects the way in which the state manages and organises processes in regional policy and the development of regions as a whole. The role of the Council of Ministers as a coordinator of sectoral policies, reforms and investments is strengthened with the aim of not sectoral change, but territorial results. At the micro level, the role of municipalities is changing, firstly because they will work within new regions, and secondly, because their work on European programs depends directly on changes in the supranational and national strategic framework and approach. The very communication between municipalities within the new regions is a new stage of interaction, because the created practice is in a different configuration of participants.

Concerning the approach for subsequent monitoring and analysis of strategic documents, new understandings are met at a theoretical level, with the conclusions made in the subsequent assessment of the Bulgarian concept of spatial development. Sectoral ministries are aware of the need for more specific indicators and the need for more up-to-date data to track them in order to have clarity on whether they are achieving a territorial effect with their activities.



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**INTEGRATED APPROACH IN THE CONTEXT OF NEW SPATIAL
REGIONALIZATION: CONCEPTUAL FRAMEWORKS,
METHODOLOGICAL CHALLENGES AND STRATEGIC
PERSPECTIVES FOR TERRITORIAL DEVELOPMENT**

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Abstract

This paper examines the role of the integrated approach in the context of new spatial regionalization, with particular emphasis on its conceptual foundations, methodological challenges, and strategic implications for territorial development. The study employs a mixed-method design, combining theoretical analysis with empirical evidence derived from Eurostat and the National Statistical Institute (NSI).

The findings reveal a highly polarized territorial structure in Bulgaria, characterized by a dominant economic core in the Southwest region and structurally lagging peripheral areas. The analysis identifies a dual imbalance between economic concentration and labor market performance, highlighting the limitations of traditional administrative regionalization.

The paper argues that the integrated approach should be reconceptualized as a governance framework grounded in functional territorial dynamics rather than administrative boundaries. The study contributes to the literature by proposing a conceptual linkage between integrated territorial governance and functional regionalization, supported by empirical evidence.

Keywords: *Integrated approach; Spatial regionalization; Territorial cohesion; Functional regions; Regional disparities.*

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Introduction

Over the past decades, regional development policies have undergone a profound transformation, shifting from sectoral and territorially uniform interventions toward more complex, integrated and place-sensitive approaches. This evolution reflects broader structural changes in economic organization, spatial dynamics, and governance systems, where territories are increasingly understood as interconnected systems rather than administratively bounded units.

In this context, the integrated approach has emerged as a key paradigm in territorial development, emphasizing coordination across policy domains, governance levels, and spatial scales. Simultaneously, the concept of spatial regionalization has been reconsidered, particularly in relation to the growing importance of functional territories defined by socio-economic interactions rather than formal administrative borders. These developments are closely linked to the objective of achieving territorial cohesion, which requires not only reducing disparities but also enhancing the capacity of regions to function as coherent and interconnected systems.

Despite this conceptual progress, a significant gap persists in the academic and policy-oriented literature. Existing studies often examine integrated approaches, spatial regionalization, or regional disparities as separate analytical domains, without providing a unified framework that captures their interdependencies. Moreover, the transition from administrative to functional regionalization remains insufficiently operationalized, particularly in contexts characterized by strong territorial asymmetries.

Bulgaria represents a particularly relevant case in this regard. The country exhibits a pronounced mono-centric spatial structure, with a high concentration of economic activity, population, and institutional capacity in the capital region, contrasted by persistent structural challenges in peripheral areas. This configuration raises fundamental questions regarding the adequacy of current regionalization models and the effectiveness of existing policy instruments.

Against this background, the present study aims to develop a conceptual framework for understanding the integrated approach in the context of new spatial regionalization. The paper seeks to bridge the gap between theoretical constructs and territorial realities by proposing a



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structured interpretation of how integrated policies, functional regions, and governance mechanisms interact within a single analytical system.

The contribution of the study is threefold. Conceptually, it advances the understanding of the integrated approach as a systemic governance framework rather than a coordination mechanism. Methodologically, it proposes a structured analytical model linking spatial regionalization and functional territorial dynamics. Empirically, it contextualizes these concepts within the Bulgarian territorial structure, highlighting their relevance for addressing regional disparities and improving policy effectiveness.

Literature Review

✓ Evolution of the Integrated Approach in Territorial Development

The integrated approach has become a central concept in contemporary regional policy, particularly within the framework of European cohesion policy. Its emergence reflects a gradual departure from sectoral policy-making toward more coordinated and territorially sensitive interventions. Rather than addressing economic, social, and environmental issues in isolation, the integrated approach seeks to combine multiple policy domains within a coherent territorial framework.

Early interpretations of regional policy emphasized redistribution and compensation mechanisms aimed at reducing disparities. However, more recent approaches highlight the importance of endogenous development, institutional capacity, and territorial specificity. In this context, the integrated approach is increasingly understood as a governance model that facilitates interaction between different actors, sectors, and levels of administration.

Importantly, the integrated approach does not merely imply coordination but requires the alignment of objectives, instruments, and spatial scales. This multidimensionality positions it as a key mechanism for addressing complex territorial challenges, including spatial inequalities, demographic imbalances, and uneven economic development.

Spatial Regionalization and the Shift toward Functional Territories

Spatial regionalization has traditionally been based on administrative divisions, which serve as the primary framework for policy implementation and statistical analysis. However, growing evidence suggests that these divisions often fail to reflect real socio-economic



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processes, particularly in the context of increasing mobility, urbanization, and economic interdependence.

The concept of functional regions has emerged as an alternative analytical framework, emphasizing the importance of actual interactions between territories. These interactions include labor mobility, commuting patterns, service accessibility, and economic linkages. Functional regions therefore provide a more accurate representation of territorial dynamics and offer a more appropriate basis for policy design.

The transition from administrative to functional regionalization represents a significant paradigm shift. It challenges established governance structures and requires new approaches to planning and coordination. At the same time, it opens opportunities for more effective and targeted interventions, particularly in addressing regional disparities and enhancing territorial cohesion.

Territorial Cohesion and Regional Disparities

Territorial cohesion has become a fundamental objective of regional policy, particularly within the European Union. It extends beyond economic convergence to include spatial balance, accessibility, and equitable distribution of opportunities across regions.

Research consistently demonstrates that regional disparities are influenced by a combination of structural, institutional, and spatial factors. Agglomeration economies tend to reinforce the dominance of core regions, while peripheral areas often face challenges related to accessibility, demographic decline, and limited economic diversification.

In this context, territorial cohesion requires policies that not only address disparities but also enhance the functional integration of regions. This involves improving connectivity, strengthening regional networks, and supporting the development of secondary urban centers.

Governance and Multi-Level Coordination

The effectiveness of the integrated approach is closely linked to governance structures and coordination mechanisms. Multi-level governance has become a defining feature of contemporary regional policy, involving interactions between national, regional, and local authorities, as well as non-governmental actors.

However, the complexity of these interactions often leads to coordination challenges. Institutional fragmentation, overlapping competencies, and differences in policy priorities can



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limit the effectiveness of integrated interventions. As a result, the success of the integrated approach depends not only on policy design but also on the capacity of institutions to cooperate and adapt.

In addition, the role of governance extends beyond coordination to include strategic planning, stakeholder engagement, and resource allocation. These functions are critical for ensuring that integrated policies are effectively implemented and aligned with territorial needs.

Research Gap

The literature reviewed above demonstrates that integrated approaches, spatial regionalization, and territorial cohesion are closely interconnected. However, these concepts are often examined separately, resulting in a fragmented understanding of territorial development processes.

In particular, there is a lack of comprehensive frameworks that integrate functional regionalization with governance mechanisms and policy coordination. This gap is especially evident in contexts characterized by strong spatial asymmetries, where traditional models of regionalization may be insufficient.

The present study addresses this gap by proposing a conceptual framework that links the integrated approach with functional spatial structures and governance systems. By doing so, it aims to provide a more coherent and analytically robust understanding of territorial development in the context of new spatial regionalization.

Conceptual Framework of the Integrated Territorial Approach

✓ Rationale for an Integrated Territorial Framework

The increasing complexity of territorial development processes necessitates the adoption of analytical frameworks capable of capturing interactions between spatial, economic, institutional, and social dimensions. Traditional approaches to regional development, largely based on administratively defined territories, often fail to reflect the functional realities of contemporary socio-economic systems.

In this context, the integrated approach should not be understood merely as a coordination mechanism between sectoral policies, but as a systemic framework that aligns territorial structures with real patterns of interaction and development. The shift toward



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functional regionalization further reinforces the need for such a framework, as it highlights the limitations of static territorial divisions and emphasizes the dynamic nature of spatial systems.

The conceptualization proposed in this study builds on the premise that territorial development emerges from the interaction of multiple, interdependent components. These components cannot be analyzed in isolation, as their combined effects determine the overall functionality and coherence of a territorial system. Accordingly, the integrated approach is conceptualized as a composite structure that links economic concentration, functional connectivity, institutional coordination, and spatial accessibility into a unified analytical model.

This framework responds to the identified research gap by providing a structured interpretation of how integrated policies operate within functionally defined territorial systems. It moves beyond descriptive analysis and offers a conceptual tool for understanding the mechanisms through which territorial cohesion and balanced development can be achieved.

✓ Structure of the Integrated Territorial System

The integrated territorial system is defined as a multi-dimensional construct consisting of four interrelated components. Each component represents a distinct but complementary dimension of territorial development, corresponding to key processes identified in the literature.

Component A: Economic Concentration

Economic concentration represents the structural core of the territorial system and reflects the spatial distribution of economic activity, production capacity, and investment flows. It is typically characterized by the dominance of specific regions, often metropolitan areas, which function as primary growth poles.

The literature on agglomeration economies suggests that economic concentration generates both positive and negative effects. On the one hand, it enhances productivity, innovation, and competitiveness. On the other hand, it contributes to spatial inequalities and the marginalization of peripheral regions.

Within the proposed framework, economic concentration is treated as a foundational dimension that shapes the overall structure of the territorial system. Its role is not evaluated normatively, but analytically, as a driver of spatial dynamics that must be addressed through integrated policy interventions.



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Component B: Functional Connectivity

Functional connectivity captures the intensity and structure of interactions between territories. It reflects the extent to which regions are linked through flows of labor, goods, services, and information.

Unlike administrative connectivity, which is defined by formal boundaries, functional connectivity is based on real socio-economic relationships. It includes commuting patterns, transport networks, digital infrastructure, and access to services.

The inclusion of this component is particularly important in the context of new spatial regionalization, as it provides the basis for identifying functional regions. High levels of connectivity indicate integrated territorial systems, while weak connectivity suggests fragmentation and limited development potential.

Functional connectivity therefore acts as a linking mechanism that integrates different parts of the territorial system and facilitates the diffusion of economic and social benefits.

Component C: Institutional Coordination

Institutional coordination represents the governance dimension of the integrated territorial system. It refers to the capacity of institutions at different levels-national, regional, and local-to coordinate policies, allocate resources, and implement development strategies.

The effectiveness of the integrated approach depends heavily on the quality of governance structures. Fragmentation, overlapping responsibilities, and limited administrative capacity can significantly reduce the impact of policy interventions.

Within the framework, institutional coordination is conceptualized as a mediating component that connects structural conditions (economic concentration and connectivity) with policy outcomes. It determines the extent to which territorial development processes can be managed in a coherent and strategic manner.



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Component D: Spatial Accessibility

Spatial accessibility reflects the degree to which territories are physically and functionally reachable. It encompasses transport infrastructure, geographic location, and access to key services and economic opportunities.

Accessibility plays a critical role in shaping regional development, as it influences both mobility and the distribution of resources. Regions with high accessibility tend to attract investment and population, while those with limited accessibility often face structural disadvantages.

In the context of the integrated territorial system, accessibility is treated as an enabling condition that supports connectivity and enhances the effectiveness of economic and institutional processes.

✓ Interactions between Components

A key feature of the proposed framework is the emphasis on interactions between components. Territorial development is not the result of isolated factors, but of dynamic relationships between structural, functional, and institutional dimensions.

Economic concentration generates spatial imbalances that require compensation through improved connectivity and accessibility. Functional connectivity, in turn, facilitates the integration of peripheral regions into broader economic systems. Institutional coordination ensures that these processes are guided by coherent policies, while accessibility enables the physical realization of these interactions.

The absence or weakness of any component can disrupt the overall functionality of the system. For example, strong economic concentration combined with weak connectivity may lead to territorial polarization. Similarly, high connectivity without adequate institutional coordination may result in inefficient resource allocation.

This systemic perspective highlights the importance of balance and coherence within the integrated territorial system. It also underscores the need for policy approaches that address multiple dimensions simultaneously rather than focusing on isolated interventions.



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✓ Conceptual Implications

The proposed framework provides a basis for reinterpreting the integrated approach as a systemic and multi-dimensional construct. It extends existing theoretical perspectives by explicitly linking spatial regionalization with governance and functional dynamics.

From a conceptual standpoint, the framework contributes to the literature in three ways. First, it introduces a structured model that integrates key dimensions of territorial development into a coherent analytical system. Second, it emphasizes the importance of functional relationships over administrative boundaries. Third, it highlights the role of institutional coordination as a critical factor in translating territorial potential into development outcomes.

By framing the integrated approach as a composite system, the study offers a more comprehensive understanding of territorial development processes and provides a foundation for further empirical analysis.

Methodology

✓ Research Design

The research design is structured in accordance with the conceptual framework of the integrated territorial system developed in the previous section. The study adopts a theoretically driven empirical approach, in which conceptual constructs are operationalized through measurable indicators.

The methodological strategy combines qualitative conceptual analysis with quantitative empirical verification. The qualitative component is used to define and structure the dimensions of the integrated territorial system, while the quantitative component is applied to assess their manifestation within the Bulgarian territorial context.

This dual approach ensures both theoretical rigor and empirical relevance, allowing the study to bridge the gap between abstract conceptualization and observable territorial dynamics.

Data Sources

The empirical analysis is based on official statistical data derived from:

- the National Statistical Institute (NSI) of Bulgaria
- Eurostat regional databases



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The selection of these sources is обусловен от тяхната надеждност, съпоставимост и съвместимост с европейските стандарти за регионална статистика. Данните са агрегирани на ниво NUTS 2, което съответства на аналитичната рамка на изследването. It is important to note that the data refer to different time periods due to reporting availability. GDP-related indicators correspond to 2023, while labor market indicators are based on the latest available data for 2025. This limitation is explicitly acknowledged and does not affect the analytical consistency of the study, as the objective is to capture structural patterns rather than short-term fluctuations.

✓ **Operationalization of the Conceptual Framework**

The four components of the integrated territorial system-economic concentration, functional connectivity, institutional coordination, and spatial accessibility-are operationalized through a set of measurable indicators.

Economic Concentration

Economic concentration is measured through:

- regional share in national GDP
- GDP per capita

These indicators capture both the absolute and relative distribution of economic activity across regions.

Functional Connectivity

Functional connectivity is approximated through:

- employment rate (population aged 20-64)
- proxy interpretation of labor market integration

Although direct data on commuting flows are limited, employment rates provide an indirect measure of the functional capacity of regional labor markets.

Institutional Coordination

Institutional coordination is assessed qualitatively, based on:

- policy frameworks



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- governance structures
- degree of multi-level coordination

Due to the lack of standardized quantitative indicators, this component is interpreted analytically rather than statistically.

Spatial Accessibility

Spatial accessibility is incorporated conceptually, based on:

- infrastructure development patterns
- territorial positioning
- access to economic centers

Given the theoretical orientation of the study, accessibility is treated as a contextual factor influencing both connectivity and economic concentration.

✓ Analytical Approach

The analytical approach is based on the principle of integrated interpretation, where individual indicators are not examined in isolation but in relation to each other.

The analysis follows three sequential steps:

First, the structural dimension of territorial development is assessed through indicators of economic concentration. This provides a baseline understanding of spatial inequalities.

Second, the functional dimension is examined through labor market indicators, which reflect the capacity of regions to sustain economic activity and employment.

Third, the interaction between structural and functional dimensions is analyzed, allowing for the identification of patterns of territorial imbalance and integration.

This stepwise approach ensures that empirical findings are directly linked to the conceptual framework and contribute to a coherent interpretation of territorial dynamics.

✓ Methodological Limitations

Several limitations should be acknowledged. First, the availability of harmonized regional data is limited, particularly with regard to functional indicators such as commuting flows and inter-regional interactions.



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Second, differences in data reference periods introduce a degree of temporal inconsistency. However, this does not undermine the validity of the analysis, as the study focuses on structural characteristics rather than short-term changes.

Third, the qualitative assessment of institutional coordination introduces a degree of subjectivity. This limitation is mitigated by grounding the analysis in established theoretical frameworks and policy documents.

Despite these limitations, the methodological approach provides a robust basis for analyzing the integrated territorial system and supports the objectives of the study.

Results

✓ Economic Concentration and Structural Imbalance

The first stage of the empirical analysis examines the structural dimension of the integrated territorial system, focusing on the spatial distribution of economic activity. The objective is to assess the extent to which economic concentration defines the territorial configuration of Bulgaria.

Table 1. Key indicators of economic concentration in Bulgaria (2023)

Indicator	Value
Total GDP	BGN 185.233 billion
Southwest region share	50.2%
Northwest region share	6.9%
GDP per capita (Sofia)	BGN 61,833
National average GDP per capita	BGN 28,733

Source: NSI (2023)

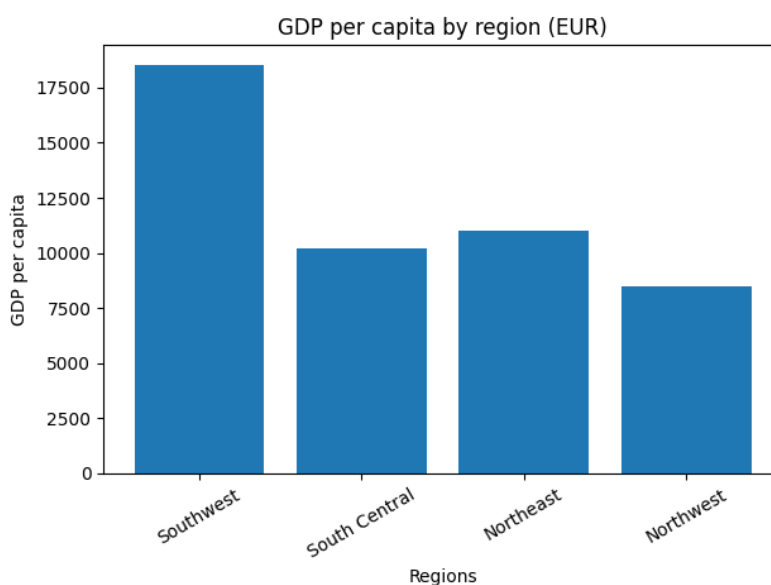
Table 1 reveals a highly uneven spatial distribution of economic activity. The concentration of more than half of the national GDP in the Southwest region indicates a dominant economic core, while the Northwest region remains significantly underrepresented.



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Figure 1. Regional concentration of GDP in Bulgaria (2023)



The graphical representation reinforces the findings from Table 1, illustrating the magnitude of regional disparities. The contrast between the Southwest and Northwest regions highlights the presence of a strongly polarized territorial structure.

From the perspective of the conceptual framework, this result confirms the central role of **economic concentration (Component A)** as the structural backbone of the territorial system. However, it also indicates a potential imbalance, where excessive concentration may limit the capacity for balanced regional development.

✓ **Functional Connectivity and Labour Market Performance**

The second stage of the analysis focuses on the functional dimension of the territorial system, approximated through labor market indicators.



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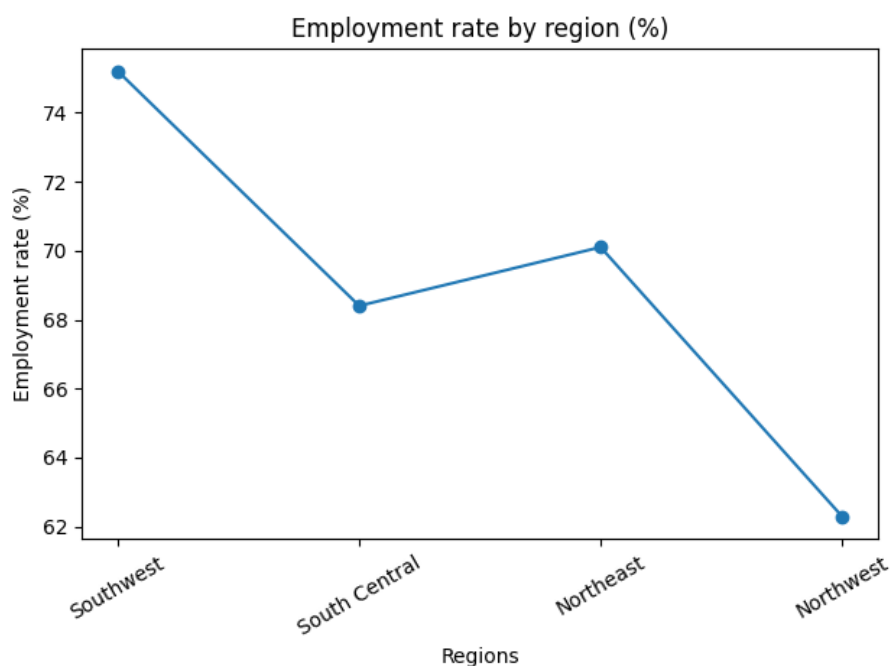
Table 2. Employment rate (age 20-64) by NUTS 2 regions (Q4 2025)

Region	Employment rate (%)
Southwest	82.6
Northeast	79.3
North Central	74.4
Southeast	72.7
South Central	72.6
Northwest	71.3

Source: NSI (2025)

Table 2 shows that employment disparities are less extreme than those observed in GDP distribution but still reflect a clear regional hierarchy. The Southwest region maintains the highest employment rate, confirming its strong functional capacity.

Figure 2. Employment rate by NUTS 2 regions in Bulgaria (Q4 2025)





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Figure 2 highlights the relative positioning of regions and reveals an important nuance: while economic concentration is highly centralized, labor market performance is more moderately distributed across regions.

This finding suggests that **functional connectivity (Component B)** partially mitigates structural imbalances by enabling certain regions to maintain stable employment levels despite lower economic output.

✓ Interaction Between Structural and Functional Dimensions

The third stage of the analysis examines the interaction between economic concentration and functional connectivity, which constitutes the core of the integrated territorial system.

The comparison of Tables 1 and 2 reveals a dual pattern. On the one hand, economic activity is highly concentrated in a single dominant region. On the other hand, employment distribution indicates a more differentiated territorial structure, with the presence of secondary regions exhibiting relatively stable labor market performance.

This interaction suggests that the Bulgarian territorial system cannot be described solely in terms of polarization. Instead, it reflects a hybrid structure combining strong centralization with limited functional diversification.

From the perspective of the conceptual framework, this result demonstrates that the relationship between **Component A (economic concentration)** and **Component B (functional connectivity)** is not linear. While concentration generates disparities, connectivity introduces elements of territorial integration.

✓ Implications for the Integrated Territorial System

The empirical findings provide important insights into the functioning of the integrated territorial system.

First, the dominance of economic concentration indicates that the territorial system is structurally imbalanced. This creates challenges for achieving territorial cohesion and requires targeted policy interventions.



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Second, the presence of functional differentiation suggests that certain regions possess the capacity to act as secondary development poles. However, this potential remains underutilized due to limited connectivity and institutional constraints.

Third, the interaction between structural and functional dimensions highlights the importance of a balanced approach. Policies focusing exclusively on economic redistribution or connectivity improvements are unlikely to be effective unless they are integrated within a broader territorial framework.

These findings confirm the validity of the proposed conceptual model and demonstrate its applicability in analyzing real territorial systems.

Discussion

The results of the empirical analysis provide a solid basis for interpreting the role of the integrated approach within the context of new spatial regionalization. When positioned within the broader European discourse on territorial development, the findings reveal both convergences and specificities that characterize the Bulgarian case.

At a general level, the observed pattern of economic concentration aligns with well-established theoretical perspectives in regional economics, particularly those related to agglomeration effects and spatial polarization. Similar trends have been documented across European regions, where metropolitan areas function as dominant economic cores. However, the extent of concentration observed in Bulgaria is particularly pronounced, reflecting a strongly mono-centric territorial structure.

This distinguishes Bulgaria from more polycentric development models, where multiple urban centers contribute to a more balanced spatial configuration. In such contexts, integrated approaches are often supported by well-developed regional networks and institutional capacity. By contrast, the Bulgarian case highlights the challenges associated with limited territorial diversification and weaker secondary centers.

The analysis of functional connectivity introduces an important nuance. While economic output is highly concentrated, labor market performance demonstrates a more distributed pattern. This suggests that functional relationships between regions are present but not sufficiently strong to offset structural imbalances.



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From the perspective of the conceptual framework, this finding confirms the importance of interactions between system components. Economic concentration (Component A) establishes the structural conditions, while functional connectivity (Component B) introduces elements of territorial integration. However, the limited effectiveness of this interaction points to constraints in institutional coordination (Component C) and spatial accessibility (Component D).

This interpretation underscores the central argument of the study: territorial development cannot be adequately understood through isolated indicators. Instead, it requires a systemic perspective that captures the interdependencies between structural, functional, and governance dimensions.

Furthermore, the findings contribute to the ongoing debate on spatial regionalization. The persistence of strong disparities suggests that administrative regionalization alone is insufficient to address territorial challenges. The shift toward functional regionalization, as emphasized in the literature, appears not only theoretically justified but also empirically necessary.

In this sense, the integrated approach should be reinterpreted as a mechanism for aligning governance structures with functional territorial realities. This implies a transition from static territorial divisions toward more flexible and adaptive spatial frameworks.

Conclusion

This study has examined the integrated approach within the context of new spatial regionalization, with a particular focus on its conceptual foundations, methodological implications, and empirical relevance.

The analysis demonstrates that the Bulgarian territorial system is characterized by a high degree of economic concentration and persistent regional disparities. At the same time, the presence of moderate functional differentiation indicates that the system is not entirely fragmented, but rather exhibits a hybrid structure combining centralization and limited integration.

These findings highlight the limitations of traditional approaches to regional development that rely primarily on administrative divisions. The results suggest that a shift toward functional regionalization is necessary in order to better capture the dynamics of territorial systems.



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The conceptual framework developed in this study represents a key contribution to the literature. By integrating economic concentration, functional connectivity, institutional coordination, and spatial accessibility into a unified analytical model, the study provides a more comprehensive understanding of territorial development processes.

From a policy perspective, the findings underscore the need for a more balanced and coordinated approach to regional development. This includes strengthening secondary urban centers, improving connectivity between regions, and enhancing institutional capacity for multi-level governance.

In conclusion, the integrated approach should be understood not merely as a policy tool, but as a systemic framework for managing territorial development in an increasingly complex and interconnected environment. Its effective implementation requires a shift toward functional thinking, coordinated governance, and territorially sensitive interventions.

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**THE NEW TERRITORIAL ZONING IN BULGARIA - EXPECTED
EFFECTS ON REGIONAL LABOR MARKETS**

Associate Professor Georgi Hristov Tsolov, Ph.D*

Abstract:

In the context of the transformation of the NUTS-2 planning regions in Bulgaria, it becomes obvious that the specific conditions affecting the regional labor markets have not been taken into account. The great concern is not so much the existence of an imbalance in this area, but rather the assessment of the effectiveness of the mechanisms for its reduction that have been applied so far. The dynamics of data on internal and interregional demand and supply of labor show that even where we have some positive trend, it most often manifests itself at the expense of labor migration from other regions in the country, which, in turn, is reflected in deepening demographic, economic and social problems in almost all planning regions. In the future, it is not enough just to overcome the centripetal force of the labor market in the capital Sofia. In order to avoid the development of the above-mentioned negative trends, management efforts should be directed not so much towards overcoming the existing regional imbalances in the labor market, but rather towards undertaking policies and programs to achieve a balanced labor market in an inter-regional aspect. This cannot be done without the key participation of all stakeholders, who not only face each other on the labor market, but also consolidate their specific interests there. The principles of the integrated approach and partnership must have increasing weight and gradually replace the currently dominant administrative approach in the development and implementation of regional policies.

Keywords: *regional policy, labor market, imbalances, demographic factor, integrated approach, partnership, administration*

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Introduction

The territorial reform model in Bulgaria, which was proposed in the first half of 2025, is based on the administrative approach to reduce the number of NUTS-2 level planning regions from 6 (established during the negotiation period and in force since 2007) to 4⁷. At first glance, the goal is clear - to bring the statistical regionalization in the country into line with European standards, but the need to facilitate strategic management in our country was left in the background. The author is convinced that this centrally imposed change will not solve the problems related to the widely discussed regional imbalances. This report draws attention to one of the most acute deficits in national cohesion policies - the demand and supply of labor within and outside the labor market in Bulgaria.

Traditionally, the demographic component is considered fundamental in solving the problems related to regional imbalances in the labor market. But the future development of Bulgaria will be realized in the presence of absolutely new conditions (regional reform; digital and technological transformation of the Bulgarian economy and society; decarbonization and circular organization of industry; the global influence of geopolitical dynamics, etc.), which necessitates the raising of fundamental questions related to the adequacy of the forecasting models used so far. So far, they have been developed predominantly at the national level, where we are witnessing a „strategic segmentation“. There is no mutual assumption between the adopted concepts of competitiveness, sustainability, reindustrialization, technological modernization of Bulgaria, as well as in the efforts to achieve the effectiveness of demographic policy. The practice of assessing and analyzing imbalances in Bulgarian regions shows that their manifestation in local labor markets is the result of management reactions to the conditions for growth in different sectors and/or the assumption of a market discrepancy between the realization of available resources and the concentration of production not related to them.

⁷ • **Northern** – districts of Vidin, Montana, Vratsa, Lovech, Pleven, Gabrovo, Veliko Tarnovo, Targovishte, Ruse, Razgrad and Silistra;

• **Eastern** – districts of Dobrich, Varna, Shumen, Burgas, Sliven and Yambol;

• **Southern** – districts of Sofia, Pernik, Kyustendil, Blagoevgrad, Pazardzhik, Smolyan, Plovdiv, Stara Zagora, Haskovo and Kardzhali;

• **Capital** – limited to the city of Sofia only



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The author hypothesizes that the ability of the state administration in our country to influence the reduction of regional disparities in the labor market qualitatively deepens the spheres of direct influence of Bulgaria in terms of trade, competition, environmental policy and a number of other issues on the strategic agenda of the EU. Undoubtedly, the operational opportunities for collaboration and cooperation with our neighboring countries from SEE and the Balkan Peninsula, regional institutions and organizations will also improve, as well as generate additional potential for the application of the so-called by Joseph Nye Jr. „soft or persuasive power“ in international relations (J. Nye Jr., 2013)⁸.

The change in the regionalization of Bulgaria at the NUTS-2 level does not replace the need for real management measures aimed at solving structural and systemic problems such as: lack of investment, aging infrastructure, limited access to European funding, demographic decline and shortage of personnel in underdeveloped regions and/or in individual economic sectors. The legacy (if it can be defined as such) of the previous regional policy shows the urgent need for effective solutions in areas of key importance for the regional development of Bulgaria.

1. Effective combination of regional and market approaches in solving the problem of labor imbalances

The existing regional imbalances in the labor market in our country are determined not only by the uneven development of economic activity and the corresponding distribution of jobs between the various 28 administrative regions in the country. Figure 1 examines the data from the still existing spatial scheme at the NUTS-2 level in Bulgaria, where it is seen for example, that the South-West Planning Region (SWR) concentrates over 50% of the country's GDP, while the North-West and North-Central Regions (NWR and NCR) hardly exceed 15% together. Over the last decade (2014-2023), Bulgaria's nominal GDP⁹ has grown from BGN 84

⁸ In his book „*The Future of Power*“, Joseph Nye says that soft or persuasive power has many ingredients and will always be difficult to define, but in it he sees *"the power to make people want what you want"*.

⁹ The increase in Bulgaria's nominal GDP from 84 to 185 billion leva does not take into account inflation. The Consumer Price Index calculated by the National Statistical Institute (NSI) for December 2023 compared to January 2014 is 143.3%, i.e. inflation for the period under review is 43.3%. <https://www.nsi.bg/>



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billion to BGN 185 billion, with the bulk of the growth observed in the South-West Region (SWR), where it increased from BGN 39.7 billion in 2014 to BGN 93.9 billion in 2023, or by 50.7%. In nominal terms, this region contributes the most to the country's GDP.

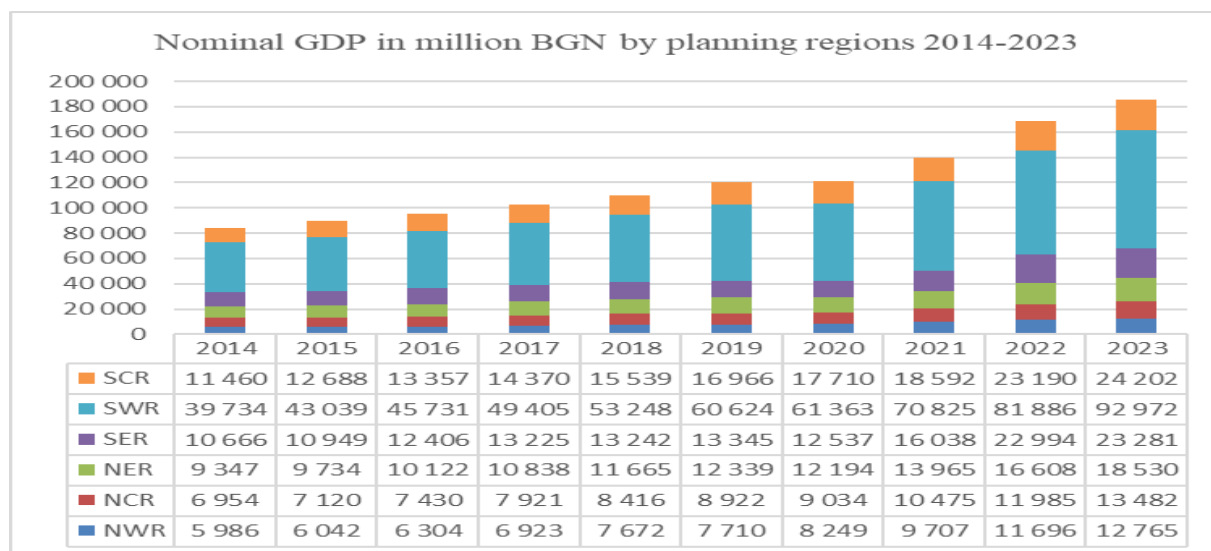


Figure 1. Nominal GDP in million BGN by planning regions, 2014-2023

Source: Database of the National Statistical Institute, processed by the author

The North-West Region (NWR) contributes only 6.89%. The South-West Region (SWR) includes the capital Sofia, which is characterized by a high concentration of population, production facilities and service activities. The South-Central Region (SCR) ranks second with BGN 24.2 billion (13% of the country's GDP), followed by the South-East Region (SER) with BGN 23.2 billion (12.6%). The three northern regions (NWR, NER, NCR) significantly lag behind the southern ones, with their total contribution to the economy equaling 24%, compared to the 76% total weight of the southern ones.

The fact that in the new territorial scheme, Sofia becomes an independent region within the administrative borders of the district-city, will hardly overcome the marginalization that has occurred in the Northern parts of Bulgaria. The new Northern region is being established as a collection of „poor“ or „lagging“ districts and municipalities, where existing economic activities, investments and development of sectors are concentrated in certain territorial centers with a crumbling periphery.



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In the field of regional policy in our country, after 2007 until today, the main European concepts, documents, models and good practices are cited, studied and to some extent applied, which are accordingly implemented in national legislation. The regional framework is constantly expanding, upgrading and adapting (Vladimirova, Atanasova et al., 2011), but with this the trends for deepening disparities (including those on the labor market) are strengthening. According to the author, one of the main factors with a sustainable negative impact is the lack of elementary organization and management of major markets in our country. Such are: the stock and exchange market; the foreign exchange market; the land market; the capital market; the investment market, the real estate market, etc., each of which has a determining role in the complex state of the economy and society. What can we say about the so-called „imaginary” markets - those of ideas, knowledge, technologies (crypto) and global ecology (the greenhouse gas emissions market).

Without claiming to be exhaustive, we will emphasize that the good functioning of the markets described so far makes sense of competition at the national and regional level as a mechanism that creates incentives for continuous improvement in the efficiency of the production of certain goods with available resources and technologies, resulting in an overall increase in welfare. However, when the structural functions of the above-mentioned markets are disrupted, the labor market itself will be relatively inefficient despite long-term policies to expand the economic activity of the population (Bulgaria 2030 Report, 2019).

2. Systematic coordination and management efficiency taking into account the role of all stakeholders

Regional imbalances in the demand and supply of labor are a reflection of a number of structural problems in the national economy. In the National Reform Program of the Republic of Bulgaria (NRP 2011-2015 and subsequent updates)¹⁰ and a number of other strategic documents, we often encounter recommendations that require coordinated policies to stimulate

¹⁰ The NRP 2024 was the last, as the reformed fiscal framework for economic governance in the EU came into force after mid-year. Under the new framework, a medium-term fiscal-structural document – the National Recovery and Resilience Plan (NRRP) – replaced the Stability/Convergence Programmes and the National Reform Programmes (NRP) used until now.



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investment in lagging regions, improve education and infrastructure, as well as promote the diversification of economic activities outside the traditional centers of growth. These documents, although they contain their spatial and territorial perspective, often come into conflict with the leading role of the Ministry of Labor and Social Policy (MLSP), which it has in the development and implementation of regulatory acts in the field of the labor market. The implementation of the strategic state policy in the field of the labor market is implemented mainly through the Employment Strategy, the National Reform Program (NRP) and the National Employment Action Plan (NEAP) for the respective year, as well as the National Migration Strategy 2021-2025, and the annual operational programs adopted by the MLSP.

In the context of the territorial transformation that began in 2025, the need for long-term, strategically linked and resource-secured solutions in the field of labor relations has crystallized. All participants in them are faced with a number of complex problems, and even in some administrative areas there is a refusal to actively work on this challenge¹¹. Its practical complexity stems from the need to take into account elements of the entire „map” of the socio-economic system - education; healthcare; the entire social protection infrastructure; the market and the goods offered; institutions and management mechanisms; the attitude of citizens to standards and quality of life, etc.

On the one hand, local administrations traditionally expect growth to be generated in Bulgarian regions through measures to improve human capital. But the equation also has an „other side” - investments in new technologies and capital. How could we provide assistance in areas such as: entrepreneurship, development and introduction of innovations at all levels, risk reduction from the manifestation of crises of different nature, accessible and responsible institutional environment, etc.? For example, policies for improving working conditions and wages in the public sector are implemented without taking into account the fact that in many

¹¹ **Analytical report of the Employment Agency** of the MLSP from 2023 - trends regarding imbalances in the labor market at the regional and sectoral level show that the qualified workforce is concentrated in the 6 largest regional centers and a shortage of qualified specialists is noted in the rest. <https://www.az.government.bg/pages/izsledvane-na-neravnovesijata-na-pazara-na-truda-na-regionalno-i-sekturno-nivo-izgotvjane-na-analiz-i-kratkosrochna-prognoza-za-razvitiето-na-pazara-na-truda-i-bydeshtoto-tyrsene-i-predlagane-na-trud-v-bylgarija-v-regionalen-plan-i-po-sektori-au/>

regions the state and municipalities are a significant, even main and unsubordinated employer to the usual business logic.

Over the past decade, Bulgaria has seen a trend in which the leading role in the country's economic structure is taken by the services sector (▲▲▲), whose weight fluctuates between 66.9% and 71.4% of GDP. The economic activities with the highest weight in this sector are the G-I nomenclature (transport, tourism and trade), followed by O-Q (government, education,

human health and social work). Industry (■■■), reports a weight of 23.7% to 28.5%. The agricultural sector (◆◆◆), has the highest weight in 2014 (5.3%) and the lowest in 2023 - 2.9%.

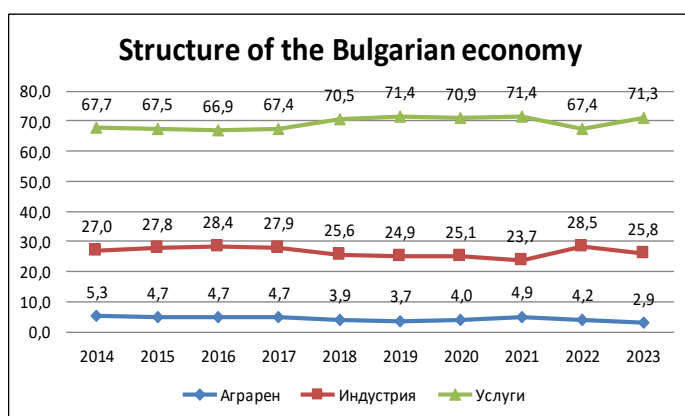


Figure 2. Structure of the Bulgarian economy

Source: Database of the National Statistical Institute, processed by the author

Despite the funding received under the EU Structural Funds, national statistics show that during the strategic periods (2014-2020; 2021-2027) no convergence of wages was achieved either between Bulgarian regions or between economic activities. Figure 3 shows the deepening differences in the indicator „average salary“ in the services sector of the regions in the remuneration of workers under similar conditions. This fact also provokes the high dynamics of internal migration, in which large cities in our country are overloaded, while the periphery declines. It should be clear to everyone that the concentration of resources in a few cities makes the economy vulnerable. This emphasizes the need to expand the scope of regional analysis with a special focus on industry/branch structures, which would ensure the convergence of regions in the wages of workers under similar conditions.

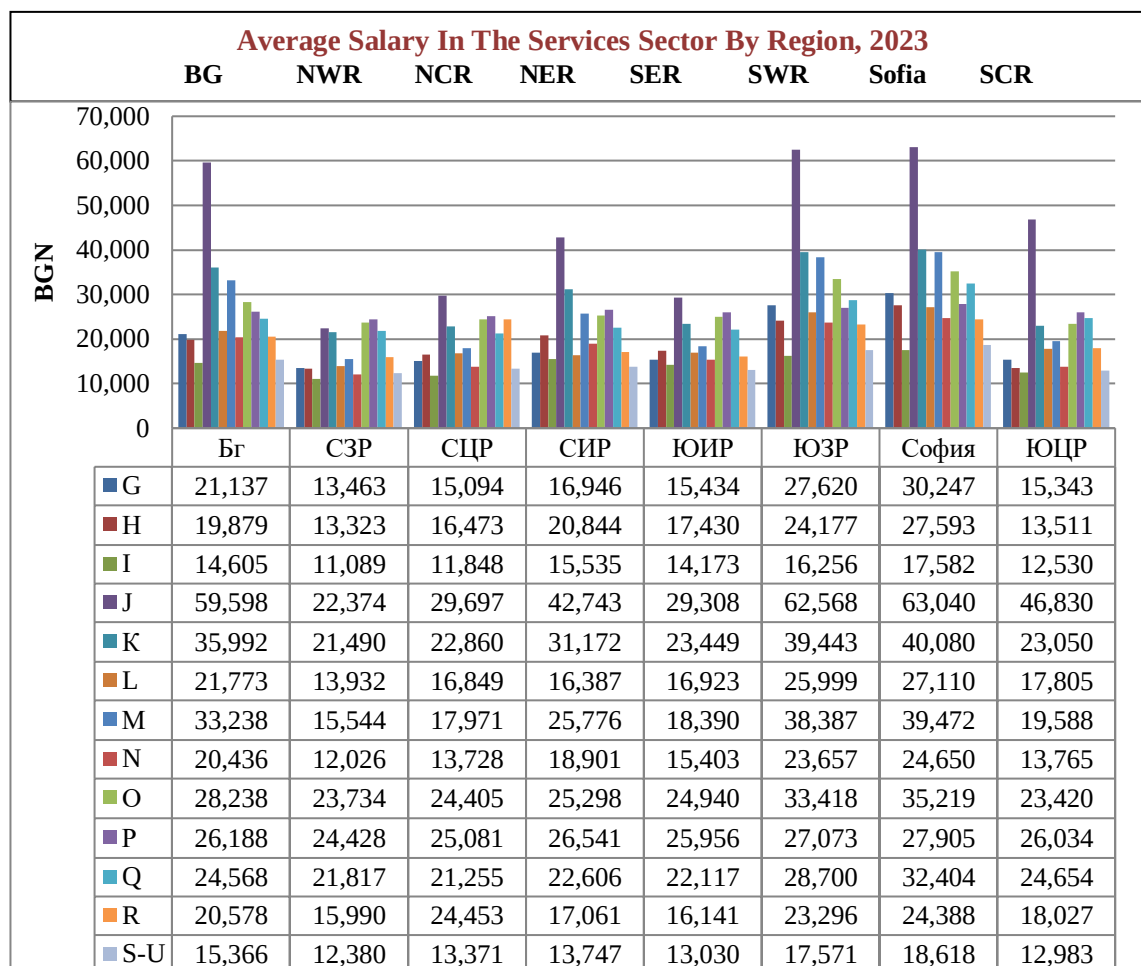


Figure 3. Dynamics of the average salary by activities and regions in the services sector

Source: Database of the National Statistical Institute, processed by the author

Objectively, we accept that the development of the services sector in Bulgaria is a sign of economic progress and modernization, but the data show that there is not even a minimal balance with other sectors to believe that there are guarantees for the sustainability of national economic growth. An economy focused primarily on services is extremely sensitive to external and internal shocks. In our case, we can look at the data from row „O” - public administration of the table to see that in the public sector, wages are inferior to only three of the listed activities and ahead of the other 8, both on average for the country and for the capital Sofia. Under the new territorial scheme of the NUTS-2 level regions, there is no inherent potential for limiting this risk. Before we even talk about regional labor markets, they need a qualitatively new



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strategy for sustainability, including diversification, technological independence and social protection of vulnerable groups.

3. An integrated approach to labor market problems and activation of partnership in the new regional structures

The new regionalization will inevitably lead to a transformation, which, however, should not be viewed only as a change in data related to differences between regions. The identification of all specific problems requires the adoption of a systematic, functional and structural approach to the organization and management of these territories and spaces. Even the approach to collecting, processing, researching and interpreting demographic indicators must be reoriented from considering them as statistical facts to placing them at the basis of medium- and long-term strategies that respond to the specific challenges for regions and local communities.

After the transformation at the NUTS-2 level, it becomes urgent to systematically and functionally ensure a new regional mechanism that is devoid of the currently prevailing hierarchical relationships. Effectively overcoming existing and new imbalances in regional labor markets is a main goal, requiring the active implementation of tripartite and multilateral formats of dialogue and partnership in the new regional structures. Decisions should be made locally and submitted to national institutions as „financing and implementation plans”. Of course, the responsibility for solving the complex of problems in order to achieve regional convergence is also assumed by local individuals. In the dynamic economic and social environment of the regions, this condition requires the establishment of new specializations and requires the acquisition of new competencies, not only among representatives of the administrations, but also in business and civil society.

This aspect of the analysis suggests that whatever the „Regional Development Councils”¹² currently operating under procedural conditions and dominated by the administrations become, the solution to the problems related to regional imbalances cannot be achieved without the establishment of a dynamic system for research and forecasting local

¹² **Ministry of Regional Development and Public Works (MRDPW)**. Regional Development Councils
<https://www.mrrb.bg/bg/regionalno-razvitie/za-grupirane/regionalni-suveti-za-razvitie/>



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needs. It must respond adequately to the regional conjuncture and be the basis for the type and resource planning of the necessary policies. Within the framework of the labor market, this system should take into account, for example, the different types of employment that businesses need, as well as their time horizons and duration. At the regional level, such an instrument would provide, on the one hand, consistency and predictability for market participants, with a clear commitment from state institutions and more effective planning of activities, and on the other hand, a better basis for forming local policies and making decisions based on data and tailored to real needs.

The European Labour Authority offers a model for a proper synthesis of the regional dimensions of the labour market. Based on this information, the OECD in its report on the labour market and social policies in Bulgaria concludes that regional imbalances clearly follow the specific differences in the structures of economic activities for the planning regions¹³. However, a more in-depth analysis of the management practice and the centralized approach in our country could provide an additional explanation for both the particularly large differences between the capital and the rest of the country, and for the smaller internal differences in the main indicators, distinguished by individual planning regions.

A similar conclusion is drawn from Hristo Dokov's study, which uses a variety of indicators and composite indices to show the different dimensions of territorial inequalities and the extent of existing imbalances: „*Despite its relatively small size, Bulgaria shows significant heterogeneity in demographic and socio-economic characteristics across its different regions. ...The revealed patterns of spatial development in the country often coincide with the idea that Bulgaria consists of Sofia and its periphery - a model that is reproduced at lower territorial levels, with central cities/towns playing a key role in socio-economic development*”¹⁴.

Let us take the Employment Strategy as an example as a key strategic document obliging governments to act for the effective reduction of the unemployment rate, the increase of the economic activity of the population and the growth of the labor potential of the labor force in

¹³ OECD (2025), *OECD Reviews of Labour Market and Social Policies: Bulgaria 2025*, OECD Reviews of Labour Market and Social Policies, OECD Publishing, Paris, <https://doi.org/10.1787/81e7cac7-en>

¹⁴ Dokov, H. (2024). *Bulgaria's regional policy: Analysing paradigm shifts and dynamics of territorial inequalities*. Environmental & Socio-Economic Studies, 12(3), pp. 37-50



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the country. Annex 1 (p. 60) lists the institutions and organizations responsible for implementing the objectives of the document. Without explicitly listing them, we will emphasize that it includes all line ministries, a number of executive agencies of the central government and nationally representative participants in the tripartite dialogue in the country¹⁵.

But what has been stated so far suggests that the main goal of all state institutions, in accordance with their function as a public intermediary, cannot be achieved if they do not acquire an adequate regional profile, and social partners and networks of stakeholders can effectively support this process.

4. Building a regional basis for labor market policies

Undoubtedly, the problem of the effective use of national labor resources is at the heart of efforts to achieve sustainable economic growth, increased productivity and competitiveness, a rapid pace of digitalization and transformation of the economy and society. The new Multiannual Financial Framework (MFF) of the EU for the strategic period 2028-2034 will require Bulgarian municipalities and local businesses to have a significant percentage of their own participation in any initiative financed by the Community. We will increasingly rely on energy, resources and human capital with immediate availability.

The implementation of the integrated approach in our country is not yet at the necessary level, but globally it has long proven to be a key factor in supporting regions, business and stimulating socio-economic growth. The condition for convergence of the Bulgarian economy requires that the regional aspects of national statistics be developed as a priority and that they be included in the planning basis of the strategies and documents already adapted to the new conditions¹⁶.

Here we want to strongly emphasize that this is not only an economic, but also a social imperative, which has often been ignored until now, and if this continues in the future, it would

¹⁵ **Employment Strategy of the Republic of Bulgaria 2021-2030.** Adopted by Council of Ministers Decision No. 515 of 15/07/2021, amended by Council of Ministers Decision No. 368 of 02/06/2022. <chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.mlsp.government.bg/uploads/26/zaetost/employment-strategy-2021-2030-2022.pdf>

¹⁶ Institute for Market Research (IMR). The Labor Market: Imbalances Have No Easy Solution. <https://ime.bg/articles/pazaryt-na-trud-disbalansite-nyamat-lesno-reshenie/>



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inevitably reinforce the long-term risks of fragmentation and inequality. The analysis of regional imbalances in labor markets is essential for overcoming social problems such as mass internal and external emigration, depopulation of rural areas, low levels of civil security and the critical effectiveness of public policies. To a large extent, the latter are understood as actions to ensure subsidized employment in underdeveloped municipalities, as a result of which an increase in employment is reported in Bulgaria. But at the same time, trade union organizations are alarmed that there is no reciprocal reduction in poverty among workers. In contrast to the European-wide trends, where an increase in regional employment leads to a decrease in poverty among workers, in Bulgaria the relationship between these two indicators is broken, as we believe that the observed differences in income among the employed are determined by:

- Individual factors (qualification, access to education, propensity to entrepreneurship);
- Structural features of the labor market (low wages, sectoral concentration, lack of collective labor agreements, gray economy);
- External economic influences (inflation, regulatory environment).

It is important to note that the negative phenomenon of the so-called the „working poor“ in the country is not limited to EU-subsidized forms of temporary or part-time employment - in a number of municipalities it even affects people with permanent employment contracts and full-time work, which highlights the depth of the problem.

Conclusion

The regional breakdown of the labor market becomes the main task of the development policy in the individual planning regions at the NUTS-2 level. The effectiveness of future interventions, however, depends both on the qualitative analysis of specific factors and on the conditions under which local resources are managed and utilized. Achieving cohesion in Bulgarian regions is currently viewed more as a result of administratively undertaken impact, and here it is urgent to reverse the process - the impacts of local and central authorities should be a response to cohesion needs. To address the emerging regional imbalances in the labor market, stakeholders can rely on:

- The nature of economic growth in the region. The growth of the local economy can be stimulated by many factors: the inertia of the growth of the national and/or European economy;



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the increase in investment activity; the boom in entrepreneurship; the exploitation of new natural resources; the mass introduction of innovations, technologies, productive models, etc. Then the business creates new jobs - at least (but not only) to meet the increasing demand for the products and services it offers.

- The dynamics of demographic changes. The latter are due not only to the so-called „natural population movement“ (birth rate, mortality, aging, etc.), but also to factors influencing the „mechanical population movement“ (migration). Disproportions can be expressed both in a shortage of labor in some sectors and in a shortage of jobs.

- The level of technological innovation. In the anthropogenic environment, the introduction of new technologies will inevitably lead to the creation of new jobs (as well as the disappearance of others) and this applies not only to the production sphere. The creation of intelligent settlements in the regions under the so-called „Smart Cities“ model discussed by the EC is also a task of regional policy.

The socio-economic development of the regions is not an inertial process, especially if convergent goals are set in its name. In the future, it will depend on the economic structure and resource policy; European investment (cohesion) policy, supplemented by national budgets and finances; environmental policy; state policy in the fields of education, healthcare, youth, innovation, etc. It is hardly possible to name an area, sphere, direction and/or program of state influence that would not directly affect employment, the labor market and unemployment.

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**INTEGRATIVE METHODOLOGIES IN CONTEMPORARY SPATIAL
REGIONALIZATION: A SYNTHESIS OF GEOINFORMATION,
SOCIO-ECONOMIC, AND ENVIRONMENTAL INDICATORS FOR
SUSTAINABLE TERRITORIAL GOVERNANCE**

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Abstract:

This study examines integrative methodologies in contemporary spatial regionalization through the synthesis of Geographic Information Systems (GIS), socio-economic, and environmental indicators. Its primary objective is to develop a comprehensive analytical framework for sustainable territorial governance by combining spatial analysis with multi-criteria evaluation techniques. A mixed-methods approach is employed, incorporating quantitative spatial modeling, indicator-based assessment, and comparative regional analysis.

Particular emphasis is placed on the role of GIS in structuring and visualizing complex territorial datasets (Veselinova, UNWE). A composite sustainability index is constructed to assess regional disparities and identify development patterns. The findings indicate that the integration of heterogeneous data sources significantly improves the accuracy and analytical relevance of spatial regionalization.

The proposed framework facilitates evidence-based decision-making and strategic planning, underscoring the need to harmonize economic, social, and environmental dimensions within a unified analytical model. Limitations related to data compatibility and scale are also acknowledged. Overall, the study contributes to the advancement of interdisciplinary approaches in spatial planning and regional science and demonstrates applicability across diverse territorial contexts.

Keywords : *spatial regionalization, GIS, sustainability indicators, territorial governance, multi-criteria analysis, socio-economic development, environmental assessment*

JEL: R11, R12, R58, Q01, Q56

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1.Introduction

Contemporary spatial regionalization has evolved into a fundamental instrument for analyzing, planning, and managing territorial systems in the context of accelerating globalization, rapid urbanization, and increasing environmental pressures. The growing complexity of spatial processes, driven by economic restructuring, demographic changes, and climate-related challenges, necessitates the adoption of integrative and interdisciplinary approaches that go beyond traditional sectoral analyses. In recent decades, the concept of sustainable territorial development has gained prominence within both academic discourse and policy frameworks, particularly in the context of European regional policy and global sustainability agendas such as the United Nations Sustainable Development Goals (SDGs) (United Nations, 2015).

The relevance of the present study is rooted in the need to develop methodological frameworks capable of synthesizing heterogeneous data sources and analytical techniques into a coherent system for spatial decision-making. Traditional models of regionalization have often relied on single-dimensional indicators, focusing either on economic performance or administrative boundaries, which limits their ability to capture the multidimensional nature of territorial development (Boeing, 2017). In contrast, contemporary approaches emphasize the integration of geoinformation technologies, socio-economic indicators, and environmental variables in order to provide a more comprehensive understanding of spatial structures and dynamics.

Geographic Information Systems (GIS) have emerged as a key technological and methodological tool in this regard, enabling the collection, processing, analysis, and visualization of spatial data with a high degree of accuracy and flexibility. GIS-based approaches facilitate the integration of multiple data layers, including land use patterns, infrastructure networks, population distribution, and environmental characteristics, thereby supporting advanced spatial modeling and scenario analysis (Goodchild, 2007). Moreover, GIS technologies allow for the identification of spatial patterns, clusters, and disparities that are often not visible through conventional statistical methods, thus enhancing the analytical depth of regional studies.



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At the same time, the development and application of sustainability indicators have become central to the assessment of territorial systems. These indicators typically encompass three main dimensions-economic, social, and environmental-reflecting the core principles of sustainable development (OECD, 2008). The integration of such indicators into spatial analysis enables the evaluation of regional performance, the identification of development imbalances, and the monitoring of policy outcomes. However, one of the key challenges remains the harmonization of different data types, scales, and measurement units, which often complicates the process of comparative analysis and decision-making.

In response to these challenges, multi-criteria analysis (MCA) has been increasingly applied as a methodological framework for integrating diverse indicators into a unified evaluation system. MCA allows for the weighting, normalization, and aggregation of multiple variables, thereby facilitating the construction of composite indices that reflect the overall level of territorial sustainability (Malczewski, 2006). When combined with GIS, MCA provides a powerful tool for spatial decision support, enabling policymakers and planners to evaluate alternative scenarios and prioritize development strategies based on a comprehensive set of criteria.

The significance of integrating geoinformation, socio-economic, and environmental dimensions is further reinforced by the growing need for evidence-based territorial governance. Modern planning practices require not only accurate data but also analytical models capable of capturing the interdependencies between different components of territorial systems. This is particularly important in the context of regional disparities, where uneven development patterns can lead to social inequalities, economic inefficiencies, and environmental degradation. Integrated methodologies offer the potential to address these issues by providing a holistic perspective on spatial development and enabling more informed and balanced policy interventions.

Within this context, the main objective of the present study is to develop an integrative methodological framework for contemporary spatial regionalization, based on the synthesis of geoinformation technologies, socio-economic and environmental indicators, and multi-criteria analytical techniques. To achieve this objective, the study pursues several specific research tasks: (1) to examine the theoretical foundations and recent developments in spatial



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regionalization; (2) to identify and systematize key indicators relevant to sustainable territorial development; (3) to construct a composite index through the application of multi-criteria analysis; and (4) to evaluate the applicability and effectiveness of the proposed framework in supporting territorial governance.

Ultimately, this research contributes to the advancement of interdisciplinary approaches in spatial planning and regional science by demonstrating the added value of integrative methodologies. It highlights the importance of combining technological tools such as GIS with robust analytical frameworks in order to better understand and manage complex territorial systems. The findings are expected to be relevant not only for academic research but also for practical applications in regional planning, urban development, and environmental management.

2. Theoretical Framework

2.1. Concept of Sustainable Spatial Development

Sustainable spatial development represents a fundamental paradigm in contemporary territorial planning, aiming to balance economic efficiency, social equity, and environmental sustainability within a unified analytical and policy framework. This tri-dimensional model, often referred to as the „triple bottom line,“ underpins modern approaches to regional development and spatial governance (Elkington, 1997; United Nations, 2015). In a territorial context, sustainability is not merely an abstract concept but a spatially embedded process that reflects the interactions between human activities, natural systems, and institutional structures.

Economic efficiency in spatial development is typically associated with the optimal allocation of resources, enhancement of regional competitiveness, and stimulation of innovation-driven growth. However, purely economic approaches have increasingly been criticized for neglecting spatial disparities and uneven development patterns (Krugman, 1991). As a result, contemporary frameworks emphasize the need to integrate economic performance with spatial cohesion and balanced regional development.

Social equity, as a core component of sustainable spatial development, refers to the fair distribution of resources, opportunities, and services across different regions and population groups. It encompasses issues such as accessibility to infrastructure, quality of life,



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demographic dynamics, and social inclusion. From a spatial perspective, social sustainability is closely linked to territorial cohesion, a concept strongly promoted within the policy framework of the European Union (European Commission, 2011). Addressing regional inequalities and ensuring equitable access to public services are therefore essential objectives of sustainable territorial governance.

Environmental sustainability, on the other hand, focuses on the preservation and efficient use of natural resources, mitigation of environmental risks, and adaptation to climate change. Spatial planning plays a critical role in managing land use, protecting ecosystems, and reducing environmental pressures associated with urban expansion and industrial activities (MEA, 2005). The integration of environmental considerations into spatial decision-making processes is increasingly supported by geospatial technologies and environmental assessment tools.

The interaction between these three dimensions creates a complex and dynamic system that requires integrative analytical approaches. Sustainable spatial development cannot be achieved through isolated sectoral policies; instead, it necessitates coordinated interventions across multiple domains and scales. This has led to the emergence of integrated spatial planning models, which aim to harmonize economic growth, social inclusion, and environmental protection within a coherent territorial strategy (OECD, 2017).

2.2. Integrative Approach in Spatial Regionalization

The integrative approach in spatial regionalization reflects a methodological shift from traditional, single-factor analyses toward multidimensional and interdisciplinary frameworks capable of capturing the complexity of territorial systems. This approach is based on the recognition that spatial phenomena are inherently interconnected and cannot be adequately understood through isolated disciplinary perspectives.

A key characteristic of the integrative approach is its multidisciplinary nature, combining insights from geography, economics, environmental science, urban planning, and increasingly, data science and artificial intelligence. The convergence of these fields enables the development of more comprehensive analytical models that incorporate both quantitative and qualitative dimensions of spatial development (Batty, 2013). In this context, spatial



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regionalization is no longer limited to delineating administrative or functional regions but extends to identifying complex spatial patterns and relationships.

Another essential aspect of the integrative approach is the concept of spatial and temporal synergy. Spatial processes unfold across multiple scales-from local to global-and are influenced by both historical trajectories and future projections. Integrating temporal dynamics into spatial analysis allows for a better understanding of development trends, path dependencies, and potential scenarios. This is particularly relevant in the context of rapid urbanization and environmental change, where static models are insufficient to capture evolving territorial dynamics (Harvey, 2006).

The combination of quantitative and qualitative data further enhances the analytical capacity of integrative methodologies. Quantitative data, such as statistical indicators and geospatial datasets, provide measurable and comparable information about territorial systems. Qualitative data, including expert knowledge, stakeholder perspectives, and policy frameworks, contribute to contextualizing and interpreting these patterns. The integration of these data types is often facilitated through advanced analytical techniques such as multi-criteria analysis (MCA), fuzzy logic models, and participatory GIS approaches (Malczewski, 2006).

Geographic Information Systems (GIS) play a central role in operationalizing the integrative approach. Modern GIS platforms enable the integration, analysis, and visualization of diverse datasets within a unified spatial framework. Beyond their traditional role as mapping tools, GIS systems have evolved into sophisticated analytical environments that support spatial modeling, simulation, and decision-making processes. The increasing incorporation of artificial intelligence and machine learning techniques into GIS further expands their capabilities, allowing for the detection of complex patterns, predictive modeling, and real-time data processing (Goodchild & Li, 2012).

Moreover, the integration of GIS with emerging fields such as cognitive science and geospatial intelligence contributes to a deeper understanding of how spatial information is perceived, interpreted, and utilized in decision-making processes. This transdisciplinary perspective enhances the effectiveness of spatial planning by aligning analytical models with human cognition and institutional practices.



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In summary, the integrative approach in spatial regionalization represents a comprehensive methodological framework that combines multidisciplinary knowledge, multi-scalar analysis, and diverse data sources. It enables a more nuanced understanding of territorial systems and provides a robust foundation for sustainable spatial planning and governance.

3. Methodology

3.1. General Methodological Framework

The methodological framework developed in this study is based on an integrative, multi-layered approach that combines geoinformation technologies, indicator-based evaluation, and multi-criteria decision analysis to support contemporary spatial regionalization. The complexity of territorial systems, characterized by nonlinear interactions between socio-economic, environmental, and spatial processes, necessitates a structured yet flexible analytical model capable of integrating heterogeneous datasets and methodological perspectives (Batty, 2013; Malczewski, 2006).

The proposed framework is organized into three interdependent analytical levels: (1) geoinformation level, (2) indicator level, and (3) integration level. These levels are not isolated but interact dynamically, forming a feedback-driven system in which spatial data inform indicator construction, and aggregated indicators guide spatial interpretation and decision-making. This iterative structure enhances both analytical robustness and practical applicability in territorial governance contexts.

3.1.1. Geoinformation Level (GIS-based Analysis)

The geoinformation level serves as the empirical and analytical foundation of the model, focusing on the acquisition, structuring, and processing of spatially referenced data. Geographic Information Systems (GIS) are employed as the primary platform for integrating diverse datasets into a coherent spatial database, enabling both descriptive and analytical operations (Goodchild, 2007).

The spatial database is constructed through the integration of multiple thematic layers, including but not limited to land use and land cover (LULC), transportation and infrastructure networks, demographic distribution, economic activity zones, and environmental features such



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as protected areas and pollution levels. These layers are harmonized in terms of spatial resolution, coordinate systems, and temporal coverage to ensure consistency and comparability.

Advanced GIS techniques are applied to extract meaningful spatial patterns and relationships. These include overlay analysis for identifying spatial intersections between variables, buffer analysis for assessing proximity effects, and spatial autocorrelation techniques (e.g., Moran *I* and Local Indicators of Spatial Association) to detect clustering and spatial dependence (Anselin, 1995). Additionally, spatio-temporal analysis is incorporated to capture dynamic changes in territorial systems over time, enabling the identification of trends, transitions, and emerging spatial configurations.

The geoinformation level also supports the generation of spatial indicators and input variables for subsequent analytical stages. By transforming raw spatial data into structured information, GIS enhances the interpretability and usability of complex datasets, thereby facilitating evidence-based territorial analysis.

3.1.2. Indicator Level

The indicator level focuses on the conceptualization, selection, and operationalization of variables that capture the multidimensional nature of sustainable territorial development. Indicators are systematically grouped into three primary dimensions-economic, social, and environmental-in accordance with established sustainability frameworks (United Nations, 2015; OECD, 2008).

Economic indicators, such as GDP per capita, investment intensity, and labor productivity, are used to assess regional economic performance, competitiveness, and growth potential. These indicators provide insights into the structural characteristics of regional economies and their capacity to generate value and employment.

Social indicators encompass demographic structure, access to essential services (e.g., healthcare, education, transport), employment levels, and social inclusion. These variables reflect the quality of life and social cohesion within regions, as well as disparities in access to opportunities and resources. From a spatial perspective, social indicators are critical for identifying areas of marginalization and unequal development.



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Environmental indicators include measures of environmental quality (e.g., air and water pollution), resource efficiency (e.g., energy consumption, land use intensity), and vulnerability to natural and anthropogenic risks (e.g., floods, climate change impacts). These indicators capture the ecological dimension of territorial systems and highlight the sustainability of development trajectories.

The selection of indicators is guided by methodological criteria such as relevance to the research objectives, statistical reliability, spatial sensitivity, and data availability. Furthermore, normalization procedures are applied to transform indicators into comparable scales, typically using min-max or z-score standardization techniques. This step is essential for ensuring the consistency and validity of subsequent aggregation processes (OECD, 2008).

3.1.3. Integration Level

The integration level represents the core of the methodological framework, where diverse indicators and datasets are synthesized into a unified analytical model. This process is primarily based on multi-criteria analysis (MCA), which enables the systematic evaluation of multiple criteria with differing units, scales, and levels of importance (Malczewski, 2006).

The integration process involves three key stages: normalization, weighting, and aggregation. Normalization ensures that all indicators are expressed on a common scale, thereby eliminating distortions caused by differing measurement units. Weighting reflects the relative importance of each indicator within the overall framework and can be determined through various approaches, including expert judgment, analytic hierarchy process (AHP), entropy methods, or statistical techniques.

Aggregation combines the weighted indicators into a composite index, providing a synthetic measure of territorial sustainability. This step requires careful consideration of compensability effects, as high values in one dimension may offset low values in another. To address this issue, sensitivity analysis is conducted to evaluate the robustness of the results under different weighting scenarios.

The integration of MCA with GIS enhances the spatial dimension of the analysis, allowing for the mapping and visualization of composite indices. This spatial representation



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supports decision-making processes by highlighting priority areas for intervention and enabling the comparison of alternative development scenarios (Carver, 1991).

3.2. Mathematical Model: Composite Sustainability Index

The quantitative core of the methodology is the construction of a composite sustainability index, which aggregates multiple normalized indicators into a single synthetic measure:

$$SI = \sum_{i=1}^n w_i * I_i$$

where:

SI - denotes the overall sustainability index;

w_i - represents the weight assigned to indicator i ;

I_i - is the normalized value of indicator i ;

n - is the total number of indicators.

The additive aggregation model is selected due to its transparency and widespread application in composite indicator construction (OECD, 2008). Nevertheless, potential limitations such as compensability and inter-indicator correlation are addressed through robustness checks and alternative aggregation schemes where necessary.

3.3. Methods of Analysis

The analytical framework integrates multiple quantitative and spatial methods to ensure a comprehensive and multidimensional assessment of territorial systems.

GIS-based spatial analysis is used to examine spatial distributions, identify clusters, and detect patterns of regional inequality. Techniques such as spatial interpolation, proximity analysis, and spatial autocorrelation are applied to reveal underlying spatial structures (Anselin, 1995).

Cluster analysis is employed to classify regions into homogeneous groups based on selected indicators, facilitating the identification of regional typologies and development patterns. This method supports the delineation of functional regions beyond administrative boundaries.



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Principal Component Analysis (PCA) is applied to reduce data dimensionality and identify key factors driving regional development. By transforming correlated variables into orthogonal components, PCA enhances analytical clarity and supports index construction (Jolliffe, 2002).

Scenario modeling is utilized to explore alternative development trajectories and assess the potential impacts of policy interventions. This approach enables forward-looking analysis and supports strategic planning under uncertainty.

4. Results and Discussion

4.1. Advantages of the Integrative Approach

The implementation of the proposed integrative methodological framework reveals substantial improvements in both the analytical precision and interpretative capacity of spatial regionalization processes. By systematically combining geoinformation technologies with socio-economic and environmental indicators, the model enables a multidimensional assessment of territorial systems, capturing complex interactions that are typically overlooked in conventional approaches.

A key advantage of the integrative approach lies in its ability to enhance the accuracy and functional relevance of regional delineation. Unlike traditional regionalization methods, which often rely on administrative boundaries or single-variable classifications, the proposed framework incorporates a broad spectrum of indicators that reflect the structural and dynamic characteristics of regions. This leads to the identification of territorially coherent units based on functional relationships rather than arbitrary boundaries, thereby improving the validity of spatial classifications (Malczewski, 2006).

Moreover, the integrative methodology significantly improves the detection of latent spatial structures and hidden dependencies. Through the application of GIS-based spatial analysis and multi-criteria evaluation, the model uncovers patterns such as spatial autocorrelation, clustering, and diffusion effects. These patterns provide valuable insights into the mechanisms driving regional disparities, including economic polarization, demographic concentration, and environmental pressures (Anselin, 1995; Goodchild, 2007). For instance, the identification of high-value clusters in composite sustainability indices may indicate regions

with strong development potential, while low-value clusters may signal areas requiring targeted policy intervention.

Another important contribution of the integrative approach is its capacity to support strategic territorial planning and policy formulation. By generating spatially explicit and analytically robust outputs, the model facilitates evidence-based decision-making and enhances the transparency of planning processes. Policymakers can utilize the results to prioritize investments, design targeted interventions, and evaluate the potential impacts of alternative development scenarios. This aligns with contemporary governance paradigms that emphasize integrated, data-driven, and participatory approaches to spatial planning (OECD, 2017).

Furthermore, the integrative framework contributes to bridging the gap between scientific analysis and practical implementation. By translating complex datasets into interpretable spatial representations and composite indices, the model enhances the usability of analytical results for non-expert stakeholders, including public authorities, planners, and community organizations.

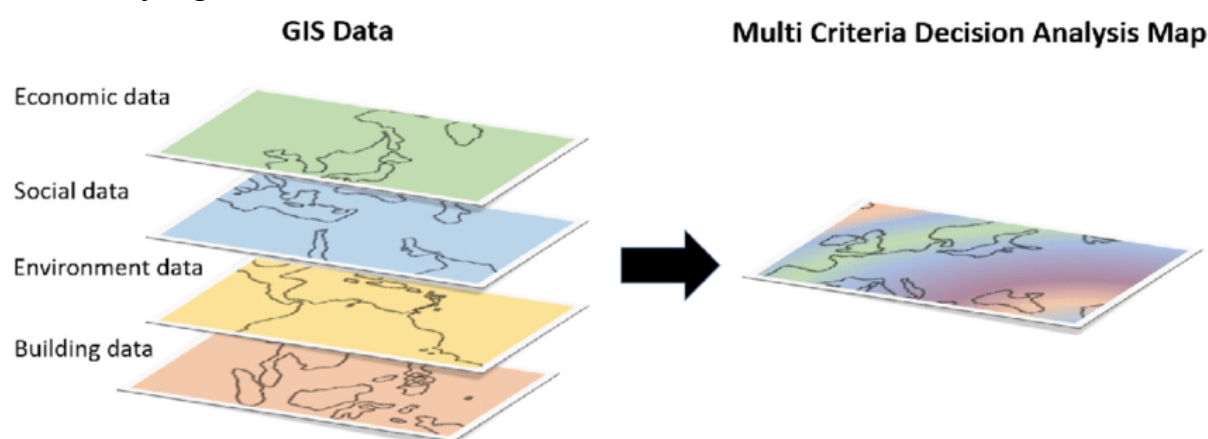


Figure 1. Spatial distribution of composite sustainability indices and clustering patterns (source: adapted from Anselin, 1995; Goodchild, 2007).

4.2. Key Challenges and Methodological Limitations

Despite its analytical strengths, the integrative approach is associated with a number of methodological and practical challenges that must be critically addressed.

One of the most significant challenges relates to data heterogeneity and incompatibility. The integration of spatial, statistical, and environmental datasets often involves discrepancies



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in spatial resolution, temporal coverage, and data formats. These inconsistencies require extensive preprocessing procedures, including data harmonization, interpolation, and transformation. Failure to adequately address these issues may result in biased outcomes and reduced analytical reliability (OECD, 2008).

A second major limitation concerns the issue of scale and spatial aggregation. Territorial processes operate across multiple spatial levels, and the choice of analytical units can significantly influence the results. This phenomenon, known as the Modifiable Areal Unit Problem (MAUP), highlights the sensitivity of spatial analysis to the definition of spatial boundaries (Openshaw, 1984). In the context of this study, variations in scale may affect the identification of clusters, the interpretation of regional disparities, and the robustness of composite indices. Addressing this issue requires the application of multi-scale analysis and sensitivity testing.

Another critical challenge is the lack of standardized indicator systems for assessing sustainable spatial development. While numerous frameworks exist, there is no universally accepted set of indicators that can be applied across different geographical contexts. This lack of standardization complicates comparative analysis and limits the generalizability of results (Stiglitz et al., 2009). Additionally, the selection of indicators is often constrained by data availability, which may lead to the exclusion of relevant variables or the use of proxy indicators.

The process of weighting and aggregating indicators introduces an additional layer of subjectivity. Although methods such as the Analytic Hierarchy Process (AHP) and entropy-based weighting can provide structured approaches, the final weights often reflect normative judgments regarding the relative importance of different dimensions of sustainability. This subjectivity can influence the outcomes of the analysis and should be explicitly acknowledged and tested through sensitivity analysis (Malczewski, 2006).

Finally, the increasing complexity of integrative models may pose challenges in terms of interpretability and implementation. While advanced analytical techniques enhance precision, they may also reduce transparency, particularly for non-expert users. Balancing methodological sophistication with practical usability remains a key challenge in the development of integrative spatial frameworks.



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4.3. The Role of GIS in Integrative Spatial Analysis

Geographic Information Systems (GIS) constitute a central pillar of the integrative methodological framework, providing the technological and analytical infrastructure necessary for the implementation of complex spatial analyses. Their role extends beyond data management and visualization to encompass advanced modeling, simulation, and decision-support functionalities.

First, GIS plays a crucial role in the visualization of spatial data, enabling the transformation of complex datasets into intuitive and interpretable graphical representations. The use of thematic maps, spatial overlays, and interactive dashboards facilitates the communication of analytical results and enhances stakeholder engagement (Goodchild, 2007). Visualization is particularly important in the context of multidimensional analyses, where the integration of multiple indicators can otherwise be difficult to interpret.

Second, GIS supports advanced spatial modeling and analytical operations. Techniques such as network analysis, land-use change modeling, and spatial interaction models allow for the simulation of dynamic processes within territorial systems. These capabilities are essential for understanding the mechanisms underlying spatial development and for evaluating the potential impacts of policy interventions (Batty, 2013).

Third, GIS enables the integration of heterogeneous data sources, including statistical data, remote sensing imagery, and real-time geospatial data streams. This integrative capacity is fundamental for constructing comprehensive analytical frameworks that reflect the complexity of territorial systems. The incorporation of machine learning algorithms and big data analytics further enhances the capabilities of GIS, enabling predictive modeling and the identification of complex spatial patterns (Goodchild & Li, 2012).

In addition, GIS serves as a decision-support tool, facilitating the evaluation of alternative scenarios and the prioritization of policy interventions. By combining spatial analysis with multi-criteria evaluation, GIS-based decision support systems provide a powerful platform for strategic planning and territorial governance.

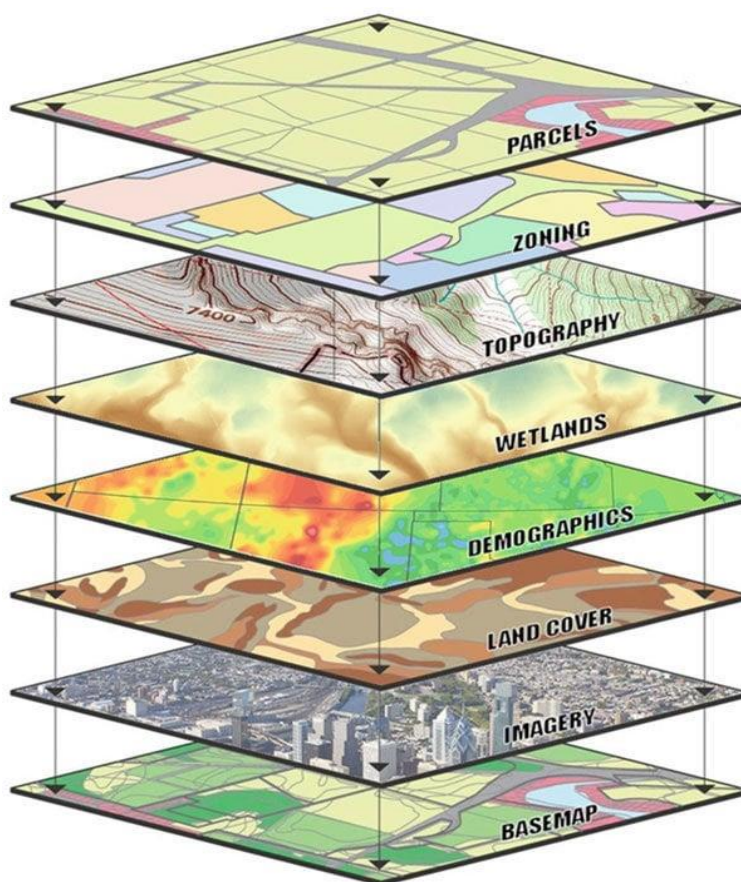


Figure 2. GIS-based integration of spatial data layers and analytical functions (source: adapted from Goodchild, 2007; Batty, 2013).

5. Application: Model for Territorial Management

The proposed integrative methodological framework demonstrates a high level of applicability across multiple domains of territorial governance, providing a robust analytical basis for planning, policy formulation, and resource management. Its strength lies in the ability to synthesize geospatial data, socio-economic indicators, and environmental variables into a unified decision-support system, enabling a holistic approach to territorial development.



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The practical implementation of the model is particularly relevant in the context of increasing spatial complexity, regional disparities, and environmental pressures. By combining GIS-based spatial analysis with multi-criteria evaluation and composite index construction, the framework facilitates the identification of priority areas, the assessment of development potentials, and the optimization of policy interventions (Malczewski, 2006; OECD, 2017).

5.1. Application in Regional Planning

In the field of regional planning, the model provides a comprehensive analytical tool for assessing territorial disparities and supporting balanced regional development. By integrating economic, social, and environmental indicators, the framework enables the identification of regions with differing development profiles, including growth poles, lagging areas, and transitional zones.

The composite sustainability index allows for the ranking and classification of regions based on their overall performance, facilitating the prioritization of investments and policy measures. This is particularly important in the context of cohesion policy within the European Union, where reducing regional inequalities and promoting territorial cohesion are key objectives (European Commission, 2011).

Furthermore, the model supports the development of evidence-based regional strategies by providing spatially explicit information on development potentials and constraints. The integration of scenario modeling allows policymakers to evaluate alternative development pathways and to assess the potential impacts of policy interventions under different socio-economic and environmental conditions.

Impact of Cohesion policy 2014-2027 on NUTS 2 regional GDP in 2030

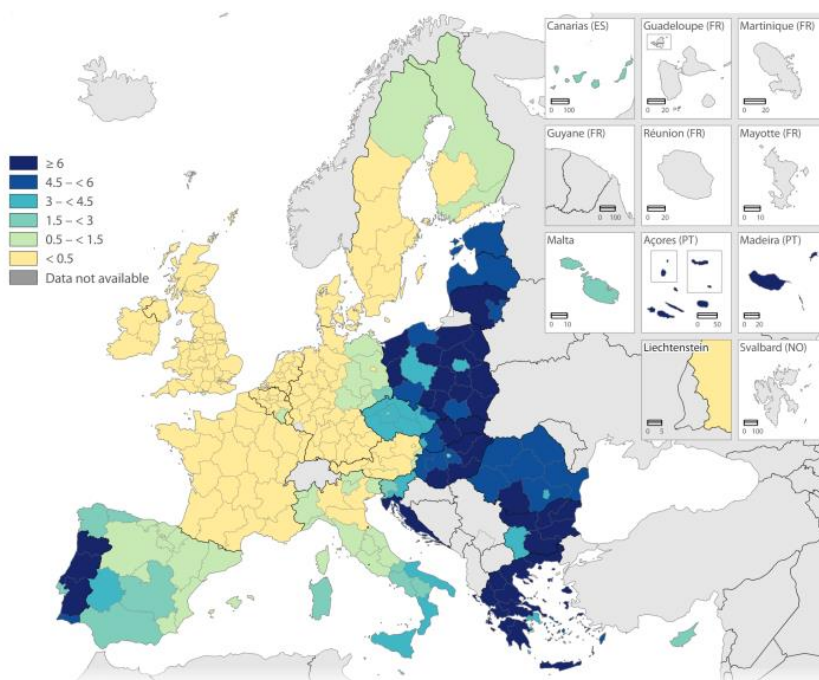


Figure 3. Application of composite indices in regional planning and territorial cohesion analysis (source: adapted from European Commission, 2011; OECD, 2017).

5.2. Application in Urban Development

At the urban scale, the proposed model contributes to the analysis and management of complex urban systems characterized by high population density, functional diversity, and environmental pressures. The integration of spatial and indicator-based analysis enables the identification of intra-urban disparities, such as differences in accessibility to services, infrastructure quality, and environmental conditions.

The model supports sustainable urban development by facilitating the evaluation of land-use patterns, transport networks, and environmental impacts. Through GIS-based spatial modeling, it is possible to simulate urban growth scenarios, assess the effects of urban sprawl, and identify optimal locations for infrastructure development (Batty, 2013).

In addition, the framework is particularly relevant for the preparation and implementation of integrated urban development plans. Such plans are widely recognized as effective instruments for coordinating sectoral policies and promoting sustainable urban

regeneration. Integrated planning approaches emphasize the need for cross-sectoral coordination, stakeholder participation, and long-term strategic vision, all of which are supported by the analytical capabilities of the proposed model (Tasheva-Petrova, 2018).

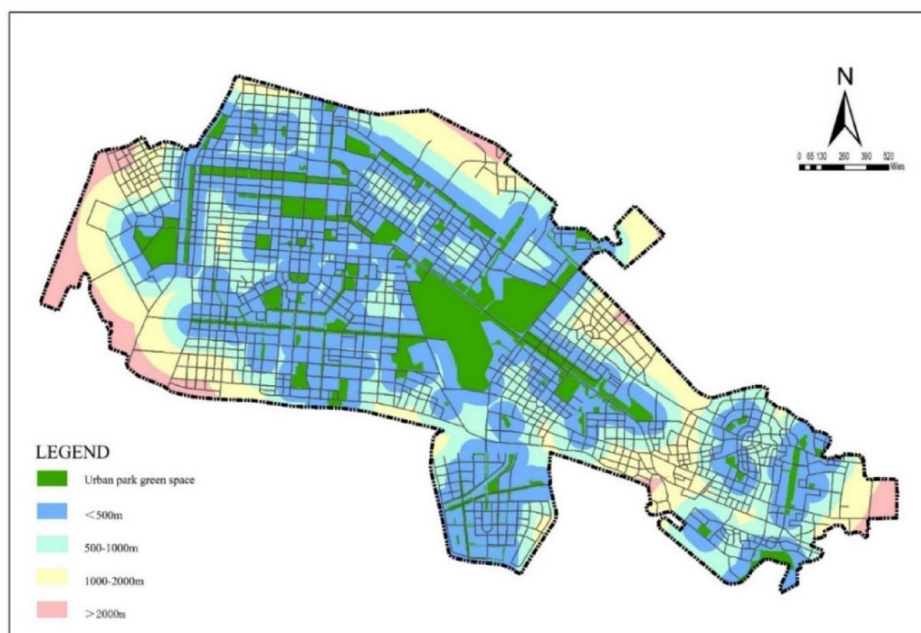


Figure 4. GIS-based urban spatial analysis and modeling for sustainable city development (source: adapted from Batty, 2013).

5.3. Application in Natural Resource Management

The application of the model in natural resource management highlights its capacity to integrate environmental indicators and spatial analysis in support of sustainable resource use and environmental protection. By incorporating variables related to environmental quality, resource efficiency, and risk vulnerability, the framework enables the identification of environmentally sensitive areas and the assessment of ecological pressures.

GIS-based analysis plays a crucial role in mapping natural resources, monitoring environmental changes, and evaluating the impacts of human activities. For example, spatial analysis can be used to identify areas at risk of deforestation, soil degradation, or water scarcity, thereby supporting the development of targeted conservation strategies (MEA, 2005).

The integration of environmental indicators with socio-economic data further enhances the capacity of the model to support sustainable development. This is particularly important in

the context of climate change, where the interaction between environmental and socio-economic factors determines the vulnerability and resilience of territorial systems.

Moreover, the model supports ecosystem-based management approaches, which emphasize the need to consider ecological processes, spatial connectivity, and long-term sustainability in resource management decisions. By providing a spatially explicit and analytically robust framework, the model contributes to the development of more effective and adaptive environmental policies.

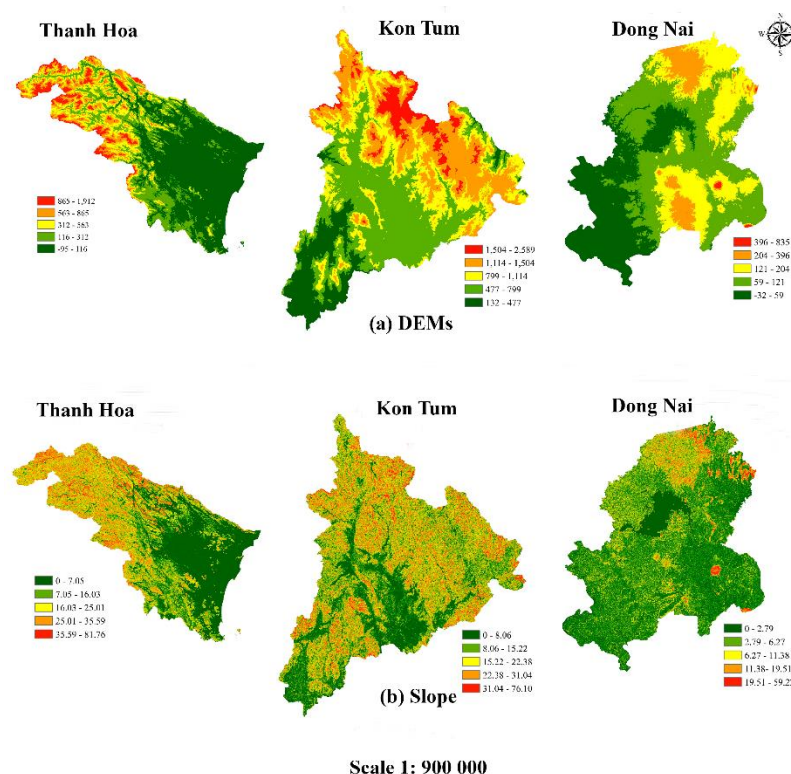


Figure 5. GIS-based environmental analysis and resource management applications (source: adapted from MEA, 2005).

5.4. Integrated Territorial Governance and Policy Implications

The proposed model has significant implications for integrated territorial governance, particularly in the context of policy coordination and multi-level governance. By providing a unified analytical framework, the model facilitates the alignment of sectoral policies and



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supports the development of integrated strategies that address economic, social, and environmental objectives simultaneously.

Integrated development plans are widely recognized as effective instruments for territorial management, as they enable the coordination of investments, policies, and stakeholders within a coherent strategic framework. Such plans are particularly relevant in the context of urban regeneration, regional development, and environmental management, where complex interactions between different sectors require coordinated interventions (Tasheva-Petrova, 2018).

The model also enhances the capacity for participatory planning by providing accessible and transparent analytical outputs that can be used to engage stakeholders in decision-making processes. This contributes to increased legitimacy and effectiveness of territorial policies.

Finally, the integration of advanced analytical techniques, such as GIS and multi-criteria analysis, supports the transition toward data-driven governance models. These models emphasize the use of empirical evidence and analytical tools in policy formulation, thereby improving the efficiency and effectiveness of territorial management.

6. Conclusion

The present study demonstrates that integrative methodologies constitute a fundamental analytical and practical framework for contemporary spatial regionalization and territorial governance. By synthesizing geoinformation technologies, socio-economic and environmental indicator systems, and multi-criteria analytical methods, the proposed approach enables a more comprehensive and nuanced understanding of territorial systems. This integrative perspective is essential in addressing the increasing complexity of spatial processes, characterized by dynamic interactions between economic development, social structures, and environmental constraints.

One of the key contributions of this research lies in the development of a multi-layered methodological model that enhances the analytical precision and interpretability of spatial regionalization. The integration of Geographic Information Systems (GIS) with composite indicator frameworks allows for the identification of spatial patterns, regional disparities, and functional relationships that are often overlooked in traditional approaches (Goodchild, 2007; Malczewski, 2006). This contributes to a deeper understanding of territorial systems and



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supports the transition toward more evidence-based and data-driven decision-making processes.

Furthermore, the study highlights the importance of combining quantitative and qualitative data within a unified analytical framework. The use of multi-criteria analysis (MCA) enables the systematic evaluation of diverse indicators, facilitating the construction of composite indices that reflect the multidimensional nature of sustainability (OECD, 2008). This approach not only improves the robustness of territorial assessments but also enhances their relevance for policy formulation and strategic planning.

From a practical perspective, the proposed methodology provides a valuable tool for improving the effectiveness of territorial governance. By offering spatially explicit and analytically robust outputs, the model supports the design and implementation of integrated development strategies aimed at achieving balanced and sustainable regional development. This is particularly relevant in the context of global sustainability agendas and regional policy frameworks, such as those promoted by the United Nations and the European Union (United Nations, 2015; European Commission, 2011).

Despite its contributions, the study also acknowledges several limitations. These include challenges related to data availability and quality, the subjectivity inherent in indicator selection and weighting, and the sensitivity of results to spatial scale and aggregation methods. Addressing these limitations requires the application of advanced analytical techniques, improved data standardization, and the development of more flexible and adaptive methodological frameworks.

In this regard, future research should focus on the integration of emerging technologies and data sources into spatial analysis. The increasing availability of big data, including real-time geospatial information and remote sensing data, offers new opportunities for enhancing the temporal and spatial resolution of territorial analysis (Kitchin, 2014). In addition, the incorporation of artificial intelligence (AI) and machine learning techniques into GIS-based models has the potential to significantly improve predictive capabilities and to uncover complex, non-linear relationships within territorial systems (Goodchild & Li, 2012).

Another promising direction for future research is the development of dynamic indicator systems that can capture temporal changes and support adaptive planning processes. Unlike



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static indicators, dynamic systems allow for continuous monitoring and real-time assessment of territorial development, thereby enhancing the responsiveness and effectiveness of policy interventions.

In conclusion, integrative methodologies represent a critical advancement in the field of spatial regionalization and territorial management. By bridging the gap between data, analysis, and decision-making, they provide a solid foundation for achieving more efficient governance, improved spatial planning, and sustainable development outcomes. The continued evolution of these methodologies, supported by technological innovation and interdisciplinary collaboration, will play a key role in addressing the complex challenges of contemporary territorial systems.

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**BETWEEN CONCENTRATION AND COHESION. SOFIA WITHIN
THE NEW REGIONAL STRUCTURE**

Desislava Botseva*

Abstract:

At the heart of Bulgaria „s new regional configuration lies Sofia - a capital whose statistical separation makes visible a much deeper tension between economic intensity, administrative design, and the realities of metropolitan interdependence. The paper explores the implications of the forthcoming reorganization of the NUTS 2 planning regions for territorial governance, regional disparities, and the future logic of public intervention. It argues that the reform does not alter the material geography of development, but substantially changes the way spatial asymmetries are rendered visible, interpreted, and governed. Particular attention is given to the discrepancy between the administrative profile of the future Capital Region and the wider functional reach of Sofia as a metropolitan system shaped by labour mobility, suburbanization, service demand, and infrastructural dependence. Drawing on official statistical data, strategic documents, and an analytical reconstruction of the proposed regional configuration, the study shows that Sofia emerges as a distinct pole of accumulation, while the surrounding territories remain embedded in dense everyday flows that exceed formal regional boundaries. The paper concludes that the main challenge for regional policy is not the recognition of Sofia as a separate growth centre, but the development of coordinated, multilevel, and territorially sensitive mechanisms capable of translating metropolitan concentration into broader developmental effects.

Keywords: territorial governance, metropolitan development, spatial inequality, urban area, labour mobility, multilevel coordination.

JEL: R11, R12, R58, R23

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Introduction

The forthcoming reorganization of Bulgaria „s NUTS 2 planning regions constitutes a technical intervention in territorial statistics, yet it also signals a profound institutional reordering of the very logic through which spatial development is planned, measured, and governed (1). In this context, Sofia is situated within a qualitatively new framework of territorial articulation. Under the proposed configuration of four regions - Northern, Eastern, Southern, and Capital - the capital city is constituted as a distinct regional entity, confined to the administrative perimeter of Sofia (Capital) Province, with the reform scheduled to enter into force on 1 January 2027, subject to approval at the European level (1). At the same time, the national vision for territorial development up to 2040 is undergoing revision. In this process, the draft National Concept for Regional and Spatial Development 2026-2040 explicitly pursues the reduction of territorial imbalances while simultaneously incorporating the anticipated institutional completion of the NUTS 2 reform at the beginning of 2027 (2). The changes in the NUTS 2 framework should therefore be interpreted as part of a broader reconfiguration of Bulgaria „s national spatial paradigm (1)(2).

The empirical picture confirms that Sofia occupies both a dominant and a structurally determining position within Bulgaria „s national economic geography. In 2024, the South-West Region accounted for 50.7% of the country „s gross domestic product, while the capital registered the highest GDP per capita-EUR 35,411.64 against a national average of EUR 16,264.61 (3). The data for the preceding year, 2023, reproduce the same configuration of concentration: a 50.2% share of national GDP for the South-West Region and a GDP per capita of EUR 30,421 for Sofia (Capital) Province, compared to a national average of EUR 14,316 (3). These figures cannot be reduced to descriptive statistics alone, as they express a durably institutionalized asymmetry in the territorial distribution of economic mass, investment attractiveness, productivity, and access to high-value activities. It is precisely at this point that the central analytical tension emerges. The new NUTS 2 configuration administratively separates the core territory of the capital from those areas that, in functional terms, operate as its extended urban and metropolitan zone, yet remain part of the future Southern Region (1). This disjunction between institutional boundary and functional reality constitutes a potential source of new distortions in the logic of cohesion, all the more so because official assessments



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have already underlined the need for the National Concept for Regional and Spatial Development and the Integrated Territorial Strategies for Development to take into account Sofia „s impact on its functional urban area (2)(4).

The functional geography of employment further radicalizes this conclusion by revealing the spatial depth of Sofia „s influence far beyond its formal administrative boundaries. As of 7 September 2021, a total of 494,719 people, or 20.7% of all employed persons, worked in a settlement other than their place of residence, while Sofia (Capital) recorded the largest positive daily net inflow of employed persons, amounting to +57,752 (5). At the opposite pole, Sofia Province and Pernik Province registered the most significant negative balances, with - 15,024 each, which unequivocally indicates an intensive radial dependence on the capital „s labour market (5). Particularly telling is the fact that in the peripheral provinces adjacent to the capital, the share of labour migrants employed outside their own province reaches exceptionally high levels - 77.2% in Pernik and 61.8% in Sofia Province (5). Sofia, therefore, cannot be understood as an administratively closed territorial unit. It emerges instead as a metropolitan node with a high degree of external labour gravitation, whose economic, social, and infrastructural effects unfold on a scale that cannot be reduced to the future Capital Region.

From this follows the substantive political and governance question: Sofia must be conceptualized and governed simultaneously as a concentrator of growth, innovation, and strategic resources, and as a generator of spatial pressure that redistributes costs, tensions, and imbalances across a broad functional zone. Housing pressure, transport congestion, strain on public services, environmental externalities, and distortions in peripheral local markets all circulate on a metropolitan scale that requires governance instruments capable of exceeding the institutional narrowness of the new regional map. For precisely this reason, an adequate policy response cannot be exhausted by formal compliance with the new NUTS 2 configuration (1). What is required is an integrated package of measures and a monitoring architecture capable of linking the categories and instruments of cohesion policy - including regional classification, integrated territorial investments, and mechanisms of cross-sectoral coordination to the actual flows of labour mobility, housing expansion, and infrastructural dependence (6)(7). Only through such an optic can Sofia be governed not as an isolated administrative unit, but as a



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complex territorial system in which concentration and cohesion do not negate one another, but enter into a tense yet strategically manageable interaction.

The issue of positioning Sofia between concentration and cohesion in fact condenses one of the most substantial dilemmas of contemporary territorial governance - in what way the agglomeration advantages of the capital can be preserved as a resource for national competitiveness without at the same time reproducing and institutionally hardening interregional imbalances in income, access to services, investment attractiveness, and demographic dynamics. Regional development has an important role in managing territorial problems and achieving a pulling development of individual spatial areas (Petrov, 2021). In this sense, the issue is far from being exhausted by the spatial distribution of economic activity. It concerns the very logic of development, in which metropolitan growth may function both as a generator of national modernization and as a mechanism of asymmetric territorial accumulation. It is precisely along such a normative and analytical axis that the draft National Concept for Regional and Spatial Development 2026-2040 is positioned, formulating as its leading framework the simultaneous achievement of territorial, economic, and social cohesion, complemented by the requirement of environmental sustainability (2). In this way, the document outlines a strategic horizon and offers a paradigm for rethinking the relationship between growth and balanced spatial development. In this context, the sustainable development of regions cannot be conceived separately from the specific features of the business environment, since regional development itself is formed at the intersection of institutional conditions, economic dynamics, and the applicability of sustainable models of governance (Vasileva, 2019).

The target audience of such a report should be viewed as a multilayered field of institutions and expert communities in which different logics of planning, regulation, and interpretation intersect. At the first level stand national and regional policymakers, for whom the analysis would be significant as a basis for strategic choice under conditions of a changing regional architecture. At the second level are the experts in territorial organization, spatial planning, and regional development, for whom such a text should function as an analytical instrument for interpreting the new territorial dependencies. To these should be added the managing authorities of programmes, as well as municipal planning units, for whom the topic



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acquires an immediate operational dimension, since the translation of strategic goals into applicable instruments inevitably requires a high degree of institutional coordination and sensitivity to real functional flows. On the other hand, innovation ecosystems are complex and interconnected structures whose effectiveness depends on coordination between academic institutions, industry, public authorities, and civil society (Tanakov, 2025).

With regard to the temporal scope, the analysis is situated in the period 2011-2024, with emphasis placed on those official statistical series that allow the tracing of long-term trends, as well as on the results of the 2021 census, which provide a particularly valuable basis for reconstructing contemporary demographic and labour-mobility configurations (5). This retrospective layer, however, is significant above all insofar as it prepares the ground for scenario thinking in the horizon up to 2030 and 2040, synchronized with the national development framework up to 2040 (2). Thus, the research perspective unfolds simultaneously backwards and forwards: on the one hand, as a diagnosis of already consolidated patterns of concentration; on the other, as an attempt to conceptualize the probable transformations under the conditions of the new territorial-institutional configuration.

The territorial scope of the report should be structured around two analytically distinct, yet mutually intertwined levels. The first is the administrative level, within which the main units of observation are the municipality and the province as NUTS 3 level units, as well as the new NUTS 2 planning regions resulting from the proposed reform (1). This level is necessary because it is precisely within it that statistical reporting, the programmatic allocation of resources, and a significant share of the formal mechanisms of governance are carried out. The second level is the functional one, where attention shifts from legally delineated boundaries to the real zones of influence, mobility, and spatial integration. Here, the key concept is the functional urban region, respectively the functional urban area, defined as the combination of an urban core and an adjacent commuting zone (8). In accordance with the European statistical definition, this includes those territories from which at least 15% of the employed population commute daily to work in the city (8). It is precisely this functional approach that is decisive for the analysis of Sofia, because it makes it possible to capture the actual metropolitan geography of the capital—a geography that extends significantly beyond the administrative scope of the future Capital Region.



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It is also necessary to clearly explicate those details which, at the present moment, remain within the sphere of assumption, since it is precisely their unfinished nature that marks the limits of the analysis and at the same time outlines the directions for its subsequent development. In the first place, the format of the final document remains unspecified, including questions related to the template, graphic design, and possible annexes, which means that at this stage the analytical construction should be refined relatively independently of the final form of presentation. In the second place, there are no published and completed official statistical series for the period 2011-2024 for the new NUTS 2 regions; therefore, within the present framework, method and illustrative calculation solutions are demonstrated instead of a finally stabilized statistical sequence. In the third place, the exact geometry and composition of Sofia „s functional urban area should be determined through the official Cities/FUA layer or through a national definition, should such a definition be available and recognized as a reference (8). These clarifications do not weaken the argumentation of the report; on the contrary, they lend it methodological correctness by clearly distinguishing the empirically confirmed from the analytically assumed.

1. Political-Legal and Programmatic-Financial Context

Planning regions in Bulgaria should adapt their policies to their own local advantages, since the different institutional environment and the different capacity predetermine unequal opportunities for development (Nikolov, 2019). The change in the configuration of the NUTS 2 planning regions should be examined through its regulatory and programmatic-operational effect. The issue is not exhausted by the technical redrawing of statistical units, but concerns that layer of European and national governance in which territorial classification is transformed into a basis for strategic programming, eligibility, prioritization, and monitoring. It is precisely for this reason that the normative logic of NUTS 2 matters not only for statistical comparability, but also for the way in which the separate parts of national space are institutionalized as objects of policy. The NUTS 2 level is linked to a demographic range of between 800,000 and 3,000,000 inhabitants, which places the Bulgarian reform in direct relation to the requirements of the European framework (9).

The decision of 26 March 2025, which proposes the transition from six to four planning regions, acquires its true significance precisely in this perspective (1). The argument for the



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change is connected with the deviation of some of the existing regions from the minimum population threshold, without this implying any change in the administrative-territorial structure of the state. What is essential in this case is something else - the scale at which data will be aggregated will change, territorial strategies will be structured differently, and the position of the individual regions in relation to the European criteria for development will be assessed in a new way. Part of the actually existing governance problems do not find adequate reflection in regional strategies, which turns them into a risk for the sustainability of public systems at the territorial level (Lyubomirova, 2019). Subject to approval at the European level, the new scheme will enter into force on 1 January 2027 and will include Northern, Eastern, Southern, and Capital Region, with the latter covering only Sofia (Capital) Province (1). It is precisely this separation that gives the capital a new institutional profile: it will henceforth be measured and programmed as an independent regional unit rather than as part of a broader territorial aggregation.

In this new situation, the national strategic framework up to 2040 performs the function of a coordinating mechanism between the statistical reform and future spatial development policies. The draft National Concept for Regional and Spatial Development 2026-2040 is indicative precisely because it treats the forthcoming change in the scope of NUTS 2 as a structural condition for the subsequent construction of compatible strategies, programmes, and indicator systems (2). In this way, national planning is compelled to operate in a mode of предварителна adaptation: the logic of future interventions must be calibrated to a territorial architecture that has not yet formally entered into force, but already organizes the horizon of strategic thinking. It is precisely here that the deeper political meaning of the reform becomes visible. It changes both the institutional map and the very regime of forecasting, comparison, and governance.

Particularly significant is the effect of the new configuration on the cohesion policy of the European Union. The categorization of regions as less developed, transition, or more developed, carried out according to GDP per capita in relation to the EU average, has direct significance for the intensity and profile of eligible support (6). In this sense, the separation of Sofia will be able to increase statistical clarity by changing the reference environment within which the other Bulgarian regions will be positioned. Thus, the reform may produce secondary



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effects on the way in which the degree of backwardness, transition, or relative advancement of the individual territories will be read. Consequently, the forthcoming reformatting has not only descriptive, but also redistributive weight. Through it, the litmus by which it is determined which spaces need stronger compensatory intervention and which should assume a different type of development is altered.

From this there logically follows the growing importance of integrated territorial investments as an instrument for operating in an environment of increasing territorial complexity. The Common Provisions Regulation allows the implementation of territorial strategies through ITIs when resources from one or more funds and programmes are combined within a single intervention framework (7). In the Bulgarian context, this mechanism has been elevated as central to the implementation of the integrated territorial approach, based on local specificities, coordination among participants, and a project logic constructed within a regime of territorial partnership (10). Its significance here lies in its capacity to overcome the administrative fragmentation of public intervention. Instead of deploying separate, weakly connected sectoral solutions, ITIs make it possible to combine infrastructural, social, economic, and spatial actions within a common framework of territorial impact.

The financial scale of this instrument confirms its growing place in the programme architecture. Under the Programme „Development of the Regions”, a significant resource has been allocated for integrated territorial investments, including BGN 2 billion under the procedure „Concepts for ITI-2“(11). The significance of this amount should not be sought solely in its size, but in the institutional signal it gives: territory is now treated as an active framework for the synthesis of policies, rather than as a passive container for sectoral expenditure. It is precisely for this reason that the new regional structure places the question of the quality of future governance in a much sharper form. The essential problem is no longer whether there will be a new map, but whether it will be accompanied by sufficiently refined mechanisms of coordination, so that the programme logic remains sensitive to real spatial dependencies instead of closing itself within the convenience of formal territorial reporting.



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2. Territorial Profile of Sofia (Municipality, Province, Functional Urban Area)

The territorial profile of Sofia requires an analytical distinction between several spatial scales which, in administrative practice, often overlap nominally, but in research terms perform different functions. The municipality designates the level of local governance, the province-the framework of the state-territorial organization, and the future Capital Region-the new level of statistical and programme profiling (1). This multilevel character shows that Sofia functions simultaneously as a city, as an administrative centre, and as a regional subject with its own logic of observation and intervention. It is precisely for this reason that the capital should be described as a territorial construction with overlapping institutional and spatial dimensions.

In the new structure, such a distinction acquires even greater analytical value, because Sofia (Capital) Province is becoming an independent bearer of regional status. This creates conditions for a far more precise observation of the internal characteristics of the capital, as its economic dynamics, demographic sustainability, social structure, and resource endowment will now be traceable without the statistical „dilution” that arises when it is included in broader territorial aggregates. As a result, its profile will be readable with incomparably greater clarity, but also with greater sensitivity to its internal tensions, because the regional level will no longer conceal structural extremes behind averaged values.

The demographic context lends particular weight to this clarity. In this context, human capital should be regarded as a key mediator between territorial development and economic modernization, since the new social transformations require a different type of management of development resources (Nikolov, Vasileva, & Lyubomirova, 2020). As of 7 September 2021, the population of Bulgaria amounted to 6,519,789 people, while over the period 2011-2021 the country lost 844,781 people, or 11.5% of its population (5). Against this background, Sofia emerges as one of the few spaces whose significance cannot be measured solely through the number of its permanently resident population. It concentrates a far broader daily and weekly human contingent, including workers, students, users of specialized services, and participants in various forms of mobility, which do not always remain visible in classical demographic indicators. For this reason, the demographic profile of the capital should be interpreted as a combination of permanent population, attracted flows, and extended functional presence. It is precisely in this that the specific demographic status of the capital is manifested. In spatial and



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territorial development, we are witnessing increasing regional disparities and intensified migration toward the large regional centres and the capital (Petrov, 2025). It transforms the space around it through mechanisms of attraction, rearrangement, and secondary dependence.

The economic profile of the capital lends additional strategic weight to this demographic specificity. Although the development of regions cannot be considered independently of the quality and activity of human resources, insofar as the growth of GDP per capita requires a complex analytical approach and regionally sensitive mechanisms for the formation of competitive advantages (Tanakov & Tsolov, 2020). In 2024, Sofia (Capital) Province generated GDP amounting to EUR 45,732 million and reached GDP per capita of EUR 35,412, compared to EUR 16,265 as the national average (3). In 2023, the corresponding indicator was EUR 31,709 per inhabitant, compared to EUR 14,735 as the national average for Bulgaria (3). From a methodological point of view, these values outline a clearly expressed capital premium effect, that is, a condition in which the concentration of high added value, managerial functions, financial services, knowledge-intensive activities, and institutional infrastructure generates an economic level incomparable to that of the rest of the territory. More importantly, under the conditions of the new regional geography, this effect will acquire a clearer statistical autonomy. Thus, the economic profile of Sofia will appear as a clearly delineated model of territorial accumulation, which must be analysed through its own indicators, its own pace, and its own internal logic.

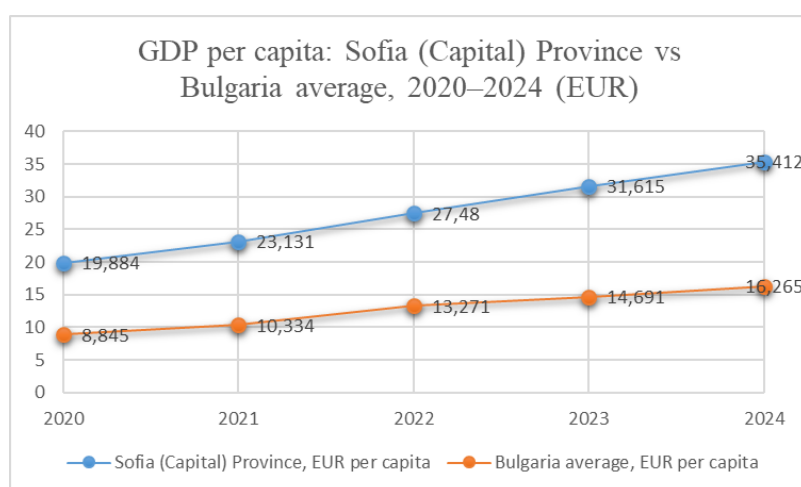


Figure 1. GDP per capita in Sofia (Capital) Province and Bulgaria average, 2020-2024 (EUR)



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Source: Author „s calculations based on National Statistical Institute regional GDP data, converted from BGN into EUR at the fixed rate of €1 = 1.95583 BGN.

At the same time, such clarity would remain incomplete if the capital were considered solely within the boundaries of the administratively fixed province. Sofia „s essential space unfolds beyond this framework. It unfolds within its functional urban region, where the actual geography of everyday connectivity is concentrated.

For this reason, an analysis limited to Sofia (Capital) Province would provide only a partial image of territorial reality. It would register the intensity in the core, but would remain insufficiently sensitive to those processes of outward movement, spillover, and accumulation that shape the metropolitan periphery. Residential suburbanization, for example, is not simply a demographic movement toward neighbouring territories, but a redistribution of living costs, transport time, and infrastructural consumption across a wider area. In the same way, the burden placed on services, educational systems, healthcare functions, and road networks cannot be grasped solely through the place of residence of the permanent population, because the real consumer and labour contingent of the capital is considerably broader than its administrative body. It follows from this that Sofia should be examined as a multilayered territorial system in which the core and the periphery are connected by something far greater than symbolic proximity, namely by everyday material interdependence.

In order for this interdependence to be traced empirically, the functional urban region can be mapped through the GISCO layer „Cities and functional urban areas,” available in formats such as GeoPackage and SHP, and combined with the national origin-destination data from the 2021 Census (8)(5). Such a combination of geospatial and statistical datasets creates the possibility for a far more precise delineation of the actual scope of the capital „s system. In this way, the territorial profile of Sofia ceases to be a descriptive section and becomes an analytical foundation for the subsequent parts of the report: it is precisely here that it becomes possible to move from the abstract figure of the capital to the concretely mappable field of its dependencies, attractions, and spatial projections.

3. Economic Concentration and the Scale of Intraregional Asymmetry

One of the most substantial empirical questions in the analysis of Bulgaria „s regional structure is not simply whether territorial imbalance exists, but how deep it is, how it is



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distributed across levels, and to what extent it acts as a system-forming factor for national development. It is precisely in this regard that the data for 2024 reveal a strongly pronounced configuration of economic unipolarity. Under the old NUTS 2 regionalization, the South-West Region accounts for 50.7% of the country's gross domestic product, while the North-West Region participates with only 6.5% (3). This ratio does not describe an ordinary interregional difference, but indicates an extremely asymmetrical spatial organization of national output, in which one territorial unit accumulates more than half of the value created in the country. In analytical terms, such a structure may be interpreted as a form of regional leadership, in which economic gravitation is concentrated to a degree that allows one region to act not simply as a leading, but as a dominant node in the national economic system.

This imbalance becomes even more striking when the focus shifts from the absolute size of the produced output. According to NSI data for 2024, GDP per capita across the old NUTS 2 regions ranges from EUR 10,299 in the North-West Region to EUR 26,307 in the South-West Region, while Sofia (Capital) Province reaches EUR 35,412 (3). This value does not merely fall outside the range of interregional variation, but constructs its own scale of economic intensity. A calculation based on the official data shows an approximate 3.44-fold difference between Sofia (Capital) and the North-West Region in terms of GDP per capita. Such a ratio carries particular analytical weight, because it testifies to an accumulation of productivity, income-generating capacity, and economic density on a scale that can hardly be explained by ordinary sectoral differences. What is at stake is a durable spatial stratification in which different parts of the country function within clearly distinguishable regimes of economic intensity.

An additional indicative effect is also produced by the dispersion of the values themselves. When the variation in GDP per capita between regions reaches such an amplitude, it already becomes an indicator of tension in the very cohesion fabric of the national space. The calculated coefficient of variation among the six regions under the old regionalization confirms precisely the presence of substantial differentiation. From a methodological point of view, this is important because it makes it possible for concentration to be understood both from the perspective of the dominance of one leading centre and as a measurable pressure on the possibility of balanced territorial development. In other words, the problem does not consist



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solely in the fact that one zone produces more, but in the fact that the distance between spaces of high and low economic intensity reaches a scale that begins to have autonomous social, demographic, and political consequences.

Particularly important is the question of how this picture is transformed with the transition to the new configuration of four regions. In order to illustrate the effect of the future structure, provincial data at NUTS 3 level were aggregated into the new NUTS 2 groupings, while GDP per capita was derived approximately through the ratio between provincial GDP and implicitly calculated population, obtained on the basis of the published values for GDP and GDP per capita. These transformations do not replace official statistics, but make a kind of attempt to provide a transitional analytical instrument under conditions in which completed historical series under the new scheme are still not available. Their value is above all heuristic and makes it possible to see how the rearrangement of boundaries rearranges the very visibility of interregional differences.

It is precisely here that one of the most interesting effects of the new regionalization emerges. While the old structure partially distributed the economic weight of the capital within a broader regional aggregate, the new configuration extracts it into an independent statistical profile. This means that concentration ceases to be read mainly as a characteristic of the South-West Region and begins to appear in a much purer form as a characteristic of the Capital Region itself. The analytical consequence is substantial. Part of the intraregional differences that until now have been absorbed within a single general indicator will be transformed into interregional differences with much greater clarity. In this way, the new system makes asymmetry far more clearly visible, more difficult to soften statistically, and correspondingly more unavoidable as a subject of policy.

What follows from this is that the analysis of concentration should not be confined to establishing the high share of a single centre in the national product. The more substantial conclusion is that the spatial organization of the Bulgarian economy is marked by such a degree of unevenness that the regional framework itself begins to shape the way in which this unevenness is perceived, measured, and governed. This is precisely why the new regionalization is so significant: it changes the institutional readability of the material geography of accumulation. Under the conditions of cohesion policy, such readability cannot



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remain neutral. It determines which differences will remain concealed within the aggregate and which will emerge as directly visible grounds for intervention.

Tables 1. Approximate economic profile of the new NUTS 2 regions in Bulgaria, 2024

New NUTS 2 Region	GDP 2024 (EUR million, sum by provinces)	Share of national GDP (calculated)	GDP per capita 2024 (EUR)	Cohesion interpretation
Northern	15,009	14.3%	~10,484	Low base, high sensitivity to demographic trends/accessibility
Eastern	16,134	15.4%	~11,577	Mix of maritime economy and internal disparities
Southern	27,891	26.6%	~11,997	Large and heterogeneous region; internal disparities (Stara Zagora vs peripheral areas)
Capital	45,732	43.7%	35,412	Pronounced "capital premium," potentially a different category within the cohesion framework

Source: Author „s calculations based on National Statistical Institute (NSI) regional GDP data for 2024, aggregated from NUTS 3 (province-level) data into the proposed new NUTS 2 regions (3).

The data presented in the table show that the new regional configuration exposes more sharply the internal logic of Bulgaria „s spatial development. Whereas under the old regionalization the economic mass of the capital was partially absorbed into the broader profile of the South-West Region, under the new structure it separates as an independent scale of accumulation that stands in clear contrast to the other three regions. At the same time, the Northern, Eastern, and especially the Southern Region emerge as internally heterogeneous territories in which average values conceal their own asymmetries, different development trajectories, and unequal sensitivity to demographic, infrastructural, and investment deficits. The table therefore illustrates a synthesized image of the new problem environment in which cohesion policy will have to act simultaneously upon interregional differences, intraregional tensions, and metropolitan external effects. It is precisely from here that the following conclusions logically emerge.

First conclusion:

The new regional structure does not change the country „s economic geography itself; rather, it changes the way in which that geography becomes statistically and politically visible. The separation of Sofia into an independent Capital Region brings out more clearly the scale of territorial asymmetry and puts an end to its previous partial averaging within the South-West Region.



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Second conclusion:

The administrative delineation of the Capital Region does not coincide with the actual spatial field of Sofia „s influence. For this reason, the principal difficulty for future governance will not be the definition of new boundaries, but the coordination between territories that remain institutionally separated yet function as a connected system.

Third conclusion:

Under Bulgarian conditions, cohesion policy can no longer be regarded solely as a compensatory mechanism for „lagging“regions; it must also be reformulated as an instrument for managing the external effects of overconcentration. In this sense, Sofia is simultaneously a resource and a test for territorial cohesion.

Conclusion

The analysis carried out shows that the forthcoming reformatting of the NUTS 2 planning regions is not in the nature of an ordinary statistical correction, but represents an act of institutional illumination of already accumulated territorial disproportions. The new configuration does not create the dominance of the capital; rather, it brings it out in a much clearer analytical and political profile. In this way, the Capital Region emerges as a space with a distinctly different economic scale, resource density, and functional weight compared to the other parts of the country.

At the same time, the report shows that the administrative delineation of Sofia cannot serve as a sufficient framework for understanding the real processes it generates. Daily labour mobility, residential suburbanization, infrastructural pressure, and the expanded scope of services form a metropolitan system whose effects unfold beyond the territorial contour of the future Capital Region. It is precisely here that the main tension of the new regional structure arises: institutional clarity increases, but governance complexity does not diminish.

It follows from this that the key question facing regional policy is no longer whether Sofia should be recognized as a separate centre of growth, but in what way its influence can be embedded within a regime of coordinated, multiscale, and territorially sensitive governance. The real challenge is not the existence of concentration itself, but the absence of sufficiently developed mechanisms through which that concentration may be translated into broader cohesion effects.



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Recommendations

1. To introduce a dual analytical regime in the planning of Sofia

All future strategic and programme documents should analyse the capital simultaneously as an administratively distinct region and as a functional urban area, so that policies do not remain confined within the framework of formal territorial reporting.

2. To institutionalize interregional coordination between the Capital Region and the Southern Region

A permanent mechanism for joint planning is needed in areas such as labour mobility, transport connectivity, housing pressure, ecological infrastructure, and access to services, since it is precisely there that the tension between the new boundaries and the real flows will be most strongly manifested.

3. To develop a special monitoring module for the metropolitan zone of the capital

To the general system of indicators should be added indicators for daily employment, inbound and outbound labour flows, the burden on transport corridors, housing expansion, and functional access to key public services.

4. To use ITIs as an instrument for managing metropolitan dependencies, and not only as a project mechanism

Integrated Territorial Investments should be directed toward packages of connected interventions that combine transport, social infrastructure, ecological solutions, and spatial development within a common logic of impact.

5. To build a comparable statistical series for the new regions before 2027

In order to avoid an analytical rupture, national institutions need to begin the preliminary aggregation and publication of key indicators under the new NUTS 2 configuration, including in retrospective terms.

6. To introduce functional sensitivity into cohesion programming

When determining priorities and interventions, account should be taken not only of the administrative affiliation of territories, but also of their real dependence on the capital centre, especially in the case of peripheral zones with intensive daily connectivity.

7. To limit the pressure of overconcentration through polycentric investment



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Part of future public and programme efforts should be directed toward strengthening secondary urban centres within the Southern Region and beyond, so that the national spatial system does not remain excessively dependent on a single dominant centre.

8. To accept that cohesion does not mean weakening Sofia, but managing its strength more effectively

The strategically least productive approach would be to oppose metropolitan growth to regional convergence. The more adequate perspective is to transform metropolitan concentration into a source of broader territorial impact through coordinated, measurable, and spatially intelligent policies.

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**THE PLACE-BASED APPROACH IN THE THEORY OF FABRIZIO
BARCA AND ITS APPLICATION IN REGIONAL SCIENCE**

Miroslav Mihaylov*

Abstract:

This paper examines the theory of Fabrizio Barca as a key conceptual foundation for the development of the integrated approach to territorial development in the European Union. Through his critique of traditional territorially neutral policies, Barca introduces place as the central unit of analysis and intervention, viewing it as a complex system of social, economic, and institutional relations. The paper highlights his contribution to the transition from sectoral and fragmented policies towards integrated, coordinated, and contextually adapted interventions. The core principles of the place-based approach and their reflection in contemporary EU cohesion policy are analysed, emphasising that it is precisely Barca „s concept that laid the foundations of the integrated territorial model applied since 2009. In practical terms, the application of this approach in Bulgaria is examined through key instruments such as integrated territorial investments, local action groups, and the Recovery and Resilience Plan. In conclusion, it is underlined that Barca „s theory remains a fundamental reference for building contemporary policies oriented towards effectiveness, social inclusion, and territorial sensitivity.

Keywords: *Integrated approach; place-based approach; Fabrizio Barca*

JEL: R58, R11, R12, O21

Introduction

Regional development is one of the most complex and most debated fields within European public policy, as it combines economic, social, institutional, and spatial dimensions that are difficult to capture through universal solutions. Since the creation of cohesion policy,

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the European Union has sought to reduce disparities between individual territories, but for a long time this endeavour was realised primarily through mechanisms of financial redistribution and through the application of relatively uniform instruments for stimulating growth. It is precisely against this logic that the theory of Fabrizio Barca stands, formulated most consistently in his independent report ***An Agenda for a Reformed Cohesion Policy from 2009***, known as the Barca Report. In it, the author criticizes traditional „territorially neutral „policies, which proceed from the assumption that economic development can be achieved through the same measures regardless of the specific characteristics of individual regions. According to Barca, this very lack of sensitivity to local context is one of the main reasons for the limited effectiveness of many interventions, since different territories differ not only in income levels, but also in institutional capacity, social relations, historical accumulations, cultural patterns, and possibilities for mobilising resources. In this sense, place is not merely a geographical unit, but a complex and dynamic system in which economic processes are closely intertwined with social structure and the quality of institutions. This understanding has deeper intellectual roots going back to the early twentieth century, when Patrick Geddes in *City in Evolution* viewed space as a „living „historical and social structure, in which the natural environment, human activity, and public life develop in close interaction. Barca essentially builds upon this tradition, transforming it into a contemporary framework for regional policy oriented not towards abstract averages, but towards the specific characteristics, problems, and potentials of each individual territory.

This paper aims to analyse the place-based approach of Fabrizio Barca both in its theoretical foundations and in its practical reflection on the cohesion policy of the European Union, and more specifically on the Bulgarian model of regional development. The study proceeds from the understanding that Barca's scientific contribution does not consist solely in a critique of existing policies, but in offering a comprehensive conceptual and governance framework in which efficiency and social justice are not viewed as opposing goals, but as mutually conditioning processes. According to this logic, regions that remain excluded from development processes do not merely lag behind socially, but also lose the ability to fully utilise their human, economic, and institutional potential, which ultimately weakens the well-being of the Union as a whole. In this context, Barca formulates ten core principles through which



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cohesion policy should be rethought - from the concentration of resources on a limited number of strategic priorities, through the building of a new strategic framework and contractual relations oriented towards results, to the strengthening of institutions, the encouragement of local participation, the evaluation of impact, and the transformation of the European Commission into a centre of shared competence. From this derives the main task of the paper: to show how the place-based approach becomes the intellectual foundation for the integrated model of regional development after 2009 and how its principles are reflected in Bulgaria through instruments such as the Recovery and Resilience Plan, local action groups in rural areas, and integrated territorial investments. In this way, the text seeks not only to present Barca's theory as an important stage in the development of European regional science, but also to demonstrate its practical applicability, its limitations, and its continuing relevance in the face of new challenges confronting the European Union.

1. Theoretical foundation of the place-based approach

The theory of Fabrizio Barca represents a significant transformation in the way and approach through which regional development is understood within the European Union. In his report „An Agenda for a Reformed Cohesion Policy „(2009), better known as the „Barca Report „(Barca, 2009), Barca offers a systematic critique of traditional regional policies, which he defines as „space-blind „- meaning that in building its development policies, the European Union does not take account of inter-regional differences. According to the author, up until 2009 policies were built on the assumption that economic growth can be stimulated through universal instruments - for example, subsidies, infrastructure investments, or tax incentives - without considering the specific context of individual territories. According to Barca, this approach leads to inefficiency, since it ignores structural differences between regions, including institutional weaknesses, social norms, and historical accumulations. In contrast to this, the place-based approach places „place „at the centre of the analysis of policy intervention. To understand the deeper meaning of the theory, it is necessary to go back one century, when the Irish biologist Patrick Geddes defined his theory for cities in evolution (*City in Evolution*, 1915), where space is viewed not merely as territory but as a „living structure, where natural conditions (relief, climate, resources) and spatial structures (cities, regions) exist in historical



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accumulation „(Geddes, 1915). In the same way, Barca defines space not as a geographical unit, but as a complex system of social, economic, and institutional relations. Barca defines this approach as a long-term strategy for overcoming the persistent underutilisation of the potential of space, and combating social inequality through mechanisms adapted to the specific territorial context. According to the author, this consists of three key elements: external intervention (usually by the EU or the state); orientation towards the specific characteristics of the given place; and third, the pursuit of structural change rather than merely short-term assistance. In this sense, Barca „s place-based approach does not represent merely a methodological alternative to traditional policies, but a comprehensive conceptual framework that rethinks the role of public intervention, placing at its centre the interaction between territorial specificities, institutional dynamics, and social processes, thereby revealing the cause-and-effect relationships of specific economic and social problems in relation to the history and givens of the place.

Barca „s scientific contribution is centrally grounded in the idea that economic efficiency and social justice are not opposing goals, but mutually conditioning processes. Within traditional economic theory, it is assumed that there exists a conflict between efficiency and equality - that is, policies aimed at redistribution inevitably reduce economic dynamism.¹⁷ Put more simply, social justice cannot exist. The two concepts are mutually exclusive - social assistance means using tax revenues from well-functioning enterprises not to create a better business environment for them, but to support vulnerable groups, which in itself could not be considered fair. Barca challenges this dichotomy, arguing that in conditions of territorial inequalities, it is precisely the absence of inclusion that leads to inefficiency. Regions that are excluded from development processes fail to mobilise their human and economic potential, which ultimately reduces the overall well-being of the Union.

According to the author, EU regional development policy could be defined through ten core principles guaranteeing the well-being of citizens and the maximum utilisation of regional resources. Barca uses regional diagnostics as an essential element for determining the specific

¹⁷ Here we may consider the paradigm of the Socia



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characteristics and problems of each territory. It is foundational for defining the ten elements upon which the regional policy of the European Union should be built.

1.1 Concentration of Resources on Core Priorities - the first element of the place-based approach places emphasis on the strategic concentration of resources as a condition for achieving real impact. Within traditional cohesion policy, a fragmentation of investments is often observed, in which funds are distributed among multiple priorities without a clearly defined focus. This leads to a dilution of the effect and to the impossibility of achieving a critical mass of resources in key areas. In response to this problem, Barca proposes that between 55% and 65% of total funding be concentrated on a limited number - three to four - strategic priorities of significance for the entire European Union.

1.2 A New Strategic Framework for Cohesion Policy - the second principle builds upon the first by proposing the creation of a new European Strategic Development Framework to replace the existing general guidelines. The main problem of the existing system is the absence of a clear link between strategic objectives, available resources, and governance mechanisms.

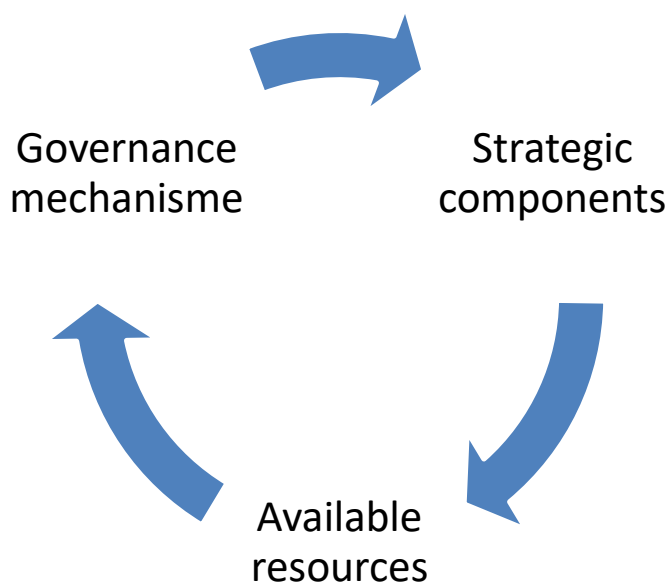


Figure 1: „Principles of Cohesion Policy according to Fabrizio Barca „



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The first principle in effective cohesion policy is strategic priorities. For Barca, this means a carefully selected set of a few core objectives, within a given programming period, to concentrate public intervention on the most significant problems in a given region. The core idea is that development cannot be achieved through the dispersal of resources across many measures, but through the focusing on a limited number of directions that have the potential to trigger a broader effect.

The second principle concerns available resources, which according to the author should not be limited to financial means alone. It is here that the place-based approach imposes a broader understanding of the resource base of the region. For a strategy to be realistic and effective, it must be grounded in a detailed diagnosis of all the assets and constraints of the territory. This includes human resources, natural endowments, infrastructure provision, economic structure, knowledge, social capital, cultural characteristics, and even historically formed behavioural patterns. The region is not an empty space into which funds are poured, but a complex system in which resources must be recognised in order to be properly assessed and mobilised.

The third principle, governance mechanisms, determines whether available resources will be converted into real results. When a theory has clearly formulated goals and disposes of a resource base but lacks adequate governance, the entire policy loses its meaning. Therefore, in the place-based approach, governance is not understood as a purely administrative function, but as a capacity for coordination, integration, and steering of different institutions towards specific instruments and common goals. It is here that the significance of the institutional environment becomes apparent, which Barca views as a key factor for overcoming inter-regional disparities in Europe.

1.3 Contractual Relations Oriented Towards Results - According to the author, each state should conclude a contract with the European Commission in which it commits to specific strategic priorities linked to reforms. This contract should not be viewed as an administrative formality, but as a key instrument for transforming cohesion policy from a process of fund distribution into a mechanism oriented towards results and impact. Within the framework of contractual relations, the state is obliged not only to define its priorities, but also to demonstrate the existence of institutional capacity, a regulatory environment, and governance mechanisms



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that allow their effective implementation. In this way, EU funding becomes conditional - linked to the achievement of specific goals, indicators, and timelines, as well as to the conduct of reforms in key sectors such as education, innovation, the labour market, or public administration.

1.4 Strengthened Governance of Core Priorities - the author places emphasis on the need for effective institutional governance. As explained above, sound cohesion policy depends not only on the volume of financial resources, but on the effective governance of institutions, which guarantees its success. It is precisely for this reason that Barca introduces the principle of *in-conditium*¹⁸ in the allocation of financial resources, meaning that institutions commit, quite formally, to fulfilling certain conditions upon receipt of funds related to the institutional framework. In practice, this means that for each strategic priority - such as education, innovation, or social inclusion, the state must demonstrate that it possesses functioning policies, clear rules, competent institutions, and mechanisms for quality assessment.

1.5 Encouraging the Participation of Member States - according to Barca, in order to guarantee efficiency in the spending of European funds, it is important to encourage the financial participation of member states. According to the author, this would demonstrate their commitment to the process of implementing territorial cohesion. Within traditional cohesion policy, there is often a risk that member states use European financing as a substitute for their own expenditure, which reduces the real effect of policies and distorts their core objective. To prevent this, Barca proposes the anchoring of the principle of a formal link to regulate budgetary discipline in the EU. In this way, an institutional mechanism is created that requires states to maintain a level of public investment, using European funds as an additional resource directed towards innovation and structural change. The author introduces the so-called „n+2 „rule, whereby if designated funds are not used within two years, they are redirected to other states and other priorities.

1.6 Encouraging Experimentalism and Mobilising Local Institutions - the core idea here is that there are no universal solutions that can be applied equally successfully in all regions. For this reason, policies should be viewed as a process of learning through practice, in

¹⁸ Subject to condition, from Latin (author's translation).



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which different approaches are tested, refined, and adapted according to the specific context. In this sense, experimentalism means the deliberate acceptance of a certain level of risk, with the aim of discovering more effective and innovative solutions to local problems. Barca emphasises that local institutions - municipalities, businesses, and NGOs - possess specific knowledge about their territory. It is precisely for this reason that their active participation guarantees the development of policies tailored to the real needs and potentials of the region. Their participation not only improves the quality of interventions, but also guarantees their legitimacy and sustainability over time.

1.7 Encouraging the Learning Process and Policy Impact Evaluation Mechanisms

- A key element in Fabrizio Barca „s concept is the encouragement of the learning process through the introduction of prospective impact evaluation based on counterfactual methods. This approach involves a systematic comparison between the actually observed results of a given intervention and the hypothetical situation in which this intervention would not have taken place. In this way, the traditional weakness of cohesion policy is overcome, in which success is measured primarily through the rate of fund absorption rather than through real impact on development. The prospective character of the evaluation means that it is planned at the very stage of designing the intervention, with clear indicators, comparison groups, and data collection methods defined. This has a strong disciplining effect on public institutions, as it limits the possibility of selecting beneficiaries and projects on the basis of political expediency or administrative convenience. Instead, the selection of interventions with demonstrable potential for impact is encouraged. More broadly, this approach transforms evaluation from a formal procedure into an instrument for accumulating knowledge and improving policies, creating conditions for more informed decision-making and for adapting interventions in line with actual results.

1.8 Strengthening the European Commission and Transforming it into a Centre of Shared Competence - according to the author, the Commission should not function solely as a control and audit body focused on compliance with procedures. While these functions remain essential for guaranteeing transparency and accountability, Barca argues that it should transform itself into a centre of shared expertise and knowledge at the European level. This means actively accumulating, analysing, and disseminating good practices, innovative



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solutions, and successful models of interventions between different regions and member states. In this context, the Commission should play the role of strategic partner, facilitating the exchange of experience. In this way, it will contribute to building administrative and analytical capacity, encouraging the coordination and coherence of the different policies of the Union.

1.9 Improving Financial Control Mechanisms - The author believes that the EU should improve its audit and verification mechanisms by adapting them to cohesion policy. Traditionally, the control system within the EU is characterised by a high degree of administrative complexity, multiple procedures, and a strong focus on formal compliance with rules, which often leads to significant administrative burden and uncertainty for member states. As a result, public administrations tend to avoid more complex or innovative projects, preferring safer but less effective interventions. In this context, Barca proposes optimising the control system through simplifying audit procedures and introducing a higher threshold for the so-called „tolerated error risk „, which would allow more flexible fund management without compromising financial discipline. This change aims to free up administrative resources and expert capacity that can be directed towards strategic planning, monitoring of results, and impact evaluation. In this way, control is transformed from an instrument of sanction into a mechanism that supports the effective implementation of policies and creates conditions for more innovative and results-oriented interventions.

1.10 Reinforcing the Political System of Checks and Balances - Within his concept, Fabrizio Barca emphasises the need to reinforce the political system of checks and balances as a key element for increasing the effectiveness and legitimacy of cohesion policy. In this context, he proposes the creation of a formal Cohesion Policy Council, which would serve as an independent body for the strategic evaluation of national development contracts and annual performance reports. The main purpose of this body is to shift the focus of political control from purely financial compliance towards the real impact of policies on the economic development and social well-being of citizens. By institutionalising this process, conditions are created for more in-depth and substantive debate within the European Parliament and the Council, oriented not so much towards identifying procedural violations as towards evaluating the results achieved and their sustainability. Furthermore, the introduction of such a mechanism reinforces the transparency and accountability of cohesion policy by providing a platform for



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comparison between different member states and their achievements. This creates an additional incentive for improving performance, as states are placed in conditions of „public visibility „and comparative analysis. More broadly, Barca „s proposal reflects the aspiration to build a more mature and balanced system of governance, in which political control does not reduce itself to sanctions, but becomes an instrument for strategic guidance, learning, and improvement of public policies within the European Union.

In summary, the theory of Fabrizio Barca represents a comprehensive transformation of the understanding of cohesion policy, taking it beyond the traditional model of financial redistribution towards an integrated, territorially sensitive, and results-oriented development strategy. Through the critique of „territorially neutral „policies and the introduction of the place-based approach, Barca places at the centre of analysis the interaction between the specific characteristics of place, the institutional environment, and socio-economic processes. The ten principles he formulates should not be viewed in isolation, but as an interconnected system aimed at achieving sustainable development, increasing efficiency, and guaranteeing social justice. In this way, cohesion policy is rethought as a strategic instrument for unlocking the potential of regions, grounded in knowledge, participation, and institutional accountability, which transforms it into a key mechanism for building a more balanced and inclusive European Union.

1. Application of the Place-Based Approach After 2009 - The Integrated Approach to Regional Development in Bulgaria

The concretisation of Fabrizio Barca „s theory within the European Union after 2009 leads to the establishment of the integrated approach to territorial development as the primary model for planning and implementing policies. This approach represents a transition from traditional sectoral policies, organised in so-called „silos „, towards a model based on „territorial synthesis „, in which different policies and instruments are combined within specific territories. At its foundation lies the understanding that economic, social, and infrastructure problems are interrelated and cannot be solved through isolated interventions. It is precisely for this reason that the integrated approach proposes the creation of „bundles „of measures that unite investments in different sectors - such as education, employment, infrastructure, and social services - with the aim of achieving a more sustainable and long-term effect. Bulgaria, as an



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EU member state, has to a significant extent adopted this model, integrating it into its strategic documents and instruments for regional development, and making it the foundation of national policy for territorial cohesion.

One of the clearest examples of the application of the integrated approach in Bulgaria is the Recovery and Resilience Plan, which reflects Barca „s principles through the combination of different policies within a coordinated strategic framework. In the plan, investments are not viewed in isolation, but as interconnected elements of a broader transformational programme encompassing digitalisation, the green economy, education, and social sustainability. This approach demonstrates precisely the logic of „territorial synthesis „, in which development is achieved through the combination of different resources and policies adapted to the specific needs of the country. In parallel, in rural areas an important role is played by local action groups (LAGs), created on the LEADER model, which represent a typical example of the mobilisation of local knowledge and participation. These structures unite the public, private, and civil sectors and aim to develop and implement strategies for local development based on the specific characteristics of the relevant territory. In this way, they materialise one of Barca „s core principles - the inclusion of local actors as active participants in the development process.

Additionally, the integrated approach finds expression through the application of the instrument of Integrated Territorial Investments (ITI), which allows the combination of funds from different European funds to address complex regional problems. This instrument transcends traditional administrative boundaries by directing interventions towards so-called functional regions - territories defined not by administrative division, but by economic and social links. In the Bulgarian context, this means the possibility of coordinated development of urban and rural zones, improving connectivity, and creating more balanced regional economies. At the same time, the integrated approach also requires an effective institutional framework based on multi-level governance, in which the European Commission, national authorities, regional structures, and local organisations interact in the process of planning and implementation. In this way, the application of Barca „s theory in Bulgaria shows a transition from fragmented and sectoral policies towards a coordinated model of development that



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combines resources, knowledge, and institutions within specific territories, with the aim of achieving sustainable economic development and social inclusion.

Conclusion

The present analysis has shown that Fabrizio Barca „s theory of the place-based approach represents one of the most significant conceptual transformations in the development of cohesion policy of the European Union. Through the critique of „territorially neutral „policies and the introduction of place as the primary analytical unit, Barca proposes a model that takes account of the complex interrelationship between economic, social, and institutional factors. This approach succeeds in overcoming the limitations of universal solutions by placing emphasis on context, local knowledge, and the need for integrated interventions directed towards the real problems of specific regions. Despite its undoubted contribution, it should be noted that Barca „s theory was formulated more than a decade and a half ago, in a context that differs substantially from the challenges facing the European Union today. The changes associated with digitalisation, climate crises, geopolitical instability, and demographic transformations require constant renewal and adaptation of regional development policies. In this sense, it is entirely natural for the EU to seek more current instruments and approaches that build upon, rather than entirely replace, Barca „s concept. The place-based approach should be viewed not as a finished model, but as a dynamic foundation upon which new policies responding to contemporary conditions can be built. It is precisely here that its enduring value becomes apparent - as a framework that allows flexibility and adaptation. Building upon the principles of the place-based approach, EU cohesion policy should encourage regions to develop their own strategies for development and resilience, tailored to their specific characteristics. This presupposes not only the use of financial resources, but also the active building and strengthening of the institutional structure at the regional level - including administrative units such as prefectures, regional administrations, and other forms of territorial governance. Alongside this, crucial importance attaches to the inclusion of local communities as active participants in the development process, as well as the integration of traditional knowledge, cultural practices, and historical accumulations as a resource for sustainable development. In this context, the future of cohesion policy does not consist solely in the



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improvement of financial mechanisms, but in the creation of conditions for deeper territorial autonomy, institutional resilience, and social engagement. Regions should not be passive recipients of policies, but active subjects capable of formulating and realising their own visions for development. It is precisely through the combination of a European strategic framework with local initiative and knowledge that true territorial cohesion can be achieved.

In this context, the future of cohesion policy does not consist solely in the improvement of financial mechanisms, but in the creation of conditions for deeper territorial autonomy, institutional resilience, and social engagement. Regions should not be passive recipients of policies, but active subjects capable of formulating and realising their own visions for development. It is precisely through the combination of a European strategic framework with local initiative and knowledge that true territorial cohesion can be achieved. Barca „s theory remains a fundamental reference point for understanding contemporary regional policy, but its significance today manifests itself above all in its capacity to be adapted and built upon. It provides the necessary analytical and conceptual toolkit through which the European Union can continue to develop its policies in the direction of more sustainable, inclusive, and territorially balanced development, responsive to the real needs of its regions and citizens.

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**FINANCIAL SUSTAINABILITY OF MUNICIPALITIES AS A FACTOR
FOR BULGARIA'S SUCCESSFUL INTEGRATION INTO THE
EUROZONE**

Chief Assistant Professor Tsvetelina Nikolova Berberova-Valcheva, PhD*

Abstract:

Eurozone integration is not an ultimate destination but a continuous process of refining public finances. A financially sustainable municipality serves as a guarantor that the benefits of the euro will reach every Bulgarian citizen, contributing to an enhanced quality of life and sustained economic growth. This study evaluates the fiscal sustainability of Bulgarian municipalities as a determinant of macro-fiscal stability through an indicator-based analysis of local authorities at both aggregate and individual levels. The methodology encompasses a quantitative assessment of revenue structures and investment intensity within the context of regional cohesion. The findings verify significant disparities: a high degree of self-financing in municipalities linked to the extractive industries or maritime tourism, contrasted with a systemic dependence on transfers in the country „s periphery. The analysis underscores the necessity for expanded fiscal autonomy as a critical factor for Bulgaria „s effective convergence within the Economic and Monetary Union.

Keywords: Capital expenditures, Local government finance, Fiscal decentralisation, Financial sustainability, Own-source revenues.

JEL: H71, H72, H77, F33, R51

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INTRODUCTION

Bulgaria's accession to the euro area on 1 January 2026 marks the end of the currency board regime under which the country operated for more than 28 years. The currency board played a fundamental role in ensuring macroeconomic stability and enforcing strict fiscal discipline in the aftermath of the hyperinflation crisis of 1996-1997. Over nearly three decades, Bulgaria has made substantial progress in economic convergence, reaching approximately 70 % of the EU average GDP per capita in purchasing power parity terms.

At this new stage of integration, characterised by shared monetary sovereignty, the country faces not only requirements for stability at the national level but also the need to consolidate municipal finances, as the financial sustainability of local government is directly linked to compliance with the commitments under the Stability and Growth Pact (European Central Bank (ECB), 2025) (European Commission, 2025). The focus is gradually shifting away from the nominal Maastricht convergence criteria towards the capacity of individual Bulgarian municipalities to operate sustainably within a single-currency environment.

The present study aims to examine the financial sustainability and the capacity for autonomous functioning of local authorities through an analysis of financial indicators for the period 2020-2024.

Successful participation in the euro area will require Bulgaria to accelerate decentralisation reforms so that municipalities can function independently, without reliance on central government. It is essential for municipalities to demonstrate institutional readiness and regional resilience, reflected in stable own-source revenues and the capacity for independent management of budgetary resources. Only by overcoming systemic dependence on state transfers can local government become an effective agent of regional development, capable of harnessing the benefits of the single market and generating genuine economic convergence.

1. Theoretical Foundations of Fiscal Sustainability and the Decentralisation of Local Government in the Process of Euro Area Integration

In contemporary economic theory, fiscal sustainability at the local level is associated with fiscal discipline, more precisely with the government's capacity to maintain key



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parameters within established constraints, such as limiting the budget deficit (typically up to 3 % of GDP in the EU), capping public debt (generally up to 60 % of GDP for EU Member States), and restricting total public expenditure, which in Bulgaria has traditionally been maintained at around 40 % of GDP. These requirements should likewise apply to each local administration, implying sustainable levels of public expenditure relative to revenues, thereby preventing excessive accumulation of debt and budget deficits. For this reason, the Ministry of Finance has established explicit criteria for financial sustainability since 2013 (Ministry of Finance, 2013):

- Budget balance as a ratio to total reported revenues;
- Level of debt as a percentage of own-source revenues and the equalisation subsidy as planned;
- Share of overdue liabilities relative to own-source revenues and the equalisation subsidy as planned.

According to the Institute for Market Economics, fiscal sustainability is linked to municipalities „capacity to manage their budgets on an ongoing basis through effective tax collection efforts and the containment of arrears (Institute for Market Economics (IME), 2024). The indicators in this category underpin the financial recovery procedure for municipalities experiencing financial distress and include:

- Share of overdue liabilities: calculated as the proportion of overdue obligations relative to planned revenues, the equalisation subsidy, and other transfers for local activities from the central budget;
- Property tax collection rate (%): calculated as the share of collected property tax relative to the tax due.

According to Stefan Petrov, a primary indicator of municipal fiscal sustainability is the presence of a negative budget balance at the end of the fiscal year (Petrov, 2017). This perspective is complemented by Dimitar Radev, who emphasises institutional credibility through fiscal rules (Radev, 2025). In his view, sustainability derives from stringent internal control mechanisms and independent audit, which prevent the accumulation of overdue liabilities-a critical risk in the transition to the euro.



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For this reason, the fiscal sustainability of municipalities is directly correlated with their fiscal autonomy. This aligns with the conclusion of Diana Ivanova, who argues that achieving a balance between own-source revenues and state transfers, through the accumulation of a sufficient volume of financial resources to cover municipal expenditure responsibilities for local activities, remains a persistent challenge for local self-government in Bulgaria and constrains the financial independence of municipalities (Ivanova, 2024, p. 191).

In contemporary academic literature, fiscal sustainability at the local level is understood as the dynamic capacity to maintain long-term financial equilibrium without compromising the quality of public service provision. According to Zahariev, this can be achieved by fostering processes of fiscal decentralisation alongside the parallel implementation of techniques and instruments for multi-annual financial management and the development of debt capacity, thereby enabling Bulgarian municipalities to ensure the effective realisation of the principles enshrined in the European Charter of Local Self-Government, particularly with regard to securing adequate resources for the execution of delegated powers and responsibilities (Zahariev, 2017, p. 13).

In his more recent research, he further substantiates this position through extensive cross-sectional analysis, providing empirical evidence on the state of local public finances and demonstrating that fiscal decentralisation in Bulgaria is not merely an administrative measure but an economic necessity, the success of which is measured by the capacity of municipalities to generate sustainable own-source revenues without exerting pressure on the state deficit. He therefore argues that fiscal decentralisation and integrated regional development should be viewed not as competing but as complementary processes (Zhariev, 2025, p. 18).

In line with the historical evolution of local governance in Bulgaria, Veleva (Veleva, 2023) demonstrates that the development of local government and decentralisation over the period 1979-2023 has been marked by a persistent asymmetry between administrative responsibilities and financial autonomy, which continues to constrain municipal fiscal resilience and capacity for independent decision-making.

Decentralisation should be conceptualised as a tripartite system which, by its very nature, leads to fiscal sustainability and fiscal autonomy. According to the Decentralisation Index (European Committee of the Regions, 2025), Bulgaria exhibits pronounced structural



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asymmetry, ranking 19th among the 27 EU Member States. Notably, the country achieves its highest position in terms of political decentralisation, while ranking last in fiscal decentralisation.

The empirical analysis of local public finances in Bulgaria reveals an unfavourable trend of fiscal dependency. The structure of financial decentralisation is characterised by a high degree of transfer dependence, with approximately 75 % of municipal budgets derived from state subsidies and earmarked transfers. In 2024, the share of own-source revenues in total municipal receipts declined to 24.98 %, down from 26.85 % in 2023 (Ministry of Finance, 2025). Revenues from local taxes accounted for only around 1.8 % of GDP in 2024, a decrease from 2.2 % in 2014. Own-source revenues constitute the primary buffer against asymmetric shocks. While the central government aims to maintain a deficit of 3 per cent at the macro level, municipalities must retain fiscal manoeuvrability at the micro level, ensured through a robust local tax base.

From the perspective of administrative decentralisation, the majority of resources are managed within the framework of „state-delegated activities „, where municipalities act merely as administrators of funds without the authority to alter policies. In 175 municipalities, there are fewer than 200 residents per municipal employee - a ratio commonly interpreted as an indicator of low administrative efficiency and institutional fragmentation. The transition to the single currency requires service delivery in line with European standards, which necessitates strengthening administrative expertise to operate effectively within the new monetary environment.

Political decentralisation, although formally assessed at a relatively high level, remains directly dependent on state transfers. When three-quarters of local budgets are financed by the central government, political autonomy becomes nominal rather than substantive. This dynamic is further reinforced by declining voter turnout, which erodes democratic legitimacy at the local level. In the absence of an independent national monetary policy, municipalities must possess sufficient political capacity to generate local economic incentives.

The sustainability of Bulgarian municipalities within the euro area is also directly contingent upon their levels of fiscal transparency and the pace of digitalisation. These factors



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act as catalysts for strengthening public trust and refining the local tax base, which is imperative for the stability of public finances.

2. Empirical Analysis of the Fiscal Sustainability of Municipalities in Bulgaria (2020-2024)

The present analysis is based on quantitative data covering all 265 municipalities in the Republic of Bulgaria, drawn from the official reports of the Ministry of Finance and data provided by the Institute for Market Economics. The period 2020-2024 has been selected deliberately, as it encompasses a phase of economic variability (the pandemic and the inflationary shock) as well as the intensified preparation for euro area membership in 2026. The principal indicators under examination are the share of own-source revenues within total revenues, alongside capital expenditure, debt, and related fiscal metrics.

The central academic and practical issue lies in the growing mismatch between the expanding responsibilities of local government and its limited own-source financial resources. In recent years, a process of „silent decentralisation „of expenditure has been observed, whereby municipalities assume an increasing number of functions in the fields of education, social services, and the green transition, while their revenue base remains highly concentrated within the central budget.

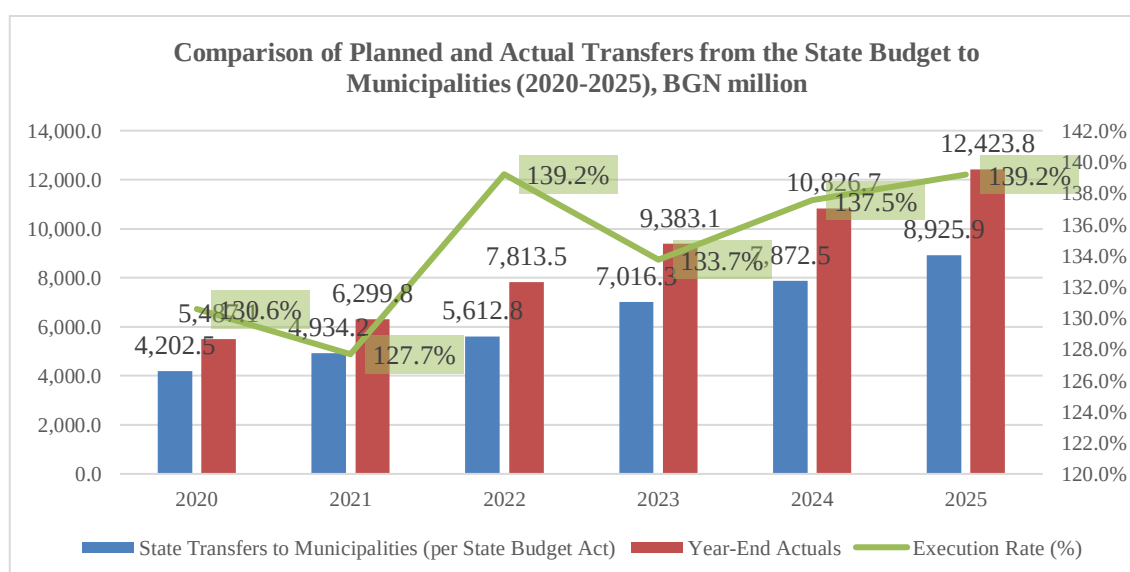


Figure 1 Comparison of Planned and Actual Transfers from the State Budget to Municipalities (2020-2025), BGN million



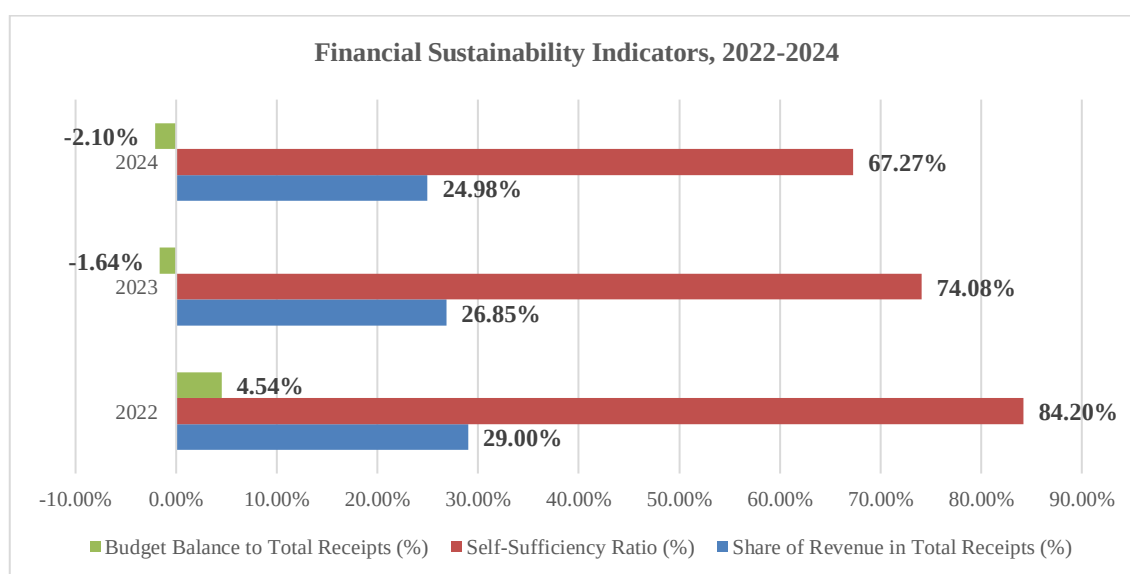
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Source: Author's calculations based on data from the Ministry of Finance, State Budget Data, <https://www.minfin.bg/bg/statistics/18>

Figure 1 illustrates the systematic over-execution of transfers, which ranges between 127 % and 139 % over the period under review, signalling a lack of predictability. The substantial gap between planned and actual execution indicates that municipalities frequently receive additional funds at the end of the fiscal year through decrees of the Council of Ministers, thereby constraining long-term strategic planning and undermining sustainability. The fiscal sustainability of Bulgarian municipalities is thus artificially maintained through extensive state injections; achieving genuine sustainability requires substantive fiscal decentralisation - for instance, through the assignment of a share of personal income taxation directly to municipalities in order to incentivise local economic development, as proposed by the Institute for Market Economics.

For the purposes of empirically verifying the outlined theoretical propositions, it is necessary to analyse the dynamics of key indicators of municipal fiscal sustainability in Bulgaria. Data for the period 2022-2024 (Figure 2) illustrate the actual state of local public finances and reveal systemic challenges to fiscal autonomy in the period preceding euro area integration. The presented indicators reflect the critical capacity of local authorities to balance their budgets and to generate own-source revenues for the provision of local services.





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Figure 2 Financial Sustainability Indicators

Source: Author's calculations based on data from the Ministry of Finance, Financial Data for Municipalities under Art. 130g, Para. 2 of the Public Finance Act (Q4, 2022-2024).

Figure 2 illustrates a systemic regression in the fiscal sustainability of Bulgarian municipalities over the period 2022-2024. A negative trend is observed, moving from a budget surplus to a deficit in the ratio of budget balance to total revenues. Of particular relevance in the euro area context is the shift from a positive surplus of 4.54 % in 2022 to a growing deficit of -2.10 % in 2024. This adverse development indicates that municipalities are losing their capacity to generate fiscal reserves and are beginning to accumulate debt. Within the euro area framework, where the national deficit is constrained to 3 per cent, such local-level deficits compress the overall fiscal space of the state and create macroeconomic risk.

At the same time, municipal debt in Bulgaria has traditionally remained below 1 % of GDP, representing one of the lowest levels in the European Union. This low share constitutes a strategic advantage for the European Central Bank and the euro area. Such discipline ensures that local public finances do not generate systemic risks of fiscal instability spillovers. The challenge lies in transforming this low level of indebtedness into an asset, enabling municipalities to leverage their creditworthiness to attract low-cost financing for green energy and infrastructure projects after 2026.

The figure further indicates a decline of 17 percentage points over two years in the coverage of local activities by own-source revenues, from 84.20 % in 2022 to 67.27 % in 2024. This trend can be interpreted as direct evidence of a loss of fiscal autonomy. Municipalities are no longer able to finance their local policies solely through their own resources, rendering them increasingly dependent on the central government budget, as each local activity becomes contingent upon earmarked state transfers.

Figure 2 also demonstrates a contraction in the share of own-source revenues within total receipts. The indicator records a steady decline from 29.00 % to 24.98 %, with the threshold below 30 % representing a symbolic benchmark of high dependency. When only one quarter of the budget is generated from own resources, the municipality loses its role as an autonomous entity of local self-government and is reduced to an administrator of centrally allocated funds.



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The conclusion that can be drawn is that the fiscal protection of municipalities against asymmetric shocks is significantly weakened. Upon entry into the euro area, where monetary policy is unified, this low level of own-source coverage (67 %), combined with the shift towards deficit budgets (-2.10 %), positions Bulgarian municipalities as the most vulnerable component of the public sector.

The analysis of data for the period 2020-2025 reveals a concerning vertical fiscal imbalance. State transfers have experienced rapid growth, reaching record levels exceeding BGN 12.4 billion. This model of transfer dependency creates an illusion of stability which, following euro area accession, could evolve into a systemic risk. Should the state be required to constrain its deficit to 3 per cent in accordance with the Stability and Growth Pact, municipalities with low revenue autonomy would be the first to face budgetary cuts, potentially leading to economic stagnation in peripheral regions.

For this reason, it is essential to examine the dynamics of fiscal sustainability through changes in the share of own-source revenues across all 265 Bulgarian municipalities over the period 2020-2024.



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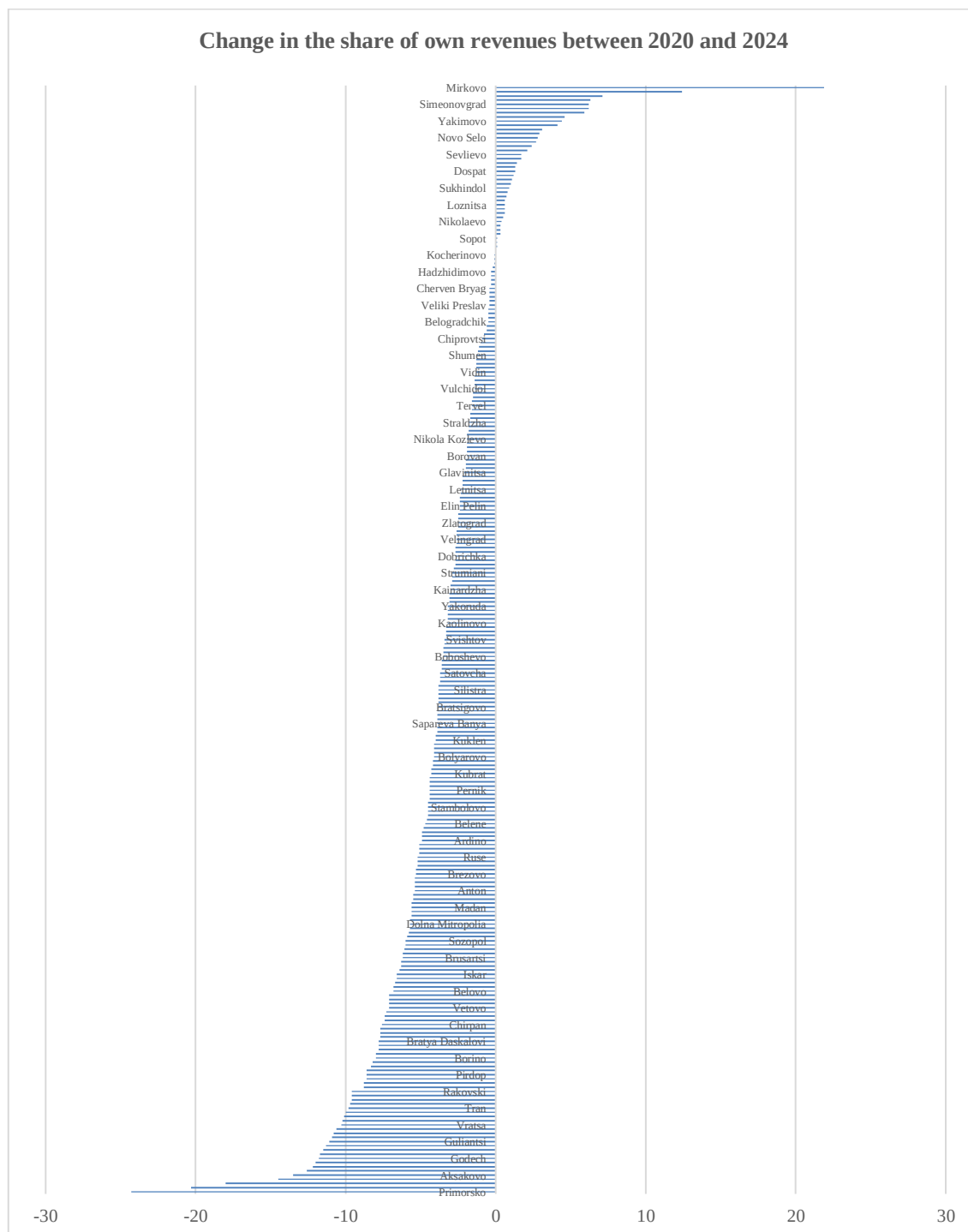


Figure 3 Change in the share of own-source revenues for the 2020-2024 period (%)

Source: Author's calculations based on data from the Institute for Market Economics (IME), „265 Municipalities” project (<https://265obshtini.bg>)

Figure 3 illustrates data for the period 2020-2024, evidencing a process of fiscal recentralisation. While municipalities remain politically autonomous, their financial base is contracting. This creates a scissor effect, characterised by rising expenditure and administrative responsibilities alongside a declining share of own-source revenues, which constitutes the principal challenge for local self-government on the path towards successful euro area integration.

Although the chart includes a limited number of municipalities with positive growth - such as Mirkovo, Chepelare, Kostenets, and Ruzhitsi - the majority of observations are concentrated in the negative range. Municipalities such as Primorsko and Avren record declines exceeding 20 % in their own-source revenues. This constitutes a clear indicator of structural fiscal fragility.

The data corroborate the thesis of increasing dependence on the central budget. Rather than strengthening their own revenue base, municipalities are losing relative weight in their self-financing capacity, rendering them increasingly vulnerable to future economic shocks.

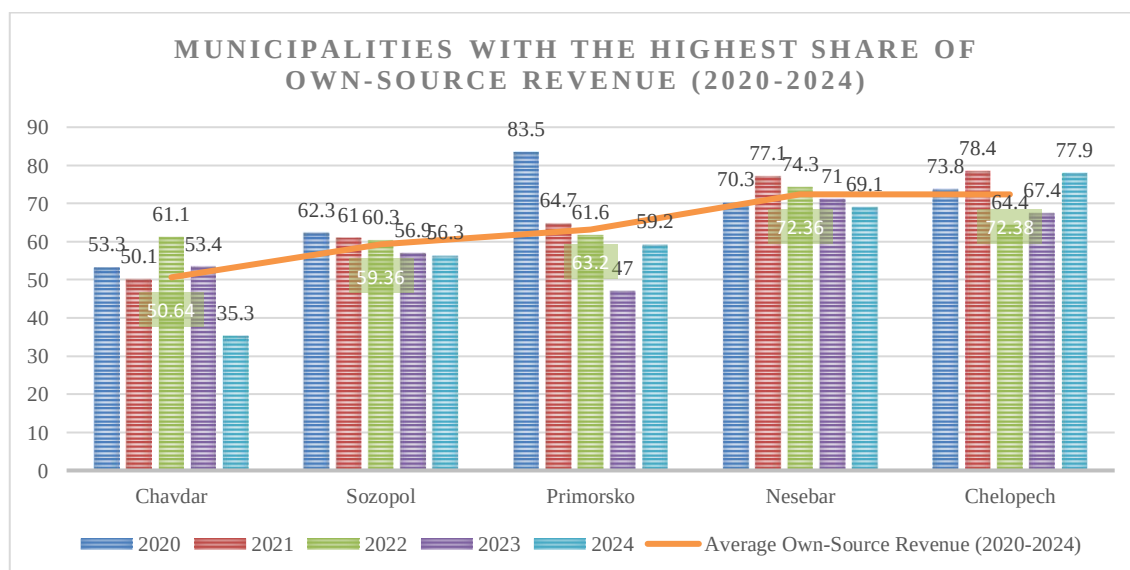


Figure 4 Municipalities with the highest share of own-source revenues for the 2020-2024 period

Source: Author's calculations based on data from the Institute for Market Economics (IME), „265 Municipalities” project (<https://265obshtini.bg>).



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The chart presents the so-called elite of fiscally autonomous municipalities in Bulgaria, namely the five municipalities with the highest degree of financial independence over the period under review. In the context of euro area integration, these data are of critical importance, as they illustrate the upper bound of local fiscal resilience in the country.

The municipality of Chelopech demonstrates an upward trend, reaching 77.9 % in 2024. This confirms that the presence of a strong local industrial base creates a fiscal buffer independent of fluctuations in the state budget. The municipalities of Nesebar and Sozopol maintain average levels above 60 % rendering them largely independent of central government transfers. In the euro area context, this implies a high capacity to absorb economic shocks without posing risks to the national deficit.

The analysis of the five leading municipalities indicates that, while the national average share of own-source revenues remains low, these clusters of stability operate at levels comparable to European standards of fiscal decentralisation. They function as localised centres of budgetary autonomy that do not generate risks for the national fiscal deficit - a core Maastricht criterion.

A high level of own resources enables these municipalities to invest in the green transition and digitalisation - both key European Union priorities - without increasing their debt burden. The chart further demonstrates that mining municipalities, such as Chelopech and Chavdar, as well as tourism centres, including Nesebar, Sozopol, and Primorsko, are the most prepared for participation in the monetary union, whereas broader decentralisation reforms remain necessary for the majority of municipalities.

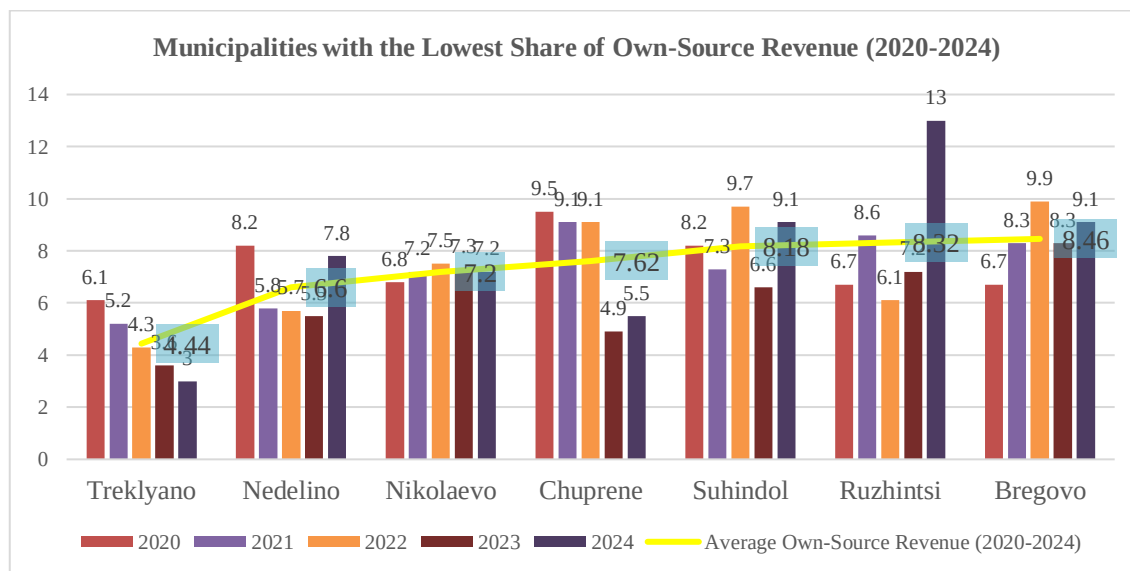


Figure 5 Municipalities with the lowest share of own-source revenues for the 2020-2024 period

Source: Author's calculations based on data from the Institute for Market Economics (IME), „265 Municipalities” project (<https://265obshtini.bg>).

Data from Figure 5 indicate critically low levels of own-source revenues in municipalities such as Treklyano (4.4 %), Nedelino (6.6 %), and Nikolaevo (7.2 %). These values reflect a condition of systemic fiscal dependency and minimal financial sustainability. The identified group of municipalities - Nedelino, Nikolaevo, Chuprene, Suhindol, Ruzhintsi, and Bregovo - consistently remains below the 10 % threshold of own-source revenue share. In the context of euro area membership and the associated stringent monitoring of budget deficits, these territorial units face a heightened risk of curtailment in capital expenditures. Such a development would deepen regional disparities and intensify processes of internal migration.

The analysis of indicators for Sofia Municipality and major economic centres such as Plovdiv, Varna, and Burgas also reveals an unfavourable trend. Despite their role as economic engines, these municipalities exhibit stagnation or decline in the share of own-source revenues over the period 2020-2024 (for instance, in Sofia the share decreases from 43.1 % to 37.9%). This regression signals incomplete fiscal decentralisation, characterised by a transfer of administrative responsibilities without corresponding revenue assignments. Upon euro area accession, this would constrain the capacity of leading municipalities to pursue autonomous

regional policies. The substantial disparity between the highest values (approaching 80 %) and the lowest (around 4 %) further confirms the need for a differentiated regional strategy. The absence of effective fiscal decentralisation mechanisms that stimulate local economic activity creates a risk that euro area integration will exacerbate socio-economic divergence between central and peripheral regions.

The critically low share of own-source revenues is not merely a statistical indicator but a fundamental constraint on the investment capacity of these municipalities. It results in a direct dependence of capital expenditures on earmarked subsidies and external financing, which necessitates a closer examination of these funding sources.

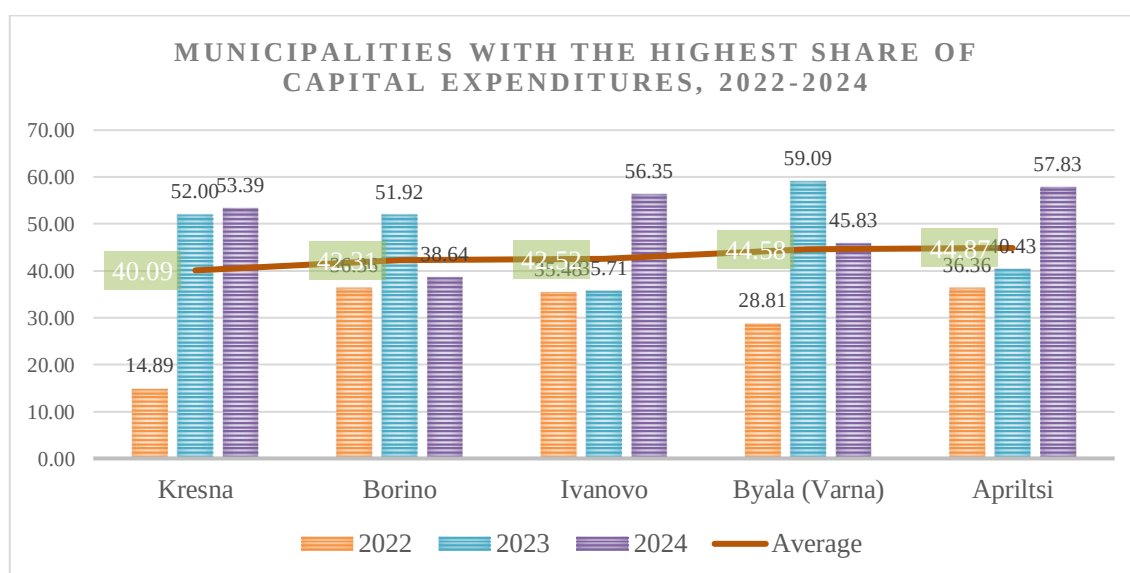


Figure 6 Municipalities with the highest share of capital expenditures, 2022-2024

Source: Author's calculations based on data from the Institute for Market Economics (IME), „265 Municipalities” project (<https://265obshtini.bg>).

Figure 6 shows that the share of capital expenditures within municipal budgets is a key indicator of the extent to which a municipality is oriented towards future economic growth rather than merely current consumption. The data for the leading municipalities reveal distinct dynamics, with notably strong growth trends.

Kresna increases from 14.89 % in 2022 to 53.39 % in 2024. Ivanovo records a similar surge, concluding the period at 56.35 %. Apriltsi maintains a consistent upward trajectory, reaching 57.83 % in 2024. Despite a slight decline from its peak in 2023 (59.09 %), Byala

remains above 45 %. These levels of investment activity exceed, by a considerable margin, the average indicators observed in many significantly larger municipalities. In practical terms, such smaller municipalities are actively preparing their local economies for the conditions of the Single Market.

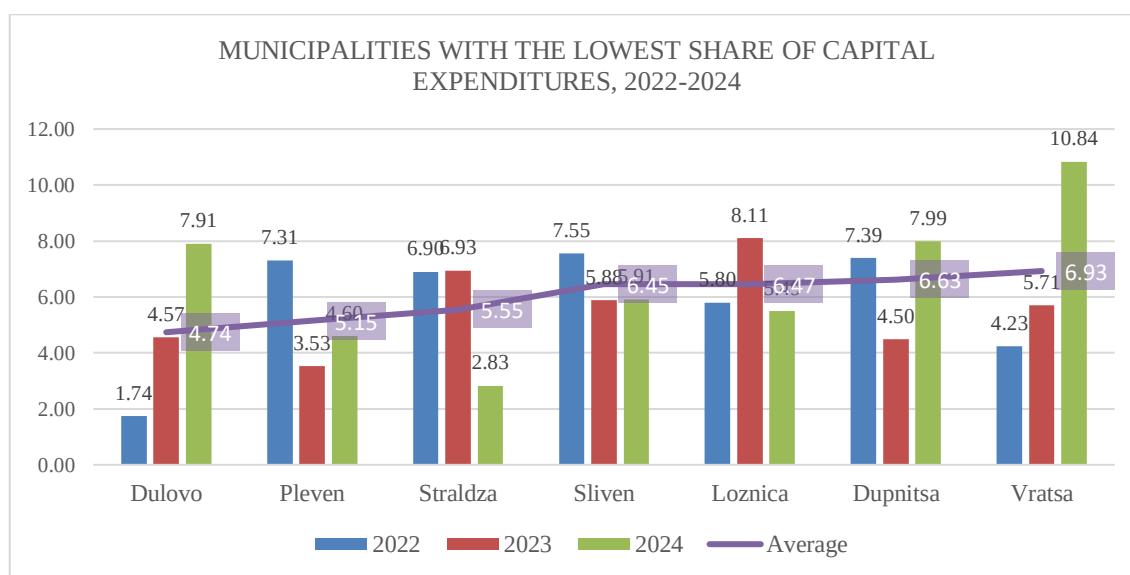


Figure 7 Municipalities with the lowest relative weight of capital expenditures in the total budget (2022-2024)

Source: Author „s calculations based on data from the Institute for Market Economics (IME), „265 Municipalities” project (<https://265obshtini.bg>)

Figure 7 highlights municipalities with some of the lowest levels of investment activity. Pleven, as a major regional centre, maintains an average of only 5.15 % in capital expenditures. For a large urban area, insufficient investment leads to infrastructure depreciation, which directly reduces its attractiveness to foreign investors operating in euro-denominated markets. In Straldzha, a concerning decline is observed - from levels of around 6.9 % in 2022-2023 to a critical 2.83 % in 2024 - indicating an almost complete halt in local investment processes.

Municipalities such as Sliven, Dupnitsa, and Vratsa, which traditionally possess economic potential, also exhibit low average levels of capital expenditures (between 6.4 % and 6.9 %). This demonstrates that, in the absence of fiscal decentralisation, these centres are unable to realise their development potential. The low share of investment is a direct consequence of



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high dependence on state transfers; without sufficient own-source revenues, municipalities prioritise operational expenditures, such as wages and utilities, over capital investment.

Within the euro area framework, such regions risk remaining a periphery of the periphery, lacking a modern business environment capable of retaining labour and capital. The contrast between investment leaders and municipalities with investment deficits - such as Pleven and Sliven - provides clear evidence of structural imbalances in Bulgarian public finances. For successful integration into the euro area in 2026, the state must implement mechanisms that enable these municipalities to move beyond a subsistence-oriented model and increase the share of resources allocated to capital investment. Only under such conditions can euro area membership generate economic growth rather than deepen regional disparities.

In a monetary union characterised by a single monetary policy, capital expenditures emerge as a principal instrument for enhancing regional competitiveness and attracting foreign direct investment. Municipalities allocating close to 50 % of their budgetary resources to the acquisition of fixed assets will hold a strategic advantage after 2026, offering an optimised infrastructural environment for businesses operating within the euro area.

The data highlight the dichotomy of a „two-speed Bulgaria „, in parallel with broader European trends of divergence. The pronounced disparity between municipalities with a high share of own-source revenues (exceeding 80 %, such as Chelopech and Nesebar) and those with critical dependence on the central budget (below 5 %, such as Treklyano and Makresh) implies an asymmetric impact of the single monetary policy across regions.

The increasing volume of state transfers, reaching BGN 12.4 billion in 2025, indicates that the fiscal sustainability of the majority of local authorities is a function of centralised redistribution rather than the outcome of genuine local economic activity.

The deficit of investment sovereignty in major urban centres constitutes a significant barrier to processes of real convergence. Euro area integration requires accelerated modernisation of physical infrastructure as a prerequisite for attracting high-technology capital. The current budgetary model, dominated by non-productive expenditure on wages and operational costs, constrains fiscal space for capital investment and exposes these municipalities to the risk of long-term technological lag.



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CONCLUSION AND RECOMMENDATIONS

Fiscal decentralisation in Bulgaria can be defined as an incomplete institutional process. The transfer of administrative responsibilities (administrative decentralisation) has not been accompanied by a corresponding transfer of financial resources (fiscal decentralisation). This paradox may also be interpreted as a driver of administrative capacity erosion. For successful integration into the euro area, a structural reform is required to transform municipalities from passive beneficiaries into active managers of local public resources.

The study identifies a pronounced dichotomy in terms of capital activity. While a limited group of industrial and tourism centres demonstrate substantial resource potential through own-source revenues that can be channelled into capital expenditures, major regional centres and smaller agrarian municipalities remain structurally dependent on external project-based financing. The deficit of autonomous capital resources constitutes a significant barrier to real convergence, constraining the modernisation of physical and social infrastructure in the period immediately preceding euro area accession.

The establishment of a Municipal Investment Fund for the euro area is proposed as a policy instrument to support smaller municipalities with „latent potential „, such as Vratsa and Sliven, in co-financing projects under the Recovery and Resilience Plan. Such an instrument would help address existing deficits and facilitate the preparation of local infrastructure to meet the unified standards expected by foreign investors after 2026.

There is a pronounced regional fragmentation that threatens social and economic cohesion within the country. An analysis of all 265 municipalities reveals a narrow circle of fiscal leaders „with a high degree of self-financing (exceeding 70 %), while the vast majority operate with less than 10 % own-source revenues. This imbalance signals a lack of effective cohesion policy at the local level, exacerbating demographic and economic decline in peripheral regions.

The fiscal autonomy of Bulgarian municipalities remains critically low, well below European standards for decentralisation. The absence of assigned direct taxes deprives local authorities of institutional sovereignty. As emphasised by Prof. A. Zahariev (Zhariev, 2025) in his cross-sectional analysis, without genuine revenue autonomy, municipalities lack the



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necessary fiscal resilience to cope with asymmetric shocks under the shared monetary sovereignty of the euro area.

Municipal fiscal sustainability is not merely a statistical metric but a safeguard mechanism. Successful integration into the euro area in 2026 will depend on whether the state has the resolve to grant municipalities financial independence. Ultimately, successful euro area integration necessitates a transition from administrative to genuine fiscal decentralisation, enabling municipalities to function as autonomous engines of economic convergence.

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THE IMPACT OF THE NEW DISTRICT ON FOREIGN DIRECT INVESTMENT IN BULGARIA

Ralitsa Grigorova*

Abstract:

This study analyses the potential impact of Bulgaria's new statistical regionalisation on the spatial distribution and dynamics of foreign direct investment (FDI). The reform of the NUTS-2 planning regions, introduced in response to Eurostat demographic requirements and the need for more effective allocation of European cohesion funds, represents an important institutional change with implications for regional development policy. The main objective of the research is to assess whether the new regional configuration can influence regional investment attractiveness and contribute to a more balanced territorial distribution of FDI. The study applies an interdisciplinary approach combining concepts from regional economics, foreign direct investment theory and public policy analysis. The research is based on the analysis of secondary statistical data from Eurostat, the National Statistical Institute and the Bulgarian National Bank, as well as reports from international organisations. The findings indicate that the new regionalisation may indirectly support investment activity by improving statistical transparency, strengthening regional strategic planning and enhancing access to European funding. However, structural factors such as infrastructure quality, institutional efficiency and human capital remain the key determinants of foreign investment decisions.

Keywords: *foreign direct investment; regional development; regional policy; NUTS-2 regions; cohesion policy; Bulgaria*

JEL: R11, F21

Introduction

Foreign direct investment (FDI) is widely recognised as one of the most important drivers of economic growth and technological development (UNCTAD, 2024; OECD, 2023). Multinational enterprises contribute to the transfer of capital, knowledge and innovation, which

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supports productivity growth and structural transformation within host economies (World Bank, 2020). In small open economies such as Bulgaria, foreign investment has played a particularly significant role in supporting the modernisation of industries and integration into global production networks.

Despite these benefits, the spatial distribution of FDI within national economies is often uneven. Investment flows typically concentrate in regions with developed infrastructure, skilled labour markets and strong institutional capacity. As a result, economically advanced regions may attract the majority of foreign investment, while peripheral regions experience lower levels of investment activity (Rodríguez-Pose and Crescenzi, 2008).

In the context of Bulgaria, regional disparities have been a persistent challenge in economic development. The capital region of Sofia concentrates a large share of economic activity and foreign investment, while several northern and peripheral regions face structural economic difficulties. These disparities have raised important policy questions regarding the effectiveness of regional development strategies and the role of institutional reforms in supporting more balanced territorial development.

In response to these challenges, Bulgaria initiated a reform of its planning regions at the NUTS-2 level. The reform aims to improve statistical comparability, ensure compliance with European statistical standards and facilitate more effective allocation of European cohesion policy funds (Eurostat, 2022; European Commission, 2023).

1. Theoretical framework and methodology

The relationship between foreign direct investment and economic development has been extensively analysed in the economic literature. One of the most influential theoretical frameworks explaining the internationalisation of firms is the OLI paradigm developed by John Dunning. According to this model, multinational enterprises invest abroad when three key conditions are met: ownership advantages, location advantages and internalisation advantages.

Location advantages play a particularly important role in determining the attractiveness of a country or region for foreign investors. These advantages may include factors such as infrastructure quality, labour market conditions, institutional stability, market size and access to international markets. Regions that offer favourable combinations of these factors tend to attract higher levels of foreign investment.



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Another important strand of literature emphasises the spillover effects generated by multinational enterprises. Studies by Blomström and Kokko (1998) demonstrate that FDI contributes to technology transfer, improvements in managerial practices and increased productivity in host economies. These spillovers may benefit local firms through knowledge diffusion, supplier relationships and labour mobility.

From a regional development perspective, foreign direct investment is often seen as a catalyst for structural transformation and economic convergence. OECD and World Bank analyses highlight that FDI can stimulate the development of new industries, enhance export performance and contribute to job creation. However, these positive effects depend heavily on the institutional environment and the absorptive capacity of the host economy.

The institutional framework is therefore a critical factor in determining the scale and impact of foreign investment. Predictable regulatory systems, efficient administration and stable economic policies create conditions that reduce investment risk and increase investor confidence. Conversely, institutional instability, administrative complexity and inadequate infrastructure may limit the attractiveness of a country or region.

Within this theoretical context, administrative and territorial reforms may indirectly influence investment dynamics by shaping regional policy frameworks, improving statistical transparency and enabling more effective allocation of public resources.

1.2. Methodology

The study adopts an interdisciplinary research approach combining elements of regional economics, foreign direct investment theory and public policy analysis.

The empirical analysis is based primarily on secondary statistical data from several sources, including:

- Eurostat regional statistics
- National Statistical Institute of Bulgaria
- Bulgarian National Bank data on FDI inflows
- European Commission reports on regional development

The analysis focuses on several key indicators relevant to regional investment dynamics, including:

- GDP per capita at regional level



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- spatial distribution of foreign direct investment
- demographic trends
- sectoral structure of regional economies.

Several analytical methods are applied in the study. Descriptive statistical analysis is used to examine the current distribution and dynamics of foreign direct investment in Bulgaria. Comparative regional analysis is applied to identify structural differences between regions and assess their investment potential. In addition, benchmarking techniques are used to compare regional development indicators with European cohesion policy thresholds.

An institutional analysis of the new regionalisation reform is also conducted. This includes examining regulatory documents, policy reports and strategic frameworks related to the restructuring of planning regions and the allocation of European funds.

The combination of theoretical insights, statistical analysis and institutional assessment allows for a comprehensive evaluation of the potential effects of the new regionalisation on foreign direct investment dynamics.

2. Foreign direct investment in Bulgaria: trends and challenges

2.1. Economic role of foreign direct investment

Foreign direct investment plays a significant role in Bulgaria's economic development. Since the country's transition to a market economy, FDI has been an important source of capital, supporting the modernisation of industries and the integration of the Bulgarian economy into global production networks.

One of the most important contributions of foreign investment is its impact on economic growth. By introducing new capital resources and advanced technologies, multinational enterprises expand production capacity and increase productivity levels. This contributes to higher gross domestic product and improved economic performance.

FDI also supports structural transformation by facilitating the development of new industries and modern production sectors. In Bulgaria, foreign investment has played a crucial role in the growth of sectors such as information technology, manufacturing, financial services and real estate.

Another key aspect of the impact of FDI is related to technology transfer. Multinational enterprises often introduce advanced production technologies, innovative business models and



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modern management practices. These innovations may spill over to domestic firms through supplier relationships, labour mobility and knowledge exchange.

The presence of foreign companies also has important implications for labour markets. Multinational enterprises typically provide higher wages and invest more in employee training compared to domestic firms. As a result, they contribute to the development of human capital and the improvement of workforce skills.

Through these mechanisms, foreign direct investment contributes not only to economic growth but also to long-term improvements in productivity, competitiveness and technological capacity.

2.2. Challenges for attracting foreign direct investment

Despite the important role of foreign direct investment in Bulgaria „s economic development, several structural challenges continue to limit the country „s investment attractiveness.

One of the main challenges is related to institutional and political instability. Frequent changes in government policies and regulatory frameworks create uncertainty for investors, particularly in long-term investment projects. The lack of predictability in policy decisions may increase perceived investment risks.

Administrative complexity also remains a significant barrier. Investment projects often require numerous permits and approvals from different institutions, which may lead to delays and increased transaction costs. Inefficient coordination between administrative bodies further complicates the implementation of investment initiatives.

Another structural limitation is the relatively small size of the domestic market. With a population of less than seven million people, Bulgaria offers limited opportunities for large-scale domestic consumption. As a result, many investment projects are primarily export-oriented.

Infrastructure gaps represent another challenge for investment development. Although Bulgaria has made progress in improving transport and logistics infrastructure, significant disparities remain between different regions of the country. Inadequate connectivity and infrastructure deficits may reduce the attractiveness of certain regions for investors.



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Finally, demographic trends pose a growing concern. Population decline, labour shortages and the emigration of skilled workers limit the availability of qualified labour. These trends may affect the development of technology-intensive industries and reduce the competitiveness of the economy in the long term.

Addressing these structural challenges is essential for strengthening Bulgaria „s position as an attractive destination for foreign direct investment.

3. The new planning regions in Bulgaria

3.1 Reasons for the regional reform

The reform of Bulgaria „s planning regions was initiated in response to several institutional and statistical challenges related to the existing regional configuration. One of the key issues was the mismatch between the demographic size of some regions and the requirements of the European statistical classification system.

According to Eurostat regulations, NUTS-2 regions should have a population between 800,000 and 3 million people in order to ensure statistical comparability across European territories. Two of Bulgaria „s existing planning regions - the North-West and North-Central regions - had populations below this threshold, creating challenges for statistical analysis and regional policy planning.

Another important factor motivating the reform was the strong economic concentration in the capital region. Sofia generates a disproportionately large share of the country „s economic output, which significantly affects the average GDP per capita of the South-West region. This statistical distortion may reduce the eligibility of surrounding regions for European cohesion funding.

The reform therefore aims to improve the statistical accuracy of regional indicators and ensure more effective allocation of European funds. By redefining the boundaries of planning regions, the government seeks to create a more balanced framework for regional development policy.

3.2 The new regional configuration

The new regional structure introduces four planning regions at NUTS-2 level:

1. Capital Region (Sofia)
2. Northern Region



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3. Southern Region

4. Eastern Region

The separation of Sofia as a standalone region reflects its significantly higher level of economic development compared to the rest of the country. The capital region has a GDP per capita well above the national average and closer to the European Union average.

The Northern Region combines the previously separate North-West and North-Central regions in order to meet the minimum demographic threshold required by Eurostat. This restructuring aims to maintain access to European cohesion policy instruments targeted at less developed regions.

The Southern Region includes several economically dynamic areas, including Plovdiv, which has developed into one of the country's leading industrial centres.

The Eastern Region consolidates the economic potential of the coastal areas around Varna and Burgas, while also incorporating several less developed regions. This configuration allows the region to maintain eligibility for European structural funding.

Overall, the new regionalisation aims to improve statistical comparability, strengthen regional policy planning and enhance the effectiveness of European funding mechanisms.

4. Impact of the new regionalisation on foreign direct investment

4.1. Potential positive effects

The new regional configuration may influence foreign direct investment dynamics through several institutional and economic mechanisms.

One important mechanism is related to the more efficient use of European structural and investment funds. Regional classification plays a crucial role in determining the allocation of cohesion policy resources. Regions with lower levels of economic development are eligible for higher levels of European funding, which can support infrastructure development, innovation programmes and regional investment projects.

These public investments often have a catalytic effect on private investment, including foreign direct investment. Improved infrastructure, industrial zones and innovation ecosystems can significantly enhance the attractiveness of regions for international investors.



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Another potential effect of the reform is the creation of clearer regional economic identities. By redefining the boundaries of planning regions, the reform allows regions to develop more distinct sectoral profiles and competitive advantages.

For example, the Eastern Region may strengthen its role in maritime industries, logistics and tourism. The Southern Region has strong potential for industrial development, particularly in manufacturing and logistics. The Northern Region may focus on agricultural production, energy projects and manufacturing industries. The Capital Region is likely to specialise further in high-technology sectors, digital services and innovation activities.

Clearer regional specialisation can help investors better understand the economic potential of different territories and facilitate strategic investment decisions.

Another potential benefit is the improved targeting of state aid policies. In less developed regions, higher levels of investment support may be provided under European state aid regulations. This creates incentives for investors to locate projects outside the capital region and may contribute to a more balanced spatial distribution of investment.

4.2. Potential risks and limitations

Despite the potential benefits of the new regionalisation, several risks and limitations should be considered.

In the short term, the reform may create a degree of institutional uncertainty. Regional administrations and public institutions need time to adapt to the new territorial framework, update development strategies and reorganise administrative procedures. During this transition period, investors may postpone investment decisions until the new system becomes fully operational.

Another limitation is that regional classification alone does not determine investment attractiveness. Factors such as infrastructure quality, labour market conditions, institutional stability and market access remain more important determinants of investment decisions.

Sofia is likely to continue attracting a large share of foreign direct investment due to its concentration of skilled labour, business services and innovation ecosystems. Without additional regional development policies, the new regionalisation may therefore have limited impact on reducing investment concentration.



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Furthermore, the effectiveness of the reform depends heavily on accompanying structural reforms. Improvements in administrative efficiency, regulatory predictability and infrastructure development are necessary to fully realise the potential benefits of the new regional configuration.

4.3 Regional investment perspectives

Within the new regional structure, each planning region has different investment prospects and development opportunities.

The Capital Region will continue to serve as the country „s main economic and innovation hub. Its strong concentration of universities, research institutions and technology companies create favourable conditions for high-technology industries. Future investment is likely to focus on sectors such as information technology, financial technology, research and development and digital services.

The Southern Region has significant potential for industrial development. The presence of established industrial zones and transport corridors connecting Bulgaria with Greece and Türkiye enhances its attractiveness for manufacturing and logistics investments. Foreign direct investment may play a key role in supporting industrial expansion and export-oriented production.

The Northern Region remains one of the least economically developed areas of the country. However, it offers opportunities for investment in sectors such as agriculture, renewable energy and automotive component manufacturing. Targeted infrastructure investments and regional development policies could significantly improve its investment attractiveness.

The Eastern Region combines strong maritime infrastructure with tourism and logistics potential. The ports of Varna and Burgas provide important gateways for international trade. Foreign investment could support the modernisation of port infrastructure, the development of logistics networks and the expansion of sustainable tourism.

The success of these regional development strategies will depend largely on the ability of regional and national institutions to implement coherent investment policies and coordinate development initiatives.



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Conclusion

The reform of Bulgaria „s planning regions represents an important institutional change in the framework of regional development policy. By redefining the territorial structure of NUTS-2 regions, the reform seeks to improve statistical comparability, enhance the effectiveness of cohesion policy instruments and create conditions for more balanced regional development.

The analysis conducted in this study indicates that the new regionalisation has the potential to indirectly influence foreign direct investment dynamics. The reform improves the institutional and statistical environment for regional planning and may facilitate more effective allocation of European funds. Through these mechanisms, it can contribute to improving infrastructure, supporting innovation and strengthening regional development strategies.

However, the impact of the reform on foreign direct investment should not be interpreted as automatic or immediate. The attractiveness of regions for international investors depends primarily on fundamental economic factors such as infrastructure quality, institutional stability, labour market conditions and access to markets. Regional classification alone cannot compensate for structural economic weaknesses.

In the short term, the reform may even create a temporary period of institutional adjustment as regional administrations adapt to the new framework. In the medium and long term, however, the new regional configuration could support a more balanced spatial distribution of investment if accompanied by effective regional development policies.

The successful implementation of the reform will therefore depend on complementary structural measures, including improvements in infrastructure, reductions in administrative barriers and policies aimed at developing and retaining human capital. The adoption of the euro and deeper integration into European economic structures may further strengthen Bulgaria „s investment attractiveness.

Ultimately, the new regionalisation should be viewed as an enabling institutional framework rather than a direct investment policy instrument. Its long-term effectiveness in attracting foreign direct investment will depend on the capacity of national and regional institutions to translate the opportunities created by the reform into coherent development strategies and a stable, predictable investment environment.



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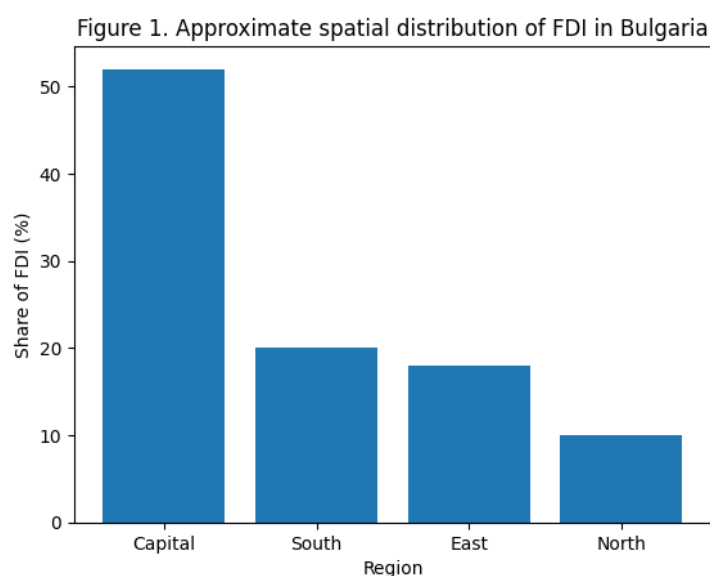


Table 1. Regional distribution of FDI in Bulgaria

Region	Share of FDI (%)
Capital region (Sofia)	≈ 50-55
Southern region	≈ 20
Eastern region	≈ 15-20
Northern region	≈ 10-15

Source: Author „s compilation based on Bulgarian National Bank and Eurostat statistics.

Figure 1. Spatial distribution of FDI in Bulgaria



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RURAL TOURISM AS A FACTOR FOR THE ECONOMIC GROWTH OF REGIONS

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Abstract:

This report is dedicated to the problems of rural development and how tourism can affect the development of the regional economy. The introductory part presents theoretical approaches to the problems of rural areas, a theoretical model of structuring and modeling of rural areas is derived. The opportunities and approaches for the development of rural tourism are outlined and related to the different types of rural areas where regional policy is applied. An important element of the presentation is multifunctional development, which is considered through the prism of the growth of entrepreneurship, based primarily on small and micro enterprises, often relying on local resources. This stimulates economic success and triggers multiplier effects for the development of alternative tourism in rural areas. The conclusion confirms the results and outlines the conclusions of the researched problem.

Keywords: settlement, development, tourism, region, policy, plan

JEL: R11, O13, O21, P25, R58

Introduction

Rural areas can also be defined in terms of their spatial location. This refers primarily to the distance separating an area from a large urban agglomeration. For example, the Norfolk Planning Department (England) defines rural areas as areas located 5 miles from a town with 20,000 inhabitants and 10 miles from a town with 10,000 inhabitants. Location is also a key element in distinguishing rural areas within the urban-rural continuum. Cities and rural areas

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are separated by peri-urban areas of varying degrees of development, depending on the size of the town. Such issues are either not considered or become extremely difficult and complex in definitional considerations due to the realistic separation of urban and rural spaces in light of the concept of the urban-rural continuum. A village is not a city. This simple definition corresponds to old concepts that depicted rural areas as the „rural world“- the vast area extending beyond the walls surrounding urban settlements. This simple definition lost much of its meaning after the Industrial Revolution of the 19th century, when, as a result of the loss of urban compactness and the encroachment on surrounding areas, the distinction between urban and rural areas ceased to be so simple. It certainly cannot be considered simple today. However, this simple definition, identifying rural areas as areas outside the administrative boundaries of cities, is still used in statistics today. In the 21st century, according to (Georgieva-Petrova, M. 2025), the reality was more complex where urbanization processes were most intense and their character often took intermediate forms. It should be noted that their delimitation and definition of boundaries within rural areas is quite difficult. Due to the development of urbanization processes and, consequently, the spatial expansion of cities, transitional zones (intermediate between city and village) appeared, which made it difficult to distinguish rural areas. In other words, most attempts to distinguish rural areas, mainly within suburban areas, are incomplete or not accepted unambiguously by analysts. They are characterized by the lack of „pure forms“ of urban and rural settlement, and scientific discussions advocate the thesis that rural areas appear at least three categories of settlements, namely: rural areas, rural space and village. According to expert assessment, we can assume that „Village“ is a colloquial category, usually referring to a settlement unit and its immediate surroundings (enclosed fields and other agricultural land). Rural space is a category typically used by sociologists and cultural anthropologists; in addition to spatial and material elements, it includes symbolic elements related to cultural heritage and the systemic foundations of rural life. Bogdanova, Z. (2008) believes that rural space is a broader concept than rural areas. According to expert assessment, it is assumed that the scope of this concept has temporal, spatial and cultural determinants; it is a socially constructed concept, which means that we ourselves have an influence on how we perceive them and how rural space is perceived. Rural areas are a category that is most often used today by both analysts and for economic policy purposes (Patarchanova, E. p. 58-65,



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2006). In this direction, we can assume that living conditions between urban and rural areas have largely converged, while the differences within urban and rural areas have increased. Thus, the search for these findings leads us to derive a specific methodological approach to the distinction and typification of rural areas in terms of their development opportunities (Rodriguez-Pose, A., Hardy, D. 2017). Our focus as a practical task is the imposition of rural tourism and the opportunity to explore which different groups of rural areas it can exist in a long time, what is common between rural areas and what distinguishes them from other areas.

Structuring and modeling of rural areas

The development of space in rural areas aims to achieve sustainable, multifunctional development, including through structural changes. These include, in particular: land use structure, landscape, rural development system, agrarian structure and configuration of the land, demographic problems and the state of municipal infrastructure. This understanding of spatial development in rural areas is implemented through spatial planning and increasingly through agricultural land development, which is understood as a set of planned measures (technical and organizational) that take into account the natural, economic, legal and social conditions aimed at adapting the spatial structure of the area to the needs of the rational organization of agricultural production space (Petrov, K., & Borisov, P. 2025).. In practice, there are two approaches to activities related to the classification of spatial units. The first is the approach of hierarchical ordering of rural areas, which often involves identifying classes that best meet the expectations of the researcher from the point of view of the purpose of the classification. The passporting approach, which involves the analysis of empirical data, leads to the differentiation of classes that most optimally reflect the mutual similarities and differences observed in the analyzed set of spatial units (Petrov, K., & Borisov, P. p.3-21, 2025). Therefore, each of the above-mentioned approaches has certain advantages over the other. However, the main projects for the development of agriculture include land consolidation and land exchange, the definition and construction of a new, rational network of technical infrastructure facilities, including access roads to agricultural land, land improvement activities and the construction of small retention reservoirs, reclamation of devastated agricultural lands, land use change, as well as afforestation of agricultural land. In the Bulgarian and international literature, we encounter different concepts for the classification of rural areas, usually based on the analysis of a set of



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diagnostic indicators (Georgieva-Petrova, M. 2025). The most commonly used are three main criteria for classifying rural areas: locational, structural and combined (combining these two criteria). The conceptual framework shows that the locational approach uses a description of the spatial structure of rural areas within the urban-rural continuum, which allows the distinction of central areas and concentric zones with varying degrees of influence and accessibility (Petrov, K., & Borisov, P. 2024). The 1997 EU programming document related to rural development, outlined three identified problems arising in rural areas. First of all, the pressure of modern life, the decline of the rural economy and very marginal areas. Based on these problems, the following categories of rural areas were distinguished, as follows. The first group is integrated rural areas. These are areas that are located near larger urban centers, agriculture plays a minor role in them, the majority of the income of the population living there comes from non-agricultural sources, the unemployment rate in these areas is relatively low, these areas are functionally strongly connected to cities and their population is growing.. The second group is intermediate rural areas. These are areas with significant agricultural activity, including large-scale agriculture, have a lower population density than in the previous category, and small towns are an integral part of these areas, serving as administrative, service and supply bases for agricultural activities. The third group is peripheral rural areas (remote rural areas), which are characterized by very low and decreasing population density, a high percentage of elderly people, small farms and predominantly strong economic resources (Nikolov, D., Borisov, P., & Radev, T. 2013). In practice, rural areas are sparsely populated territories outside large urban centers, characterized by agriculture, natural resources and a specific socio-economic structure. They are mainly classified as developed, intermediate and underdeveloped (peripheral) based on population density, economic activity and infrastructure (Morrison, T. H. 2014). In Bulgaria, they encompass many municipalities with a focus on agriculture and sustainable development. According to data from the National Statistical Institute - Sofia, the described pattern is more visible in the three categories. For people of working age, the differences between rural and urban areas are the largest in Denmark (64% in urban areas and 55% in rural areas), Finland (61% and 54%), Romania (64% and 59%), Sweden (59% and 54%), Bulgaria (63% and 58%), Ireland (62% and 57%) and France (58% and 53%). It is also interesting to note the distribution of people over 80 years of age in Spain - this group represents



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11% of the population in rural areas (the highest share of all Member States) and 5% of the population in urban areas. People in the EU live in different types of areas: rural, urban or so-called intermediate (cities and suburbs). Different regions have different age group shares: the working-age population (aged 20-64) in 2020 had a higher share in urban areas (60%) than in rural areas (58%). For those aged 65 to 79, the pattern is reversed: there is a higher share in rural areas (16%) than in urban areas (14%). These are public data from Eurostat, which show that rural areas are not small at all and need targeted support and a strong influence of European funds on them, which is not happening in practice. Here is the place to say that the data shows that policies are needed that really work for better living conditions. create more favorable conditions for the management of agriculture and forestry by improving the spatial structure of farms, forests and woodlands, rationally shaping land configurations and adapting property boundaries to the system of drainage facilities, roads and terrain (Marinov, P, p.268-280, 2025). Land consolidation is characterized by solutions of a technical nature. It is a measure for agricultural management in the development of a project, in which administrative authorities exercise a certain degree of freedom of action. Land consolidation is a measure that transforms in a given area the surface layout of fragmented lands, located in a checkerboard pattern or excessively elongated, into the largest possible, correctly shaped plots that meet the requirements for rational use. This includes simultaneously eliminating enclaves and semi-enclaves, straightening borders, allocating land for development, designing a functional communication system, and properly shaping the layout of the land, while expanding the area of farms where possible (Tsonkov, N. 2020). Another important element of the functioning and development of rural areas is infrastructure, which is broadly defined as the facilities and service institutions necessary for the proper functioning of society and the productive sectors of the economy. Infrastructure is created by tangible objects and the activities of intangible service institutions. Therefore, calling something infrastructure is intended to emphasize that it refers to objects, facilities, or other phenomena that are perceived as the foundation without which the creation, development, or proper functioning of any part of the social system or the system as a whole is impossible (Tsonkov, N. 2023). This provision helps to develop crafts, finance, agricultural services (collection points, veterinary, agrotechnical waste or materials) and business services. Technical infrastructure encompasses water supply and sanitation



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management, transport, communications and energy, while social infrastructure includes healthcare, culture, education, social assistance, law and safety, recreation, social organizations and municipal housing (Tsonkov, N. 2024). The development of infrastructure itself, although a necessary condition for the effective functioning of economic and social entities, is not enough to cause significant and lasting changes in development. The development potential of regions is created by various local resources, which, in addition to the already mentioned infrastructure as an element of spatial development, include natural, economic and social resources (Morrison, T. H. 2014). Despite the significant and growing importance of other development factors, infrastructure remains an important potential for endogenous development, as it reflects the specificity of a given region. It is the main factor attracting investors, and its development allows for the achievement of long-term goals and bears fruit in the future. In this context, the infrastructure under consideration can be called the infrastructure of growth, contributing to increasing the wealth of municipalities, their competitiveness and improving the living conditions of their residents (Tsonkov, N. 2024).

The entry of tourism into rural areas as a real alternative

This is possible due to the rural nature of the habitation of individual rural territories, as well as as an opposition to urbanism. The rural area and tourism are connected by the derived different characteristics of the territory, as well as the understanding that the rural character has constantly changed over time. This means that the scope of rural tourism is very wide depending on the life of the population and the emphasis on the regional policy carried out in it and the level of modernization. A hundred years ago, rural areas were understood as relatively homogeneous spaces, clearly distinguishable from urban areas in terms of their settlement, economic and social structure (Ivanov, M. 2024).. They were associated with low population density and small settlements, meaning villages, small hamlets and isolated settlements. Agriculture, forestry and mining were considered to be the defining industries. Finally, the prevailing perception was of a less differentiated society compared to cities with their more pronounced division of labor and different status groups (Majhosev, D., & Koteski, C. 2022). From the perception of the backwardness of rural areas, and especially in the context of the general atmosphere of optimism after World War II, the idea developed that the modern, urban way of life should spread from urban centers to the rural peripheries. Therefore, there was not



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supposed to be a clear boundary between city and village, but rather a smooth transition in an urban-rural continuum. Although all these images of rural areas play a role in public and to some extent still in professional discourse, they are considered to be largely outdated - with the exception of characteristics of the settlement structure, such as low building density and remoteness - and it is certainly debatable to what extent they ever had a basis in reality (Georgieva-Petrova, M. 2025). Instead, newer perspectives emphasize the diversity of rural areas and therefore now speak of rural areas in the plural. These rural areas differ in terms of social and economic factors. There are gradual differences between rural and densely populated areas, such as a lower share of rented apartments in rural areas, more cars in rural households, or a higher share of rural residents who are active in clubs or engaged in civic activities. However, the typical rural lifestyle is difficult to identify and people are culturally as diverse as those in large cities (Borisov, P., Nikolov, D., & Radev, T. 2020).

Opportunities for the development of rural tourism

The competences of local and regional authorities to develop rural tourism relate to the creation and implementation of a local social policy, the program of which must be coordinated with other development programs of the municipality, to incorporate the possibility of building a tourism infrastructure to solve emerging tourism problems, the local development plan, the program for cooperation with non-governmental organizations, the multi-annual financial forecast and the program for local tourism development (Vladeva, R., & Vladev, I. 2019). The development and creation of tourist passportization of sites in settlements, the creation of local maps and virtual guides with the relevant communication links help us solve a number of tourist needs, problems, the action program for people working in the tourism segment, the program for cooperation with non-governmental organizations, the district program for employment and social cohesion and protection of the safety of citizens and public order (Vladev, I., Stoyanova, M. P.223-233, 2021). It is important that rural tourism generates stability and a model of regional development, because the implementation of tourist services consists of sequential activities: from identifying tourist services, regional demographic problems, diagnosing social needs, establishing strategic programs for the implementation of tourism policy, through investments in the material base of individual regions and creating an electronic portal for visitors and workers in the field of tourism. The structural approach allows grouping rural areas



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by tourist potential based on their socio-economic characteristics. Most often, leading economic functions are distinguished, which are then assigned to the corresponding functional class and the possibility of building a tourist superstructure. Thus, tourism in rural areas has its own focus and infrastructure features. Rural tourism has its own specific definitions, classification, typology and generally has high levels of unemployment and significant poverty and social exclusion (Ivanov, M. 2019). The technical, economic and social infrastructure in terms of tourism is poorly developed. In most European countries, especially those in Eastern Europe, it shows that great efforts are needed for the sustainable development of rural tourism. In practice, the condition of rural towns is decent, but they are either sparsely populated or develop around large and medium-sized cities, where the majority of residents earn their living from working in the city. In practice, they provide housing and recreational facilities for people originating from urban agglomerations or migrating from remote agricultural areas. This character is typical of rural areas within a 30 km radius of capital cities such as Sofia, Belgrade, Warsaw and other cities such as Plovdiv, Thessaloniki and others. Intermediate rural areas can be found in all parts of Europe. For example, most areas with rural peripheral characteristics in Poland are located on the so-called „eastern wall”, where they literally border the Russian Federation or Belarus. They are usually identified on the basis of diagnostic characteristics related to different elements of the spatial structure within the reference unit (municipality, region). Space serves many different functions and therefore spatial planning can discuss the development of a single function, such as recreation, agriculture or industry, or the development of multiple functions simultaneously. In the first case, we are talking about monofunctional development, while in the second - about multifunctional development (Ivanov, M. 2019). It is worth noting that the development of a given function involves the occupation of new areas (horizontal development) and its transition to higher levels. In practice, rural tourism can be identified as a significant priority for mountainous, semi-mountainous and other groups of territories that are in a depressed state or have only one developed sector and thus will be able to define the possibility of a more diverse regional economy.

Multifunctional development of tourism in rural areas

In practice, multifunctional development of tourism in rural areas arises from the need for a new method of rural planning, adapted to the rapid structural changes in the rural regional



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economy, including the modernization of agriculture (Wójcik 2011). The issue of multifunctionality requires finding a proper conceptual framework. This concept implies economic strengthening of regional business, as well as strengthening farms and improving the competitiveness of the food sector, while at the same time providing tools for diversifying economic activity towards alternative sources of income for rural residents through the construction of a tourist superstructure and regional infrastructure for the development of the tourist industry. The aim is to improve the quality of life in rural areas through the development of the service sector, which will bring tourism to the forefront. In addition to the economic functions, an equally important aspect of the development of rural areas, for example in Bulgaria, but also in Moldova, is their role in the preservation of landscape values and natural resources, as well as the cultural heritage of rural areas. This sets the vision for a concept that brings tourism as an essential participant in the region „s economy and associated with the spread of non-agricultural activities in rural areas, which is expected to lead to greater diversification of the local economy and diversification of the labor market and geographical positioning (Vladeva, R., & Vladev, I. 2019). An important element of multifunctional development is the growth of entrepreneurship, based primarily on small and micro enterprises, often relying on local resources. This stimulates economic success and triggers multiplier effects (Majhosev, D., & Koteski, C. (2022). Rural areas are no longer a monofunctional area and new non-agricultural forms of development of the rural population, such as tourism, are emerging, providing a variety of functions that meet their needs (Majhosev, D., & Koteski, C. 2022.). In the concept of tourism development in a rural area as a multifunctional space, the function is a certain characteristic (characteristic expressed by an indicator). The multifunctionality of rural areas is most often reduced to the rank of a strategy, policy or path for the development of rural areas and the incorporation of a new industry such as tourism. The differences consist only in the identification of additional elements indicating the methods and procedures for implementing this type of development. Multi-functionality of rural areas is a strategy (type of policy) for their development, consisting in diversification. The practical application of the concept of tourism development in rural areas means the economy of a given municipality, to bring to the fore the relevant activity, so that its basing on various regional policies helps to develop the regional economy, effective management of public activities by



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including more and more new non-agricultural functions in the rural space of settlements (Vladeva, R. 2024). Multi-functionality is the opposite of multifunctional development, based primarily on the production of agricultural raw materials. The concept of multifunctional development of tourism in rural areas is not synonymous with the process of creating new jobs. Multifunctional development is a broader concept related to local development, such as tourism, but not only to the development of entrepreneurship, strategic development planning, diversification of agriculture, development of infrastructure and the public sector (Ivanov, M. 2019). We can assume that, in turn, tourism identifies the multi-functionality of rural areas with changes in spatial development. Tourism is a guarantor of a connection between the quality of rural space, the way in which non-agricultural functions are introduced into it, and the quality of life. This leads to a rejection of the monofunctional model based on agriculture, which led to the impoverishment of the rural population and the deepening of unfavorable trends in socio-economic development. In addition, tourism can impose a type of regional policy that will influence the spatial development of rural areas for years. In addition, the multifunctional paradigm implies solving existing problems through a broadly understood socio-economic activation of these areas. The desired state or target result of multifunctional development will be a professionally active rural society, which also supports itself from non-agricultural sources of income, guided by entrepreneurial attitudes, and a space with a significant share of built-up areas with developed infrastructure, densely populated thanks to compensating population growth (Majhosev, D., & Koteski, C. 2022). Multifunctional development of rural areas through tourism and the introduction of new technologies prevents the phenomena of depopulation and allows the elimination of agrarian overpopulation. The concept of multifunctional development of tourism in rural areas is rooted in the main strategic documents for the development of the country. In practice, the search for diversity of policies for the development of rural areas and the introduction of information technologies will set a new rhythm of development of rural areas, especially if the level of public works and infrastructure provision improves.

Conclusion

The importance of agriculture in the rural economy is decreasing, but the opportunities through the development of tourism and the introduction of information technologies give hope for new development. Tourism is an alternative in many regions, it can still play a decisive role,



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especially rivers that there is also a modernization of farms that are advancing with non-agricultural entrepreneurship. Rural areas are slowly ceasing to be an area of agriculture, but agriculture is geographically located and strongly linked to space and tourism is its natural alternative. Other forms of activity compete for rural space, so appropriate management and prevention of conflicts between its users are essential. The existence of different economic entities within a given territory provides a basis for the development of cooperation and the resulting benefits, but the added value of tourism is integral in its philosophy and contributes to the overall development of individual regions. We can summarize that the general economic and social policy and specific economic programs also affect the situation in rural areas. Therefore, it is necessary to coordinate different aspects of economic and social policy, the development of tourism in rural areas and agriculture, to ensure connections within regional and spatial systems and to provide an appropriately designed institutional structure supporting the process of rural development. This multi-level nature of development requires taking into account the various participants in this process and characterizing the relationships and connections between them, both those of a cooperative nature and any emerging contradictions or conflicts. The future of rural areas in the medium term lies in the development of tourism and the penetration of information technologies.

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**IS IT POSSIBLE THAT THE NEW ZONING IN BULGARIA WILL
HAVE AN INFLUENCE ON HOUSING PRICES?**

Lyubomir Tsvetanov*

Abstract:

The report examines the essence of the regionalization in Bulgaria focusing mainly on level 2 regions. The upcoming changes in level 2 and the consolidation of regions from six to four are discussed. The perspectives that the new regionalization provides are examined with a focus on the possibility of greater funding during the upcoming European Union programming period for 2028-2034. The focus is on the relationship between the opportunities for improving the standard of living in the regions and the prices of housing in these regions. The main factors that influence the prices of residential properties are identified. It is reported that these factors will be affected by the new zoning in the country as well as by future regional policies related to it. Based on the analysis conducted the report concludes that it is possible to observe an increase, in the long term, in housing prices as a result of the new zoning in the country at level 2.

Key words: housing prices, new zoning, regional development, european funding.

JEL: R31, R14, R52

Introduction

In recent decades Bulgaria has seen significant disparities in the economic development of its regions. This led, on one hand, to the depopulation of the less developed economic regions and this process has reduced or significantly slowed down the rate of growth of housing prices in the settlements of these regions. On the other hand, due to the large internal migration, high wages and the better standard of living in Sofia, residential property prices have followed a sustained upward trend. To overcome the large differences and imbalances in the individual regions in the country, a targeted regional policy should be implemented and one of the levers for influencing available to the state is to rethink and change the regionalization of the country which would lead to a fairer distribution of financial resources including European Union funding for regions.

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The main idea of the report is that the upcoming change in the regionalization in Bulgaria and the creation of the new four national regions under NUTS 2 will create opportunities for better financing of underdeveloped regions which should improve the quality and standard of living in these regions and would likely lead to an increase in residential property prices in the long term. The new zoning will not automatically, by itself, lead to the desired positive effect and to the closing of the differences in the individual regions, but rather it should be considered as a necessary basis for the implementation of future regional development policies. The right regional policies and investments can lead to a change in the main factors that influence the prices of residential properties.

1. The essence of regionalization and the upcoming change in NUTS 2

The regionalization of Bulgaria plays an important role in the implementation of state policy regarding regional development thus helping to create better conditions for integrated development, planning, regulation, and control of the different parts of the country. For this purpose, according to the provisions of the Regional Development Act (RDA), regions are distinguished divided into levels which serve as the basis for the implementation of state policy for regional development. The different levels are defined according to the requirements of the common classification of territorial units for statistical purposes, applied in the European Union (Zakon za regionalno razvitiie. Obn. DV. br. 50 ot 30 may 2008 g.). Regionalization is carried out in three levels with the regions of the first two levels not constituting administrative-territorial units. In essence, the regions of level 1 constitute statistical zones while those of level 2 are zones for planning. On the other hand, the regions forming level 3 represent administrative-territorial units and their scope completely coincides with the individual districts in the country. The most important and significant in the strategic planning of regional development are level 2 planning regions for which special integrated territorial development strategies are developed and adopted by the Council of Ministers. According to the texts set out in the RDA these strategies determine the medium-term goals and priorities for the specific region as well as its connections with other level2 regions for planning in the country and even in neighboring countries. In additions to the above, integrated territorial development strategies for level 2 regions for planning are of utmost importance in terms of investment intentions for



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development of the territory of the region and are also an important basis for determining mechanisms for implementing regional state aid for redirecting and distributing funds for financing from the European Union. In level 2 planning regions regional development councils are also established to include representatives of the local governors of the districts falling within the scope of the specific region. The main task of these councils is to assist in the process of coordinating state policies for regional development in the respective planning region (Zakon za regionalno razvitie. Obn. DV. br. 50 ot 30 may 2008 g.).

As mentioned above, the regionalization of the country is carried out in accordance with the uniform requirements of the European Union provided for in Regulation (EC) No 1059/2003 of the European Parliament and of the Council of 26 May 2003 on the establishment of a common classification of territorial units for statistics (NUTS). According to the criteria for classification of regions introduced in Art. 3 of the regulation the minimum population for each of the level 2 planning regions (NUTS 2) should be at least 800 000 people. Due to the declining population of Bulgaria in recent years as well as the increasing trends of internal migration from less developed economic regions to the capital and larger cities, in 2018 it turned out that two of the existing level 2 regions - the North-West and North Central - no longer meet the minimum European requirements for population size therein and there was a risk of losing their NUTS 2 status. In this regard a discussion has gradually begun in the country to review the currently existing six level 2 regions defined according to the RDA. The change was urgent not only from the point of view of fulfilling the regulatory requirements, but also aimed at a better and fairer distribution of funds from European programs and funds and reducing interregional differences in the degree of economic and social development of the regions in Bulgaria. In this regard several options for a new regionalization at level 2 were discussed and ultimately the option with the greatest consolidation of the regions was adopted, from six to four units. The selected option with four regions provides future security and a guarantee that the regions will meet the minimum requirements even in the event of future demographic changes in the country.

By a decision of the Council of Ministers of Republic of Bulgaria of 27.03.2025 a procedure was initiated to amend the current zoning in the Republic of Bulgaria granting a mandate to the National Statistical Institute (NSI) to initiate negotiations with the Statistical



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Office of the European Commission „Eurostat” to change the scope of level 2 regions in the Republic of Bulgaria. According to this decision four level 2 planning regions are envisaged, namely North, East, South, and Sofia, including only Sofia Municipality. According to the provisions of Art. 7, para 1, item 1, letter „g „of the Statistical Act the NSI is the institution that represents the national statistical system in the European Statistical System and, therefore, it continued the procedure of notification and coordination of the amendments with the European Commission and Eurostat. The process was completed with Order No. RD-05-111/18.02.2026 of the Chairman of the NSI which finally approved a new classification of territorial units for statistical purposes in Bulgaria - NUTS (NSI, 2026). The amendments should enter into force from the beginning of 2027 which will allow Bulgaria not only to update and analyze statistical data for the regions, but also to fully participate in the distribution of European funding under the new EU Multiannual Financial Framework for the period 2028-2034. It should be noted that the above-mentioned changes will not lead to a change in the administrative-territorial organization of the country.

The approved option for changing the zoning in Bulgaria after reducing the number of regions from six to four should achieve a fairer distribution of resources and funding, as well as contribute to equalizing the standard of living in the individual regions. The separation of Sofia-city into an independent region should solve one of the biggest problems related to current zoning. Until now the capital of Bulgaria was included in the South-West region and due to its developed economy and the higher incomes of the city „s residents, the statistics for the rest of the region were artificially inflated, which in turn limited the financing opportunities for the districts of Kyustendil, Blagoevgrad, and Pernik. Now that three districts have been separated from Sofia-city and fall into the less developed Southern region, they should have greater access to grants and higher percentage of co-financing. Next, the new zoning will allow for profiling of regions according to their geographical advantages. It will also encourage cross-border cooperation with other neighboring regions of EU Member States which will also lead to better connectivity and the construction of new infrastructure. The higher percentage of co-financing of projects in underdeveloped regions will attract additional investments which will generate jobs and higher incomes for the local population. Consolidation by merging territories with similar characteristics into the new four regions is expected to contribute to more effective



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planning and management of resources and increase competitiveness and sustainability. Social cohesion, planned growth, as well as better connectivity and equal access to services through improving the living environment and developing human capital should contribute to reducing social inequalities and adverse demographic trends (MRDPW, 2026).

2. Factors influencing residential property prices

The factors influencing the residential property prices are many and there are a number of studies on them in the scientific literature. Some of those factors are directly or indirectly related to the policies implemented by the state in the individual regions, other, classic factors and economic trends such as the interest rate on mortgage loans or growth in the level of the country „s gross domestic product (GDP) are rather not influenced by the development of the individual regions (Stefanov, Dimitrova, 2025, p.3280).

The growth of inflation, the lack of investment alternatives, the unstable political situation, the dynamics of the construction sector, as well as the number of residential properties offered on the market are some of the generally valid factors determining housing prices in most countries. On the other hand, geographical location, the development of tourism, employment and income levels, foreign investments, quality of life and accessibility of services are factors that directly influence residential property prices which are regional in nature and are related to the level of development of specif9c regions, as well as to the regional policy applied. This group also includes the availability of developed infrastructure, quality healthcare and education, all factors that can attract more people to the settlements of a particular region as population growth often leads to changes in the real estate market. According to some authors demography has a significant impact on residential real estate prices with the age and structure of population, the number of live births, internal migration and the number of marriages being of key importance (Stoencheva, 2023, p.40).

Other factors that can regulate and influence residential real estate prices are the amount of taxes due to home ownership, as well as the amount of fees and costs due for maintenance of common areas and facilities in residential buildings under condominium ownership, the



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maintenance and management fees of individual residential properties, respectively (Pelov, 2016, p.142).

Last but not least, the security of regions, cities, and neighborhoods should also be taken into account as crime can also affect residential property prices (Stoencheva, 2024, p.82).

3. Will the new zoning in Bulgaria have an impact on residential property prices?

Although the new zoning in Bulgaria for the level 2 regions is dictated mostly by pragmatic motives with the aim of all regions meeting the European regulatory requirements for the minimum number of population in the regions, the definition of the new four regions can also be seen as a strategically important decision regarding the future state policy for regional development. The zoning will not lead to any real administrative-territorial changes as the existing districts and municipalities are preserved, but it may have a long-term effect on their development. Apart from statistical purposes, regionalization also plays a key role in the allocation of funds from both the state budget and European funding. The new regionalization was implemented at an opportune time as the European Union budget for the period 2028-2034 is yet to be allocated.

At first glance the changes and consolidation of the districts in Bulgaria into four instead of the previously existing six regions should not have an impact on residential property prices in the short term. In the long term, however, with good planning and implementation of the right policies regarding the financing of the newly created regions it is possible that the prices of residential properties in some of the new regions will increase. As discussed above, housing prices are influenced by many factors some of which are directly related to the financing and development of the regions. The separation of the already developed Sofia into an independent region - Capital, allows the remaining territory of the country, divided into the other three regions, to be classified as underdeveloped and, accordingly, these regions will be able to benefit to the maximum from future financing. It is the upcoming investments in the North, East and South regions that can influence real estate prices in the long term. First of all, funds will be directed to these regions for energy efficiency programs because the renovation of multi-family residential buildings will necessarily lead to an increase of housing prices in them. Also, the redirection of funding to less developed regions and specifically to innovation and



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development of their economies, as well as the promotion of foreign investment, should provide new jobs and an increase in the income of the population as these are two of the important factors in determining the price of real estate. It is expected that the future investments in the new three level 2 regions will also lead to a decrease in internal migration in the country towards the capital and other large cities which, in turn, should have a positive impact on demography - another factor influencing residential property prices. In this regard, the correct distribution of funding and targeted regional policies will also contribute to better public services in these regions, access to better education and healthcare, and an overall increase in the quality of life for their population. The quality of services in the region and the standard of living are two other factors that determine housing prices. Last but not least are the investments in infrastructure that are expected to be made through the completion of highways and the improving of the quality of railways will lead to better connectivity, which in turn will allow the population to travel faster and easier to jobs located outside the settlement they live in. Good connectivity and fast transport are another prerequisite for limiting internal migration which allow the population to continue to live in smaller settlements, which in turn will have an impact on property prices.

With regard to Sofia Region the new zoning at level2 in Bulgaria should not have an impact on residential property prices. Sofia is already a developed city and housing prices in this region are determined by factors that are not directly influenced by state or external funding provided under European Union funds and operational programs. The standard of living in the capital, GDP per capita, and income of the population are at the average European level and the expected increase in housing prices in this city is rather a continuation of an already started trend which will not be affected by the new zoning.

Conclusion

The new NUTS 2 regionalization in Bulgaria which will come into force in 2027 will greatly contribute to the collection of more accurate and objective statistical data by the NSI and Eurostat, but also plays a crucial role in shaping the country's future policies in the field of regional development. The establishments of the new four regions will allow the underdeveloped parts of the country to benefit to the maximum extent from European funding



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through the new EU Multiannual Financial Framework for the period 2028-2034. Targeted investments in the underdeveloped regions should have an impact both on the quality of life in these regions and on their demography. The expected positive results of such regional policies will inevitably influence the prices of residential properties in these regions as they are directly related to a number of factors that the new zoning will influence in the long term. It remains to be seen whether greater investments in underdeveloped regions will lead to an increase in housing prices in them, and future studies can analyze in detail which factors will have an influence over these processes in the most significant way and how they will be related to the specific regional policies.

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**GLOBAL FINANCIAL IMBALANCES, MULTIPOLARITY, AND THE
REGIONALIZATION OF THE WORLD: AN INTEGRATIVE
PERSPECTIVE ON BULGARIA „S NEW REGIONALIZATION AND
ACCESSION TO THE EUROZONE**

Artyom Anatolievich Buhteev*

Abstract: *The purpose of this report is to analyze the global financial environment as of February 2026 and to connect it with the accelerating transition from a unipolar to a multipolar world and with the intensifying process of regionalization. The central argument is that accumulated market imbalances, geopolitical tensions, and the reconfiguration of trade and financial flows are giving rise to a new model of global organization in which regional blocs acquire greater economic and political weight. In this context, Bulgaria „s regional policy, the new regionalization, and membership in the euro area should be regarded not as isolated administrative processes, but as instruments for strengthening resilience in an environment of fragmented globalization. The report combines a comparative analysis of pre-crisis periods, current market indicators, official data on Bulgarian regions, and an author-designed model of regional vulnerability. The conclusion is that regionalization is becoming a fundamental organizing logic of the world economy, and that Bulgaria must adapt its internal territorial and economic architecture to this new order.*

Keywords: *regionalization, multipolarity, financial cycle, new regionalization, euro area, Bulgaria, regional resilience*

JEL: F32, F45, F02, R11, R58, E44

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Introduction

Following the comparative analysis of market indicators as of January 2026, the present report broadens its focus toward the question of how emerging global economic and geopolitical changes will affect Bulgaria „s new regionalization and its long-term path within the euro area. The logic of the report is to connect and analyze together two scales that at first glance appear distinct. The first is the global scale - the dynamics of financial markets, accumulated imbalances, geopolitical tensions, and the transition from a unipolar to a multipolar world. The second is the internal scale - Bulgaria „s regional structure, the need for new regionalization, the economic asymmetry between different parts of the country, and the impact of euro-area integration on regional resilience.

Under conditions of growing global interdependence, regional development can no longer be understood solely through the prism of internal local factors. It is increasingly shaped by a set of processes related to labor markets, transport and functional connectivity, the financial sustainability of local authorities, territorial cohesion, spatial planning, and the effects of participation in supranational integration formats such as the euro area. Precisely because of these factors, the present study advances the thesis that the world is entering a phase of deep structural transformation in which regionalization will play a key role in economic organization.

As of February 2026, the global economy is still not in the classic phase of a fully unfolded world recession. Rather, it is in a zone of heightened instability in which financial markets are under pressure, technology valuations are being reassessed, trade and geopolitical risks are accumulating, and regional economic blocs are beginning to behave with increasing autonomy. For this reason, the report does not focus solely on whether a new crisis is approaching, but on the kind of model that precedes it and on how that model will affect Bulgaria and its internal regional development.

The global macro-financial environment as of February 2026

The market picture at the beginning of 2026 is contradictory. On the one hand, there has not been a one-directional total collapse across all major indices. On the other hand, the most overvalued segments, particularly those related to artificial intelligence, chips, software infrastructure, and technology companies, have begun to undergo a substantial repricing. Reuters notes that by mid-February 2026 Microsoft had lost approximately \$613 billion in market capitalization since the beginning of the year, Amazon around \$343 billion, Apple around \$256 billion, Nvidia about \$89.7 billion, and Alphabet close to \$88 billion. Taken together, losses in these companies alone exceed \$1.3 trillion, which is sufficient grounds to speak of a structural market repricing rather than ordinary short-term volatility.

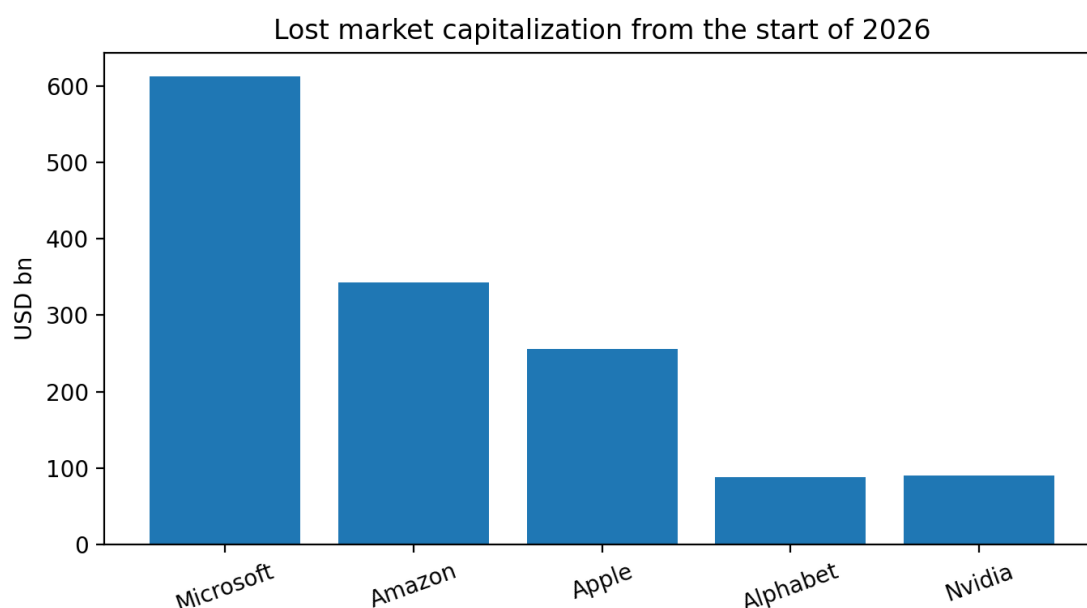


Figure 1. Market capitalization lost since the beginning of 2026 by selected technology companies (in USD billions) (*Source: Reuters, „Big tech stocks lose billions as AI spending fears hit valuations”*)

This trend is also confirmed by broader market movements. At the end of February, Reuters reported that the S&P 500 and Nasdaq recorded their steepest monthly declines since March 2025, with the causes linked simultaneously to concerns over inflated AI valuations, new trade risks, and heightened geopolitical uncertainty. The global equity index retreated from



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record highs precisely because of concerns that leading technology companies were valued beyond what is sustainable in an environment of higher interest rates and lower tolerance for long investment horizons.

When the current situation is placed in historical perspective, it appears even more telling. The Shiller CAPE value at the beginning of 2026 remains around 39-40. By comparison, in 1929 CAPE was around 30, in 2000 it reached approximately 44, and in 2007 it was around 27. This does not mean that 2026 will mechanically repeat any of those crises, but it does show that the market is once again in a zone of extreme valuation sensitivity.

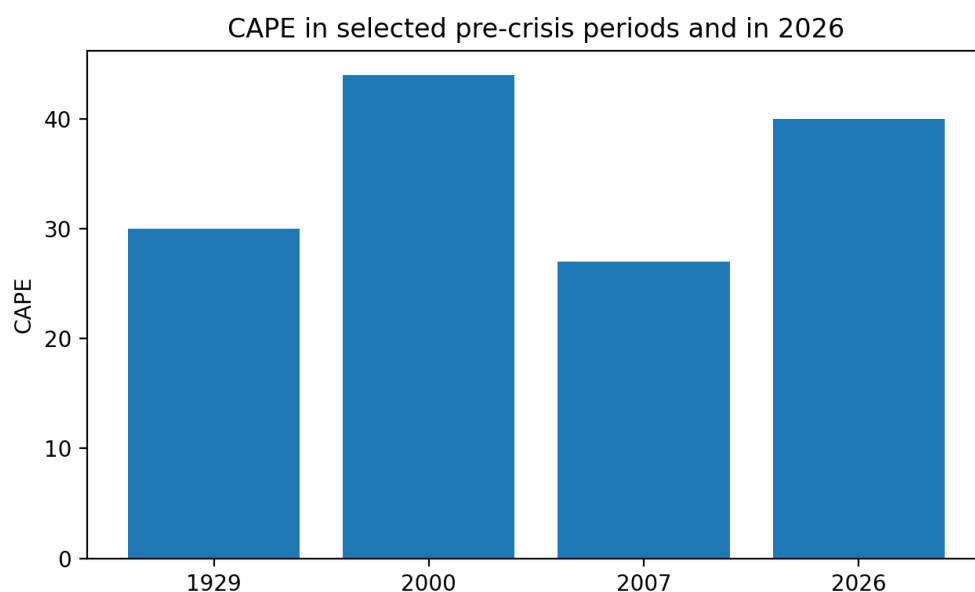


Figure 2. Comparison of CAPE in pre-crisis periods and in 2026.

(Source: Multpl. (2026). S&P 500 Shiller CAPE Ratio)



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Period	CAPE	Interest-rate environment	Brief characterization
1929	~30	High	Speculative peak and excessive credit expansion
2000	~44	High	Technology bubble and market euphoria
2007	~27	High	Credit and housing cycle
2026	~39-40	Still restrictive	AI narrative, high valuations, and risk repricing

Table 1. Comparison of key market parameters in selected pre-crisis periods.

(Source: YCharts. (2026). Shiller CAPE Ratio)

It is important to emphasize that market pressure in February 2026 is not simply a reflection of high valuations. It is the result of the interaction between valuation fatigue, a tighter monetary environment, and geopolitical risk. In this sense, the financial cycle and international politics can no longer be analyzed separately.

From unipolarity to multipolarity and regionalized globalization

The most significant conclusion from the current situation is that it does not represent merely another phase of the financial cycle. A deeper structural transformation is underway. For decades after the end of the Cold War, the international economy functioned within a relatively clear unipolar model in which the United States played the role of the dominant financial, technological, and military-political center. By 2026, that architecture is visibly weakening - not because American power has disappeared, but because other centers have accumulated sufficient industrial, financial, and geopolitical resources to structure regional spheres of their own.



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The European Union seeks to turn regulation, the single market, the green transition, and the euro area into instruments of strategic autonomy. China and the broader Asian sphere concentrate productive scale, technological ambition, and their own logistical networks. The Gulf states and the broader Middle East combine energy resources, sovereign wealth funds, and growing political capacity. BRICS and the Global South are attempting to build partially alternative financial and trade channels. Thus, the world is beginning to organize itself not around a single dominant center, but around several macro-regional cores that are mutually intertwined yet increasingly distinguishable.

This multipolarity does not mean the end of globalization. More precisely, it would be appropriate to speak of regionalized globalization. Supply chains do not disappear; they are redirected. Trade relations do not cease; they are reorganized into geographically and politically closer configurations. Strategic stockpiling, energy autonomy, and technological protection are all manifestations of the same process - the rewriting of economic geography.

Conflicts, tensions, and the risk surrounding Iran

As of February 2026, financial markets are responding not only to interest rates and corporate reports, but also to accumulating geopolitical risk. The war in Ukraine continues to keep the European economy in a state of strategic uncertainty. Relations between the United States and China are evolving amid trade rivalry, technological restrictions, and a broader struggle for industrial primacy. The Middle East remains a zone of high tension, and by late February major media outlets were already reporting that markets were closely monitoring Iran, Venezuela, and Cuba, since any new escalation would have immediate consequences for oil, shipping, and global inflation expectations.

The wording here must be precise. As of February 2026, a broad conflict with Iran has not yet fully unfolded. However, the risk of such a conflict is already present and sufficiently significant to alter market behavior. This is precisely what makes geopolitics so important for economic analysis. Markets often do not wait for an event to materialize before pricing it in; they begin to reprice risk as soon as the probability of an energy or logistics escalation becomes meaningfully high.

In this way, conflicts cease to be merely external shocks. They become a catalyst for regionalization. Every conflict increases pressure toward energy autonomy, technological self-sufficiency, protected supply chains, and intra-regional coordination. As a result, uncertainty itself accelerates the transition toward a bloc-organized economy.



Figure 3. Heatmap view of global equities under correction conditions and broad sectoral weakness (Source: www.tradingview.com)

Bulgaria within the European macro-regional center

For Bulgaria, these processes are of particular importance because the country is entering this new environment at a moment of qualitative institutional change, but also amid a serious political crisis. From 1 January 2026, Bulgaria is a member of the euro area. The European Central Bank has assessed this step as a historic milestone that will strengthen economic stability, facilitate transactions, and create a firmer foundation for long-term growth and resilience. The Bulgarian National Bank emphasizes that the lev-euro conversion takes place at the official rate of 1.95583 and that the introduction of the euro integrates the country more deeply into the European monetary and financial framework.



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This has a dual effect. On the one hand, the euro area reduces currency risk, increases institutional confidence, and enhances predictability for business and public finances. On the other hand, membership also means stronger synchronization with the European economic cycle. Consequently, Bulgaria will become ever more tightly connected to the European macro-regional center. This is precisely why internal regional resilience becomes so important. If the country integrates more deeply into the European core while preserving a highly uneven internal economic structure, then external shocks will be transmitted through pre-existing internal weaknesses.

Bulgaria „s regional asymmetry and the logic of the new regionalization

Official data from the National Statistical Institute confirm a strong territorial concentration of economic activity. In 2023 the Southwest Region generated 50.2 percent of the country „s GDP, while the Northwest Region accounted for only 6.9 percent. The highest GDP per capita was recorded in Sofia (capital) Province - BGN 61,833 compared with BGN 28,733 for the country on average. This means that Bulgaria does not function as a uniformly integrated territorial economy, but as a system with one highly concentrated center and several areas with a weaker economic base.



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New planning region	Coverage
Northern	Vidin, Montana, Vratsa, Lovech, Pleven, Gabrovo, Veliko Tarnovo, Targovishte, Ruse, Razgrad, and Silistra
Eastern	Dobrich, Varna, Shumen, Burgas, Sliven, and Yambol
Southern	Sofia, Pernik, Kyustendil, Blagoevgrad, Pazardzhik, Smolyan, Plovdiv, Stara Zagora, Haskovo, and Kardzhali
Capital	Sofia (Capital)

Table 2. Proposed new scope of level 2 planning regions in Bulgaria

(Source: NSI, „The Council of Ministers determined a new scope of planning regions,” 2025; MRDPW, 2026.)

The new regionalization should not be understood solely as a statistical or administrative correction imposed by European NUTS rules. Under conditions of a multipolar world and regionalized globalization, it should be regarded as an instrument of economic adaptation. If the internal regions of a country are demographically, infrastructurally, and productively fragmented, that country enters international regional competition with a serious internal deficit of resilience.

Regional vulnerability and an author-designed aggregate index

In order to establish a clearer connection between global risk and the country „s internal territorial structure, the present report applies an author-designed aggregate index of regional vulnerability. It should not be viewed as a substitute for an official econometric model, but rather as an analytical instrument for the comparative assessment of individual regions under conditions of external shock. The index combines four principal components - export dependence, sectoral concentration, dependence on external investment, and an inverse measure of fiscal capacity. Within the framework of this study, the author proposes a model in which V_i denotes the overall vulnerability of region i , E_i reflects the degree of export dependence, S_i measures the degree of sectoral concentration, F_i indicates dependence on



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external investment, including foreign direct investment, and C_i expresses the inverse value of fiscal capacity. In this way, the model integrates trade, structural, investment, and fiscal dimensions of regional risk.

$$V_i = 0.30E_i + 0.25S_i + 0.20F_i + 0.25C_i$$

The resulting values show that the Northwest Region remains the most vulnerable, followed by the North Central and Southeast Regions, while the Southwest Region records the lowest index value. This result corresponds both to the general picture of economic concentration in the country and to observed differences in labor-market structure and in the capacity of the individual regions to absorb external shocks.

Region	Employment rate, 2024 (%)	Unemployment rate, 2024 (%)	Vulnerability index
Northwest	66.0	10.0	0.738
North Central	68.4	5.4	0.628
Northeast	72.4	4.0	0.582
Southeast	66.5	4.9	0.620
South Central	-	3.0	0.576
Southwest	76.2	2.8	0.460

Table 3. Labor market indicators and author-designed regional vulnerability index

(Source: author „s calculations based on NSI, 2025)



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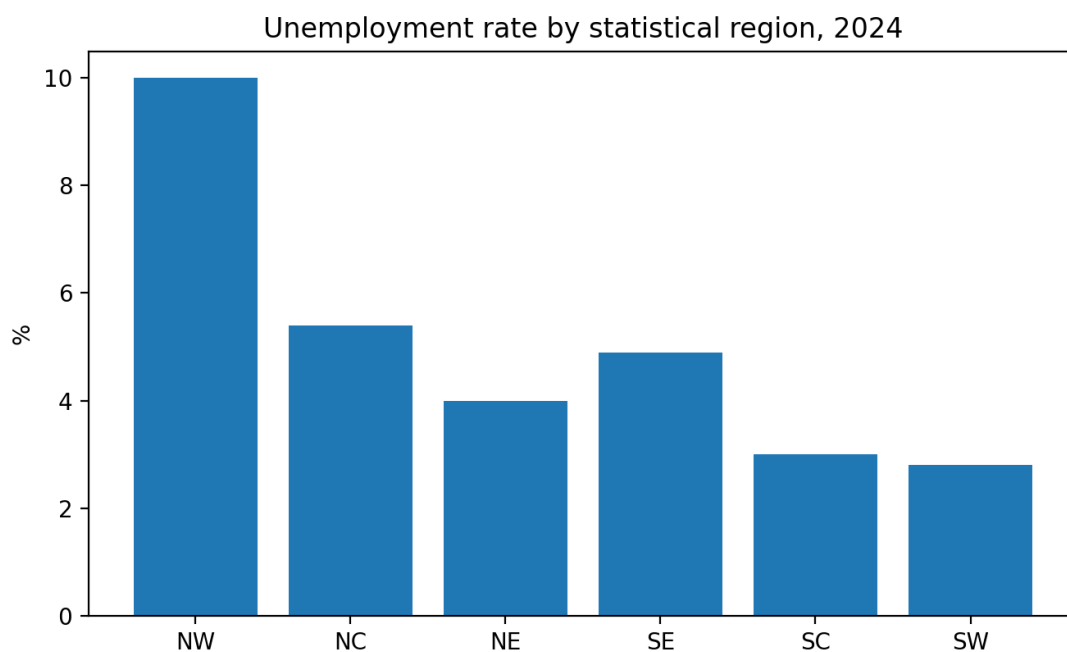


Figure 4. Unemployment rate by statistical region in 2024.

(Source: NSI, „Unemployed persons and unemployment rates - national level; statistical regions; districts,” 2025; author „s calculations.)

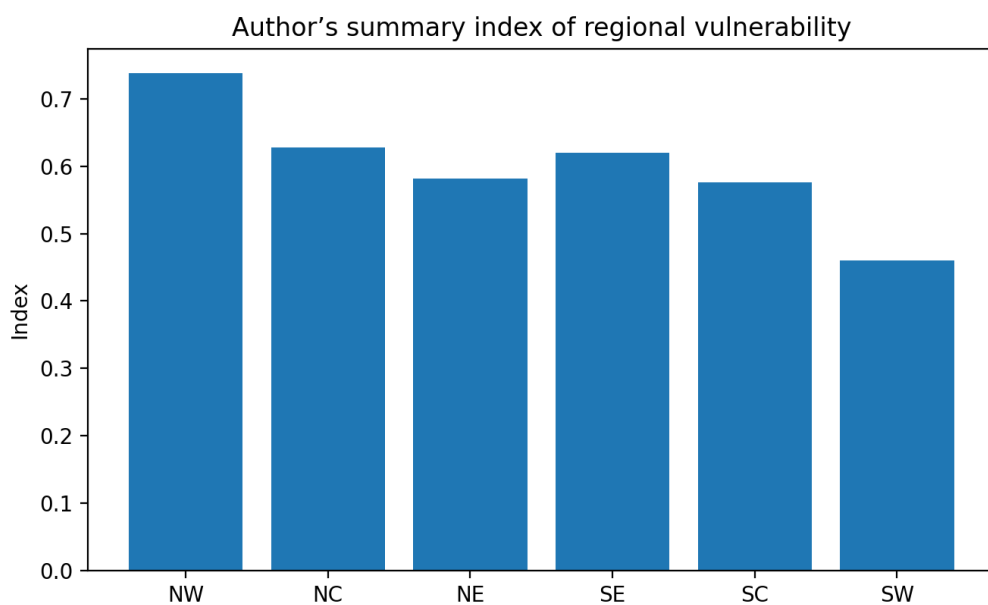


Figure 5. Author-designed regional vulnerability index

(Source: author „s calculations based on NSI, 2025)



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This picture is particularly important in the context of the regionalization of the world. If global shocks increasingly pass through energy, trade, investment, and external demand, then Bulgaria „s greatest weakness will not be only its external openness, but also its internal asymmetry. This means that the country „s resilience cannot be conceived only at the national level. It must be built at the regional level, taking into account all factors that may affect us.

How the regionalization of the world will affect Bulgaria

Under conditions of a multipolar world and regionally organized globalization, Bulgaria will feel external shocks through several channels. First, through the European demand cycle, because the country is deeply integrated into the single market and into European production linkages. Second, through the energy channel, since geopolitical tension in the Middle East directly affects energy expectations and indirectly affects inflation, incomes, and local budgets. Third, through the investment channel, because when global uncertainty rises, capital is redirected toward safer, larger, and deeper markets, while peripheral economies become more sensitive.

This shows why the new regionalization and the euro area must be considered together. The euro area is the external framework of stability and integration. The new regionalization is the internal framework of adaptation. If Bulgaria integrates more deeply into the European financial and economic center while preserving a high degree of internal territorial polarization, then the potential benefits of the euro area will be realized unevenly, and shocks will be concentrated disproportionately on the weaker regions.

Consequently, the main political-economic question is not whether regionalization is good or bad, but whether Bulgaria will succeed in turning it into a strategic advantage. This requires the purposeful direction of investment toward transport and digital connectivity, support for industrial and logistics diversification outside the capital region, a more active labor-market policy, and greater territorial coordination between the state, municipalities, and European instruments.



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Conclusion

The principal conclusion of this report is that the world is not merely entering another phase of market instability. The world is being reordered. Accumulated financial imbalances, geopolitical conflicts, tensions in different parts of the globe, the rewriting of logistics chains, and the emergence of several powerful macroeconomic centers all indicate that the unipolar model is gradually being replaced by a multipolar and increasingly regionalized order.

In this new order, Bulgaria cannot rely solely on the general effect of membership in the EU and the euro area. Internal spatial and economic adaptation is needed. The new regionalization acquires strategic meaning precisely here - as an instrument for reducing internal imbalances and for building more functional, viable, and resilient territorial units. If this process is reduced to a statistical correction, the country will enter the new regionalized world with unresolved internal weaknesses. If, however, it is understood as an economic reform, it may become one of the most important mechanisms for increasing Bulgaria „s competitiveness and resilience.

This is precisely why regionalization must be thought of simultaneously at two scales. Externally, Bulgaria is integrating ever more deeply into the European macro-regional center. Internally, Bulgaria must learn to function as a state composed of more connected, more balanced, and more adaptive regions. On this will depend not only the economic response to the next external shock, but also the quality of long-term development.



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**MONETARY INTEGRATION AND REGIONAL IMBALANCES: AN
INTEGRATIVE APPROACH TO RESILIENCE, INSTITUTIONAL
CAPACITY AND TERRITORIAL COHESION WITHIN THE
EUROZONE**

Kristiyan Gerchev*

Abstract:

This study examines the relationship between monetary integration and regional imbalances within the Eurozone, highlighting the need for an integrated approach linking economic, social, and environmental sustainability. It assesses the impact of the euro „s introduction (1999-2002), which eliminated exchange rate fluctuations but intensified challenges arising from asymmetric shocks and divergent economic dynamics. The analysis addresses the absence of a centralized fiscal framework and persistent business cycle divergences that limit the effectiveness of a single monetary policy. The study further evaluates the role of EU cohesion instruments, including Structural Funds and the priorities for digital and green transformation for the 2021-2027 period, and emphasizes the importance of institutional capacity for their effective implementation. It concludes that future policy strategies should better align monetary, fiscal, and cohesion policies, while strengthening administrative capacity and territorial cohesion, in order to foster sustainable and balanced development across the Eurozone.

Keywords: *monetary integration, eurozone, regional disparities, cohesion policy, sustainable development*

JEL: F45, R11, R58, E02, F36

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Introduction

The European Union and the Eurozone are founded on the principle of solidarity and convergence among their regions. As early as the 1957 Treaty of Rome, the reduction of regional disparities was identified as a central objective, a commitment that is reaffirmed today in Article 174 of the Treaty on the Functioning of the European Union. However, despite this long-standing normative framework, the persistence of regional inequalities raises fundamental questions about the effectiveness of existing policy mechanisms. Against this backdrop, the interrelation between monetary integration, regional imbalances, institutional capacity, and sustainability becomes increasingly significant. While the introduction of the euro has deepened economic integration, it has also exposed structural asymmetries that challenge the assumption of automatic convergence. In this regard, recent scholarship suggests that the integration of monetary policy with ESG-oriented objectives represents not merely a policy innovation, but a necessary evolution of the European economic model. This paper argues that monetary integration, in the absence of sufficient institutional and fiscal coordination, is insufficient to ensure balanced regional development. It examines the role of the euro and the broader institutional framework in shaping regional dynamics, while also exploring the extent to which enhanced institutional capacity and place-based approaches can contribute to more sustainable and cohesive growth across the Eurozone.

1. Monetary Integration and the Optimum Currency Area (OCA) Theory

The introduction of the euro (1999-2002) established a unified monetary policy under the European Central Bank (ECB) and eliminated exchange rate fluctuations among member states, thereby reducing transaction costs, stabilizing prices, and facilitating intra-European trade. However, from a theoretical perspective, the sustainability of a monetary union depends on the conditions of an optimum currency area (OCA). As originally formulated by Mundell (1961), the theory of optimum currency areas emphasizes that a common currency is sustainable only under conditions of sufficient economic symmetry or the existence of effective adjustment mechanisms (Mundell, R. A. 1961). In practice, the Eurozone encompasses highly



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heterogeneous economies, where business cycle synchronization remains limited. Empirical evidence suggests that significant heterogeneity in economic shocks renders the common currency unevenly beneficial across member states, potentially generating political tensions. The greater the divergence in economic structures and cyclical dynamics, the less uniformly effective the single monetary policy becomes.

1.1. Asymmetric Shocks and Fiscal Constraints

Monetary integration inherently constrains the ability of member states to conduct independent monetary and exchange rate policies, thereby limiting their capacity to respond autonomously to country-specific economic disturbances. In the presence of adverse shocks—such as declining competitiveness, sectoral restructuring, or external demand fluctuations—member states are unable to rely on exchange rate adjustments and must instead pursue internal devaluation strategies. These typically involve fiscal consolidation, wage adjustments, and structural reforms, which, although theoretically effective, often impose significant short- and medium-term social and economic costs. In practice, the effectiveness of such adjustment mechanisms varies considerably across member states, largely reflecting differences in economic structure, institutional capacity, and labor market flexibility. This variation underscores a fundamental asymmetry within the Eurozone: while monetary policy is centralized and uniform, the capacity for economic adjustment remains uneven and highly context-dependent. As noted by De Grauwe (2020), the institutional design of the Eurozone creates inherent tensions between centralized monetary policy and decentralized fiscal responsibilities, particularly in the presence of asymmetric shocks (De Grauwe, P. 2020). As a result, asymmetric shocks are not only more difficult to manage, but their effects can be amplified in less resilient economies, leading to prolonged periods of divergence. At the same time, the absence of a fully developed fiscal union significantly limits the Eurozone „s ability to provide effective stabilization at the supranational level. Although existing instruments—such as European structural funds, macroeconomic coordination frameworks, and temporary recovery mechanisms—offer important support, they do not constitute a full-fledged fiscal redistribution system. Consequently, the burden of adjustment remains largely at the national



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level, constrained by fiscal rules and limited policy space. This institutional configuration raises important concerns regarding the overall coherence of the monetary union. The persistence of divergent business cycles and uneven recovery patterns suggests that the „one-size-fits-all“ approach to monetary policy, while effective in maintaining aggregate stability, is insufficient in addressing the structural heterogeneity of the Eurozone. From this perspective, deeper fiscal integration and enhanced policy coordination appear not merely as desirable reforms, but as necessary conditions for the long-term sustainability of the monetary union.

1.2. Regional Disparities in the Eurozone - Spatial economic disparities within the European Union remain not only pronounced but deeply rooted in structural, institutional, and demographic factors. **Eurostat data (Eurostat, 2023) indicate substantial variation in GDP per capita across regions, ranging from significantly below the EU average in less-developed areas to well above it in more advanced regions (Eurostat 2023).** While the process of European integration has contributed to overall economic growth, it has not led to uniform convergence across regions. Instead, disparities persist both between and within member states, reflecting differences in productivity, industrial structure, innovation capacity, and access to financial and human capital. The pre-2008 period was characterized by a certain degree of convergence, driven by capital inflows, market integration, and structural reforms, particularly in Central and Eastern Europe. However, the global financial crisis and subsequent sovereign debt crisis revealed the fragility of this convergence process. Rather than continuing along a linear trajectory, convergence slowed significantly and, in some cases, reversed, highlighting the vulnerability of less-developed regions to external shocks. **According to the European Commission (2022), the process of convergence has weakened in recent years, with several regions experiencing persistent or even widening disparities despite ongoing cohesion efforts (European Commission 2022).** More recent developments, including the COVID-19 pandemic and energy market disruptions, have further exacerbated these trends, disproportionately affecting regions with weaker economic structures and limited fiscal capacity. At the same time, a growing divide has emerged within countries, where capital regions and major urban centers increasingly outperform peripheral and rural areas. This pattern suggests that economic growth within the EU is becoming more spatially concentrated, raising



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concerns about the inclusiveness of the integration process. Importantly, these disparities extend beyond economic indicators such as GDP per capita and encompass broader dimensions of social and territorial cohesion, including employment opportunities, access to public services, and overall quality of life. As such, regional inequalities should be understood as a multidimensional challenge with significant implications for social stability and political legitimacy. Persistent divergence risks undermining trust in European institutions and reinforcing perceptions of unequal development, thereby posing a potential threat to the long-term cohesion of the Union. This perspective is consistent with the place-based approach proposed by Barca (2009), which emphasizes the importance of tailoring policies to the specific characteristics of individual regions (Barca 2009).

1.3. Institutional Capacity and Cohesion Policy - Institutional capacity constitutes a central factor in determining the effectiveness of cohesion policy and its ability to address regional disparities. While the European Union provides substantial financial resources through its cohesion instruments, the extent to which these resources translate into tangible development outcomes depends largely on the administrative and governance capabilities of individual regions. In this sense, institutional capacity goes beyond formal compliance with EU regulations and encompasses the broader ability to design strategic policies, coordinate across governance levels, and adapt interventions to specific territorial contexts. Regions characterized by strong institutional capacity-manifested through professional administrative structures, strategic planning capabilities, and effective inter-institutional coordination-are generally more successful in utilizing available resources and achieving sustainable development outcomes. These regions are better equipped to align investments with long-term objectives, ensure efficient project implementation, and respond to evolving policy priorities. By contrast, weaker institutional environments often face persistent challenges, including administrative fragmentation, limited technical expertise, and difficulties in project design and execution. Such limitations not only reduce the effectiveness of cohesion policy but may also lead to suboptimal allocation of resources, thereby reinforcing existing disparities rather than mitigating them. This suggests that cohesion policy, in its current form, cannot fully compensate for underlying institutional inequalities.



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In the context of the 2021-2027 programming period, where priorities such as digital transformation, green transition, and social inclusion require increasingly complex and integrated policy responses, the importance of institutional capacity becomes even more pronounced. Strengthening governance structures, enhancing policy learning, and fostering multi-level coordination are therefore essential not only for improving policy implementation, but also for ensuring that cohesion policy contributes to genuine and sustainable convergence.

1.4. Sustainability and Territorial Cohesion - The concepts of sustainability and territorial cohesion have become increasingly central to the evolving policy framework of the European Union, reflecting a broader shift towards a more holistic understanding of development. The growing importance of integrating sustainability into economic governance has also been highlighted by Schoenmaker (2020), who argues for the alignment of monetary policy with environmental objectives (Schoenmaker 2020). Territorial cohesion, in particular, seeks to ensure that all regions-irrespective of their initial level of development-are able to participate in and benefit from economic integration. It is not merely concerned with reducing disparities, but with fostering a balanced and harmonious spatial distribution of economic activity, while simultaneously capitalizing on the unique assets and endogenous potential of different territories. In this sense, cohesion is inherently multidimensional, encompassing economic performance, social inclusion, environmental sustainability, and spatial accessibility. From a policy perspective, this implies a transition from uniform, one-size-fits-all approaches to more nuanced, place-based strategies that are sensitive to regional specificities. Integrating environmental and social objectives into regional development planning is therefore not an auxiliary consideration but a core requirement, particularly in the context of climate change, demographic shifts, and increasing socio-economic polarization. Investments in clean energy, sustainable mobility, education, and inclusive social infrastructure are increasingly viewed as integral components of cohesion policy, rather than as parallel or sector-specific initiatives. The 2021-2027 Multiannual Financial Framework further reinforces this paradigm shift by explicitly embedding priorities related to the green and digital transitions. These strategic orientations underscore the necessity of coordinated, cross-sectoral interventions that align economic modernization with environmental sustainability and social resilience. However, the



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pursuit of sustainable convergence extends beyond the allocation of financial resources. It requires robust institutional frameworks capable of ensuring policy coherence, effective governance, and long-term strategic planning. In particular, the capacity to design and implement integrated territorial strategies, adapt to emerging challenges, and mobilize local stakeholders is critical for enhancing regional resilience and adaptive capacity.

Ultimately, the effectiveness of territorial cohesion policies depends on the extent to which sustainability is internalized as a guiding principle across all levels of governance. This entails not only aligning policy objectives but also fostering institutional learning and reinforcing the capacity of regions to navigate complex, interdependent development processes in an increasingly uncertain economic and environmental landscape.

1.5. Integrated Approaches and Policy Recommendations - The complexity and multidimensional nature of the challenges facing the Eurozone necessitate the development of an integrated policy framework that transcends traditional sectoral boundaries. Addressing persistent regional imbalances requires a coordinated approach that aligns monetary, fiscal, institutional, environmental, and social dimensions within a coherent strategic architecture. In this context, the effectiveness of monetary policy cannot be assessed in isolation, but rather in conjunction with complementary fiscal instruments and cohesion mechanisms capable of mitigating asymmetric shocks and supporting territorially balanced development. This implies not only enhanced coordination between monetary and fiscal authorities, but also the formulation of targeted investment strategies that reflect the structural characteristics and specific needs of individual regions. A critical component of such an integrated framework is the strengthening of institutional capacity across all levels of governance, ensuring that policy objectives are translated into effective implementation. This includes improving administrative efficiency, fostering inter-institutional coordination, and enhancing the ability of regional and local authorities to design and manage complex development initiatives. In the absence of such capacity, even well-designed policy instruments risk underperformance or uneven territorial impact. Equally important is the operationalization of integrated territorial instruments, such as Integrated Territorial Investments (ITI) and Community-Led Local Development (CLLD),



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which embody the principles of place-based policy and participatory governance. These instruments facilitate the alignment of investment priorities with local socio-economic realities by actively involving regional stakeholders, including public authorities, private actors, and civil society. By doing so, they enhance policy legitimacy, improve resource allocation, and support more context-sensitive development trajectories. Nevertheless, significant capacity gaps persist, particularly in less-developed regions, where administrative limitations, fragmented governance structures, and limited access to expertise continue to constrain policy effectiveness. Addressing these deficits remains a fundamental prerequisite for ensuring the successful implementation of cohesion policy and for advancing meaningful convergence across the Eurozone. In this regard, sustained efforts to promote institutional learning, technical assistance, and interregional cooperation are essential for building resilient and adaptive governance systems capable of responding to evolving economic and societal challenges.

Conclusion

Ultimately, the long-term resilience and coherence of the Eurozone will depend on its ability to reconcile economic integration with territorial diversity-striking a delicate balance between centralized coordination and locally grounded development strategies. However, achieving this balance requires more than incremental policy adjustments. It calls for a rethinking of the current institutional framework, particularly with regard to fiscal integration and the role of place-based policies. Without such adjustments, the risk is not only persistent economic divergence, but a gradual erosion of social cohesion and institutional trust within the Union. In this sense, the challenge facing the Eurozone is not simply one of economic management, but of sustaining the political and social foundations of European integration itself.

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**PROSPECTS FOR THE DEVELOPMENT OF RETAIL CHAINS IN THE
NEW REGIONALIZATION OF BULGARIA IN THE CONDITIONS OF
THE EUROZONE**

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Abstract

The new zoning of Bulgaria and its division into 4 economic regions would have a positive impact on the more backward economic regions and would balance the standard of living in each part of the country. This would reduce and may even reverse the migration of people from all parts of the country to larger cities such as Plovdiv, Varna and especially Sofia, which accounts for about 41% of Bulgaria „s economic growth. This is a result of the incorrect regional policy in the country in the past and the direction of all investments in the capital, which accordingly forces the population to seek a livelihood in an area with greater development opportunities and to emigrate. It is no coincidence that whenever an international chain decides to expand in Bulgaria, it opens its first store in the city of Sofia, which is an additional effect to the already strong economic situation in Sofia and as a result, the opposite effect occurs in the remaining settlements in the country. Supporting the less developed regions of the country and allowing them to benefit from much greater investment would help raise living standards and encourage people to return to their hometowns. This in turn would lead to greater consumption of various products and the desire of various international and local chains to expand their operations in these areas.

Keywords: zoning, modern trade, retail chains, expansion, euro, investments.

JEL: R11, R58

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Introduction

In recent years, we have witnessed processes of different nature and scope in the social, economic, environmental, demographic, financial, informational, public, and military spheres (Tsonkov, 2023; Petrov, Tsonkov, 2025). Important processes for the economy of Bulgaria in the last few years have been the country's accession to NATO, the European Union, and Schengen, and from the beginning of 2026, the accession of the European Union to the country. This changes the economic systems of the countries and at the same time sets a new course for the development of individual regions, both in a regional aspect within the country. As a result of these processes, the country and regions are transformed - they are digitalized, ecologized, introducing a circular economy and systems for rational management of natural resources, improving the infrastructure and connecting individual regions with other countries (Tsonkov, Petrov, 2024). In this regard, regions (especially at the national level) are gaining particular importance (Borisov, Petrov, Tsonkov, 2024; Petrov, 2021). Municipalities also play an important role in them with the services and environment they create (Tsonkov, 2023). That is why their development is the subject of both scientific and public interest from the point of view of their rational and effective management, including attracting more investment, which is now more possible than ever, especially for the more backward regions of the country's new zoning and balancing the economy and the standard of living in all corners of the country. One of the major investors in recent years has been international retail chains in the country, as well as investors in commercial properties, which contribute to higher employment in a given region, as well as to its improvement, by investing in improving the infrastructure and providing easy, fast and convenient access to modern trade (Yolov, 2017).

1. Analysis of the theoretical framework

The study of regional development and consumer markets is key to understanding economic processes at the local and global levels (Tsonkov, Petrov, 2024; Chowdhury, 2023). Different theoretical approaches help to explain the factors that influence the development of regions and the dynamics of markets (Tsonkov, 2016). Regional development and consumer markets represent a complex interaction of economic, demographic, social, cultural and technological factors that shape economic processes both at the local and global levels



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(Tsonkov, 2023). The modern understanding of territorial development goes beyond the simple allocation of resources and infrastructure - it includes a comprehensive analysis of consumer behavior, access to markets, the competitiveness of local businesses, as well as the role of public policies in achieving social and economic justice (Capello, 2015; Capello, Nijkamp, 2019; Borisov, Petrov, Tsonkov, 2024). One of the central aspects of regional development is urbanization, which, despite its advantages, leads to territorial imbalances, overpopulation of cities and deepening marginalization of rural and peripheral areas (Borisov, Petrov, Tsonkov, 2024). These disparities are expressed in an uneven distribution of services, investments and economic opportunities. While large urban centers are becoming hubs for innovation, entrepreneurship and consumption, small settlements suffer from a lack of access to basic goods and services, difficult mobility and a limited labor market.

In the conditions of globalization and new regionalization, the consumer goods market is faced with many challenges. This paper studies the modern retail formats of the consumer goods market, which have gained wide expansion and popularity over the past 25 years in Bulgaria. The significance of the study is determined by the complex processes of transformation, in which modern retail formats occupy a dominant position in the consumer goods market. This requires a broad and in-depth study of the essence, classification, characteristics, advantages, disadvantages and prospects for the development of modern retail formats. The development of retail chains and markets in general is directly related to the regional economy. For example, specific industries stimulate the development of regions, and on the other hand, they are related to retail chains, which are the market for their goods. These are all agricultural products. Thus, a direct connection can be established between the development of rural areas through agriculture and trade chains (regional and national economy) (Tsonkov, Borisov, Slaveva, 2025; Tsonkov, Petrov, 2025). The dynamic development of modern trade formats in the consumer goods market, after their initial appearance, is associated with both the strategy of territorial expansion and the strategies of specialization and differentiation.

2. Exhibition

The new regional system of Bulgaria can solve one of the main problems in the country, namely the depopulation of small settlements and overpopulation and overbuilding of large



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cities, especially Sofia. However, this can only be done with the right policy of the regions and by supporting the local administration to maximize the absorption of money from European funds. This is especially important for the economically more backward regions in the country. More absorption of European funds will lead to the development of infrastructure in a given region and will ensure faster and more reliable access of the local population to education, healthcare, entertainment, including access to modern trade, which would therefore increase the standard of living in these.

Since the creation of the European Union after the Second World War. The main idea was a higher standard of living and ensured safety of the population on the territory of the continent. With the expansion of the union and the accession of more countries to it with a common border and the introduction of a single, this further facilitates the economic interconnections of the countries in this union. Therefore, the opportunity to assist the poorer regions of the continent becomes greater. For this purpose, a Regional Development Fund is created, the main goal of which is to overcome imbalances between European countries and regions. The development of the concept of „Europe of the Regions „begins.

The main assistant in the development of these regions today is the expansion of international trade, as well as investments of local investors in the construction of new retail spaces in different parts of the country, supporting the expansion of various retail chains. This is not so noticeable in large cities and especially in Sofia, since even before the start of the rapid entry of international chains into the market and the construction of new retail facilities in the country over the past 10 years. The residents of Sofia at this time already have built malls, retail parks and several international chains, however, this is far from true for smaller settlements. But it is logical that the capital of Bulgaria should be chosen for the construction of the first store of a given retail chain that is entering a new unknown market, it is logical to choose the best economically performing regions and with the largest population, which population is a consumer of their production. This way, as many risks as possible are avoided until it is assessed whether this market has room for further growth of the chain or is not suitable. This time of familiarization also serves to prepare sufficient personnel for possible future expansion into other regions of the country.



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With the rezoning of the country, it is expected that more funds will be invested in the more backward regions of the country, which will help build better infrastructure, including roads, faster rail transport, and why not the construction of airports in the more remote cities of the country, such as Vidin, Kardzhali or Ruse. This, in turn, will improve the lifestyle of the local population, which will lead to an increase in the population and increased investment in a given region. It is logical that after there is a positive growth in population and economy, international chains will choose to invest more in these regions than in the already oversaturated city of Sofia. First, because there will not be as much competition, and second, because the land for purchase or rental will be at a lower price than in the capital. Therefore, even with a lower turnover or profit, the company can expect the same return from a retail outlet in the countryside as in the capital. With interest from several companies in the local market, the need to build even larger commercial buildings arises, and retail parks are now emerging as an option for quickly and cheaper provision of these commercial spaces. 1.1.1. Third-level subtitle

3. The expansion of retail chains as an option to support the development of economically lagging regions.

The introduction of new zoning in the country will undoubtedly support or fuel the expansion of international retail chains. And they themselves will benefit the local population, not only by providing jobs and opportunities for career development, but also by providing access to the local population of what is available in Sofia or other large cities in the country, namely access to modern trade.

Currently, the chain with the biggest expansion plans in the country is undoubtedly LPP Bulgaria, with the expansion of the number of stores of one of the brands - Sinsay. Sinsay is one of the brands under the Polish fashion giant LPP Group, the other chains part of this group are Reserved, Cropp, House and Mohito. The LPP group is expected to generate revenues of 6.24 billion euros for 2025, with a growth rate of 25% year-on-year in the third quarter of the financial year 2025/26. In the same quarter, the group reported revenues of 1.25 billion euros.

Currently, the chain operates a total of about 120 stores in Bulgaria, with plans for 2026 to open another 60 stores from the Sinsay chain, currently there are 95 Sinsay stores in the country. Results from the recently opened stores show that the chain manages to achieve better profits and better turnover in small populated areas, especially if there is little or no competition, compared to newly opened stores in large cities of the country, where lower profits and turnover are noted. It should also not be forgotten



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that the target levels in large cities are much higher than in populated areas with 5,000 or 10,000 inhabitants.

Taking into account other chains in the fashion sector, which also continue with strong expansion such as Pepco, KIK and Teddy, we can conclude that modern trade in Bulgaria is far from oversaturating the market and would be a very good option to support the development of a given region. Taking into account the expected entry into the market of another international chain such as Action in 2026, as well as the continuous expansion of food chains such as Lidl, Billa and T-Market, we can conclude that these international chains clearly see potential in our country and are ready to invest sufficient resources and know-how in our country. The important thing in this case is for the administration and local government to support these chains or at least not to limit this development.

One of the organizations that was created for this purpose is the Association of Bulgarian Cities and Regions - ABGR. The Association of Bulgarian Cities and Regions is a non-profit organization whose activities are aimed at developing local self-government in cities and regional policy in Bulgaria based on European values. Its mission is to be a partner of national, international and European institutions and organizations in the development and implementation of national and European policies and programs for the development of local and regional governance and ensuring sustainable development of the territories. The organization operates on the principles of: voluntariness, equality, partnership, responsibility and legality.

As a result of the continuous expansion and expansion of the activities of modern trade in Bulgaria. The chains are uniting and creating an association - „Association for Modern Trade „(SMT). The Association for Modern Trade is a non-profit legal entity uniting the leading retailers in Bulgaria. The association aims to contribute to improving the trade and business environment in the Republic of Bulgaria, to contribute to the growth, modernization and development of the trade sector of the economy of the Republic of Bulgaria, to protect the interests of its members before administrative and judicial authorities, as well as structures for voluntary dispute resolution, to represent the interests of its members before non-governmental organizations at the national, regional and international levels, to stimulate the cooperation of its members with local and foreign organizations, and to encourage and assist in the development of conditions for free, fair and transparent competition in the market and to support and encourage the development of Bulgarian producers in the spirit of partnership.

The organizations representing SMT are a significant part of the real economy in the Republic of Bulgaria - trade, production, financial sector, fuels, pharmacy and services or in short over 3 billion euros turnover, over 1000 retail outlets and over 24,000 jobs. These figures alone speak of a large scale



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in the entire country, including a lot of investment in every region of Bulgaria. And the largest investments of these chains are related to the purchase or rental of real estate and investments in construction. The next big item in the expenses of these chains is that for personnel and the provision of know-how and career development for each employee with a desire for development. Also, these chains come to our country with a developed strategy for social responsibility, which they have been able to prove over the years and along with these socially responsible policies of theirs, Bulgarian companies have also significantly increased their social policy and today they are not inferior to international chains in this component.

All these facts described above clearly show that the opening of such a retail outlet in a given region can contribute a lot in economic, infrastructural and social aspects. Nowadays, the way to support the development of these chains in more remote and economically backward regions is the construction of retail parks, whose owners are mainly Bulgarian investors.

4. The retail park, the new center of medium-sized and small towns.

Perhaps the ten largest cities in the country and those in which there is no large retail park with an area of over 5000 sq.m. are still the cities in Bulgaria that can currently say for themselves that their central squares and main pedestrian streets are the busiest traffic areas in the city. These are Sofia, Plovdiv, Varna, Burgas, Ruse, Stara Zagora, Pleven, Sliven, Veliko Tarnovo and Blagoevgrad. I include Veliko Tarnovo and Blagoevgrad in the list not because they are in the top 10 in terms of population, but because Veliko Tarnovo has highly developed tourism and many commercial establishments, restaurants and hotels in the central part of the city, the same can be said for Bansko. Blagoevgrad is included in the list because there is still no large retail park open in the city, and both shopping centers are located on the main pedestrian zone, in addition to them, one of the universities is located on the central square in the city.

An example of cities where retail parks are the new areas with the most visitors are almost all other cities in which a retail park has been built in the last 10 years. Such cities are Vidin, Shumen, Smolyan, Dupnitsa, Pazardzhik, Yambol, Ravda, Tsarevo, Targovishte, Pirdop, Parvomay, Elin Pelin, Dobrich, Chirpan, Karlovo, Velingrad, Razlog, Haskovo, Kardzhali, Svilengrad, Simitli, Pernik, Kyustendil, Kazanlak and several more. They will be joined this



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and next year by cities such as Sandanski and Gotse Delchev, in which Trinity Capital intends to invest in the construction of retail parks with over 10,000 sq m. of built-up area.

This is the area of a small town or an area the size of a Bulgarian village. About 10 retail outlets, including about 100 to 200 employees, can fit into such an area. Retail parks are a preferred way to enter new areas and invest in the vicinity of small settlements or large cities. They are a collection of several retail outlets at ground level with a large parking lot for customers, with quick and easy access. This means that they must be located on a main road with the easiest and most convenient access for vehicles to the parking lot.

The reasons why investors prefer commercial properties of this type are because building a multi-storey building in more central areas is a much more expensive and labor-intensive procedure. Because first you have to merge properties or demolish an existing old building, multi-storey construction is much more expensive than prefabricated reinforced concrete structures at ground level and last but not least, properties in the central part are much more expensive than those outside populated areas. The construction of such a retail park costs from about 700 to 1000 euros per sq m, not including the purchase of the land. The rent per sq m. varies depending on the size of the premises, the degree of completion in which the premises are handed over, as well as the location in the retail park itself. Rents range from 5 euros per sq m. for the largest areas, through 7.8 to 10 euros for medium-sized areas to about 15 euros per sq m. for the smallest or most attractive premises. Apart from the rent, tenants also pay a fee for the maintenance of common areas, such as parking, cleaning, lighting and security. These fees range from 1 euro per sq m. to 2.3 euros per sq m. All amounts listed so far are exclusive of VAT.

If the administration in certain regions manages to prepare and defend projects that will benefit from European funds to support the different regions, such as improving infrastructure, facilitating administrative procedures. This will, in addition to providing jobs, provide access for the local population to modern trade and the convenience and diversity it offers, as well as the opportunity for career development in international chains. We can conclude that against the background of the expansion that is still planned in various international chains and the entry of new international traders, the adoption of the euro in Bulgaria and the new zoning of



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the country, the moment seems quite appropriate for the weaker regions to take advantage of all of the above and attract investments to their territory.

5. Analysis of the current situation in Bulgaria

Retail parks are increasingly preferred by investors due to their efficiency, flexibility and lower construction and maintenance costs. They continue to expand in smaller and underserved cities where the presence of modern retail formats is limited. In the short term, the focus of large investors will remain on the large cities - Sofia, Varna, Ruse, Burgas, Stara Zagora and Plovdiv. At the same time, signs of saturation in some locations prompt more careful and selective planning of new projects. The success of future developments will depend on the right choice of location and a well-balanced tenant mix. Increased investment activity is reported, which may lead to deals with already established retail properties.

Retail park development is expected to shift towards larger and more diverse projects, expanding beyond the core categories to include fashion, restaurants, services and entertainment. These projects are becoming more than just shopping venues, becoming social and cultural hubs. The integration of dining, leisure and event spaces aims to meet visitors „demand for a multi-experience environment.

Physical stores, suitable for pick-up or easy returns, are establishing themselves as a key element in brand strategies. The application of new technologies will continue to improve the efficiency of retailers and customer engagement. Outlet formats are also establishing themselves as a relevant and increasingly attractive option for retail chains seeking an effective presence in the market. Retailers are becoming more selective in choosing new locations and are investing more in technological solutions, especially within shopping centers. There is an increasing use of digital tools - from interactive screens and automated systems to mobile applications and big data analytics. This trend will intensify in order to optimize processes, improve service and address challenges such as staff shortages.

Despite this transformation, the focus in 2026 will remain on the development of physical stores and the overall customer experience.



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Conclusion

The study made it clear that the prospects for the development of retail chains under the new zoning of Bulgaria in the conditions of the Eurozone are in a more favorable environment than ever. Chains have sufficient experience and clearer plans and goals, Bulgaria is already in Schengen and has fully adopted the euro as its national currency, uniting it with some of the most developed economies in the world.

The topic is far from being exhausted and needs new theses and materials on it, but it can serve as a basis for further studies on the ways in which European funds will be distributed for the support and development of the regions and what role retail chains and retail parks play in this. Basic reasons for the current situation have been outlined, but this does not mean that they are all the reasons. More in-depth research can be done on optimizing the network of sites, the state of the companies, their expansion plans in the country, the level of property prices in individual regions can be indicated and how this affects the choice of optimal locations, possibly future investments in the region, as well as paying attention to state intervention in the economy.

The text should be applicable to researchers dealing with regional development, expansion of commercial establishments in the country. As what is written here could be useful not only in economic research, but also in other areas such as demography and sociology. Separately, this work contributes to supplementing some basic work not only for researchers, but also for people in official positions who have to prepare for a similar topic and make a report or present it verbally at a public event.

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**THE ROLE OF TRANSPORT CONNECTIVITY IN THE CONTEXT OF
THE NEW PLANNING REGIONALIZATION IN BULGARIA**

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Stanislav Dimitrov Dimitrov*

Abstract

In the context of deepening regional disparities and the need to apply an integrated approach to regional development, transport infrastructure and connectivity occupy a key place in territorial planning and management processes. This report examines the role of transport as a systemic factor for the functional integration of regions under the new planning divisions in Bulgaria. The current new division of Bulgaria into four NUTS 2 planning regions is the result of demographic and socio-economic processes in the country, as well as the need to comply with the requirements of the European statistical and regional framework. According to Regulation 223/2009 on European statistics, the European Statistical System (ESS) is a partnership between the Community „s statistical authority (Eurostat) and the national statistical institutes (NSIs) and other national bodies responsible in each member state for the development, production, and dissemination of European statistics.

Keywords: *regional development, transport connectivity, planning regions, integrated approach*

JEL: R41, R11, R42, R58

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Introduction

Regional disparities in socio-economic development represent a persistent and deepening challenge for both developed and developing economies. In the context of global crises, demographic imbalances, and increasing economic uncertainty, spatial inequalities between regions are deepening, necessitating the implementation of targeted and integrated regional development policies (Borisov, Petrov, Tsonkov, 2024; Tsonkov, 2023). Market mechanisms alone are insufficient to ensure balanced territorial development, which is why public policies and strategic planning at both national and regional levels play a leading role (Tsonkov, 2024). In this way, the integrative approach to regional development is established as a necessary framework for coordinating sectoral policies and territorial governance instruments (Petrov, 2023; Tsonkov, 2022). Among the key factors directly influencing the spatial structure of the economy and the social development of regions, transport occupies a particularly important position. Transport infrastructure and connectivity not only facilitate the movement of people, goods, and services but also create the conditions for economic activity, investment attractiveness, and functional integration of territories (Tsonkov, 2025; Tsonkov, Petrov, 2023).

Figure 1 shows a map of the Republic of Bulgaria indicating the six planning regions, which remain relevant to this day.



Figure 1. Regionalization of Bulgaria (NUTS 2), February 2026 - based on NSI data

Table 1. Gross Domestic Product per Capita, NUTS 2 Level

Regions	Gross Domestic Product per Capita, Euro
NUTS 2	2024 year
North Western	10299
North Central	10676
North Eastern	12492
South Eastern	13945
South Western	26307
South Central	10710
Bulgaria	16265

(Source: www.nsi.bg, as of 11 February 2026)

If we analyze how the Gross Domestic Product per capita of the least developed Northwest region in 2024 (€10,299) compares to that of the most developed Southwest region in the same year (€26,307), we find that GDP per capita in the Southwest is 2.55 times higher than in the Northwest region (Figure 1, Table 1). This clearly demonstrates that regions with relatively well-developed transport infrastructure and good transport connectivity are more



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attractive for living, which is also reflected in their higher population density (for example, the Southwest region). An additional advantage is the accessibility of educational and institutional facilities such as universities, ministries, healthcare institutions, kindergartens, and others.

Literature Review

The problem of lagging transport infrastructure development in the country is a process that leads to low levels of economic activity, demographic decline, and reduced regional competitiveness. Economic disparities can also give rise to significant social inequalities, which underscores the need to address them. This report presents an analysis and assessment of the transport connectivity of regions in the country. A spatial and socio-economic analysis of the regions has been conducted, including a financial and economic evaluation of transport components, sociological studies on transport connectivity, and opportunities for optimization (Petrov, 2023; Tsonkov, 2022). Official data from the National Statistical Institute and Eurostat have been used for indicators such as GDP per capita, employment, and average wages. These have been compared with the level of transport accessibility and the availability of key infrastructure (Geneshki; Georgiev - Regional Economics).

Methodology

The aim of this report is to analyze the role of transport and transport connectivity as a key factor influencing demographic and socio-economic conditions within the strategy of the new planning regionalization (NUTS 2) in Bulgaria, using a combined documentary and statistical approach.

To achieve this aim, the following objectives are set: the analysis of the territorial structure, assessment of transport accessibility, comparison of economic indicators across regions, and formulation of conclusions for improving regional policy.

Through a comparative analysis between regions, the relationship between transport connectivity and the level of socio-economic development is assessed, as well as the role of transport as a sector in the economy primarily engaged in reducing disparities between central hubs and peripheral areas.

1. The New NUTS 2 Regionalization of Bulgaria - Territorial Framework

The new NUTS 2 regionalization of Bulgaria represents a key territorial framework for planning and implementing regional policy. This structure divides the country into four planning regions (Northern, Eastern, Southern, and Capital), which differ in their demographic, economic, and spatial characteristics (Figure 2). Optimization is necessary due to the persistent demographic decline, as some of the current planning regions no longer meet the EU requirements for a minimum population at the NUTS 2 level (800,000 inhabitants). The objective is to ensure an accurate statistical basis and a fairer allocation of funds from the EU „s cohesion policy.

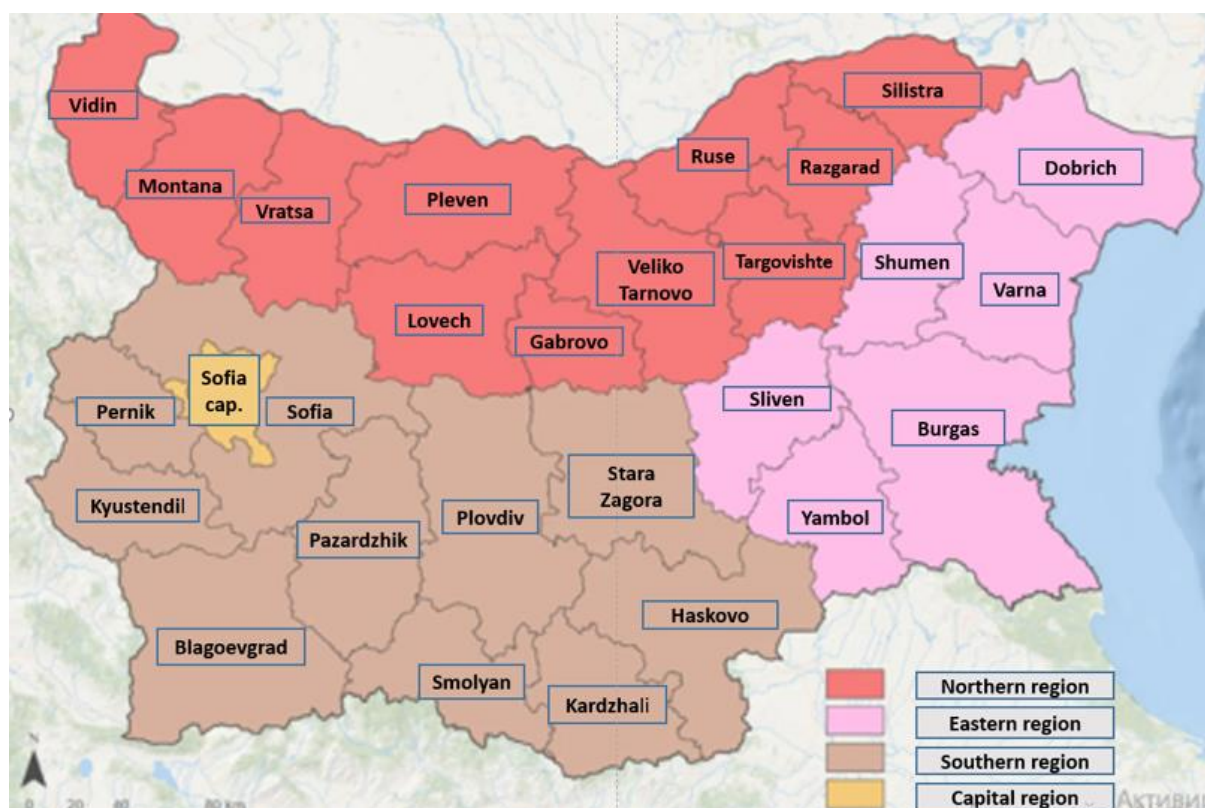


Figure 2. The new NUTS 2 regionalization of Bulgaria. Source: (economic.bg)

The structure of these regions establishes the framework upon which transport connectivity and its role in the functional integration of territories will be analyzed.



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2. Transport Connectivity in the Context of the New Regionalization

The process of introducing a new planning regionalization in Bulgaria raises a number of questions related to the adequacy of the existing transport network and its capacity to serve the newly defined spatial configurations. The lack of balanced transport accessibility among regions further deepens territorial disparities and limits the potential for achieving territorial cohesion. In this context, transport should not be viewed as an independent sector, but rather as an integrative component of regional policy that supports processes of convergence and sustainable development.

The introduction of a new planning regionalization in Bulgaria presupposes the formation of larger and functionally justified territorial units that are expected to ensure a higher degree of internal connectivity and economic integration (Petrov, 2024).

2.1. Northern Planning Region

2.1.1. Territorial Scope and Regional Administrative Centers

The **Northern Planning Region (NUTS 2)** in Bulgaria encompasses the following provinces and their administrative centers: Vidin, Montana, Vratsa, Pleven, Lovech, Gabrovo, Veliko Tarnovo, Ruse, Targovishte, Razgrad, and Silistra. The region occupies a substantial portion of the northern territory of the country and borders Romania along the course of the Danube River.

From a transport perspective, the Northern Region holds a strategic position within both the national and the trans-European transport system. The main Danube transport corridor passes through the region, as well as key routes from the core and comprehensive Trans-European Transport Network (TEN-T).

The most significant road axes include:

- The Hemus Motorway - planned to connect the capital city of Sofia with the city of Varna, while duplicating the primary road routes European route E70 from Varna to Shumen, European

route E772 from Shumen to Yablanitsa, and European route E83 from Yablanitsa to Sofia. Its total planned length is 430 km, of which 168 km have been constructed.

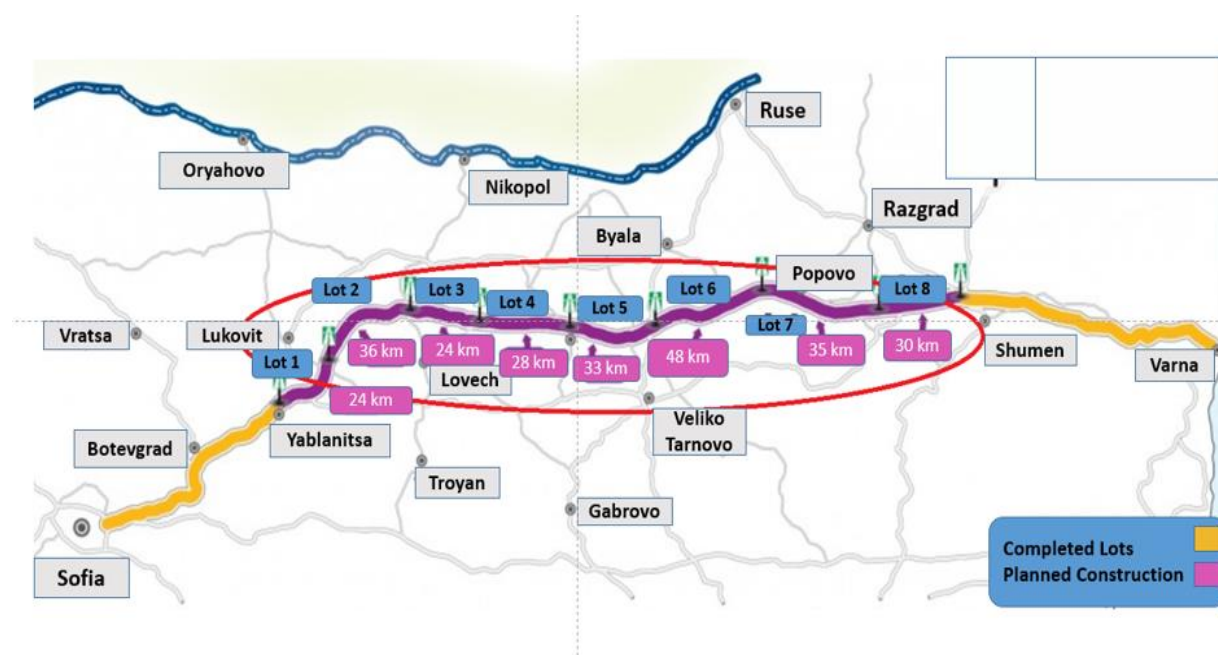


Figure 3. Hemus Motorway - Situational Map as of February 2026

Figure 3 illustrates the completion stages of the respective lots of the Hemus Motorway. The section shown in orange, from the city of Sofia to Yablanitsa, is completed, as is the section from Targovishte to Varna. According to the report by the Road Infrastructure Safety Agency, this motorway is the second most heavily trafficked in Bulgaria (*Source: Road Infrastructure Safety Agency, <https://www.ncsip.bg/files/Documents>*).

From a regional development perspective, the completed sections of the Hemus Motorway have a measurable positive impact on the economic and social development of the adjacent cities and municipalities, compared to areas where motorway infrastructure has not yet been constructed (Tables 2 and 3).

Key routes ensuring north-south connectivity in Bulgaria, with significant importance for regional economic development, include:

- **Road I-1 (E79):** Vidin - Montana - Vratsa - Sofia, providing a connection to the capital and Southwestern Bulgaria;



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- **Road I-3:** Byala - Pleven - Botevgrad, linking the Danube corridor with the central part of the country;
- **Road I-5:** Ruse - Veliko Tarnovo - Gabrovo, forming an important north-south axis;
- **Road I-2:** Ruse - Razgrad - Shumen, of key significance for the eastern part of the region;
- **Road I-7:** Silistra - Razgrad - Yambol (in its northern section), providing connections between the Danube areas and the inland territories.

Table 2. Economic Indicators in Regions with Completed and Incomplete Hemus Motorway Sections

Indicators	Regions with Completed Hemus Motorway Sections	Regions with Incompleted Hemus Motorway Sections
GDP per capita	Higher	Lower
Investments	Greater volume	Limited
Industrial Zones	Developed (Shumen, Devnya)	Underdeveloped
Unemployment	Lower	Higher

(Source: www.nsi.bg).

Table 3. Key Indicators of Northern Region Provinces by Transport Connectivity

Province	Employed Persons (Number - 2024)	Average Annual Salary, EUR	GDP per Capita (EUR) as of 2024
Vidin	16249	9952	8278
Vratsa	38386	12822	14766



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Lovech	30823	10577	9176
Montana	26349	10600	7818
Pleven	60424	11215	9816
Veliko Tarnovo	63384	11028	11253
Gabrovo	37266	11387	12660
Ruse	64637	11510	11604
Targovisht e	24808	10829	10406
Razgrad	25616	11139	9082
Silistra	19719	9965	7301

(Source: www.nsi.bg).

2.1.2. Analysis of Northern Region Provinces in Terms of Transport Connectivity

The presented data on employment and average wages by province in the Northern Planning Region clearly indicate a significant territorial differentiation, which can be associated with the level of transport connectivity and access to major transport corridors.

The provinces of Ruse (64,637 employed persons), Veliko Tarnovo (63,384), and Pleven (60,424) stand out with the highest number of employed persons within the Northern Region. This reflects:

- a larger economic scale;
- the presence of industrial and logistics functions;
- better internal and external accessibility.

These provinces also hold a superior transport position:

- Ruse - Danube Bridge, railway hub, international Road I-5;



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- Veliko Tarnovo - proximity to major road axes and Gorna Oryahovitsa Airport;
- Pleven - connections along north-south and east-west directions.

At the opposite end are Vidin (16,249 employed) and Silistra (19,719 employed), characterized by:

- limited accessibility;
- peripheral geographic location;
- absence of motorway infrastructure

2.2. Eastern Planning Region

The Eastern Planning Region (NUTS 2) in the new regionalization of the Republic of Bulgaria covers the eastern part of the country and includes the provinces of Varna, Dobrich, Shumen, Burgas, Sliven, and Yambol. The region is characterized by a high degree of external openness, the presence of maritime borders, and a concentration of strategic transport infrastructure of national and international importance. From the perspective of the transport system, the Eastern Region occupies a key position within the national network by integrating road, rail, maritime, and air transport (Petrov, Tsonkov, 2025).

Several major motorways and primary roads pass through the region, forming the backbone of the east-west and north-south transport corridors. The main road axes include:

- Hemus Motorway (Sofia - Shumen - Varna), providing a strategic connection between the capital and the Black Sea once fully completed;
- Trakia Motorway (Sofia - Plovdiv - Burgas), linking the Eastern Region with the economic center of Southern Bulgaria;
- Primary Road I-9 (E87) along the Black Sea coast, of significant importance for both tourist and transit traffic;
- Road I-7, ensuring connections between the inland areas and the Black Sea ports.



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A major competitive advantage of the Eastern Region is the presence of large seaports - Varna and Burgas - which are part of the core TEN-T network. They play a crucial role in the country „s foreign trade, handling a substantial share of cargo turnover and providing the basis for the development of logistics zones, industrial parks, and associated services (Table 4).

Table 4. Average Annual Salary (EUR), GDP per Capita, and Employment by Province,
2024 - NSI Data

Province	Employed Persons (Number - 2024)	Average Annual Salary, EUR	GDP per Capita (EUR) as of 2024
Varna	153600	13297	15180
Dobrich	56700	10655	9139
Shumen	64500	11297	9256
Burgas	164800	11066	11935
Sliven	63500	10495	6699
Yambol	42800	10805	9898

(Source: www.nsi.bg).

2.2.1. Analysis of Eastern Region Provinces Data through the Lens of Transport Connectivity

The provinces of Varna and Burgas are the most rapidly developing in the Eastern Region and accordingly possess the most well-developed transport „package.” Shumen also demonstrates relatively strong performance within the Eastern Region in terms of average wages, but its transport connectivity lags behind. Key transport components include:

- Motorways (Hemus + Trakia + Black Sea Coastal routes);



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- Railway hubs;
- Seaports and airports.

Provinces with lower income levels and lower employment (Sliven, Dobrich) require targeted integration and investment in transport infrastructure to enhance their economic dynamics.

2.3. Southern Planning Region

The **Southern Planning Region (NUTS 2)** was established within the framework of the new regionalization of Bulgaria and covers a significant portion of the southern half of the country. Its territorial scope includes the provinces of **Sofia Province, Pernik, Kyustendil, Blagoevgrad, Plovdiv, Pazardzhik, Stara Zagora, Haskovo, Kardzhali, and Smolyan**. The Southern Region is characterized by high internal differentiation in terms of both socio-economic development and transport accessibility (Table 5).

On one hand, the region hosts some of the country „s most significant economic and industrial centers - **Plovdiv, Stara Zagora, and Haskovo** - which are well integrated into the national and international transport network. On the other hand, the region also includes peripheral and mountainous areas (Smolyan, Kardzhali, parts of Kyustendil and Pernik provinces), characterized by limited transport connectivity and lower economic dynamics.

The Southern Region is traversed by key elements of the national transport infrastructure, including the **Trakia, Maritsa, and Struma motorways**, as well as major primary roads and railway lines forming part of the European transport network (TEN-T). This infrastructural configuration establishes the region as a main axis of economic and territorial connectivity, while simultaneously highlighting significant internal regional disparities.

Table 5. Average Annual Salary (EUR), GDP per Capita, and Employment by Province, 2024 - NSI Data



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Province	Employed Persons (Number - 2024)	Average Annual Salary, EUR	GDP per Capita (EUR) as of 2024
Sofia Province	112487	11488	12849
Plovdiv	230534	12002	13141
Pazardzhik	60704	10938	9059
Stara Zagora	100833	12645	22354
Haskovo	49283	9930	7350
Kardzhali	31496	10391	8226
Smolyan	31323	9668	9531
Blagoevgrad	86142	9733	9209
Kyustendil	26846	9702	8352
Pernik	28359	11065	9087

(Source: www.nsi.bg).

2.3.1. Analysis of Southern Region Provinces Data through the Lens of Transport Connectivity

The analysis of GDP per capita, employment, and average annual wages by province in the Southern Region clearly demonstrates a strong relationship between the level of economic development and the degree of transport connectivity. Provinces with better-developed transport infrastructure - in particular Plovdiv, Sofia Province, and Stara Zagora - stand out with higher GDP per capita, a larger number of employed persons, and higher income levels. These are areas directly served by key elements of the national transport network, including:

- Trakia Motorway;



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- Primary road corridors;
- Railway corridors of national and international significance;
- Intermodal and logistics zones.

Conversely, provinces such as Haskovo, Kardzhali, Smolyan, and Kyustendil, characterized by limited transport accessibility, mountainous terrain, or lack of direct connection to major transport corridors, show lower GDP per capita and weaker economic dynamics. These differences underscore the role of transport infrastructure as either a limiting or stimulating factor for regional development.

2.4. Capital Planning Region (Sofia Capital)

The **Capital Planning Region** occupies a unique position within the territorial and economic structure of the Republic of Bulgaria. As a region encompassing the national capital, it concentrates a significant share of the country's economic activity, population, investments, and administrative functions at the national level. Within the framework of the new NUTS 2 planning regions, the Capital Region is designated as a standalone region.

A defining feature of the Capital Region is its exceptionally high level of transport connectivity, which sets it apart from other planning regions in the country. The region functions as a major transport hub, providing connections both between different parts of the country and between Bulgaria and the European transport system. Key elements of the national road and railway networks pass through its territory, including primary motorways, major railway lines, and an international airport with growing passenger traffic.

Transport infrastructure in the Capital Region not only facilitates intra-regional mobility but also serves a strategic function for the national economy. Due to its high level of accessibility and intermodal connectivity, the region attracts a substantial share of foreign direct investment, concentrates high value-added activities, and records the highest employment and income levels in the country. This creates strong agglomeration effects that further enhance the region's economic dynamics.

At the same time, the dominant role of the Capital Region generates several challenges related to transport network congestion, increasing traffic, environmental pressure, and the



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deepening of regional disparities. In this context, the analysis of transport connectivity within the Capital Region is essential not only for assessing its economic development but also for formulating effective policies aimed at sustainable and balanced territorial development (Table 6).

Table 6. Average Annual Salary (EUR), GDP per Capita, and Employment - Capital Region, 2024 - NSI Data

Province	Employed Persons (Number - 2024)	Average Annual Salary, EUR	GDP per Capita (EUR) as of 2024
Capital Region.	788800	19800	35412

(Source: www.nsi.bg).

The analysis of the key socio-economic indicators for the **Capital Planning Region** demonstrates a pronounced concentration of economic activity, employment, and income, unmatched by any other region in the country. In 2024, approximately **789,000 persons** were employed in **Sofia (Capital)**, representing the largest share of employed persons at the national level.

This high level of employment is accompanied by the highest income levels in the country, with the average annual gross salary reaching approximately **BGN 38,700 (≈ EUR 19,800)**. A key factor behind this economic superiority is the exceptionally high level of transport connectivity in the Capital Region. The region functions as a major national transport hub, intersecting the most important road and railway corridors in Bulgaria.

The presence of the **Trakia and Struma Motorways**, the initial section of the **Hemus Motorway**, a well-developed primary road network, Bulgaria „s main railway hub, **Sofia International Airport**, as well as an advanced urban transport system (including the metro), ensures a high degree of accessibility and intermodality.

Conclusion



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The analysis of the new planning regions in Bulgaria through the lens of transport connectivity demonstrates that transport infrastructure plays a key role in the functional integration and economic dynamics of individual regions. The Northern, Eastern, and Southern regions exhibit varying levels of internal and external accessibility, with provinces located along major road and railway corridors showing higher employment, income, and GDP per capita. The Capital Region stands out as a leading hub with exceptionally high transport connectivity, underpinning its economic superiority and attractiveness for investment.

The new NUTS 2 regionalization of Bulgaria provides a framework for more effective regional development planning. However, the successful implementation of an integrative approach depends largely on the development of the transport network and inter-regional connectivity. Limited accessibility in peripheral and mountainous areas continues to exacerbate spatial inequalities, necessitating targeted investments in transport infrastructure and intermodal solutions.

In conclusion, transport should not be viewed as an isolated sector but as a strategic instrument for promoting sustainable and balanced regional development. The recommendations derived from the analysis include:

1. Active integration of transport planning with regional and economic policy at the national level.
2. Improvement of transport connectivity in peripheral and lagging regions to reduce spatial disparities.
3. Promotion of intermodal connectivity, including rail and maritime transport, in the context of the new regionalization and the European transport network.
4. Implementation of differentiated investment strategies tailored to the specific needs and potential of each region, with a focus on functional links between settlements, economic centers, and transport hubs.

In this way, transport connectivity is established as an integrative factor that not only facilitates the mobility of people, goods, and services but also creates conditions for economic convergence, social cohesion, and the successful integration of Bulgaria into European economic and financial structures, including the Eurozone.



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**THE ROLE OF THE LEADER/CLLD APPROACH IN THE CONTEXT
OF BULGARIA „S NEW REGIONALIZATION FRAMEWORK**

Kaloyan Ivanov Stoychev*

Abstract:

This scientific publication examines the role of the LEADER approach and Community-Led Local Development (CLLD) in the context of Bulgaria „s new territorial regionalization. The study is based on the understanding that changes in the administrative-territorial framework of regional policy create new challenges for the effectiveness and integration of instruments for local and regional development. In this context, LEADER/CLLD is considered not as a peripheral intervention, but as one of the key mechanisms for preserving the local focus and ensuring linkages between different levels of governance.

Methodologically, the publication relies on a qualitative analytical approach, including documentary and comparative analysis of strategic and regulatory documents, as well as a review of the scientific literature in the field of integrated territorial development and regional policy. The analysis makes it possible to identify the key characteristics of the LEADER/CLLD approach that determine its adaptability and resilience in the context of institutional and spatial transformations.

The results of the study demonstrate that LEADER/CLLD retains its functional autonomy despite changes in regional territorial organization, as it operates on the basis of functional territories and partnership-based governance models. The approach contributes to mitigating the risks of fragmentation between regional and local levels and supports the integrated nature of regional policy. In conclusion, it is emphasized that the future role of LEADER/CLLD in Bulgaria will depend on the extent to which its territorial character and locally driven logic are preserved and effectively integrated into the new regional planning system.

Keywords: LEADER; Community-Led Local Development (CLLD); regional development; integrated territorial approach; regionalization

JEL: R58, O21, R11, H70

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Introduction

Regional development in the European Union is increasingly recognized as a multi-layered process in which strategic objectives at the supranational and national levels must be aligned with the specific needs, resources, and identity of local territories. In this context, the integrated territorial development approach has emerged as a fundamental principle of contemporary public policies aimed at reducing regional disparities, promoting social cohesion, and ensuring the sustainable utilization of local potential (Petrov, 2021; Petrov & Tsonkov, 2024; Borisov, Petrov & Tsonkov, 2024).

In Bulgaria, this process unfolds in the context of significant institutional and spatial transformations, among which the introduction of a new regionalization framework for the purposes of regional policy occupies a central position. Changes in the territorial planning framework raise a number of important questions related to the effectiveness of development instruments, coordination between different levels of governance, and the capacity of policies to reflect the actual socio-economic characteristics of individual territories (Tsonkov, 2022). In this sense, the new regionalization represents not merely an administrative reform, but a factor with potentially profound implications for the mechanisms of regional policy planning and implementation.

Against this background, the LEADER approach, and more broadly Community-Led Local Development, emerges as a specific instrument grounded in the principles of partnership, territorial integration, and bottom-up governance. Through the active participation of Local Action Groups, LEADER/CLLD enables the formulation and implementation of development strategies that reflect the specific characteristics of rural and intermediate territories, which often remain at the periphery of conventional regional policies. This flexibility and territorial sensitivity raise important questions regarding the role of the approach within a changing spatial and institutional framework.

The main objective of this scientific publication is to analyze the role of the LEADER/CLLD approach in the context of Bulgaria „s new regionalization as an instrument for integrated regional development. The study seeks to assess the extent to which LEADER/CLLD retains its relevance and functional capacity under changing administrative-



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territorial conditions, and the degree to which it can contribute to mitigating the risks of fragmentation and loss of local focus within regional policy.

The analysis is based on the understanding that LEADER/CLLD should not be perceived as a peripheral or supplementary measure, but rather as a structural component of the integrated territorial development approach. In this regard, the publication contributes to the academic debate on the interaction between the macro-level of territorial planning and the micro-level of local development, emphasizing the potential of LEADER/CLLD to function as a stabilizing and adaptive mechanism in the context of institutional transformation.

Literature review

In the academic literature, the LEADER approach is recognized as one of the earliest and most consistent attempts to implement an integrated territorial approach within the framework of the European Union „s rural development policy. Since its introduction in the early 1990s, it has been characterized by a strong emphasis on decentralized governance, partnership between public, private, and civil society actors, and the active participation of local communities in planning and decision-making processes (Ray, 2000; Tsonkov, 2024). In this sense, LEADER goes beyond the understanding of a conventional programmatic intervention and is increasingly conceptualized as a specific model of territorial governance aimed at mobilizing the endogenous potential of local territories.

Theoretically, the approach is embedded within the broader framework of integrated territorial development and multi-level governance, where the interaction between different levels of governance and the adaptation of public policies to specific socio-economic and spatial contexts are of central importance (Tsonkov & Petrov, 2024; Borisov, Petrov & Tsonkov, 2024). Bulgarian studies in the field of regional development also emphasize the importance of partnership and coordination between national, regional, and local levels as key conditions for effective territorial governance (Gaydardzhieva et al., 2020; Tsonkov, 2024; Petrov, 2021). In this process, municipalities play a leading role due to their coordinating function, which makes the performance of local authorities a crucial factor in assessing the effectiveness of the LEADER approach (Tsonkov, 2023). Research consistently highlights that the added value of LEADER is expressed not so much through the volume of funded projects, but through the



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sustainable processes of partnership-building, the development of social capital, and the strengthening of institutional capacity at the local level (Dax & Oedl-Wieser, 2016). This understanding is further reinforced by more recent studies emphasizing the role of territorial cooperation within LEADER as a mechanism for organizational learning, institutional strengthening, and the generation of long-term added value beyond individual project outcomes (Gargano & Del Prete, 2025).

With the introduction of Community-Led Local Development, the LEADER concept has been expanded and institutionalized as a horizontal instrument for territorial development applicable across multiple EU funds and policy domains. Analyses of territorial development reveal numerous successful examples of cooperation, as well as the role of specific economic sectors as drivers of regional growth (Tsonkov, Borisov & Slaveva, 2025; Tsonkov & Petrov, 2024; Tsonkov & Petrov, 2025). In the literature, CLLD is viewed as an evolution of the approach that strengthens the cross-sectoral and multi-fund nature of interventions and creates conditions for improved coordination between regional, rural, and social development policies (Vercruysse, 2022). Analyses by the EU CAP Network highlight that the multi-fund implementation of CLLD creates new opportunities for policy integration, while simultaneously generating governance challenges related to coordination, administrative complexity, and the preservation of the local focus of development strategies (EU CAP Network, 2024). CLLD operates on functional territories that do not necessarily coincide with formal administrative boundaries.

A central element in the academic debate on LEADER/CLLD is the bottom-up governance principle, which represents a departure from traditional hierarchical models of public administration. Local Action Groups are considered the institutional core of this model, functioning as intermediaries between local communities and higher levels of governance. Through this intermediary role, the approach creates conditions for greater effectiveness of interventions in addressing the actual needs of local territories.

Alongside positive assessments, the literature also presents critical perspectives that question the long-term transformative potential of LEADER/CLLD. Some studies highlight the risk of institutional formalization and the gradual „closure“ of the approach within dominant administrative and project-oriented logics, which may limit its original innovative and



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participatory character (Johansson & Holmquist, 2024). In this sense, LEADER is interpreted not only as a development instrument, but also as a distinct institutional discourse with its own narratives and practices. Local authorities play an important role in this process, as they contribute to shaping and structuring the regional business environment (Tsonkov, 2024).

At the same time, significant attention has been devoted to territorial regionalization as a framework for planning and allocating public resources. Studies emphasize that changes in territorial structures are not neutral, but have substantial implications for institutional coordination and the territorial coherence of public policies (Borisov et al., 2019; Borisov, Petrov & Tsonkov, 2024). In the Bulgarian context, early analyses of planning regions at the NUTS II level highlighted the frequent changes in territorial divisions and their limited alignment with actual socio-economic processes, raising concerns regarding the long-term effectiveness of regional policy (Stoychev, 2006; Tsonkov & Petrov, 2024). Model-based scenarios of Cohesion Policy implementation in Bulgaria demonstrate that intervention outcomes vary significantly between regions and depend heavily on spatial interactions and the institutional frameworks within which policies are implemented (Crucitti et al., 2021; Tsonkov, 2022). In this regard, regionalization is viewed both as an opportunity for improving the alignment between administrative structures and development processes and as a potential risk for diluting local specificity.

In the Bulgarian context, analyses of regional policy reveal persistent territorial disparities and the limited effectiveness of predominantly top-down cohesion instruments. Early studies on the Europeanization of regional policy in Bulgaria identified structural tensions between formally adopted European models and their limited adaptation to the country „s specific institutional and territorial realities (Monastiriotis, 2008). Despite ongoing processes of Europeanization and institutional reform, socio-economic disparities between regions remain significant, raising questions about the capacity of existing planning models to adequately address the needs of peripheral territories (Dokov, 2024). Recent empirical data from the Institute for Market Economics confirm the growing divergence between leading economic centers and peripheral regions, calling into question the ability of predominantly centralized instruments to achieve genuine territorial cohesion (Institute for Market Economics, 2025).



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These findings reinforce interest in instruments such as LEADER/CLLD, which offer an alternative governance logic based on local participation and functional territories.

At the intersection of the literature on LEADER/CLLD and studies on territorial regionalization, an important debate has emerged concerning the adaptive capacity of the approach in the context of institutional and spatial transformations. The flexible and decentralized nature of LEADER/CLLD enables a relatively autonomous mode of operation in relation to changes in administrative-territorial structures, as its core logic is based on functional and socio-economic linkages between local communities rather than formally defined administrative boundaries (Vercruysse, 2022). At the same time, the literature emphasizes the need for stronger integration between local development strategies and regional planning frameworks in order to avoid the risk of fragmentation and ensure policy coherence.

Methodology

The present study is based on a qualitative analytical approach aimed at clarifying the role of the LEADER/CLLD approach in the context of Bulgaria „s new territorial regionalization. The methodological framework is grounded in the understanding that the analysis of complex processes such as regional development and territorial governance requires interpretative methods capable of capturing both the institutional and conceptual dimensions of the policies under consideration.

Within the scope of the research, a documentary analysis of strategic and regulatory documents at both European and national levels was conducted, focusing on regional policy, rural development, and the implementation of the LEADER/CLLD approach. The analysis includes program documents, regulations, and strategic frameworks that define both the logic of the new regionalization and the role of LEADER/CLLD within the system of integrated territorial development. This approach enables the identification of key principles, objectives, and mechanisms that shape the interaction between different levels of planning and governance.

In addition, a comparative analytical approach was applied to examine changes in the territorial framework of regional development before and after the introduction of the new regionalization. The comparison is not aimed at quantitatively measuring outcomes, but rather at clarifying the institutional and functional implications of territorial changes for the



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implementation of the LEADER/CLLD approach. In this way, the analysis seeks to identify stable patterns as well as potential points of tension between administratively defined regions and the functional territories of Local Action Groups.

The methodological approach also includes an analytical review of the academic literature, focusing on key concepts such as integrated territorial development, bottom-up governance, and multi-level governance. This review provides the theoretical foundation for interpreting the findings and enables the positioning of Bulgaria „s experience with LEADER/CLLD within the broader European context.

The study has a conceptual and analytical character and does not include primary empirical data, as its primary focus is on the synthesis and interpretation of existing sources and policy frameworks. This methodological choice is justified by the objective of the publication- to contribute to the theoretical and policy debate on the role of LEADER/CLLD as an instrument for integrated regional development in the context of institutional and territorial transformation, rather than to provide a quantitative assessment of its implementation outcomes.

Results

The analysis of the regulatory framework, strategic documents, and academic literature identifies several key findings related to the role and functioning of the LEADER/CLLD approach in the context of Bulgaria „s new territorial regionalization.

First, the results indicate that the LEADER/CLLD approach retains its conceptual and functional autonomy despite changes in administrative-territorial regionalization. The territorial logic of LEADER/CLLD is based on functional and socio-economic linkages between settlements and local communities, which do not necessarily coincide with the formal boundaries of planning regions. On the contrary, Local Action Groups are permitted to include municipalities from different planning regions within their territory, provided that these municipalities share a common and contiguous boundary. In this regard, the new regionalization does not directly affect the fundamental principles of the approach, such as bottom-up governance, partnership, and the integrated nature of interventions.



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Second, the analysis demonstrates that Local Action Groups function as a stabilizing element within the regional development system in the presence of institutional and spatial transformations. LAGs maintain their intermediary role between local communities and higher levels of governance, regardless of changes in the regional planning framework. This enables them to ensure continuity and consistency in the implementation of local development strategies, even in the context of restructuring regional policy frameworks.

A third significant finding concerns the identification of potential risks of fragmentation between regional and local levels of planning. The new regionalization creates conditions for strengthening strategic planning at broader territorial levels, which may weaken the connection with specific local needs. In this context, LEADER/CLLD emerges as an instrument that partially mitigates this risk, while simultaneously requiring stronger coordination with regional strategies in order to avoid duplication or misalignment of priorities.

The results further indicate that the LEADER/CLLD approach possesses considerable potential to contribute to the integrated character of regional policy under the new regionalization framework. By combining economic, social, and territorial interventions at the local level, LEADER/CLLD supports a higher degree of territorial coherence and policy adaptability. However, this potential remains strongly dependent on the institutional environment and on the extent to which local development strategies are aligned with broader regional and national objectives.

In summary, the findings confirm that LEADER/CLLD should not be regarded as a secondary or supplementary instrument in the context of Bulgaria „s new regionalization. On the contrary, the approach is reaffirmed as an important mechanism for maintaining local focus and ensuring an integrative link between different levels of regional policy within a changing territorial framework.

Discussion

The findings of the analysis allow for a more in-depth interpretation of the role of the LEADER/CLLD approach in the context of Bulgaria „s new territorial regionalization, as part of the broader debate on integrated regional development. First, the observed relative autonomy of LEADER/CLLD from administrative-territorial changes challenges the traditional



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assumption that the effectiveness of local development policies is directly dependent on the stability of regional planning frameworks. In this regard, LEADER/CLLD may be interpreted as an instrument that mitigates the impact of institutional reforms on local territories.

However, this autonomy should not be overstated. Although the approach is based on functional territories and partnership-based governance models, its implementation remains closely linked to national and regional planning and funding systems. The new regionalization creates a risk of increasing divergence between strategic objectives formulated at the regional level and the specific priorities embedded in local development strategies. In this context, the role of LEADER/CLLD as an integrative mechanism depends significantly on the existence of effective coordination mechanisms between different levels of governance.

Particular attention should be given to the role of Local Action Groups as territorial actors within the regional development process. The discussion surrounding their functioning under the new regionalization framework presents two possible scenarios. On the one hand, LAGs may act as carriers of institutional memory and stability; on the other hand, they may become subject to increased administrative and strategic pressure. This raises the question of whether LAGs will preserve their role as platforms for local participation or gradually evolve into instruments for the implementation of externally defined policy priorities.

More broadly, the findings contribute to the debate on multi-level governance and the territorial coherence of public policies. LEADER/CLLD can be positioned as an intermediate governance level linking the micro-level of local communities with the macro-level of regional planning. In the context of the new regionalization, this intermediary function acquires additional importance, as it is precisely at this level that discrepancies between formally defined regions and the actual dynamics of territorial development can be identified and addressed.

The relationship between LEADER/CLLD and the broader framework of economic and institutional convergence, including processes related to Bulgaria „s participation in the euro area, should be approached with caution. Although LEADER/CLLD is not directly designed to achieve macroeconomic objectives, its contribution to social and territorial cohesion creates conditions for more sustainable integration of peripheral territories into the national economy. In this sense, the approach may be regarded as a complementary element within broader convergence processes, without constituting their primary driving force.



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Finally, it may be concluded that the LEADER/CLLD approach stands at a critical intersection between stability and transformation. Bulgaria „s new regionalization presents both challenges and opportunities for rethinking the role of local development within the regional policy framework. The manner in which LEADER/CLLD is integrated into this new territorial and institutional environment will determine whether the approach retains its transformative capacity or becomes limited to the formal implementation of programmatic requirements.

Conclusion

The present study examines the role of the LEADER/CLLD approach in the context of Bulgaria „s new territorial regionalization, positioning it as a structurally significant component of the integrated territorial development framework. The analysis demonstrates that, despite changes in the administrative-territorial structure, LEADER/CLLD retains its conceptual stability and functional relevance, stemming from its orientation toward local communities, partnership-based governance, and bottom-up decision-making.

The findings and discussion confirm that the approach should not be regarded as a secondary or supplementary instrument of regional policy, but rather as a structural mechanism capable of ensuring territorial sensitivity and institutional continuity in the context of spatial and governance transformations. In this regard, LEADER/CLLD contributes to mitigating the risks of fragmentation between regional and local levels of planning by establishing a link between the strategic objectives of regional policy and the specific needs of local territories.

Under the new regionalization framework, the role of Local Action Groups gains particular importance, as they function as intermediaries and carriers of local knowledge and social capital. Preserving and strengthening this role requires targeted efforts to improve coordination between different levels of governance and to ensure the effective integration of local development strategies into broader regional and national planning frameworks.

In a broader context, including processes of economic and institutional convergence in Bulgaria, the LEADER/CLLD approach may be considered a contributing factor to social and territorial cohesion, without serving as a direct instrument for achieving macroeconomic objectives. Its added value lies precisely in its capacity to support the sustainable development of peripheral and less developed territories through the mobilization of local potential.



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In conclusion, the future of the LEADER/CLLD approach in Bulgaria will largely depend on the manner in which it is integrated into the new regional planning system. Preserving its territorial character and stakeholder participation mechanisms creates the conditions for LEADER/CLLD to maintain its position as a leading instrument for integrated regional development within a dynamically evolving institutional environment.

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**EFFECTIVENESS OF LOCAL CRISIS PREVENTION POLICIES AS A
GUARANTEE FOR MUNICIPAL SUSTAINABILITY AND
TERRITORIAL INTEGRITY**

Ianis Rangelov Rangelov*

Abstract:

Sustainability in municipal management is very important for maintaining local government systems and ensuring normal conditions and an environment conducive to business and the population. The increase in the number and intensity of hazards in recent years has put pressure on public institutions to operate in a constantly unstable environment, which has also led to an increase in problems at the regional level and, in Bulgaria, a focus on municipalities. In this report, the author aims to analyze the preparedness of local government bodies to address crises and maintain systemic resilience within municipal territories. In this regard, for the sake of completeness of the study, the author will introduce and examine basic concepts, including crises, national security, municipalities, disasters, accidents, catastrophes, and crisis prevention. To achieve the set goal, normative, descriptive, and comparative research methods were used. The results are intended to inform recommendations for targeted actions to ensure the sustainability of local government operations under conditions of uncertainty.

Keywords: Crises, municipalities, sustainability, disasters, accidents, legislation

Introduction

In contemporary management concepts, disaster and crisis resilience occupies an important place alongside traditional defense and law enforcement aspects. Crises - whether caused by natural disasters, technological accidents, sanitary and epidemiological threats, or social upheavals - can destabilize society, endanger citizens' lives and health, and cause serious damage to infrastructure and the economy. Therefore, effective crisis management is essential to ensuring national security and public welfare. Internationally, the number and intensity of

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crises, natural disasters, major accidents, and terrorist attacks have increased in recent years (Masterson et al., 2014), putting pressure on institutions responsible for emergency management to develop solutions to prepare the population and communities for unexpected events and to manage them effectively. At the same time, in recent years, we have witnessed various crises (floods, fires, etc.) that have caused serious damage to Bulgarian municipalities and underscored the need for targeted action to ensure the normal course of socio-economic processes in their territories. This is difficult, as many crises affect large geographical areas and their resolution is the responsibility of several institutions at the local and national levels. The diversity of emergencies and the unpredictable nature of some of them require a high degree of flexibility in their management (Beunen, Patterson, and Van Assche, 2017). Still, public institutions operate within a strict legal framework that establishes clear responsibilities for emergency management (Kapucu, Arslan, and Demiroz, 2010). Therefore, crisis management requires flexible, stable, adaptive, collaborative, and coordinated approaches, grounded in plans that define clear responsibilities and ways of doing things (Farazmand, 2007; Ansell, Sørensen, and Torfing, 2023). In the specialized literature on emergency management, the terms crisis, disaster, and turbulence are used. Crises refer to situations that threaten the fundamental values of the social system and hinder its normal functioning (Christensen, Lægreid, and Rykkja, 2016).

The increase in the number and intensity of hazards in recent years has put pressure on public institutions to work in a constantly unstable environment, which has also led to an increase in problems at the regional level and, in the case of Bulgaria, a focus on municipalities. The study shows that the preparedness of these institutions is important, but equally important is good cooperation with the municipalities within their jurisdiction. Local public institutions need to assess risks, plan and prepare their response, organize the Voluntary Emergency Service, including training volunteers on how to act in unexpected situations. Analyses show that although municipalities identify the risks that threaten their communities, not all invest in infrastructure to prevent hazards. In this regard, the main objective of the study is to analyze and assess the readiness of local authorities to ensure a sustainable environment and conditions for the population and businesses through preparation and preventive actions to reduce the



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likelihood of crises.

1. Analysis of the theoretical framework

The management and prevention of disasters, accidents, and catastrophes are part of the overall crisis management in nation-states. This issue concerns ensuring civil security and the state „s national interests in providing it (Tsonkov, 2023). This issue has become very topical in recent decades due to significant regional and global changes of various kinds. A detailed breakdown and analysis of the state of international order and security, as well as national security and crisis management systems, reveal an intertwining of multiple types, characteristics, and levels of manifestation. This raises the question of ensuring the economic security that supports all systems (Tsonkov, 2021). Thus, crises can be defined as military, climatic, natural, humanitarian, food, environmental, financial and currency, social, migration, political, and institutional. In our study, we will focus on crises caused by natural disasters, accidents, and catastrophes, in which the intensity increases significantly. This is why crisis management is an important element of the national security system. In this regard, the concepts of national security and national security system must be defined.

There is no universally accepted definition of the essence of crisis in scientific literature. The word „crisis „comes from the Greek „krisis, „meaning „rupture „and „interruption. „The concept has become deeply ingrained in every activity, as it is associated with changes in daily routines, regardless of their scope, severity, or outcome (Björck, 2016; Tsonkov, 2022). Noteworthy is Fearn-Banks „definition, according to which a crisis is „a significant event with a potentially negative outcome affecting an organization, company, or industry, as well as the public, services, or reputation. It disrupts normal business transactions and can sometimes threaten the existence of the organization „(Fearn-Banks, 2009). As is clear, a crisis always leads to negative outcomes and consequences that disrupt the normal course of the affected processes or activities.

A crisis is usually defined as a sudden or gradual situation of serious disruption to the normal functioning of a system-a community, organization, or society-that poses a threat to fundamental values (life, health, property, environment) and requires urgent measures to be taken with the available resources. A disaster is a type of crisis caused by the impact of natural



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phenomena or human activity, leading to serious, harmful consequences for large groups of people, infrastructure, and the environment, and requiring the activation of specialized response forces and resources (e.g., a declaration of a state of emergency). In other words, a disaster is an extreme manifestation of a crisis that exceeds the affected community „s usual capacity to cope.

Based on the analysed crisis typologies, the author supports Björck „s thesis, which concludes that an interdisciplinary approach is necessary to offer a new understanding of crises and their management (Björck, 2016). Realistic and therefore usable crisis scenarios do not present individual elements, but rather a set of essential determinants of the crisis: cause, impact, stakeholders „perceptions, and appropriate actions for crisis management and communication. The author proposes an interdisciplinary framework for crises (Table 1).

Table 1. An interdisciplinary approach to shaping crises with implications for crisis management and communication.¹⁹

Author	Gündel (2005)	Taleb (2007)	Weiner (1995)	Coombs et al. (1995)
Dimension 1	Predictability (the crisis is known)	Probability of occurrence	Location of the cause (internal or external)	Location of the cause (internal, external)
Dimension 2	Opportunities to influence the cause	Impact / Profit	Controllability of the cause	Intention
Discipline	Crisis and disaster management	Mathematics and statistics	Sociology and psychology	Crisis communication
Perspective	Crisis and disaster management	Risk and Crisis Management Manager	General audience and stakeholders	Заинтересовани страни и комуникатор при кризи
Consequences for business practice	Risk and crisis management measures, regulation	Focus on the worst-case scenario (black swan) and the overall resilience of organizations.	Attribution of responsibility by stakeholders, emotions, and behavior	Attribution of responsibility by stakeholders, emotions and behavior, contextual factors, crisis communication strategies

¹⁹ Björck, A. (2016). Crisis typologies revisited...



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Application in a crisis phase	Pre-crisis and crisis phase	Before and after the crisis	Pre-crisis and crisis phase	Pre-crisis and crisis phase

Source. Adapted by the author.

Previous experience highlights the advantages and disadvantages of different emergency management paradigms. Based on the shortcomings of the bureaucratic paradigm, which underpins the organization of emergency interventions, adjustments to the functioning of these services are discussed, starting with the adaptive management paradigm (Vandergert et al., 2016; Farazmand, 2007; Nikkanen, Räsänen, & Juhola, 2024; Torres-Lima, Pinel, & Conway-Gómez, 2019), collaborative governance (Kapucu, Arslan, & Demiroz, 2010; Kapucu & Garayev, 2011; Waugh & Streib, 2006; Christensen, Lægreid, and Rykkja, 2016) and stable governance (Ansell, Sørensen, and Torfing, 2023; Pot, Scherpenisse, and „t Hart 2023). Municipalities play an important role in ensuring and maintaining normal conditions for the population and businesses, supporting their reproduction and the continuity of socio-economic processes in their territory (Tsonkov, 2023; Tsonkov, 2024). In this sense, it is necessary to clarify the essence and role of the municipality in ensuring the sustainability of conditions and ongoing processes through effective functioning and crisis prevention. Municipalities are the main level of public authority that directly serves the population and the territory, and are therefore the „first line „in disaster prevention and response. It is important to note that effective local and regional policies help ensure the sustainability of municipal systems (Borisov, Petrov, Tsonkov, 2024; Petrov, 2020, 2021). In today „s environment, municipalities must make effective use of crisis prevention and new information technologies (Tsonkov, Petrov, 2024; Tsonkov, Petrov, Berberova-Valcheva, 2022; Tsonkov, Petrov, 2024). From this perspective, municipalities must direct their efforts in several directions-staff development, implementation of new technologies, organizational and legislative changes.

Bulgarian legislation assigns specific responsibilities to local authorities in crisis management. The mayor of the municipality organises and directs disaster protection within the municipality. For this purpose, a municipal council (commission) for disaster risk reduction is established - an advisory body comprising representatives of the municipal administration, experts, and often local institutions (e.g., police, fire brigade, water supply and sewerage,



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energy companies). This council develops and updates the Municipal Disaster Protection Plan, which assesses local risks and plans preventive and operational measures. In addition, under the updated legal framework after 2016, each municipality also prepares its own disaster risk reduction program, a more strategic document focused on prevention and the implementation of national objectives at the local level.

2. Research methodology

In this report, the author aims to analyze the preparedness of local government bodies to address crises and maintain systemic resilience within municipal territories. In this regard, for the sake of completeness of the study, the author will introduce and examine basic concepts, including crises, national security, municipalities, disasters, accidents, catastrophes, and crisis prevention. To achieve the set goal, normative, descriptive, and comparative research methods were used. In general, the methodological framework of the study covers the following stages: clarification of the categorical apparatus, analysis of the theoretical framework, analysis of legislation and strategic documents in the field of crises, analysis of the results achieved by municipalities in their crisis prevention activities, conclusions, and recommendations based on the analysis and conclusions.

3. Results and discussion

In the Bulgarian context, the regulatory framework clearly places disaster management as an element of security. The Disaster Protection Act (DPA) defines disaster policies and responsibilities as part of the overall system for protecting the population. According to the DPA, the Council of Ministers directs state policy on disaster protection, assisted by the Council for Disaster Risk Reduction - a national platform comprising representatives of ministries, the scientific community, the Bulgarian Red Cross, non-governmental organisations, and the National Association of Municipalities. This coordination mechanism reflects the contemporary understanding that disaster risk management requires interaction between multiple sectors and levels of government. Strategic documents, such as the National Strategy for Disaster Risk Reduction 2018 -2030, have been approved by the government, which emphasizes their importance for national security (Council of Ministers, 2018). The Updated



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National Security Strategy of the Republic of Bulgaria also focuses on the risks of natural and artificial crises, viewing them as threats that require proactive prevention and response measures.

At the international level, Bulgaria adheres to the adopted frameworks for disaster risk reduction and resilience building. Following the conclusion of the Johannesburg/Hyogo Framework for Action 2005 -2015, the Sendai Framework for Disaster Risk Reduction 2015 - 2030 was adopted in 2015 by the United Nations. It sets four priorities: (1) understanding disaster risk; (2) strengthening risk management; (3) investing in risk reduction and resilience; (4) improving preparedness for effective response and the principle of „building back better „after a disaster (UNISDR, 2015). The National Council for Disaster Risk Reduction serves as a platform to ensure that Bulgarian policy aligns with these international priorities. This council, chaired by the Minister of the Interior, coordinates the efforts of all responsible authorities-from ministries to municipalities-to implement the state „s disaster protection policy.

- The inclusion of the topic of disasters in strategic security documents and the creation of specialized interdepartmental bodies show an evolution in the understanding of security. Today, it covers not only military and criminal aspects, but also „non-traditional „risks-natural disasters, pandemics, and climate change. Crisis management is becoming integral to the concept of national sustainable security, which aims to protect the population, the environment, the economy, and infrastructure in a comprehensive manner.

Based on an analysis of regulatory documents, the main directions for crisis prevention and management activities at the local level can be identified, primarily related to the municipality „s effectiveness. In this way, with a well-functioning crisis prevention system, the municipality can ensure the normal course of socio-economic processes on its territory. Prevention at the local level includes a variety of activities that municipalities plan and implement:

- Preparation of risk assessments for the territory (identification of potential hazards-landslide zones, flood areas, buildings in seismic areas, etc., and analysis of the vulnerability of the population and infrastructure). These assessments are developed according to a national-level methodology and are a mandatory part of protection plans.



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- Zoning of preventive measures: e.g., maintenance of drainage channels and dams to prevent flooding, reinforcement of slopes against landslides, control of compliance with construction requirements (especially in seismic areas), afforestation of bare land, firebreaks, etc.
- Training and raising public awareness: the municipality organizes information campaigns and training in schools on how to behave during an earthquake, flood, or fire; it explains to citizens where the evacuation assembly points are, how to get help, etc. For example, a municipality may distribute brochures or conduct annual drills with the population on how to respond in the event of an earthquake.
- Maintaining local volunteer disaster response teams: Bulgaria has established 239 volunteer teams with over 3,150 registered volunteers as of 2022, each team belonging to a specific municipality and led by the mayor. Volunteers undergo training and assist with professional services in search-and-rescue operations, firefighting, and first aid, among other areas. Their presence increases municipalities „capacity to respond quickly, especially in remote areas.
- Early warning and notification: Municipalities maintain notification systems (sirens, loudspeakers, SMS systems such as the national BG-Alert, etc.) to warn the population in case of imminent danger. Some municipalities, in cooperation with the state, are implementing automated monitoring systems, such as river level and rain sensors connected to flood sirens.
- Coordination with the regional administration and state authorities: Municipalities work closely with the regional governor, who is responsible for organizing protection within the region. In the event of a major crisis that exceeds the capacity of a single municipality, the regional governor and the regional headquarters coordinate inter-municipal assistance and request support from the central level (e.g., the army or neighboring regions).

It is important to note that municipalities also have regulatory levers for prevention. Through local government instruments-such as spatial planning and construction control, environmental control, and maintenance of municipal infrastructure-they can significantly reduce risks. For example, strict compliance with the requirements of the Spatial Planning Act



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for construction in seismic zones (in accordance with Eurocode 8 for earthquake-resistant construction) or the ban on construction on floodplains are measures that municipalities apply in their daily activities and which are directly relevant to potential future disasters.

The role of municipalities in prevention is also evident from the fact that when local authorities are well-prepared, the consequences of disasters are often less severe. For example, a municipality with river beds cleaned regularly and properly maintained dam facilities can prevent severe flooding during heavy rains, whereas neglecting these measures would result in significantly greater damage.

From a scientific research perspective, the topic of municipal sustainability is dynamic. It is advisable to continue researching good practices at the international level that can be adapted in Bulgaria-for example, models of public participation in Japan, insurance scheme systems in Norway, or technological solutions in the US. It is also necessary to develop local studies - case by case - to measure progress and identify effective approaches.

Conclusion

Disaster management and increasing municipalities „resilience in crises are multifaceted processes that encompass technical, organizational, and social dimensions. Disasters and crises pose a significant threat to Bulgaria „s social development and national security, particularly amid climate change and the accumulation of vulnerabilities. Bulgarian municipalities-the main link in local government-are often on the front line in meeting these challenges.

Over the past two decades, Bulgaria has developed a regulatory and institutional framework that complies with international standards (Sendai Framework) and European policies. The Disaster Protection Act, the national strategy and program, and the network of councils and headquarters provide a basis for a systematic approach to risk management. Mechanisms for planning at all levels have been established, including obligations for municipalities to have plans and programs. However, there are shortcomings and practical differences. Some municipalities are proactive and well-prepared, with well-developed volunteer structures and regular training. In contrast, others lag-without up-to-date programs, with minimal capacity and a reactive approach (only acting after a crisis has occurred). The preparedness analysis showed that local-level resources (financial, human, technical) are often



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insufficient to address the scale of the risks.

The main challenges include: a lack of funding for prevention and resilience, staffing and expertise gaps, deteriorated infrastructure, incomplete coverage of early warning systems, a lack of integrated data for decision-making, a low insurance culture, and the need for better coordination. Demographic processes further complicate the picture, increasing social vulnerability in many areas. At the national level, support for municipalities should be a priority in risk reduction policies. This includes targeted funding, methodological assistance, and creating incentives for local authorities to invest in sustainability. European funds and initiatives provide a good opportunity to implement many of the necessary improvements, and Bulgaria should make the most of them.

In conclusion, increasing the resilience of municipalities in crises is not a one-off task, but a continuous process of improvement. It requires foresight on the part of the administration-investing today for an uncertain tomorrow-as well as the commitment of the whole society. Building a „culture of safety „and preparedness must become part of everyday life: at school, at work, in the media. Only when prevention becomes the norm rather than the exception will we be able to say that our municipalities and our country are truly resilient to the trials of disasters. This will mean lives saved, damage averted, and confident development despite the challenges.

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**THE NEW STATISTICAL REGIONALIZATION AS A TOOL FOR
OVERCOMING REGIONAL DEMOGRAPHIC IMBALANCES IN
BULGARIA (2026-2040)**

Mariyan Aleksandrov*

Abstract:

This study examines the new statistical regionalization of Bulgaria (the transition from 6 to 4 NUTS 2 regions, effective from 2027) as a tool for addressing demographic imbalances. The reform aims to enable a more effective allocation of resources to peripheral and vulnerable areas and to achieve a critical population threshold of over 800,000 inhabitants per region by 2040, ensuring the sustainability of social and economic systems and supporting balanced national development.

Keywords: *NUTS 2 regions, population sustainability, regional development*

Introduction

In regional development theory, regionalization is not merely an administrative division, but a framework for the allocation of resources. The transition from 6 to 4 NUTS 2 regions (effective from 2027) represents the most significant structural change in Bulgaria in decades. It aims to eliminate the effect of the dominant capital city, Sofia, which distorts statistical indicators and hinders the effective targeting of cohesion funds toward vulnerable territories. With regard to the demographic crisis, by separating the capital into a standalone „Capital Region,“ the state acknowledges the specific characteristics of peripheral areas. The objective by 2040 is to create a critical mass of population (over 800,000 people per region) that can ensure the sustainability of social and economic systems.

1. Changes in the New Regionalization

Bulgaria „s accession to the Eurozone, the adoption of the euro as the national currency, and other developments following the country „s next step in European Union integration necessitated changes in its regionalization. The transition from six large regions to four aligns

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with the European NUTS 2 requirements. The new regionalization allows for a more effective implementation of the Smart Specialization (S3) concept, which is a strategic approach to regional economic development by focusing on each region „s specific competitive advantages, resources, and innovation potential. In short, the idea is that not all regions should try to do everything; instead, they should concentrate on their strengths and areas with potential for growth and innovation.

The new regional distribution is structured as follows:

1. **Capital Region (NUTS 2 - BG41):** Functions as a „locomotive, “fully focused on R&D, high-tech industries, and services, thereby freeing neighboring areas from its shadow.
2. **Northern Region (Union of Northwestern and North Central):** Establishes a critical mass of population and business entities, enabling the planning of major infrastructure projects (e.g., Danube Bridges 3 and 4), which are key to retaining population.
3. **Southern and Eastern Regions:** Their consolidation aims to better integrate value chains, such as tourism and agriculture in the Eastern Region.

On one hand, the new regionalization will meet European Union requirements; on the other hand, it will prevent the distortion of statistical data caused by the dominant influence of the capital, the largest city, which concentrates nearly two-thirds of the country „s population.

1.1. Tools for Regional Impact on Demographics

After presenting the changes in the regions, it is important to examine the regional impact of the new structure on demographics. According to expert assessments, the use of regional instruments such as financial engineering, integrated territorial investments, and the decentralization of population and economic activity from major cities is essential for the country „s future regional development. A natural continuation of effective Eurozone integration is the attraction of foreign investment. Separating the capital as an independent region paves the way for smaller cities around Sofia, which have development potential, to attract projects and programs financing small and medium-sized enterprises. By creating favorable working conditions, this approach effectively draws foreign investment. Implementing such a regional strategy in peripheral municipalities provides a sustainable way



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to curb labor migration and, consequently, generates positive effects such as improved living standards in smaller towns, enhanced demographic trends, increased birth rates, and more.

The new regionalization also requires a revised approach to integrated territorial investments. Integrated Territorial Investments (ITI) are a tool of European regional policy through which comprehensive and coordinated development projects for a specific territory are funded, rather than providing funds to separate sectors or programs. In other words, ITIs are a way to pool different funds and policies so they work for a single territory (city, agglomeration, or region) with a clear strategic goal. The report argues that projects should now be „cross-territorial“ within the region itself (for example, joint projects between Plovdiv and Blagoevgrad in the new Southern Region) to balance development between regional centers and their peripheries.

Improving the environment in smaller towns also contributes to the decentralization of population from large cities. The goal for the period 2026-2040 is the establishment of secondary urban centers (Ruse, Pleven, Stara Zagora) to act as „demographic filters,” preventing migrants from rural areas from moving permanently to Sofia or abroad.

All the mechanisms described, combined with good governance and strategies for improving life in small towns and rural areas, could lead to an overall improvement in the country „s demographic situation. However, these outcomes assume other conditions are equal. In real regional governance, issues such as administrative capacity, budget constraints, and other limitations must also be considered, requiring a critical assessment of the strengths and weaknesses for the practical application of successful regional management models.

1.2. Critical Analysis of Management Capacity

Examining good European practices is appropriate for their implementation in the Bulgarian model, but effective management requires considering strengths and weaknesses, as well as opportunities and threats.



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Tables 1. SWOT Analysis

Strengths • Better targeting of funds - Focus on the specific problems of regions (e.g., poverty in the Northwest, innovation in the Southwest). • Greater visibility of regional disparities - The new territorial division allows clearer identification of differences between regions: economic, social, and infrastructural. • Strengthening regional governance - Encourages local authorities to plan strategies, including ITI and integrated projects. • Increased capacity of regional institutions to manage funds. • More opportunities for innovation - Local hubs and R&D initiatives can be developed.	Weaknesses • Administrative and institutional weakness - Some regions lack sufficient capacity to manage funds and strategies. • Economic disparity - Northwest and North Central regions remain poorer and less industrialized, which may reduce the effectiveness of policies. • Risk of fragmentation - With many small or diverse strategies, regions may act in a dispersed way instead of aligning with coordinated national objectives. • Complexity in coordination with national policies. • Uneven innovative development - Less developed regions may face difficulties implementing Smart Specialization due to lack of R&D infrastructure and qualified personnel. • Short-term political risk.
Opportunities • Up to 85% co-financing from the EU for underdeveloped areas. • Integrated transport corridors (e.g., Vidin-Ruse).	Threats • Lack of real decentralization - If the new regional councils remain only advisory bodies to the Ministry of Regional Development and Public



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• Retention of young people through regional hubs. • Integrated Territorial Investments (ITI).	Works (MRDPW) without real budgets, the territorial division will remain a purely „paper“ reform. • Regional dominance - Risk that stronger municipalities in the new larger regions will dominate resource allocation. • Poor governance and corruption in the distribution of funds.

Source: (Autor)

The new NUTS 2 territorial division in Bulgaria offers significant opportunities for more effective fund allocation, targeted regional problem-solving, and the promotion of innovation through local hubs and integrated projects such as ITI. At the same time, successful implementation depends on strengthening administrative capacity, reducing economic disparities between regions, and ensuring genuine decentralization. Without these measures, there is a risk of fragmentation, uneven development, and potential dominance by stronger municipalities, which could limit the effectiveness of European policies.

Bulgaria, as a country currently working on implementing the new territorial division, should examine good European practices from which to draw experience for successful implementation. A notable European practice that has become a benchmark for introducing territorial changes is **The Case of Ireland**. Ireland provides a successful model for addressing demographic imbalances through strategic statistical reclassification. In 1999, the state formally decoupled the underdeveloped western and border areas-collectively known as the **BMW region** (Border, Midland, and Western)-from the prospering Dublin metropolitan area (Department of Finance, 1999).

- **Mechanism:** This reclassification allowed the BMW region to retain its „Objective 1 „status (less developed region), thereby securing the maximum intensity of European structural and investment funding for infrastructure, human capital, and innovation (Morgenroth, 2010).



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- **Results:** Targeted investments in regional higher education institutions and localized business support transformed western counties from zones of chronic out-migration into hubs with positive net migration (Walsh, 2020). This decentralization of economic gravity serves as a strategic blueprint that Bulgaria aims to replicate through the restructuring of its Northern and Southern regions for the 2026-2040 period.

Conclusion

The new statistical territorial division up to 2040 is a necessary management tool that provides fairer access to European resources. For the field of **Regional Development**, the key conclusion is that the demographic crisis cannot be addressed merely through social benefits; it requires a **territorial restructuring of economic opportunities**, promoting balanced regional growth, reducing disparities, and creating conditions for sustainable development. This approach emphasizes the need to align regional strategies with local strengths and European best practices, ensuring that investments generate long-term social and economic impact rather than temporary relief.

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**REGIONAL DEVELOPMENT AS PRECONDITION FOR EUROZONE
STABILITY: INSIGHTS FROM BULGARIA**

Polina Isaeva*

Abstract:

This paper examines regional disparities in Bulgaria within the framework of zoning reform and Eurozone accession. It evaluates structural imbalances, institutional capacity, and cohesion policy outcomes. The analysis demonstrates that while zoning improves territorial targeting, sustainable convergence requires coordinated governance, improved administrative capacity, and effective use of EU resources. This study indicates that policy interventions must be integrated and long-term, focusing on both economic and institutional dimensions to ensure stability and successful integration into the Economic and Monetary Union.

Keywords: regional development, Bulgaria, Eurozone, convergence, cohesion policy.

JEL: R11, E42, F15

Introduction

Regional development has become a fundamental aspect of economic cohesion within the European Union, acting as a bridge between national growth and local prosperity. Bulgaria continues to experience significant territorial disparities that influence productivity, employment, and long-term economic stability. These gaps are not merely statistical anomalies; they represent deep-rooted structural characteristics that define the economic landscape of the country.

In the context of Bulgaria's imminent accession to the Eurozone, these disparities take on a new level of urgency. While the focus of policy debates often remains on nominal convergence criteria-such as price stability, fiscal discipline, and long-term interest rates-the underlying territorial and productive structure of the economy is equally vital. Uneven regional development (Barca, 2009) can lead to asymmetric shocks, which are difficult to manage within a single currency area where independent monetary policy is no longer available. This paper

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explores how the recent zoning reform in Bulgaria serves as a tool for addressing these imbalances and enhancing the country's readiness for Eurozone membership.

1. Regional Disparities in Bulgaria Bulgaria's economic map is characterized by a stark contrast between the capital city and the rest of the country. Sofia functions as the primary engine of growth, concentrating a disproportionate share of the national GDP, investment, and high-value services. The capital region benefits from superior infrastructure, a concentrated pool of highly skilled labor, and strong integration into global value chains. Objective analysis shows that a large proportion of cities are significantly lagging behind in their development. Bulgaria's settlement system is imbalanced (Nikolov, 2018).

Conversely, peripheral regions-particularly those in Northern Bulgaria and along the borders-face a „development trap“ characterized by industrial decline and demographic erosion. The North-West region, for instance, remains one of the poorest in the EU, struggling with low investment attractiveness and limited connectivity. The persistence of these gaps suggests that market forces alone cannot bridge the divide. Instead, a robust, integrated policy framework is required to stimulate endogenous growth in lagging regions.

1.1. Economic and Demographic Drivers The concentration of economic activity in Bulgaria is driven by powerful agglomeration effects. As firms and workers cluster in Sofia and Plovdiv, they benefit from shared infrastructure and knowledge spillovers, which further increases their productivity. While this benefits the national GDP, it simultaneously drains human and capital resources from smaller towns.

Demographic trends act as a significant multiplier for these disparities. Internal migration towards urban centers leads to acute labor shortages in rural and peripheral areas, reducing their potential for future growth. Combined with an aging population and declining birth rates, many regions face a shrinking tax base and increasing pressure on social services. Addressing these issues requires more than just financial transfers; it requires a strategic shift toward improving the „liveability“ and economic viability of secondary urban centers.

2. Infrastructure and Accessibility Infrastructure remains the backbone of regional competitiveness. In Bulgaria, the uneven distribution of transport and digital networks continues to hinder the integration of peripheral regions into the national market. While the



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Southern part of the country has benefited from improved highway connectivity, Northern Bulgaria still lacks efficient links to Central Europe.

Modernizing transport corridors and expanding high-speed digital infrastructure are essential steps to reduce the „distance“ between lagging regions and economic hubs. Such investments not only attract industrial projects but also facilitate the development of remote work and digital services, potentially reversing some migration trends.

Theoretical Framework The study of regional development (Barca, 2009) is grounded in several key economic theories. Neoclassical convergence theory (Krugman, 1991) suggests that over time, poorer regions should naturally grow faster than richer ones due to diminishing returns on capital. However, empirical reality in the EU shows that convergence is often „conditional“-it only occurs when regions possess sufficient institutional quality and human capital.

New Economic Geography (Krugman, 1991) (NEG), as pioneered by Krugman (1991), explains why disparities can actually persist or widen through „centripetal forces“ that pull activity toward the core. Furthermore, endogenous growth theory emphasizes that long-term development is driven by internal factors like innovation and education. For Bulgaria, this means that regional policy must move beyond physical construction and focus on building local ecosystems for innovation.

3. Zoning Reform and Policy Implications Bulgaria has introduced a new zoning model (NUTS 2 classification) designed to better reflect contemporary socio-economic realities. The goal of this reform is to improve the targeting of European Structural and Investment Funds (ESIF). By redefining regional boundaries, the government aims to create more coherent administrative units that can design and implement regional strategies effectively. Recent research on Bulgaria's regional industrial policy shows that the policy remains fragmented because it is guided by different institutions, which weakens coherence in long-term development planning (Vasileva & Lyubomirova, 2026).

However, administrative reshuffling is only the first step. The success of the zoning reform depends heavily on the „absorption capacity“ of local authorities. This involves the ability to prepare high-quality projects, manage complex procurement processes, and ensure that investments lead to measurable improvements in the local standard of living.



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4. Eurozone Accession and Regional Stability The transition to the Euro involves more than just meeting the Maastricht criteria. For a small, open economy like Bulgaria, regional stability is a pillar of macroeconomic resilience. If economic growth remains concentrated in only a few „islands of prosperity,“ the rest of the country may suffer from the „one-size-fits-all“ interest rate policy of the ECB.

Regional convergence helps harmonize the business cycles across the country, making fiscal policy more effective and reducing the risk of social instability. Therefore, regional development (Barca, 2009) should be viewed not as a secondary concern, but as a strategic prerequisite for a successful and sustainable life within the Eurozone.

5. Cohesion Policy and Implementation EU Cohesion Policy (European Commission, 2023) has provided Bulgaria with billions of euros aimed at reducing the gap with the EU average. Significant progress has been made in large-scale infrastructure and municipal renovations. Yet, challenges remain regarding the efficiency of these funds.

Administrative bottlenecks often lead to delays in project implementation, and in some cases, investments are not aligned with the actual needs of the local businesses. To maximize impact, there must be a shift toward „place-based“ policies that empower local communities to identify their own competitive advantages, such as tourism, specialized agriculture, or niche manufacturing.

6. Governance and Institutional Capacity Institutional quality is perhaps the most significant predictor of regional success. Regions with transparent governance, low corruption, and efficient bureaucracies are far more likely to attract foreign direct investment. In Bulgaria, strengthening the capacity of regional administrations is vital for the decentralization process.

This includes investing in the digitalization of public services and improving the coordination between national ministries and local municipalities. The ongoing digital transformation of regional governance is increasingly linked to the introduction of electronic administrative services, digital registers, and platforms for civic participation at local level (Nikolov & Tanakov, 2026). Without strong institutions, even the most well-funded regional plans are likely to underperform.



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Table1 1. Regional economic indicators in Bulgaria

Region	GDP per capita (%)	Employment rate (%)	Investment Level
Sofia (Capital)	160%	75%	High
South-West	85%	68%	Medium
North-West	35%	52%	Low
North-Central	45%	58%	Low
South-East	60%	62%	Medium

Source: European Commission (2023)

Conclusion

Bulgaria's zoning reform represents a critical opportunity to modernize the country's approach to territorial development. While the new model provides a better framework for policy intervention, the deep structural disparities between Sofia and the peripheral regions remain a formidable challenge.

Achieving sustainable convergence requires a multi-faceted strategy that combines infrastructure investment with human capital development and institutional reform. As Bulgaria prepares for Eurozone accession, ensuring that all regions can participate in and benefit from economic growth will be the ultimate measure of the country's success. (12 pt)

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**BULGARIA „S PREPARATION FOR EUROZONE ENTRY:
INSTITUTIONAL REFORMS, ECONOMIC CONVERGENCE AND
REGIONAL CHALLENGES.**

PhD student: Elena Vylkova*

Abstract:

The report examines Bulgaria „s preparations for euro area entry, including institutional reforms, economic convergence and regional challenges. It analyses macroeconomic indicators, inflation, public debt and exchange rate stability, assessing the country „s readiness to adopt the euro in 2026, with a focus on economic convergence, institutional reforms and regional challenges.

The report examines the key Maastricht criteria, including inflation, budget deficit, public debt, exchange rate stability and long-term interest rates. The analysis shows that Bulgaria demonstrates stability in fulfilling these criteria, with average annual inflation in 2025 being 2.7% and public debt being 24.1% of GDP.

Particular attention is paid to institutional reforms, including participation in the EM mechanism. II and the EU Single Supervisory Mechanism, improving financial transparency and public finance management. The report also analyzes regional challenges - significant differences in economic development between regions, which requires targeted regional policy. The conclusion is that Bulgaria is practically ready for the introduction of the euro, while at the same time the need for continued reforms and monitoring of inflation and regional disparities remains to ensure the sustainability of the integration process.

Keywords: Eurozone, Bulgaria, Economic convergence, Maastricht criteria, Regional development, Institutional reforms, Inflation, Public debt, European integration

JEL: E52, E58

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Introduction

Bulgaria „s accession to the eurozone is a key strategic priority for the country, which is inextricably linked to its further integration into the European Union. Since joining the EU in 2007, Bulgaria has consistently implemented macroeconomic and institutional reforms with the aim of achieving financial system stability, controlling inflation and strengthening budgetary discipline. Historically, the country „s preparation for the introduction of the euro began with the introduction of a currency board in 1997. which ensured long-term stability of the national currency and led to a gradual convergence of economic indicators with those of the eurozone countries. The aim of this study is to analyze Bulgaria „s readiness for accession to the eurozone, focusing on economic convergence, institutional reforms and regional challenges.

The tasks of the study include an assessment of key macroeconomic indicators - inflation, budget deficit, government debt, exchange rate stability, as well as an analysis of the institutional mechanisms and regional development that influence the successful introduction of the euro.

This study has practical significance as it provides an objective assessment of the current state of the Bulgarian economy and institutions, identifies risks and potential challenges, and offers recommendations for the country „s successful integration into the eurozone.

The topic is relevant due to the need to assess Bulgaria „s readiness for the euro, including the implementation of the Maastricht criteria, the management of inflation and regional disparities. Joining the single European currency is an important tool for strengthening financial stability, attracting investments and improving the competitiveness of the Bulgarian economy. In the context of global economic instability, inflationary processes and fluctuations in international financial markets, the issue of the successful introduction of the euro becomes particularly relevant. Macroeconomic stability, inflation control and budgetary discipline are critically important for avoiding economic shocks and ensuring sustainable growth. In addition to the economic aspects, the topic is also relevant due to the need for institutional strengthening. The introduction of the euro requires effective management of public finances, transparency, sustainability of the banking system and compliance with European Union standards.

The social and regional dimensions also highlight the importance of the topic. The introduction of the euro may have an impact on the distribution of income, the purchasing power



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of the population and investment activity in the different regions of the country. The analysis of these factors is of key importance for planning regional policy and minimizing social risks.

1. Theoretical foundations of economic convergence

Economic convergence refers to the convergence of economic indicators between EU Member States. In an international context, Bulgaria „s economic convergence is also supported by structural reforms aimed at increasing productivity, modernizing industry and attracting foreign investment. The latest data from Eurostat and the European Commission for 2024-2025 show a steady convergence of key macroeconomic indicators with those of the euro area countries, confirming the country „s readiness to adopt the euro.

Structural convergence should be distinguished from economic cohesion, which is traditionally defined in relation to the implementation of the EU cohesion policy. Structural convergence itself is in a complex two-way relationship with the overall development of the integration process. On the one hand, it can be perceived as a natural consequence of the deepening of integration and the resulting changes in the territorial distribution of production and in the specialization or despecialization of economies in specific industries and activities (Palan, 2013; De Grauwe, 2009; Krugman, 1991). On the other hand, structural convergence is of significant importance for the members of the integration community due to its impact on their further economic convergence, as well as on the prospects for their own development.

In addition to nominal convergence, the structural sustainability of public finances is of particular importance. A low level of government debt creates fiscal space to respond to economic shocks, but at the same time requires maintaining strict budgetary discipline and efficiency of public spending. In this context, preparation for euro area membership should not be seen as a one-off act of compliance, but as a long-term process of institutional and economic adaptation.

This is most true for monetary integration and the transition to the final stage of EMU, the results of which depend largely on the convergence of economic structures between individual countries and the Union as a whole or the Eurozone.

Structural convergence should be distinguished from economic cohesion, which is traditionally defined in relation to the implementation of EU cohesion policy. This cohesion



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measures the level of similarity between the structure of the economies of the Member States, while structural convergence refers to the process of increasing this similarity.

This is particularly true for monetary integration and the transition to the final stage of EMU, the results of which depend largely on the convergence of economic structures between individual countries and the Union as a whole or the Eurozone. Comparing structural convergence with nominal and real convergence allows us to highlight its peculiarities and its points of contact with them.

Conceptually, real convergence describes the process of convergence of real GDP per capita and the level of economic development. (Abramovitz ,1986). Unlike nominal convergence, it is not characterized by specific and predetermined values, but is assessed as an approach to the long-term equilibrium level of real GDP per capita for the system as a whole or to the individual country „s own long-term level of gross product. These two alternative approaches to real convergence are characterized by neglecting and taking into account the initial conditions and are the basis for its classification into unconditional (absolute) and conditional convergence.

The presented way of defining real convergence determines its definition as income or growth convergence (Aghion, P., Howitt, P. (1998). Along with it, Matkowski and Prochniak also distinguish cyclical convergence, which shows a tendency of coherence of business cycles and is expressed in the convergence of labor productivity, unemployment, relative prices of production factors and the relative endowment with production factors of individual countries (Matkowski and Pró chniak, 2004). According to the authors, the two varieties of real convergence are autonomous from each other and therefore should be studied independently.

Structural convergence has several main dimensions, which describe different characteristics of the economic structure and its dynamics. The most important among them is the convergence in the production structure of GDP at the level of economic sectors and economic activities (MPC force of the ECB, 2004; Angeloni et all, 2005; etc.).

The second dimension of structural convergence of economies concerns convergence in the expenditure structure of GDP. It is usually assigned a secondary role in the assessment of overall structural convergence, which determines its placement in the focus of a relatively limited number of publications, as well as the fact that most of them are not independent, but



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are contained in more general works that also include an analysis of the dynamics in the production structure (Darvas and Zapary , 2004; Buiter and Grafe , 2002; and others).

Another dimension of structural convergence includes the convergence in the structure of foreign trade (Rose, 2000; Alesina and Barro, 2002, etc.). It is related to the openness of the economy, the structural cross-sections of exports and imports and the relative importance of trade with the EU and Eurozone countries. It involves the study of the convergence in the product structures of exports and imports, as well as the clarification of their correspondence with the theories of foreign trade.

The assessment and analysis of structural convergence is based on the convergence of the structures of GDP and GVA, the labor market, regions, relative prices and foreign trade of the Member States. It is of particular importance for the new Member States of the Union, given their specific levels of development and their current or future membership in the Eurozone.

Bulgaria committed to adopting the euro when it joined the EU in 2007. However, it later became clear that joining the currency union faced numerous obstacles. One of the first was a dispute over spelling: the European Central Bank (ECB) insisted that the name of the European currency be written in Cyrillic as „euro,“ while Bulgarians believed that the spelling should be more closely aligned with the pronunciation (the Bulgarian name is pronounced „euro,“ but since the letter „e“ is pronounced like the Russian „э,“ the spelling „euro“ accurately reflects the pronunciation). The Bulgarians won the language battle, but the other conditions for joining the eurozone proved to be far more complicated.

A country wishing to adopt the euro must meet the Maastricht criteria. These require that inflation and interest rates are no more than 1.5 and 2 percentage points higher than the averages of the three EU countries with the lowest inflation and interest rates, respectively; that public debt is below 60% of GDP; and that the budget deficit is less than 3% of GDP. In addition, euro area candidates must participate in the Exchange Rate Mechanism (ERM II) for at least two years, in which fluctuations of the national currency against the euro cannot exceed 15% in either direction.

Based on the above criteria, a generalized assessment of Bulgaria „s degree of compliance with the Maastricht requirements by 2025 can be made, presented in



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Table 1. Fulfilment of the Maastricht criteria by Bulgaria (2025)

Criterion	Reference value (Maastricht)	Bulgaria (2025)	Execution
Inflation (HICP)	≤ 1.5 pp above the average inflation of the three countries with the lowest inflation	2.7%	yes
Budget deficit	$\leq 3\%$ of GDP	about 2-3% of GDP	yes
Government debt	$\leq 60\%$ of GDP	24.1% of GDP	yes
Long-term interest rates	≤ 2 pp above the average of the three countries with the lowest inflation	within acceptable limits	yes
Exchange rate stability (ERM) II)	Minimum 2 years of participation without serious deviations	participation from 2020	yes

Source : European Commission (2024). Convergence Report 2024. Brussels; Eurostat(2025). HICP and Government Debt Data.

The data show that Bulgaria meets the main nominal criteria for membership in the eurozone, with the inflation indicator being the most sensitive.

Despite the formal fulfillment of the nominal criteria, the sustainability of convergence should also be assessed in a dynamic aspect. Inflation processes during the period 2022-2024 showed a high sensitivity of the Bulgarian economy to external shocks, especially related to energy markets and geopolitical instability.

Bulgaria has practically no problems with its budget deficit - over the past ten years it exceeded the 3% ceiling only in 2020 and 2021, when government spending increased sharply due to the coronavirus pandemic. As for government debt, Bulgaria is a model for other EU



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members: thanks to strict macroeconomic policies, government debt remained at 14-18% in the second half of the 2000s, after which it increased, but remained below 25%. Interest rates are also relatively stable, sometimes exceeding the established level, but only slightly.

The situation was a bit more complicated with inflation, which was above target in the second half of the 2000s (and reached 12% in the crisis year of 2008), and then jumped again due to rising energy prices after the full-scale Russian invasion of Ukraine in 2022.

The party system is highly fragmented, making political coalitions extremely unstable. As a result, the country has had twelve cabinets since 2013, half of which have been technical. In addition, corruption remains a chronic problem for Bulgaria - since joining the EU, it has consistently ranked among the three most corrupt EU countries. For example, in 2024, only Hungary ranked worse than it in the Corruption Perceptions Index. For many years, political instability and a weak judiciary, unable to fight corruption, remained the main obstacle to participation in ERM II.

Brussels also had its reasons for not rushing Bulgaria into the eurozone. In the early days of the single European currency, countries that did not meet the Maastricht criteria accepted it. For example, Italy and Belgium had public debt exceeding GDP, while Greece had the same problem, which, as it later turned out, had significantly underestimated its inflation.

In the boom years of the 2000s, this didn't seem like a big deal, but the sovereign debt crisis that erupted in 2009 forced Brussels to be much more cautious in choosing new members of the eurozone. In the 2010s, only the Baltic states, which rank last among EU countries in terms of GDP, joined.

Most of Sofia's requirements were met by 2020, when Bulgaria joined the Exchange Rate Mechanism. However, after the required two years, the transition to the euro has still not been completed.

The euro was originally scheduled to be introduced on January 1, 2024, but the deadline was later postponed by a year, and then by another.

The reasons were inflation, which accelerated to 13% in 2022 and remained at 8.6% in 2023 and 5.1% in 2024, and again political instability: from 2021 to 2024, parliamentary elections were held in Bulgaria seven times due to the fact that the parties failed to create stable coalitions.



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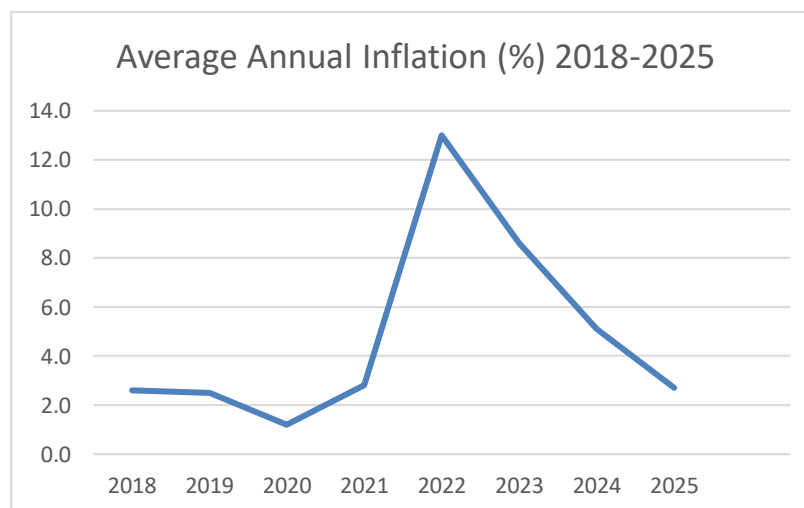
On June 24, the Committee on Economic and Monetary Affairs voted by a majority in support of Bulgaria „s accession to the eurozone, and on July 8, the decision was supported by members of the European Parliament and the Council of the EU.

In addition to economic and political factors, the delay in the transition to the euro is also due to public sentiment: many Bulgarians are afraid of the euro.

Leaving aside the thesis of the loss of identity, the main economic argument of the Bulgarian opponents of the single European currency is the risk of rising prices, which could hit the pockets of citizens whose incomes are already among the lowest on average in the EU.

In addition, rising prices due to the adoption of the euro are also a cause for concern because they could reduce Bulgaria „s attractiveness as a tourist destination, and tourism plays a significant role in the economy: in 2023, 8.4 million tourists visited the country (for comparison, Bulgaria „s population is 6.4 million), revenues from this economic sector amounted to 6.9% of GDP, and the number of people employed in it reached 283,000.

Figure 1 . Average annual inflation in Bulgaria 2018-2025



Source: Eurostat(2025). *Harmonized Index of Consumer Price - Bulgaria*. Luxembourg. Available at <https://ec.europa.eu/eurostat>



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Figure 2. Bulgaria „s public debt (% of GDP), 2018-2025.



Source : Eurtostat-General Government Gross Debt; Luxembourg; European Commission Convergence Report 2024. Brussels .

2. Institutional reforms and financial integration

Bulgaria is actively undertaking institutional reforms that are of key importance for the successful accession to the euro area. The country „s participation in the Exchange Rate Mechanism (ERM) II of 2020. Guarantees stability of the lev against the euro and minimizes the risks of currency fluctuations (European Central Bank 2025). This is a prerequisite for the adoption of the euro and ensures confidence among investors and financial markets.

In addition, Bulgaria is integrated into the European Central Bank „s Single Supervisory Mechanism (SMM), which strengthens the banking sector and increases the transparency of financial institutions (Single Supervisory Mechanism, ECB2024). This includes monitoring of systemically important banks, assessing capital requirements and risk management, which reduces the likelihood of financial crises.

In the field of public administration, the country has carried out reforms to increase transparency, fight corruption and improve public finance management. In 2023-2024. Laws were adopted on the digitalization of public services, electronic public procurement and strengthening control over state spending (National Assembly of Bulgaria 2023-2024). This is important not only for integration into the euro area, but also for strengthening the confidence of citizens and businesses. In addition, Bulgaria is actively modernizing institutions for risk



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management and financial stability, including through cooperation with the International Monetary Fund (IMF) and the European Commission for surveillance and macroeconomic policy (International Monetary Fund 2024). This allows for the timely identification of potential financial and structural risks, as well as the taking of corrective measures.

A key aspect of institutional reforms is also regional governance, which aims to reduce economic disparities between the country's regions. Targeted regional programs and European structural funds stimulate the development of less developed regions, which is critical for social stability when introducing the euro (European Commission 2025).

3. Regional challenges and uneven development

Despite macroeconomic stability, there are significant regional disparities in economic and social development (Bogdanov, L., Ganev, P., Nikolov, A. 2024). An active regional policy and optimal use of EU structural funds are needed. These disparities are manifested in differences in GDP per capita, investment activity, quality of life, unemployment and demographic trends (Eurostat 2023).

Economic development remains highly concentrated in certain regions, with the Sofia Region (Sofia City and Sofia Region) generating a significant share of the national product. Peripheral regions such as Vidin, Silistra and Dobrich lag behind in key economic indicators (World Bank 2022).

The main manifestations of regional differences:

1. Economic inequality between regions - GDP per capita in developed regions exceeds the national average, while in less developed regions it remains significantly below it (OECD 2023).
2. Investment and productivity - Investment activity is concentrated in economic centers, which maintains disparities in income and productivity.
3. Demographic and social challenges - Some areas face depopulation, population aging and labor outflow, which affects economic prospects.
4. Territorial disparities - According to analyses by international institutions, intra-regional disparities in Bulgaria are among the highest among EU and OECD countries (Institute for Market Economics. 2024).



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Need for an active regional policy

Despite the economic growth achieved in the country, significant differences in development between individual regions persist. These differences are manifested in:

- low employment levels and high unemployment in some areas;
- limited access to quality social services (healthcare, education);
- underdeveloped infrastructure (roads, transport, internet, communications);
- outflow of young and qualified personnel to the capital region and cities with greater potential;
- differences in economic activity and investment attractiveness.

Yes, these differences will be overcome, but it is necessary to systematically develop a regional policy that:

- Promotes resources to the most affected areas;
- Stimulates investment and job creation;
- Facilitates access to quality services (healthcare, education, infrastructure);
- Includes mechanisms to strengthen local entrepreneurs and develop local capital

Effective regional policy must be adapted to the specific needs of each region, rather than being applied universally to all regions (Institute for Market Economics 2024). In order to overcome this asymmetry and ensure sustainable and balanced development of the entire territory, it is necessary to systematically develop an **active regional policy**.

This is a comprehensive approach in which the state does not simply react to problems that have already arisen, but **proactively creates conditions for the development** of less developed regions. It includes:

Targeted allocation of resources to the most affected areas where the need for support is highest. This could be through:

- special funding programs;
- targeted subsidies for local initiatives;
- preferences for investments in priority areas.

Stimulating investment and job creation through:

- tax breaks for companies that open new production facilities in underdeveloped areas;



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- financing infrastructure projects that create jobs during construction and provide a foundation for future development;
- support for small and medium-sized enterprises (SMEs) through access to credit lines at low interest rates.

Improving access to quality services in key areas:

- **Healthcare:** modernization of hospitals and polyclinics, mobile health teams for remote villages, telemedicine.
- **Education:** school renovation, teacher training, access to digital resources and the internet, scholarships for young people from the countryside.
- **Infrastructure:** upgrading roads, developing public transport, providing broadband internet connections to every village.

Supporting local entrepreneurs and developing human capital through:

- training programs and business consultations for budding entrepreneurs;
- mentoring and exchange of experience between successful businesspeople;
- investments in vocational education and retraining, tailored to the needs of the local labor market;
- stimulating scientific and innovation centers in the province.

Active regional policy is not an expense, but **an investment in the future** of the country. Through targeted support, creating conditions for growth and development of human capital, it can transform problem areas into growth points and ensure balanced and sustainable development of the entire territory.

Conclusion

Bulgaria has made significant progress in macroeconomic stability and preparations for joining the euro area, which is a testament to the resilience of its economic institutions and sound public finance management. However, the analysis of regional development shows that there are significant intra-regional disparities that may limit the country „s full potential for sustainable growth. The imbalances between economically dynamic centres, such as Sofia,



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Plovdiv and Stara Zagora, and less developed regions, such as Vidin, Silistra and Dobrich, require the implementation of a targeted and differentiated regional policy. Such a policy should include stimulating investment, creating jobs, improving infrastructure and human capital development, as well as measures to attract and retain a skilled workforce in peripheral areas.

Inflation control remains a key factor for macroeconomic stability, with price discipline and financial sustainability critical for successful integration into the euro area.

At the same time, balanced regional development will allow the country to reduce social and economic disparities, improve the quality of life in less developed areas, and create conditions for sustainable and inclusive growth.

Therefore, to preserve the successes achieved and realize its full potential, Bulgaria must continue to strengthen its institutional framework, maintain stable fiscal and monetary policies, and implement effective regional development strategies that ensure a fair distribution of economic benefits among all regions of the country.

In conclusion, it can be emphasized that Bulgaria nominally meets the Maastricht criteria and demonstrates the macroeconomic stability necessary for joining the euro area. However, the long-term sustainability of the process depends on continued institutional strengthening, effective control of inflation processes and the implementation of a balanced regional policy. Only by combining macroeconomic discipline with structural and territorial reforms can sustainable and inclusive economic growth within the euro area be guaranteed.

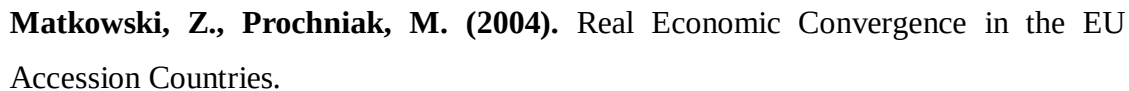
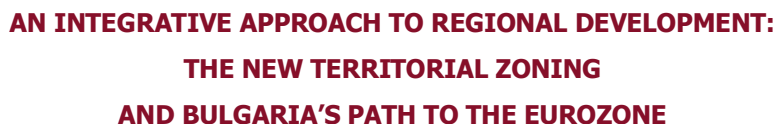
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**IMBALANCES AND YOUTH EMPLOYMENT IN EASTERN
BULGARIA: OPPORTUNITIES IN THE CONTEXT OF THE NEW
REGIONALIZATION AND EUROPEAN INTEGRATION**

Georgi Petkov Georgiev*

Abstract:

This paper examines the relationship between regional imbalances and youth employment in Eastern Bulgaria in the context of the new regionalization framework and the deepening European economic integration. The relevance of the topic is обусловед by persistent intra-regional disparities, demographic decline, and the need for real economic convergence with Eurozone countries. The aim of the study is to analyze the structural factors determining the dynamics of youth employment and to outline opportunities for the implementation of an integrated territorial approach.

The methodology includes the analysis of secondary statistical data, comparative regional analysis, and a review of strategic and regulatory documents. The results indicate that the new regionalization creates conditions for more effective allocation of resources; however, the sustainable improvement of youth employment requires coordinated policies in the fields of education, investment, and entrepreneurship. The limitations of the study stem from the dynamic nature of the macroeconomic environment and the dependence on external economic factors.

Keywords: regional imbalances, youth employment, Eastern Bulgaria, territorial policy, Eurozone

JEL: J21, R11

Introduction

Regional development in Bulgaria continues to be one of the most widely discussed topics both in academic circles and in the practice of public policy. Despite the country „s membership in the European Union since 2007 and its access to substantial financial resources

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through cohesion policy, regional disparities have not only persisted but, in some cases, have deepened. The gap between economically strong centers and peripheral territories remains evident in terms of income levels, investment activity, and labor market conditions.

Eastern Bulgaria represents a particularly relevant and illustrative case in this regard. On the one hand, the region includes some of the most dynamic economic zones in the country, associated with maritime transport, tourism, and services. On the other hand, there are areas facing demographic decline, a limited industrial base, and the outmigration of young people. It is precisely in this context that the issue of youth employment becomes especially critical.

In light of the country's new regionalization framework and the ongoing process of accession to the Eurozone, the topic gains additional relevance. Participation in a monetary union presupposes a higher degree of economic resilience and the capacity to adapt to external shocks. If internal regional disparities are too pronounced, they may become a source of instability.

The aim of this paper is to analyze the relationship between regional imbalances and youth employment in Eastern Bulgaria and to outline realistic opportunities for addressing them through an integrated territorial approach.

1. Regional Imbalances - Nature and Manifestations

1.1. Nature and Economic Content of Regional Imbalances

Regional imbalances represent persistent disparities in socio-economic development between individual territorial units within a national economy. They manifest themselves through differences in gross domestic product per capita, employment and unemployment levels, investment activity, and income. In economic literature, these disparities are often viewed as a natural outcome of the spatial concentration of resources; however, under certain conditions, they may become a significant barrier to national convergence (2).

In the Bulgarian context, regional disparities exhibit a clearly defined territorial dynamic, shaped both by historical factors and by the economic transformation after 1990. The restructuring of industry led to a concentration of economic activity in a limited number of urban centers, thereby intensifying the polarization between economically active and peripheral regions.



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Regional imbalance should be considered not only as an economic but also as a social phenomenon. When a substantial part of the territory lags behind, this constrains domestic demand, reduces fiscal capacity, and deepens social inequalities. In this sense, territorial balance is directly linked to the sustainable development of the national economy.

1.2. Theoretical Approaches to Explaining Regional Disparities

The neoclassical theory of economic growth assumes that, under conditions of free movement of capital and labor, less developed regions grow faster due to the higher marginal returns to capital. This mechanism implies a process of convergence in which disparities are gradually reduced. In practice, however, a number of institutional and structural factors hinder automatic equalization.

The theory of cumulative causation, formulated by Myrdal, emphasizes that economic development tends to concentrate in specific „cores,” where positive agglomeration effects emerge. This leads to self-reinforcing growth in central areas and stagnation in peripheral regions.

The New Economic Geography, developed by Krugman, highlights spatial factors such as transport costs, market access, and economies of scale. According to this approach, regional disparities are the result of rational economic decisions by firms seeking to minimize costs and maximize profits.

In the context of European integration and the Eurozone, regional disparities gain additional importance, as the absence of an independent monetary policy requires a higher degree of structural flexibility at the regional level.

1.3. Regional Imbalances and the Labor Market

The labor market is among the primary indicators of the manifestation of regional disparities. Data from the National Statistical Institute indicate persistent differences in unemployment rates and economic activity across regions.

In economically less diversified regions, employment opportunities are limited to a few sectors, increasing vulnerability to economic shocks. The lack of high-tech enterprises restricts opportunities for skilled employment and the retention of young professionals.



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According to strategic documents on regional development in Bulgaria, the concentration of human capital in large cities deepens territorial imbalances. This reduces the investment attractiveness of peripheral areas and intensifies migration processes.

1.4. The Link between Regional Disparities and Youth Employment

Youth employment is particularly sensitive to the regional economic environment. In conditions of limited opportunities for professional realization, young people are more inclined toward both internal and external migration.

According to the theory of agglomeration effects, the concentration of economic activity creates better conditions for career development in large urban centers. This explains why youth employment is higher in economically developed regions.

In the context of the Eurozone, regional disparities may generate asymmetric economic shocks that most strongly affect vulnerable groups, including young people. Therefore, policies aimed at promoting youth employment should be integrated with regional policy and focused on the structural strengthening of less developed territories.

2. Youth Employment as a Key Factor for Regional Sustainability

2.1. Socio-Economic Profile of Eastern Bulgaria

Eastern Bulgaria encompasses territories with varying levels of economic development, including coastal and inland areas, industrial centers, and less developed rural regions. This intra-regional heterogeneity is a key factor in the analysis of youth employment. While large cities concentrate investment, universities, and more developed service sectors, many peripheral areas continue to be characterized by limited economic diversification and lower investment activity.

The economic structure in parts of the region is highly dependent on seasonal activities such as tourism and agriculture. This leads to employment instability and limited opportunities for long-term professional development for young people. At the same time, industrial zones in larger cities offer higher value-added and more stable employment; however, access to these opportunities is often limited for young people from smaller settlements.

The demographic structure also plays a significant role. The decline in the working-age population and intensified migration toward more economically developed centers further



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constrain local labor markets. Thus, economic and demographic processes are interlinked and mutually reinforcing.

2.2. Key Indicators of Youth Employment and Unemployment

The analysis of statistical data reveals significant differences in youth employment levels across the regions of Eastern Bulgaria. Economically more dynamic centers exhibit higher levels of youth economic activity, whereas peripheral areas tend to experience relatively higher youth unemployment.

Recent trends indicate some improvement in overall employment indicators; however, the youth segment remains more vulnerable to economic shocks. The lack of professional experience, as well as the mismatch between acquired education and the needs of local businesses, creates structural barriers to the successful integration of young people into the labor market.

Furthermore, a substantial share of employment in the region is concentrated in low-paid and seasonal activities. This not only limits income levels but also affects young people's motivation to remain in the region. In the long term, such an employment structure poses a risk of deepening demographic and social imbalances.

2.3. Structural Problems and Factors Influencing Youth Employment

Several key groups of structural factors influencing youth employment in Eastern Bulgaria can be identified.

First, the education system is often insufficiently aligned with the needs of the regional economy. In many cases, young people acquire qualifications with limited demand at the local level, leading to a mismatch between labor supply and demand.

Second, limited innovation activity and the relatively low concentration of high-tech enterprises constrain opportunities for skilled employment. This particularly affects young graduates, who are often compelled to seek professional realization outside the region.

Third, infrastructural disparities-such as transport connectivity, access to industrial zones, and digital infrastructure-create uneven conditions for economic activity. Young people in more remote areas face more limited access to dynamic labor markets.



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Fourth, socio-cultural factors, including attitudes toward entrepreneurship and mobility, also play a role. In some communities, lower entrepreneurial activity among young people further restricts alternative pathways for economic realization.

2.4. The Impact of the New Regionalization and European Integration on Youth Employment

The new regionalization in Bulgaria has the potential to improve strategic planning and the allocation of European funds toward less developed territories. By forming more homogeneous regions, conditions are created for more effective resource management and the implementation of territorially targeted policies.

European integration provides access to structural and investment funds that can be utilized for the development of infrastructure, education, and entrepreneurship. However, the key issue lies not only in the availability of resources but also in the capacity of regional institutions to absorb them effectively.

In the context of prospective Eurozone accession, the importance of regional competitiveness increases. In the absence of an independent monetary policy, regions must rely on structural flexibility and high employment levels to absorb external economic shocks. In this regard, improving youth employment is not only a social objective but also a strategic economic priority.

Therefore, an integrated approach to regional development requires coordination between educational institutions, local authorities, businesses, and national policy. Only through a combination of economic incentives, institutional reform, and the promotion of entrepreneurship can sustainable progress be achieved.

3. The New Regionalization and Its Potential

3.1. Structural Interrelationship between Regional Imbalances and Youth Employment

The analysis of regional disparities shows that youth employment cannot be considered in isolation from the overall economic structure of the region. There is a clear cause-and-effect relationship between investment activity, sectoral specialization, and the employment opportunities available to young people.

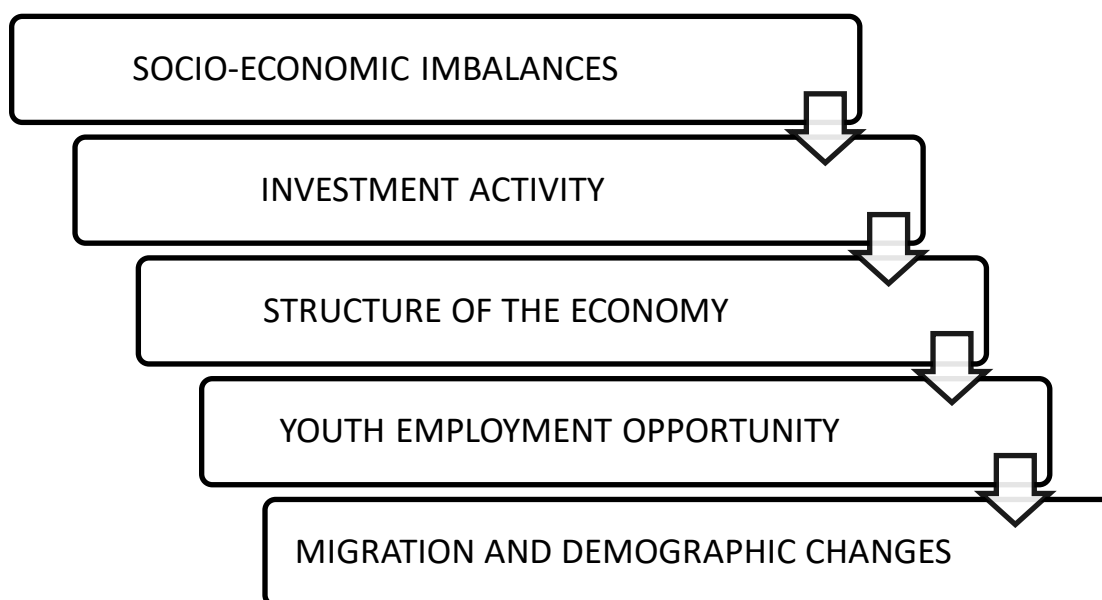


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At the core of this relationship lies a mechanism whereby regional imbalances influence the inflow of investments, while investments, in turn, shape the economic structure and job creation. Limited economic diversification leads to lower labor market resilience and increases the vulnerability of young people to economic shocks. This logical sequence can be summarized through the following conceptual framework (Fig. 1):

Figure 1. Conceptual Framework of the Interaction between Regional Imbalances and Youth Employment



Source: Author „s own elaboration

As shown in the framework, in the presence of pronounced regional disparities, investment flows concentrate in a limited number of economic centers. This leads to the creation of more employment opportunities in these territories, while peripheral areas experience a shortage of jobs. As a result, young people migrate to more developed regions or abroad, further exacerbating demographic and economic imbalances.

3.2. Empirical Differences in Youth Employment in Eastern Bulgaria

Statistical data for individual regions in Eastern Bulgaria confirm the existence of intra-regional differences in youth employment and unemployment indicators. Economically more developed areas demonstrate higher levels of youth employment, whereas peripheral territories show



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higher unemployment rates and lower economic activity. These differences can be illustrated through the following summary (Table 1):

Table 1. Key Indicators of Youth Employment in Selected Regions

Region	Youth Employment (%)	Youth Unemployment (%)	Economic Activity (%)
Varna	58	9	64
Burgas	56	10	62
Shumen	49	14	55
Silistra	45	17	51
Yambol	47	15	53

Source: National Statistical Institute, author „s processing

The data clearly indicate a tangible gap between economic centers and less developed regions. Higher youth employment in Varna and Burgas can be attributed to better sectoral diversification, the presence of universities, and a higher concentration of investment. In contrast, regions such as Silistra and Yambol exhibit higher levels of youth unemployment, reflecting structural limitations.

These disparities are not merely quantitative; they also have qualitative implications for the economic prospects of young people. Lower economic activity restricts the accumulation of work experience and the development of entrepreneurial initiatives.

3.3. Strategic Directions for Enhancing Youth Employment

Based on the analysis, several strategic directions for action can be formulated:

1. **Promoting Investment in Higher Value-Added Sectors:** Investment in sectors that generate sustainable employment should be encouraged. Developing industrial zones, technology parks, and logistics centers in less developed areas could help reduce the concentration of economic activity.

2. **Modernizing Education and Strengthening University-Business Links:** Aligning educational programs with labor market needs is crucial for reducing



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structural mismatches. Digital skills and entrepreneurial competencies should be prioritized.

3. **Targeted Active Labor Market Policies:** Policies should be territorially focused, as uniform national measures often fail to reflect regional specificities. The new regionalization provides an opportunity for more flexible planning and precise allocation of resources.

3.4. Youth Employment as a Factor of Economic Sustainability in the Eurozone Context

In the context of Eurozone accession, regional competitiveness gains added importance. Without an independent monetary policy, adaptation to economic shocks will increasingly depend on labor market flexibility and employment levels.

Thus, enhancing youth employment carries both social and macroeconomic significance. Regions with higher youth economic activity will have greater potential for innovation, entrepreneurship, and long-term growth.

An integrated approach to regional development requires coordination across economic, educational, and social policies. Only through structural reforms and strategic investments can regional imbalances be sustainably reduced and youth employment stabilized.

4. Opportunities for Increasing Youth Employment

4.1. Strengthening Education-Business Linkages

One of the most practical measures is the expansion of dual training and internship programs. Universities and vocational schools should work more closely with local businesses to ensure education is practically oriented.



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4.2. Encouraging Entrepreneurship

Young people often have ideas but lack access to financing. Support through regional funds and European programs can create an environment conducive to the development of start-ups.

4.3. Investment in Innovation and Digitalization

The digital economy provides opportunities for work independent of geographic location. Expanding high-speed internet infrastructure and supporting the IT sector can reduce reliance on traditional industries.

Conclusion

This paper examines regional imbalances in Eastern Bulgaria not merely as statistical differences between regions but as a deeply structural problem directly affecting youth employment and the future economic potential of the region. The analysis shows that, despite strategic advantages-geographic location, access to the sea, port infrastructure, tourism resources, and industrial traditions-development remains uneven and concentrated in a limited number of urban centers.

Youth employment proves to be a sensitive indicator of these disparities. In less developed parts of Eastern Bulgaria, young people face difficulties entering the labor market, and opportunities are often limited to seasonal or low-paid jobs. This generates migratory pressure toward larger cities or abroad, further exacerbating demographic and economic problems in peripheral areas, creating a self-reinforcing cycle of lagging development that cannot be overcome without targeted regional policy.

In the context of the new regionalization and Eurozone accession, both challenges and real opportunities emerge. The new territorial organization provides conditions for more precise targeting of public resources and better identification of the specific needs of sub-regions. Membership in the Eurozone can enhance macroeconomic stability, investor confidence, and access to financing, which is particularly important for promoting entrepreneurship and creating youth employment.



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A key conclusion of the study is that increasing youth employment cannot be considered in isolation from the overall regional economic structure. An integrated approach is needed, combining investments in education and vocational training, promotion of innovation, infrastructure improvement, and support for small and medium-sized enterprises. Stronger links between universities, vocational schools, and businesses are particularly important to ensure the education system meets real labor market needs.

Regional policy must also be more flexible and tailored to local specificities. Universal measures rarely yield sustainable results. Combining national programs with local initiatives, including youth entrepreneurship development, support for start-ups, and strategic use of European funds, is essential.

In conclusion, the future of Eastern Bulgaria largely depends on its ability to retain and integrate young people. If regional imbalances are not addressed, they will continue to reproduce economic and social inequalities. However, if the new regionalization and European integration are leveraged as tools for structural modernization, they can become a real catalyst for sustainable growth, higher youth employment, and more balanced regional development.

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**THE NEW EUROPEAN ENERGY POLICIES AND THEIR EFFECTS
AT THE LOCAL LEVEL**

Mirela Petrova Krondeva*

Abstract

Climate policy in the European Union in recent years has been developing under conditions of an accelerated energy transition, geopolitical instability, and the growing importance of energy security. In this context, the present study examines the development of carbon pricing mechanisms in the EU and their impact on policies at the local level.

The aim is to analyze the role of local authorities in the implementation of European climate instruments and the possibilities for their transformation into practical solutions in the energy and infrastructure systems of settlements.

The methodological approach is based on an analysis of the European regulatory framework, academic publications, and institutional documents related to the European Emissions Trading System, its expansion into new sectors, and the accompanying social mechanisms.

The results indicate that the effectiveness of climate policies increasingly depends on the involvement of local institutions, which are capable of translating strategic objectives into concrete infrastructural and energy solutions. The study highlights the potential of local initiatives and new energy models as a factor for accelerating the energy transition.

A limitation of the analysis lies in the early stage of implementation of some of the examined mechanisms, which makes the long-term empirical assessment of their effects more difficult.

Keywords: *climate policy, carbon pricing, local authorities, energy transition, energy communities*

JEL: Q48, R58, H23

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Introduction

The climate policy of the European Union has become one of the main frameworks shaping the development of the energy sector, industry, and infrastructure in the Member States. With the adoption of the European Green Deal, the European Union formulated a strategy for a gradual transition to a low-carbon economy, aimed at reducing greenhouse gas emissions and modernizing energy systems (European Commission, 2019). Within this framework, specific legislative targets have also been set-reducing emissions by at least 55% by 2030 compared to 1990 levels and achieving climate neutrality by 2050 (European Parliament and Council, 2021), in line with the scientific assessments of the Intergovernmental Panel on Climate Change regarding the required pace of global emission reductions (IPCC, 2023).

In recent years, however, Europe's climate and energy policy has also been developing in the context of increasing geopolitical instability. The military conflict in Ukraine and tensions in the Middle East have raised the issue of energy security and dependence on external energy resources, thereby reinforcing the need for diversification and the development of domestic energy sources. In this context, the European Green Deal outlines not only an environmental but also an economic transition aimed at modernizing energy systems and enhancing the resilience of the European economy.

These processes require the translation of strategic objectives to the local level, where actual changes in energy consumption, the building stock, and transport infrastructure take place. This places local authorities at the center of the energy transition while simultaneously intensifying the issue of the social effects of carbon pricing, particularly in regions with lower incomes and limited alternatives.

The aim of the study is to analyze the development of European carbon pricing mechanisms and the significance of local authorities in the process of the energy transition.

The study examines the functioning of the emissions trading system, its extension to the building and transport sectors, the role of the Social Climate Fund, and the opportunities for the participation of local authorities in these processes.

A limitation of the analysis is that some of the mechanisms under consideration, including ETS2 and the national plans associated with it, are still at an early stage of implementation.



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1. European climate policy

Climate policy has evolved from an environmental issue into a structural element of the economic development of the European Union. The growing consensus regarding the role of anthropogenic greenhouse gas emissions in global warming has led to the creation of regulatory and market-based instruments aimed at limiting the carbon footprint of the economy. Within the framework of European integration, these instruments form part of the broader strategy for transforming the economy towards a low-carbon model, as articulated in the European Green Deal initiative (European Green Deal).

Through this strategy, the European Union establishes the understanding that emission reduction cannot be achieved solely through administrative restrictions or technological standards. An economic mechanism is also required to incorporate environmental costs into the market price of energy and industrial production. This is where the concept of carbon pricing emerges—an approach in which greenhouse gas emissions are treated as an economic resource with a defined price. It is reflected in the „polluter pays” principle, established in international environmental policy and embedded in a number of documents of the OECD and the European Union, according to which the costs of pollution should be borne by the economic actors that cause it (OECD, 1972).

2. Carbon pricing and the Emissions Trading System (ETS)

In contemporary climate policy, the „polluter pays” principle is implemented through carbon pricing instruments. The most widely used among these are carbon taxes and emissions trading systems, both of which assign a price to carbon emissions but follow different approaches. Under a carbon tax, a fixed price per unit of emissions is set, whereas emissions trading systems establish a cap on the total volume of emissions, with the market determining the price of allowances (World Bank, 2023).

Within the European Union, the leading role is played by the Emissions Trading System, which represents a market-based mechanism for limiting carbon emissions. This system operates according to the „cap-and-trade” model. Under this framework, a total limit (cap) is



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first set on the permissible emissions for specific sectors of the economy. Subsequently, permits-known as allowances-are issued, granting their holders the right to emit a certain amount of carbon dioxide. These allowances can be traded on a specialized market, enabling companies to optimize their decarbonization costs (European Commission, 2024).

The practical logic of this model is relatively straightforward. If an enterprise succeeds in reducing its emissions below the level of its allocated allowances, it may sell the unused permits on the market. Conversely, if its emissions exceed the permitted amount, it must purchase additional allowances. In this way, economic actors that reduce emissions more efficiently gain a financial advantage, while enterprises with a higher carbon footprint bear a greater share of the costs.

The European Emissions Trading System was established in 2005 and is considered the first international carbon market in the world. It currently covers the electricity sector, energy-intensive industries, aviation, and maritime transport. The sectors included in the system account for approximately 40% of total greenhouse gas emissions in the European Union (European Commission, 2024).

Data from the European Environment Agency indicate that emissions from sectors covered by the ETS decreased by approximately 51% between 2005 and 2024 (EEA, 2025). Empirical econometric studies further complement this picture by comparing firms within the system to similar firms outside it. These analyses show that the introduction of the ETS has led to an additional reduction of approximately 10-16% in emissions in regulated industries compared to a scenario without this policy (Bayer & Aklin, 2020).

In addition to being a regulatory instrument, the system also generates a significant financial flow. Revenues from the auctioning of carbon allowances accrue primarily to the budgets of the Member States, which are required to allocate a substantial share of these funds to climate and energy policies. According to the European Commission, Member States should direct at least half of these revenues toward investments in energy efficiency, renewable energy, and low-carbon technologies (European Commission, 2024). At the same time, part of the allowances is used to finance EU-wide mechanisms such as the Innovation Fund and the Modernisation Fund, which support technological transition and the modernization of energy systems in the Member States.



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The increasing ambition of European climate policy has also led to a gradual expansion of the scope of carbon pricing. Reforms under the „Fit for 55” legislative package provide for a stricter emissions cap and the inclusion of new sectors in the system. The objective is to reduce emissions in ETS-covered sectors by approximately 62% by 2030 compared to 2005 levels (ICAP, 2024).

The expansion of carbon pricing inevitably raises new questions related to the social impact of climate policy. While the initial phases of the ETS primarily affected industrial enterprises and the energy sector, the next stage of European policy is increasingly directed toward areas that have a more direct impact on citizens' daily lives. This logic underpins the creation of the new emissions trading system covering buildings and road transport, as well as the accompanying mechanisms for social support.

3. ETS2 and the Social dimension of Climate policy

Climate policy is shifting its focus from industrial emissions to sectors more closely linked to citizens' everyday lives. While the initial stages of carbon pricing in the European Union were primarily directed at the electricity sector and energy-intensive industries, more recent regulatory initiatives also encompass emissions generated by the building stock and road transport. These two sectors account for a significant share of total greenhouse gas emissions in the European Union and are among the most difficult to decarbonize due to their strong dependence on daily energy consumption.

According to data from the European Commission, buildings are responsible for approximately 40% of final energy consumption in the EU and around 36% of energy-related carbon dioxide emissions, while the transport sector generates approximately one quarter of total greenhouse gas emissions in the Union (European Commission, 2024). These figures indicate that achieving the EU's climate objectives cannot be accomplished solely through the regulation of industrial processes but requires the inclusion of sectors related to building heating and mobility.

It is within this context that the European Union introduces the new emissions trading system, known as ETS2. It represents an extension of the carbon pricing mechanism to



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emissions from fuels used in buildings, road transport, and certain categories of small industrial activities. The regulatory framework of this system is established through the amendment of the Emissions Trading Directive, adopted in 2023 as part of the „Fit for 55” legislative package (Directive (EU) 2023/959).

In the new system, obligations are imposed on fuel suppliers that place on the market petrol, diesel, natural gas, and other energy products used in buildings and transport. This approach allows regulation to be concentrated on a limited number of economic operators rather than on millions of individual consumers. Nevertheless, the price signal is transmitted along the supply chain and gradually reflected in the final price of fuels and energy (Directive (EU) 2023/959; European Commission, 2023).

The functioning of ETS2 follows the same economic logic as the existing emissions trading system. The European Union sets an overall cap on allowable emissions, which is gradually reduced over time, thereby creating a financial incentive to decrease the use of carbon-intensive energy sources and to shift towards more efficient technologies (European Commission, 2023).

However, the introduction of ETS2 also gives rise to new challenges that differ significantly from those in industrial sectors. While industrial enterprises have the capacity to invest in technological improvements or modify production processes, households and small businesses often have limited resources for such investments. This creates a risk of increasing energy poverty and of disproportionate impacts on certain social groups, particularly in regions with lower incomes or limited access to public transport.

4. Social Climate Fund

In order to mitigate the social impact of the expansion of carbon pricing, the European Union has established a new financial instrument-the Social Climate Fund. Its primary objective is to support households, micro-enterprises, and vulnerable transport users in adapting to the new price conditions. The Fund was created under Regulation (EU) 2023/955 and has a total budget of approximately €86.7 billion for the period 2026-2032.



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Support from this Fund has two main directions. On the one hand, it enables the provision of temporary direct financial assistance to households that are strongly affected by price changes. On the other hand, a significant share of the resources is directed toward structural investments aimed at reducing dependence on fossil fuels in the long term. These investments include programs for building energy efficiency, the deployment of renewable energy sources, the modernization of heating systems, and the development of sustainable transport. In this way, ETS2 and the Social Climate Fund form an integrated system in which economic incentives for emission reduction are combined with mechanisms for social support.

From a public policy perspective, this combination also has an important territorial dimension. Many of the measures related to energy efficiency, urban mobility, and renewable energy are implemented at the local level. For this reason, local authorities play a key role in the practical implementation of European climate mechanisms. It is at this level that vulnerable groups are identified, investment projects are planned, and specific measures are executed.

In this context, the development of national Social Climate Plans becomes particularly significant, as they specify the implementation of European mechanisms at the national level. These plans constitute a strategic instrument through which priority investments, target groups, and implementation mechanisms for measures financed by the Social Climate Fund are defined. They include analyses of energy vulnerability, assessments of social impact, and specific interventions aimed at mitigating the negative effects of introducing carbon pricing in the building and transport sectors.

5. National Climate plans and policy implementation

Among the main areas of intervention are measures aimed at improving the energy efficiency of the building stock, modernizing heating systems, deploying renewable energy sources, and developing sustainable transport solutions. These policies combine environmental and economic effects, contributing simultaneously to emission reductions and to the long-term reduction of energy costs.

A specific feature of this mechanism is that access to funding is conditional upon the existence of an approved national plan, which makes its quality and level of detail a determining



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factor for the effectiveness of the implemented policies. In this way, the European framework is transformed into concrete national priorities, tailored to the socio-economic characteristics of each country.

The role of local authorities is not limited solely to the implementation of the established measures but begins as early as the stage of drafting the national plans. Through their participation in this process, municipalities are expected to provide specific information on local needs, energy characteristics, and social particularities that are difficult to assess at the national level. In this way, more realistic and effective policies can be formulated, targeting the actual challenges of different regions.

6. The role of local authorities in the Energy transition

European climate policy is formulated and regulated at the supranational level, but its actual implementation largely takes place at the local level. Measures aimed at reducing greenhouse gas emissions are often linked to sectors that fall within the direct competence or influence of local authorities-building stock management, urban transport, spatial planning, energy efficiency, and the development of local infrastructure.

A significant share of energy consumption and the associated emissions is concentrated in urbanized areas. According to estimates by the European Commission, approximately 75% of the population of the European Union lives in urban areas, which generate around 70% of carbon dioxide emissions (European Commission, 2020).

This concentration of population and economic activity positions local authorities as a natural intermediary between European policies and the everyday practices of citizens and businesses. The role of municipalities can be examined across several interrelated dimensions.

First, local authorities perform a key function in the collection and analysis of information necessary for planning climate policies. The identification of vulnerable households, the assessment of the energy efficiency of the building stock, and the analysis of transport patterns are processes that require local data and a thorough understanding of the specific characteristics of the respective territory. Without such information, it is difficult to design policies that are both effective and socially balanced.



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Second, local authorities actively participate in the development and preparation of investment projects financed through European and national mechanisms. These include measures for improving the energy efficiency of public buildings, modernizing heating systems, developing infrastructure for electric transport, and deploying renewable energy sources. In many cases, municipalities act as initiators or coordinators of such projects, particularly when they require the involvement of multiple stakeholders.

A third area of activity is related to the engagement of the local community. The transition to a low-carbon economy is not achieved solely through technological solutions but also requires changes in consumption patterns and public attitudes. Informing citizens about opportunities for energy efficiency, encouraging participation in local energy initiatives, and fostering partnerships between the public and private sectors are processes that are most effectively implemented at the local level.

An important aspect of this process is spatial planning. Decisions related to urban mobility, the organization of residential areas, and the location of infrastructure have a long-term impact on energy consumption and greenhouse gas emissions. For this reason, the integration of climate objectives into urban planning processes is gradually becoming a standard practice in many European cities (OECD, 2022).

The growing importance of local authorities is also reflected in the development of new forms of energy governance at the local level. In recent years, increasing attention has been paid to initiatives in which citizens, local businesses, and municipalities jointly participate in the production and management of energy. These initiatives, known as energy communities, create opportunities for part of the energy transition to be realized at the local level, while simultaneously stimulating economic activity and reducing the carbon footprint of the respective territory.

In this way, local authorities are gradually transforming from implementers of externally defined policies into active participants in the process of energy transformation. Their role encompasses not only the administrative management of projects but also strategic planning, coordination among different institutions, and the creation of conditions for the participation of the local community in the energy transition.



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This role of local authorities is also linked to the broader process of decentralization of energy systems. The development of renewable energy sources, the digitalization of energy infrastructure, and the emergence of new models of energy management are gradually transforming the traditional structure of the energy sector.

Conclusion

The development of European climate policy demonstrates a shift from the regulation of individual industrial sources toward a broader economic strategy in which carbon pricing serves as a tool for transforming the energy and production structure of the economy. The environmental objectives of the European Union are linked to longer-term economic goals-technological modernization, energy independence, and the enhancement of the competitiveness of the European economy. The expansion of climate mechanisms to sectors such as buildings and transport indicates that the next stage of this policy involves broader societal participation, whereby the energy transition is increasingly embedded in the everyday practices of citizens and economic actors.

In this process, the role of local authorities acquires an increasingly practical dimension. Municipalities are becoming the level at which strategic objectives are translated into concrete solutions-from the renovation of the building stock and the organization of transport to the promotion of local energy initiatives. For Bulgaria, this implies that the effectiveness of European mechanisms will depend to a significant extent on the capacity at the local level to plan and implement investments tailored to the specific characteristics of individual regions. Within this framework, forms of decentralized participation, including initiatives such as energy communities, further complement the process by creating opportunities for more direct involvement of citizens and businesses and for transforming the energy transition into a tangible economic process at the local level.

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ЮГОЗАПАДНА БЪЛГАРИЯ ПО ПЪТЯ КЪМ ЕВРОЗОНАТА**

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Abstract:

This paper examines the role of small and medium-sized enterprises (SMEs) as a structurally determining factor for sustainable regional development in the border regions of Southwestern Bulgaria (Blagoevgrad and Kyustendil districts) in the context of the country's forthcoming accession to the Eurozone. The relevance of the study stems from the need to reconsider traditional regional policy models under conditions of deepening economic integration. The main objective is to substantiate the applicability of the interactive approach as an effective instrument for enhancing the competitiveness and adaptability of SMEs.

The methodological framework is based on a systemic and comparative analysis, complemented by the interpretation of statistical data and secondary sources. The findings indicate that SMEs perform a key stabilizing function within the regional economy, with their sustainability being directly dependent on the degree of cross-border integration, network interaction, and institutional support. At the same time, several constraints are identified, including low levels of digitalization, limited access to capital, and demographic imbalances.

The study concludes that successful adaptation to the Eurozone requires coordinated policy measures and the implementation of interactive governance models at the regional level.

Keywords: regional development, small and medium-sized enterprises, Eurozone, cross-border cooperation, sustainability

JEL: R11, R12, O18, F15, E42

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1. Introduction

Contemporary economic realities in Bulgaria are characterized by the simultaneous unfolding of two interrelated and strategically significant processes: the deepening of regional socio-economic disparities and the intensified institutional and macroeconomic efforts toward accession to the Eurozone. These processes exert a multidimensional impact on the country's territorial development, with peripheral and border regions being particularly sensitive to such transformations (Marinov, 2021).

In this context, the border regions of Southwestern Bulgaria, encompassing the Blagoevgrad and Kyustendil districts, acquire a distinct and strategically important role. They should not be perceived merely as peripheral territories, but rather as dynamic zones of economic, social, and institutional interaction between Bulgaria and its neighboring countries- Greece, as a member of the Eurozone, and North Macedonia and Serbia, which remain outside the European Union. This intermediary position creates unique opportunities for cross-border integration, while simultaneously generating structural challenges related to asymmetries in economic development, regulatory frameworks, and monetary systems (Uzunov, 2022).

The relevance of the present study derives from the need to reconsider traditional regional policy models, which are predominantly centralized and focused on resource redistribution, often failing to adequately account for local specificities and endogenous development potential. In the context of deepening European integration and increasing economic competition, there is a growing need for a new governance paradigm that places small and medium-sized enterprises (SMEs) at the core of regional transformation (Angelov, 2023).

SMEs in the border regions of Southwestern Bulgaria perform a crucial economic and social function. They constitute the primary source of employment, generate local added value, and play a significant role in mitigating adverse demographic trends, including depopulation and labor migration toward more developed economic centers. At the same time, their activities are strongly dependent on cross-border economic flows, infrastructure connectivity, and access to international markets, rendering them particularly sensitive to changes associated with the adoption of the euro (European Commission, 2023).



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Bulgaria's accession to the Eurozone should not be interpreted solely as a technical process of currency substitution, but rather as a profound structural transformation affecting price levels, financial flows, investment dynamics, and overall business competitiveness. For SMEs, this transition entails both opportunities-such as the elimination of transaction costs, increased price transparency, and improved access to capital-and significant challenges, including the need for institutional and operational adaptation, as well as exposure to intensified competition within the single European market (Angelov, 2023; European Commission, 2023).

Within this framework, the concept of an interactive approach to regional development gains particular importance. This approach is grounded in active collaboration among local authorities, businesses, and academic institutions, corresponding to the „Triple Helix” model of innovation (Porter, 1998). It implies a shift from passive support mechanisms toward dynamic, network-based forms of governance that enhance regional adaptability, innovation capacity, and long-term sustainability.

The object of the present study is SMEs operating in the border regions of Southwestern Bulgaria, while its subject focuses on their role in achieving sustainable regional development in the context of the transition to the Eurozone through the application of an interactive governance approach. The central research thesis posits that the sustainability of these regions is largely contingent upon the ability of SMEs to integrate into cross-border economic networks, enhance their innovation capacity, and adapt effectively to the requirements of the European Monetary Union.

In line with this objective, the paper aims to analyze both the structural characteristics of SMEs in the region and the impact of Eurozone accession on their economic performance, while also proposing policy-oriented recommendations for the implementation of interactive support mechanisms.

2. Theoretical Framework: Interactive Approach and Sustainable Regional Development

Traditional models of regional policy, predominantly based on a top-down governance logic, have long relied on centralized planning, state subsidies, and administrative allocation of



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resources. While such approaches have historically played a role in reducing regional disparities, their effectiveness in addressing the complex and dynamic challenges of contemporary border regions has become increasingly limited (Marinov, 2021). These models often fail to account for local specificities, endogenous development potential, and the need for flexible and adaptive policy instruments.

In response to these limitations, the interactive approach to regional development has emerged as an alternative paradigm, emphasizing decentralized governance, stakeholder participation, and network-based coordination. This approach is theoretically grounded in the concept of network governance and the „Triple Helix” model, which highlights the synergistic interaction between public authorities, business actors, and academic institutions as a key driver of innovation and regional competitiveness (Etzkowitz & Leydesdorff, 2000). Within this framework, regional development is no longer perceived as a linear and centrally managed process, but rather as a dynamic system of interactions among multiple actors operating at different levels.

The interactive approach introduces a shift from hierarchical to relational forms of governance, where value creation is embedded in cooperation, knowledge exchange, and collective learning processes. In this sense, regions are conceptualized as „learning regions” capable of generating innovation through continuous interaction between economic and institutional actors (Asheim, 2007). This perspective is particularly relevant for peripheral and border regions, where traditional growth mechanisms are often weak and require reinforcement through collaborative structures.

Within the context of regional development, interactivity can be operationalized through several key dimensions. First, horizontal coordination plays a crucial role in fostering cooperation among local SMEs through the establishment of business networks and clusters. Such forms of collaboration enable firms to pool resources, share knowledge, and achieve economies of scale, thereby enhancing their competitiveness in both domestic and international markets (Porter, 1998). Cluster-based development has been widely recognized as an effective mechanism for stimulating innovation and regional specialization.

Second, cross-border synergy represents a fundamental component of the interactive approach, particularly in the context of border regions. Rather than being perceived as barriers,



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national borders can be transformed into strategic assets that facilitate the exchange of goods, services, labor, and knowledge. Cross-border cooperation contributes to the creation of integrated economic spaces, where complementarities between neighboring regions can be effectively exploited (Perkmann, 2003). In the case of Southwestern Bulgaria, proximity to Greece provides significant opportunities for economic integration within the Eurozone framework, while interactions with non-EU countries introduce additional layers of complexity and potential.

Third, adaptability emerges as a critical characteristic of interactive regional systems. The ability of local economies to respond swiftly to macroeconomic changes-such as the introduction of the euro-is essential for maintaining competitiveness and resilience. Adaptive capacity is closely linked to the flexibility of SMEs, their innovation potential, and the responsiveness of institutional frameworks supporting them (Rodríguez-Pose, 2013).

The concept of sustainable regional development extends beyond its traditional environmental dimension to encompass economic viability and social cohesion. From an economic perspective, sustainability implies the capacity of regional economies to generate stable growth, employment, and added value over time. From a social standpoint, it involves ensuring equitable access to economic opportunities, reducing inequalities, and strengthening community resilience. These dimensions are inherently interconnected and require integrated policy approaches (European Commission, 2020).

In this regard, SMEs play a pivotal role as the backbone of regional economies, particularly in peripheral and border areas. Unlike large multinational corporations, SMEs are deeply embedded in local socio-economic structures and are more closely linked to regional identity and community development. They function not only as economic agents but also as social stabilizers, contributing to employment retention, local entrepreneurship, and territorial cohesion (Uzunov, 2022).

In the specific context of Southwestern Bulgaria, SMEs can be conceptualized as the „binding element” that sustains local communities. Their capacity to operate across borders, adapt to changing economic conditions, and engage in collaborative networks positions them as key actors in the transition toward a more integrated and sustainable regional economy. However, their effectiveness depends on the extent to which supportive institutional



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frameworks, innovation systems, and interactive governance mechanisms are developed and implemented.

Thus, the theoretical foundation of this study rests on the premise that sustainable regional development in border areas cannot be achieved through isolated or centrally imposed measures, but rather through interactive, network-based, and multi-level governance models that actively engage SMEs as drivers of economic transformation and integration within the European economic space.

3. The Role of SMEs in the Border Regions of Southwestern Bulgaria

The Southwestern region of Bulgaria is characterized by a distinctive and complex business ecosystem shaped by its geographical location, historical development, and cross-border economic interactions. Border municipalities such as Petrich, Sandanski, and Gotse Delchev have traditionally developed economic structures oriented toward light industry, agriculture, and service activities, with a significant share of production directed toward external markets. This outward orientation is largely обусловена by proximity to international borders and the long-standing tradition of cross-border trade and informal economic exchange (Uzunov, 2022).

Within this regional context, small and medium-sized enterprises (SMEs) constitute the dominant organizational form of economic activity and play a central role in structuring local production systems. Their prevalence reflects both the entrepreneurial capacity of the local population and the structural limitations associated with peripheral regional development, including limited access to large-scale capital and industrial infrastructure (European Commission, 2023).

One of the defining characteristics of SMEs in the region is their high exposure to currency operations. Due to the immediate proximity to Greece—a member of the Eurozone—many enterprises operate in a de facto dual-currency environment. Transactions, supply contracts, and price negotiations are frequently conducted in euros, while wages and certain domestic costs remain denominated in Bulgarian lev. This hybrid monetary setting creates both opportunities and vulnerabilities, as firms benefit from exchange rate predictability under the



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currency board arrangement, yet remain exposed to transaction costs and currency conversion risks (Angelov, 2023).

Another key feature of SMEs in Southwestern Bulgaria is their pronounced flexibility and sectoral diversity. The regional economy is dominated by micro and small enterprises, particularly in trade, tourism, and agriculture-related services. Tourist destinations such as Bansko, Sandanski, and Sapareva Banya have stimulated the development of hospitality and service-oriented businesses, which are highly responsive to seasonal demand and external economic conditions. This flexibility allows SMEs to adjust relatively quickly to fluctuations in demand, making them more resilient in the face of economic shocks compared to larger, less adaptable firms (Marinov, 2021).

At the same time, the performance and competitiveness of SMEs in the region are strongly dependent on the quality and capacity of cross-border infrastructure. Key transport corridors and border crossing points, such as Kulata and Ilinden, play a critical role in facilitating trade flows, labor mobility, and tourism. The ongoing development of the Struma motorway is expected to further enhance regional connectivity and reduce logistical constraints, thereby strengthening the integration of local businesses into regional and European markets. However, infrastructural bottlenecks and administrative inefficiencies at border checkpoints continue to pose challenges for the efficient operation of SMEs (European Commission, 2023).

Beyond their economic contribution, SMEs in these border regions perform a crucial stabilizing function within the local socio-economic system. In the context of economic uncertainty and external shocks, SMEs demonstrate a higher degree of adaptability in terms of cost management, labor retention, and operational restructuring. Unlike large corporations, which may respond to crises through relocation or downsizing, SMEs tend to maintain a stronger commitment to local communities, thereby contributing to social cohesion and employment stability (Rodríguez-Pose, 2013).

This stabilizing role is particularly significant in regions facing demographic decline and labor outmigration. SMEs act as key anchors of local economies, providing employment opportunities and supporting the sustainability of smaller settlements. Their embeddedness in local socio-economic networks enhances their capacity to respond to community needs, while also reinforcing regional identity and cohesion.



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However, despite these strengths, SMEs in Southwestern Bulgaria face several structural challenges that may constrain their long-term development. These include limited access to financing, insufficient levels of technological modernization, and a shortage of qualified labor. Furthermore, their high dependence on external markets and cross-border dynamics exposes them to external economic fluctuations and regulatory uncertainties.

In this regard, the transition toward the Eurozone represents both a critical opportunity and a significant test for the adaptive capacity of SMEs in the region. While the elimination of currency-related barriers is expected to facilitate trade and investment, it also requires enterprises to enhance their competitiveness, improve productivity, and integrate more effectively into European value chains.

In conclusion, SMEs in the border regions of Southwestern Bulgaria occupy a central position within the regional economic system. Their role extends beyond economic production to encompass social stabilization, territorial cohesion, and cross-border integration. As such, their capacity to adapt to changing economic conditions and to participate in interactive networks will be a determining factor for the sustainable development of the region in the context of European economic integration.

4. The Path toward the Eurozone: Challenges and Opportunities

Bulgaria's accession to the Eurozone represents a fundamental stage in the country's economic integration within the European Union, with significant implications for macroeconomic stability, financial systems, and regional development. While the adoption of the euro is a national-level process, its effects are expected to be most pronounced in border regions, particularly those adjacent to Eurozone member states. In this regard, the border areas of Southwestern Bulgaria, due to their proximity to Greece, are likely to experience both immediate and long-term impacts from the transition (European Commission, 2023).

From a regional perspective, the Eurozone accession process should be understood not merely as a technical monetary shift, but as a structural transformation that affects the entire economic environment in which SMEs operate. This transformation influences transaction



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mechanisms, price formation, capital flows, and competitive dynamics, thereby reshaping the strategic behavior of firms (Angelov, 2023).

4.1. Benefits for SMEs in Southwestern Bulgaria

One of the most direct and measurable advantages of Eurozone membership is the elimination of transaction costs associated with currency conversion. SMEs engaged in cross-border trade, particularly those importing goods or raw materials from Greece, currently incur additional expenses related to exchange rate margins and banking commissions. The removal of these costs is expected to increase profit margins, with estimates suggesting a direct improvement ranging between 0.5% and 2% depending on the volume and frequency of transactions (European Commission, 2023). This effect is especially significant for firms operating with narrow profit margins, where even marginal cost reductions can substantially improve financial sustainability.

Another important benefit relates to increased price transparency. The adoption of a common currency enables direct comparability of prices across borders, thereby reducing information asymmetries and enhancing market efficiency. For SMEs, this creates both opportunities and incentives to improve productivity and competitiveness, as price differentials become more visible to consumers and business partners. In the context of the Southwestern region, this may lead to a convergence of price levels with neighboring Greek markets, influencing both wage expectations and cost structures (Angelov, 2023).

Furthermore, Eurozone accession is associated with the convergence of interest rates toward lower levels, reflecting increased financial stability and reduced country risk premiums. This development is expected to improve access to credit for SMEs, enabling them to refinance existing liabilities under more favorable conditions and to invest in technological upgrades, innovation, and capacity expansion. Improved access to finance is widely recognized as a critical determinant of SME growth and long-term competitiveness (European Central Bank, 2022).

In addition, the adoption of the euro may enhance investor confidence and attract foreign direct investment to the region. Increased investment inflows can stimulate local economic activity, create employment opportunities, and strengthen regional value chains. For border



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regions, this effect may be amplified by their strategic location and existing cross-border linkages.

4.2. Challenges and Risks

Despite the substantial benefits, the transition to the Eurozone also entails a number of challenges and risks, particularly for SMEs with limited financial and administrative capacity. One of the primary concerns relates to the one-off costs associated with the transition process. These include expenses for updating accounting and financial management systems, adapting pricing mechanisms, training personnel, and managing the logistical aspects of currency conversion. For micro and small enterprises, such costs may represent a significant financial burden, especially in the absence of targeted support measures (Angelov, 2023).

Another important challenge is linked to psychological factors and inflation expectations. Empirical evidence from previous Eurozone enlargements indicates that the introduction of the euro is often accompanied by public perceptions of price increases, even when actual inflation remains moderate. In sectors such as tourism, hospitality, and retail—where SMEs are heavily concentrated in Southwestern Bulgaria—the risk of opportunistic price rounding or perceived price increases may lead to temporary declines in consumer demand (European Commission, 2023).

Additionally, the increased transparency and integration associated with the euro may intensify competitive pressures. SMEs will be required to compete more directly with firms from other Eurozone countries, which may possess higher levels of productivity, technological advancement, and capital endowment. This competitive exposure necessitates improvements in efficiency, innovation capacity, and managerial practices.

Structural challenges, such as low levels of digitalization, insufficient innovation capacity, and labor shortages, may further constrain the ability of SMEs to fully capitalize on the opportunities provided by Eurozone membership. Without adequate institutional support and policy coordination, there is a risk that weaker firms may face difficulties in adapting to the new economic environment, potentially leading to market exit or consolidation.

Finally, it is important to consider the asymmetric impact of Eurozone accession across different regions and sectors. While border regions with strong cross-border linkages may



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benefit significantly, more isolated or less developed areas may experience slower adjustment processes. This underscores the need for region-specific policy measures aimed at mitigating risks and enhancing the adaptive capacity of SMEs.

In conclusion, the path toward the Eurozone presents a complex interplay of opportunities and challenges for SMEs in Southwestern Bulgaria. While the elimination of monetary barriers and improved financial conditions create favorable prospects for growth and integration, the transition also requires significant adjustments at the firm and institutional levels. The extent to which SMEs will benefit from Eurozone membership depends largely on their ability to adapt to increased competition, leverage new opportunities, and participate in integrated European economic networks.

5. Statistical Profile and Current State of SMEs in the Southwestern Border Region

The statistical analysis of small and medium-sized enterprises (SMEs) in the Southwestern border region of Bulgaria, based on data from the National Statistical Institute (NSI), reveals significant structural characteristics and trends that directly influence regional economic sustainability and development dynamics. The regions of Blagoevgrad and Kyustendil, as key territorial units within this area, exhibit both similarities and asymmetries in their economic profiles, reflecting differences in investment attractiveness, labor market conditions, and cross-border integration intensity (NSI, 2024).

Table 1. Key Indicators of SMEs in Southwestern Bulgaria (Estimated Data Based on NSI)

Indicator	Blagoevgrad District	Kyustendil District
Number of active SMEs	~16,500	~5,200
Share of micro-enterprises (0-9 employees)	92.5%	91.8%
Foreign direct investment (million EUR)	~620	~180
Economic activity rate	71.4%	66.2%

Source: NSI (2024), author's estimations

The data presented in Table 1 highlight the overwhelming dominance of micro-enterprises within the regional business structure. With over 90% of enterprises employing



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fewer than ten people, the SME sector in Southwestern Bulgaria is characterized by high fragmentation and limited scale of operations. On the one hand, this reflects a strong entrepreneurial culture and the capacity of local actors to initiate and sustain economic activities. On the other hand, it indicates structural vulnerabilities, particularly in terms of access to capital, technological innovation, and integration into larger value chains (European Commission, 2023).

The significantly higher number of active SMEs in Blagoevgrad compared to Kyustendil can be attributed to several factors, including its geographical proximity to Sofia, better-developed infrastructure, and stronger cross-border economic ties with Greece. These factors contribute to higher levels of foreign direct investment (FDI), which in turn stimulate local economic activity and enhance business competitiveness. The FDI inflow in Blagoevgrad, estimated at approximately €620 million, demonstrates the region's relatively favorable investment climate, whereas Kyustendil remains less attractive to external investors, with FDI levels significantly lower (NSI, 2024).

The economic activity rate further underscores regional disparities. The higher rate in Blagoevgrad suggests a more dynamic labor market and greater participation in economic activities, while the lower rate in Kyustendil reflects structural challenges such as aging population, outmigration, and limited employment opportunities. These demographic and labor market constraints have direct implications for the sustainability of SMEs, particularly in terms of workforce availability and productivity (Rodríguez-Pose, 2013).

5.1. Analytical Interpretation of SME Structure

The predominance of micro-enterprises has important implications for the region's development trajectory. While such enterprises are typically more flexible and adaptable to changing market conditions, they often lack the financial and organizational capacity to invest in innovation, digitalization, and internationalization. This creates a paradox in which high entrepreneurial activity coexists with relatively low productivity and competitiveness.

Furthermore, the limited scale of operations restricts the ability of SMEs to achieve economies of scale, making them more vulnerable to external shocks and market fluctuations.



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In the context of Eurozone accession, these structural limitations may hinder the capacity of SMEs to fully exploit the benefits of a more integrated and competitive economic environment.

5.2. SWOT Analysis of SMEs in the Context of Eurozone Accession

The SWOT analysis provides a comprehensive framework for evaluating the internal strengths and weaknesses of SMEs, as well as the external opportunities and threats associated with the transition to the Eurozone.

Strengths

The strategic geographical location of the region represents a major advantage, facilitating cross-border trade and economic interaction. Long-standing traditions in informal and formal cross-border exchange have contributed to the development of entrepreneurial skills and market adaptability. Additionally, the prevalence of family-owned businesses enhances flexibility and decision-making efficiency, allowing SMEs to respond quickly to changing market conditions (Uzunov, 2022).

Weaknesses

Despite these strengths, SMEs face significant internal constraints. The technological base of many enterprises remains outdated, limiting productivity and innovation potential. The shortage of qualified labor is another critical issue, exacerbated by ongoing migration trends. Furthermore, low levels of digitalization hinder the ability of firms to participate effectively in modern value chains and digital markets (European Commission, 2023).

Opportunities

Eurozone accession creates a range of external opportunities for SMEs. The elimination of currency conversion costs will improve financial efficiency, while lower interest rates will facilitate access to credit and investment. Increased tourism flows from Eurozone countries are expected to stimulate demand in the service sector, particularly in regions with established tourism infrastructure. These factors collectively contribute to the potential for economic growth and regional convergence.

Threats

At the same time, several risks must be considered. The initial costs associated with adapting to the euro, including software updates and administrative adjustments, may impose a financial



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burden on SMEs. The risk of labor outmigration toward more developed regions within the Eurozone remains a significant concern, potentially exacerbating existing workforce shortages. Additionally, short-term inflationary pressures, particularly in the service sector, may negatively affect consumer demand and business performance.

5.3. Implications for Regional Sustainability

The statistical and analytical findings indicate that the sustainability of SMEs in the Southwestern border region is contingent upon their ability to overcome structural weaknesses and leverage emerging opportunities. While the region demonstrates considerable entrepreneurial potential and strategic advantages, its long-term development depends on targeted policy interventions aimed at enhancing innovation capacity, improving access to finance, and supporting digital transformation.

Moreover, the transition to the Eurozone introduces both stabilizing and disruptive dynamics, requiring SMEs to adapt to a more competitive and integrated economic environment. In this context, the role of institutional support mechanisms and interactive governance models becomes crucial for ensuring that SMEs can effectively navigate the challenges and capitalize on the opportunities associated with European economic integration.

6. Interactive Support Models: The Way Forward

Ensuring the long-term sustainability and competitiveness of small and medium-sized enterprises (SMEs) in the Southwestern region of Bulgaria necessitates the implementation of comprehensive policy measures grounded in the principles of interactive governance. As the country advances toward Eurozone accession, SMEs are confronted with a complex set of challenges and opportunities that require not only individual adaptation but also coordinated institutional support. In this context, the interactive approach to regional development offers a conceptual and practical framework that emphasizes collaboration, knowledge exchange, and network-based coordination among key stakeholders, including public authorities, business actors, and academic institutions.

A central element of this approach is the need to address informational and institutional gaps that may hinder the effective adaptation of SMEs to the new monetary environment. The



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transition to the euro entails a series of technical, financial, and organizational adjustments, which may be particularly burdensome for smaller enterprises with limited administrative capacity. The establishment of localized support structures in economically active municipalities such as Petrich, Sandanski, and Kyustendil can significantly facilitate this process by providing targeted guidance, technical assistance, and access to relevant information. Such structures would contribute to reducing uncertainty, enhancing managerial capacity, and improving the overall efficiency of the transition process (European Commission, 2023).

At the same time, the strengthening of cooperative mechanisms among SMEs represents a critical dimension of sustainable regional development. The formation of business networks and clusters enables enterprises to overcome structural limitations associated with their small scale by pooling resources, sharing knowledge, and achieving economies of scale. In sectors with strong regional specialization, such as agriculture and food production, collaborative frameworks can significantly enhance market access and competitiveness. In the context of Southwestern Bulgaria, the collective organization of small producers of fruits and vegetables could facilitate their integration into larger supply chains, particularly in neighboring Greek markets, where individual firms often face substantial entry barriers. Such forms of cooperation not only improve economic performance but also contribute to the development of regional value chains and innovation capacity (Porter, 1998; Asheim, 2007).

In parallel, the digital transformation of SME activities emerges as a fundamental prerequisite for successful integration into the European economic space. The development and adoption of digital platforms for cross-border trade and service provision can substantially increase the efficiency, accessibility, and scalability of business operations. Operating in a common currency environment further enhances the relevance of such platforms, as it reduces transaction costs and simplifies pricing mechanisms. Digitalization also enables SMEs to engage more effectively with customers and partners, optimize logistics and supply chains, and utilize data-driven decision-making processes. However, achieving these benefits requires not only technological infrastructure but also significant investments in digital skills, organizational capabilities, and institutional support systems (European Commission, 2020).



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The effectiveness of these measures ultimately depends on the degree of coordination and integration within the broader governance framework. The transition toward interactive regional development implies a shift from hierarchical, top-down policy models toward more decentralized and participatory forms of governance. This involves the active engagement of multiple stakeholders in the design and implementation of policies, thereby enhancing their relevance, legitimacy, and impact. The alignment of local initiatives with national strategies and European policy frameworks is essential for ensuring coherence and maximizing the benefits of integration. Moreover, the involvement of academic institutions and research organizations can contribute to knowledge transfer, innovation, and the development of evidence-based policy solutions (Rodríguez-Pose, 2013).

From a strategic perspective, the implementation of interactive support models requires a reorientation of regional policy priorities. Rather than focusing solely on financial assistance, policymakers should emphasize the creation of enabling environments that foster collaboration, innovation, and adaptability. This includes supporting the development of networks, facilitating access to information and technology, and promoting the integration of SMEs into cross-border and European economic systems.

In conclusion, the sustainability and long-term development of SMEs in the Southwestern border region of Bulgaria depend on the successful implementation of interactive support mechanisms that enhance their capacity to adapt to changing economic conditions. By combining institutional support, cooperative structures, and digital transformation within an integrated governance framework, it is possible to create a resilient regional economy capable of fully benefiting from the opportunities associated with Eurozone accession.

Conclusion

The conducted analysis of the role of small and medium-sized enterprises (SMEs) in the border regions of Southwestern Bulgaria provides a comprehensive basis for formulating several key conclusions regarding sustainable regional development in the context of the country's forthcoming accession to the Eurozone. The findings of the study highlight the



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multidimensional nature of regional transformation processes and underscore the strategic importance of SMEs as both economic and social actors within peripheral territories.

First, the Southwestern region, and in particular the districts of Blagoevgrad and Kyustendil, demonstrate a significant and largely underutilized potential for economic integration. The border in this context should no longer be conceptualized as a dividing line, but rather as an economic asset that facilitates the exchange of goods, services, capital, and labor. SMEs are the primary agents capable of capitalizing on this geographical advantage, as they exhibit a high degree of flexibility and are deeply embedded in local socio-economic networks. Through the development of cross-border value chains, particularly with partners from Greece, these enterprises contribute to the creation of integrated regional economic systems. Consequently, the sustainability of these regions is closely linked to the viability and competitiveness of SMEs, which serve as the main source of income, employment, and social stability, while also mitigating migration pressures toward urban centers and foreign labor markets (Uzunov, 2022; Rodríguez-Pose, 2013).

Second, the adoption of the euro should be interpreted not merely as a technical process of currency substitution, but as a strategic instrument for enhancing the competitiveness and efficiency of the local economy. For SMEs in Southwestern Bulgaria, the elimination of exchange rate risk and transaction costs is expected to have a direct positive impact on liquidity, cost structures, and investment capacity. Improved access to financial resources, coupled with increased price transparency, creates favorable conditions for technological upgrading, innovation, and market expansion. At the same time, however, the transition entails a set of risks, including administrative burdens, adjustment costs, and short-term inflationary pressures, which may disproportionately affect smaller enterprises with limited adaptive capacity. These challenges necessitate the implementation of targeted policy measures at both national and local levels to support SMEs during the transition process (European Commission, 2023; Angelov, 2023).

Third, the analysis confirms the hypothesis that traditional centralized models of regional governance are increasingly inadequate in addressing the complex and dynamic challenges faced by border regions. The future of regional development in Southwestern Bulgaria depends on the adoption of an interactive approach, which emphasizes active



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collaboration among local authorities, businesses, and research institutions. This paradigm shift from passive support mechanisms toward participatory and network-based governance models is essential for fostering innovation, enhancing adaptability, and strengthening regional resilience. The development of regional innovation ecosystems and cross-border business networks is particularly critical for enabling SMEs to fully benefit from the opportunities provided by the single European market and the common currency (Porter, 1998; Asheim, 2007).

Furthermore, the study highlights the importance of aligning regional development strategies with broader European policy frameworks, particularly in the areas of cohesion policy, digital transformation, and sustainable growth. The integration of SMEs into transnational economic and innovation networks not only enhances their competitiveness but also contributes to the broader objectives of territorial cohesion and balanced regional development within the European Union.

In conclusion, Bulgaria's path toward Eurozone membership can be seen as a catalyst for economic modernization and structural transformation. However, its success at the regional level depends fundamentally on the ability to preserve, strengthen, and develop the potential of SMEs. The Southwestern region of Bulgaria possesses the necessary preconditions to emerge as a model of successful cross-border integration, provided that policies prioritize sustainability, innovation, and interactive governance.

The present study represents an initial step toward the conceptualization and operationalization of such mechanisms. Future research should focus on empirical validation of the proposed models, including quantitative analysis of SME performance and the evaluation of policy effectiveness. By advancing both theoretical and practical understanding, this research contributes to the development of evidence-based strategies aimed at enhancing the prosperity and resilience of border communities in the context of European economic integration.

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**THE IMPACT OF THE EUROZONE ON THE QUALITY OF LIFE IN
THE REGIONS OF BULGARIA: SOCIO-ECONOMIC DIMENSIONS
AND DEVELOPMENT PROSPECTS**

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Abstract:

This paper analyzes the potential impact of Bulgaria's accession to the Eurozone on quality of life from a regional perspective. The relevance of the study is determined by the expected changes in the macroeconomic environment, including the dynamics of price levels, investment activity, and household incomes. The main objective of the study is to assess the influence of monetary integration on the socio-economic development of the different types of regions in the country and to identify the potential risks of deepening the existing territorial disparities.

The methodological framework of the study is based on a comparative, structural, and institutional analysis of key economic and social indicators characterizing regional development. The analysis shows that the effects of Eurozone membership may manifest themselves differently depending on the economic structure and the level of development of the individual regions. A stronger positive impact is expected in the economic centers, where the concentration of investment and human capital creates conditions for faster economic growth. At the same time, peripheral regions may face challenges related to limited economic activity, demographic problems, and slower adaptation to changes in the economic environment.

The main contribution of the study lies in systematizing the principal socio-economic effects of monetary integration and in formulating guidelines for regional policy aimed at reducing territorial disparities and improving quality of life under the conditions of Eurozone membership.

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JEL Classification: F45, I31, R11

Introduction

Accession to the Eurozone represents a key stage in Bulgaria „s economic integration into the European Union. It leads to a transformation of macroeconomic policy through the elimination of an autonomous exchange rate and the transfer of monetary policy to the European Central Bank. These processes have a direct impact on economic activity, price levels, and the real incomes of households.

Scholarly research shows that a single currency reduces transaction costs and increases investment predictability (Frankel & Rose, 1998). At the same time, regions with different economic structures respond unevenly to these changes, which may lead to a deepening of spatial inequalities (Rodríguez-Pose, 2018).

Bulgaria is characterized by pronounced territorial polarization, namely a concentration of economic activity in the capital and limited economic dynamism in peripheral areas. This raises the question of whether participation in the Eurozone will support the processes of socio-economic development or intensify regional differentiation.

The aim of this paper is to analyze the impact of the Eurozone on quality of life in the regions of Bulgaria and to formulate guidelines for regional policy under conditions of monetary integration.

The present study proceeds from the understanding that monetary integration is not merely a macroeconomic process, but also a factor that changes the spatial distribution of welfare. For this reason, the analysis is focused not so much on the overall economic effect as on the differences in social outcomes among the individual territories.

Considering the impact of the Eurozone on quality of life presupposes a more in-depth analysis of the relationship between macroeconomic stability and regional development. Under conditions of economic integration, regional economies respond differently to changes in the financial environment, investment flows, and labour-market dynamics. These differences are



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due to the specific characteristics of the individual regions - the degree of industrialization, the availability of infrastructure, the demographic structure, and the educational level of the population.

Accession to the Eurozone creates preconditions for greater financial stability and predictability of the economic environment. This, in turn, may stimulate long-term investment and increase economic activity. Nevertheless, the effect on the individual regions is not unambiguous, since economic benefits are often concentrated in areas with higher economic dynamism.

For this reason, the analysis of quality of life should take into account not only general macroeconomic trends, but also spatial differences in economic development. Only through such an integrative approach can the actual impact of monetary integration on the socio-economic processes in Bulgaria be assessed.

1. Theoretical and Methodological Foundations

1.1. The Eurozone as an Economic Framework

The theory of optimum currency areas defines the conditions under which a common currency is economically efficient (Mundell, 1961). Among the principal factors are labour mobility, a similar economic structure, and the presence of fiscal compensatory mechanisms.

In the European Union, these conditions are only partially fulfilled, which is why the effects of the introduction of the euro are asymmetrical. More developed regions realize the benefits of integration more rapidly through investment and exports, whereas less developed regions experience stronger price pressure.

The main transmission channels include:

- reduction of currency risk
- lower interest rates
- an increase in foreign direct investment
- intensified trade.

The functioning of the Eurozone is based on the principle of a common monetary policy determined by the European Central Bank. This means that the member states relinquish their



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independent monetary policy and adapt their national economies to the common rules of the monetary union.

In this context, the resilience of the economic system depends to a significant extent on the flexibility of labour and capital markets. Regions with better economic adaptability can respond more easily to economic shocks, whereas less developed regions often encounter more serious difficulties.

Therefore, effective participation in the Eurozone presupposes not only macroeconomic stability, but also the implementation of an active structural and regional policy.

1.1.1. Quality of Life in a Regional Context

Quality of life is viewed as an integrated characteristic encompassing material well-being, access to services, and social security (Stiglitz et al., 2009). From a regional perspective, it is influenced by the economic structure, demographic processes, and infrastructure provision.

Improving the investment environment generally leads to higher employment and incomes, which has a positive effect on social indicators. The opposite effect arises when prices increase without a corresponding increase in productivity, which reduces the purchasing power of the population.

1.1.2. The Multidimensional Nature of Quality of Life

Quality of life is a complex socio-economic category that includes both objective indicators and subjective assessments of the well-being of the population. In contemporary academic research, it is regarded as an integral result of the interaction between economic conditions, the social environment, and the institutional framework of development.

Economic theory offers different approaches to measuring quality of life. Traditionally, indicators such as household income, employment, and access to education and healthcare are used. In recent years, however, increasing importance has also been attached to non-material factors, including social security, environmental quality, public infrastructure, and opportunities for social fulfilment.

The regional aspect of quality of life is particularly important in countries with significant territorial disparities, such as Bulgaria. The existence of economic imbalances among the individual regions leads to differences in living standards, access to services, and



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opportunities for economic activity. These differences are often manifested in lower incomes, higher unemployment, and limited access to public services in peripheral areas.

In this context, the analysis of quality of life requires the use of a multidimensional approach combining various economic and social indicators. Such an approach makes it possible to assess more accurately the actual state of the population „s well-being and to identify the main factors influencing regional development.

Of particular importance is the interaction between economic policy and the regional structure of the economy. Macroeconomic processes, including monetary integration, may have a different impact on individual regions depending on their economic specialization and level of development. For this reason, the assessment of the effects of the Eurozone should take into account both national economic trends and the specific characteristics of regional economies.

The multidimensional approach to quality of life makes it possible to analyze the complex socio-economic processes that determine the well-being of the population. By combining various indicators, it becomes possible to trace how economic changes influence incomes, employment, social security, and access to services in the different regions.

This is especially important under conditions of economic integration, in which macroeconomic policies may affect regional economies in different ways. Consequently, the analysis of quality of life should be an integral element of studies on regional development.

1.2. The Regional Dimension of Economic Integration

Economic integration within the European Union has a clearly pronounced spatial dimension. Although the main policies are formulated at the supranational level, their impact manifests itself differently across the individual regions. This is due to the existing differences in the economic structure, the level of infrastructure development, and the demographic characteristics of the regions.

In the academic literature, regional development is increasingly regarded as the result of interaction between global economic processes and local factors. Market integration creates conditions for more intensive movement of capital, goods, and services, but at the same time it leads to a concentration of economic activity in regions with higher competitiveness.



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This process is often described as economic polarization, in which the leading economic centers attract a greater volume of investment, human capital, and innovation activity. As a result, substantial differences in economic development are created between central and peripheral regions.

Under conditions of monetary integration, such processes may intensify, since the common monetary policy limits the possibilities for national corrective mechanisms. For this reason, regional policy acquires particular importance as an instrument for reducing territorial imbalances.

The cohesion policy of the European Union is aimed precisely at overcoming these disparities through investment in infrastructure, innovation, and human capital. Through the structural funds, conditions are created for increasing the competitiveness of the regions and for improving the quality of life of the population.

2. Expected Socio-Economic Effects in Bulgaria

2.1. Incomes and Price Levels

The experience of the countries of Central and Eastern Europe shows that the introduction of the euro leads to a moderate increase in prices in the services sector (European Commission, 2023). At the same time, lower interest rates stimulate economic activity and incomes.

The effect on purchasing power depends on labour productivity. In regions with high value added, incomes grow faster than prices, whereas in less developed regions the opposite relationship is observed.

2.2. Investment and Employment

The elimination of currency risk increases investment attractiveness (ECB, 2022). This leads to a concentration of new enterprises in the economically developed areas where a skilled labour force and infrastructure are already present.

As a consequence, regional disparities in employment and incomes increase. From a regional perspective, investment processes are strongly dependent on the availability of adequate infrastructure and a skilled labour force. Regions with university centers, industrial zones, and a well-developed transport network usually attract a larger volume of investment.



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By contrast, peripheral areas often face constraints related to insufficient infrastructure, demographic problems, and limited access to financial resources. This results in lower economic activity and limited opportunities for the creation of new jobs.

For this reason, regional policy should be directed towards creating conditions for a more even distribution of investment, which would contribute to reducing territorial disparities in economic development.

3. Regional Differences in the Impact of the Eurozone

The impact of Eurozone membership is not distributed evenly across space. The territorial structure of the economy predetermines different reactions of regional systems to the single monetary policy. Under a common currency, adaptation takes place through productivity, labour mobility, and investment activity rather than through the exchange rate. Precisely for this reason, less developed regions are more vulnerable to external economic shocks.

3.1. The Capital Region

The capital concentrates the largest share of gross value added, high-technology services, and the financial sector. The reduction of currency risk and lower transaction costs increase access to international markets and capital. As a result, accelerated growth of investment, higher productivity, and rising incomes are expected.

The positive effect on quality of life will manifest itself through:

- an increase in real incomes
- better access to financial services
- expansion of the labour market

At the same time, accelerated increases in real-estate prices and service prices may be observed, which creates a risk of social polarization within the region itself.

The development of the capital region is closely linked to the concentration of economic resources, human capital, and institutional infrastructure. These factors create preconditions for higher economic dynamism compared with the other regions of the country. As a result, Sofia has established itself as the principal center for attracting investment, developing high-technology activities, and creating new jobs.



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Under conditions of Eurozone membership, such economic centers usually realize the benefits of monetary integration more rapidly. The elimination of currency risk and lower transaction costs facilitate international trade and investment, which creates a favorable environment for business development.

At the same time, intensified economic activity may also lead to certain socio-economic challenges. Increases in the prices of real estate and services often outpace the growth of incomes for part of the population, which creates a risk of social differentiation. This means that even in the most economically developed regions, internal social disparities may be observed. For this reason, the sustainable development of the capital region requires the implementation of a balanced economic and social policy that combines economic growth with improvements in the social environment and quality of life.

3.2. Industrial Regions

Regions with a strongly developed industrial base are export-oriented and are sensitive to changes in competitiveness. The introduction of the euro eliminates currency risk in trade with partners from the Eurozone, which improves the predictability of revenues and stimulates investment in modernization.

The expected effects include:

- stabilization of production
- increased employment
- gradual growth of incomes

Quality of life in these regions is likely to improve, but at a slower pace than in the capital, owing to the lower degree of diversification of the economy.

3.3. Peripheral and Rural Regions

The most substantial challenges arise in peripheral areas characterized by low productivity, an ageing population, and limited investor interest. In these areas, the effect of the introduction of the euro manifests itself primarily through the price mechanism.



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An increase in the prices of services and consumer goods may prove to be faster than income growth, which leads to a decline in purchasing power. As a result, there is a risk of:

- increased migration towards the economic centers
- deepening demographic problems
- reduced access to services

This shows that monetary integration in itself does not guarantee an improvement in welfare without an active regional policy.

This also demonstrates that the effect of the Eurozone should be regarded as a territorially differentiated process in which monetary stability alone does not compensate for the structural weaknesses of local economies. Consequently, economic integration may simultaneously reduce national disparities and increase intra-regional ones.

3.4. Regional Economic Resilience

Regional economic resilience is an important factor in the adaptation of local economies to the processes of economic integration. It is determined by the ability of regions to respond to economic changes, attract investment, and create new opportunities for economic activity.

In peripheral regions, the economic structure is often highly dependent on a limited number of economic activities, which increases their vulnerability to economic change. This means that external factors, including changes in the international economic environment, may have a stronger influence on these regions.

One of the principal mechanisms for enhancing regional resilience is economic diversification. The development of new economic activities and the encouragement of entrepreneurship can create additional opportunities for employment and economic growth.

In this context, the development of small and medium-sized enterprises is of particular importance, as they play a key role in the economic activity of the regions. They contribute to job creation, the development of local markets, and the increase of household incomes.

Support for regional entrepreneurship and the development of local economies can contribute to reducing regional disparities and improving quality of life in peripheral areas.

4. Impact on the Components of Quality of Life

4.1. Incomes and Purchasing Power



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The change in the price system is one of the most sensitive social effects. The experience of other countries shows that, initially, the population perceives price increases more strongly than their actual statistical measurement would suggest (European Commission, 2023). This affects subjective well-being.

In the long term, real incomes depend on labour productivity. Regions with innovative economies increase incomes faster than prices, whereas low-productivity economies lag behind.

4.2. Labour Market

The single currency increases the mobility of capital and enterprises. This leads to a concentration of jobs in economically developed centers. As a result, two parallel trends emerge - a reduction in unemployment in the active regions and depopulation in the peripheral ones.

4.3. Access to Services

Improved financial stability supports investment in infrastructure and public services. However, this effect manifests itself differently across the individual territories. Regions with higher economic activity attract more public and private investment, which improves access to healthcare, education, and transport.

The development of social infrastructure plays a significant role in improving quality of life in the regions. Access to healthcare, education, and social services is an important factor influencing the well-being of the population and the attractiveness of the regions as places for living and economic activity.

Under conditions of economic integration, investment in these areas becomes even more important. Improvement of the educational system and the upgrading of the qualifications of the labour force create preconditions for the development of innovation and the enhancement of the competitiveness of regional economies.

At the same time, the development of digital technologies and electronic services may contribute to overcoming the territorial isolation of less developed regions.

4.4. The Social Dimension of Economic Integration

The social dimension of economic integration is an important aspect in assessing the effects of the Eurozone on quality of life. In addition to economic indicators such as incomes



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and employment, social factors that determine the well-being of the population are also of great importance.

Among the principal social dimensions of quality of life are access to education, healthcare, social security, and public infrastructure. Improvement in these indicators contributes to greater social stability and to the reduction of social inequalities.

Economic integration may create preconditions for improving the social environment by stimulating economic growth and increasing public resources. At the same time, however, there is a risk that the economic benefits may be distributed unevenly among different social groups and regions.

For this reason, social policy should be closely linked to economic and regional policy. Through an integrated approach, conditions can be created for sustainable social development and for improving quality of life throughout the country.

5. Guidelines for Regional Policy

The asymmetrical effect of the Eurozone requires the implementation of an active territorial policy. The main objective is to avoid a deepening of disparities in welfare.

The necessary measures include the development of transport and digital infrastructure in peripheral areas, incentives for investment outside the capital, and support for local business. Of particular importance is the upgrading of the qualifications of the labour force, which allows adaptation to the new economic environment.

The cohesion policy of the European Union plays a key role in this process, as it provides resources for the structural transformation of regions (Rodríguez-Pose, 2018). In this context, effective regional policy becomes a key instrument for ensuring balanced socio-economic development under conditions of monetary integration.

5.1. Financial Integration and Regional Development

Financial integration is one of the main mechanisms through which Eurozone membership affects regional economies. The elimination of currency risk and lower transaction costs create a more favorable environment for investment and economic activity.



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Under a single currency, enterprises gain easier access to international financial markets, which increases opportunities for financing new projects and modernizing production capacities.

These processes may stimulate economic growth and create new opportunities for the development of regional economies. At the same time, however, there is a risk that investment will be concentrated primarily in the more developed regions.

For this reason, the implementation of an active regional policy aimed at stimulating economic activity and improving infrastructure in peripheral areas is necessary.

Conclusion

The analysis shows that accession to the Eurozone will have a significant impact on quality of life in Bulgaria, but the effect will not be the same for all regions. Economically developed centers will realize faster benefits through investment and income growth, while peripheral areas may experience pressure on purchasing power and demographic resilience.

Consequently, monetary integration should be accompanied by a targeted regional policy aimed at increasing productivity, infrastructure connectivity, and human capital. This implies the need for coordination between monetary and regional policy, since the absence of compensatory mechanisms may transform economic benefits into social imbalances. Only in the presence of such measures can the Eurozone become a factor for improving the welfare of the population throughout the country.

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CHALLENGES TO CROSS-BORDER COOPERATION AMONG BALKAN NATIONS

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Abstract:

In the context of a continuously evolving geopolitical environment, cross-border cooperation (CBC) in the Balkans is gaining strategic importance. The object of this report is CBC among Balkan nations within the aforementioned context and under the conditions of European integration. Its subject includes the specific challenges and barriers hindering cross-border cooperation, as well as the role of Bulgaria as a factor of stability following its accession to the Eurozone. The scope of the study covers the Balkan region as a geopolitical space in recent years and in the short-term future.

Keywords: cross-border cooperation, Balkans, Eurozone, regionalization.

JEL: F15, F02

Introduction

Despite the processes of European integration, the fragmented approach shaped by bilateral political disputes and historical legacy remains a leading barrier to the effectiveness of cross-border cooperation in the Balkans. Bulgaria's accession to the Eurozone is expected to strengthen its role as a key driver of economic and political stability in the region, leading to greater institutional predictability and improved synchronization of cross-border projects with neighboring countries outside the EU.

Without claiming exhaustiveness, the study addresses institutional and political asymmetries, the „Eurozone effect“, the new regional delineation, the impact of digitalization and physical connectivity on cross-border cooperation, as well as common challenges and priorities in the areas of security and migration. The report aims to identify and analyze key factors (political, administrative, infrastructural, and social) that hinder effective interaction among Balkan countries and to propose guidelines for overcoming them through an integrative approach to regional development.

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The study is based on a comparative analysis of data published in the Balkan Barometer, European Commission reports, and statistical data for cross-border regions. Methods of system analysis and forecasting are applied, based on data published in SIGMA reports. This approach is also used to outline the impact of the new regional delineation in Bulgaria on cooperation with neighboring countries. Based on a secondary analysis of data from Eurostat-providing comparable statistical indicators-from Data Hub-covering border regions-and from official websites of operational programs, socio-economic and political processes in the region are examined.

1. Institutional and Political Asymmetries

Examining institutional and political asymmetries, the report analyzes the divergence between EU Member States and Western Balkan countries in terms of administrative capacity and legislative frameworks. The existing asymmetries are attributed to the different status of individual countries depending on their EU membership.

1.1. Institutional (Administrative) Asymmetries

The main differences between the Western Balkans Six (WB6) and Turkey, and the Balkan EU Member States (Bulgaria, Greece, and Romania), are concentrated in the area of administrative capacity for implementing reforms and the effectiveness of the legislative framework. Based on a secondary analysis of data published in a SIGMA report, it is concluded that laws are often adopted without leading to real transformative impact. This results in the so-called systemic paradox: the presence of well-developed strategic documents for public administration reform (PAR), but a low level of their actual implementation. In addition, the lack of harmonized data and common statistical indicators complicates cross-border planning, cooperation, and monitoring.

1.2. Political Asymmetries

Political uncertainty, weak institutions, and widespread corruption practices characteristic of countries in the region lead to asymmetry in trust toward EU institutions and national institutions. Data presented in Eurobarometer 2025 report record historically high levels of optimism, trust, and support for EU policies, the single currency, and the Eurozone.



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At the same time, academic reports, as well as national and European studies in individual countries, indicate unprecedentedly low levels of trust in national parliaments, governments, political parties, and local authorities in both the WB6 countries and Bulgaria, Greece, Romania, and Turkey.

The secondary analysis of the data shows that the negative effects of frequent political changes, corruption, and insufficient administrative capacity are multiplied in the implementation of EU pre-accession and operational programs. This leads to frequent changes in leadership positions in institutions with managerial and coordination functions in the field of cross-border cooperation, generating delays not only in project contracting and launch processes, but also in cross-border cooperation programs as a whole.

1.3. Lack of Trust Between Peoples

It should be noted that while part of the problem lies mainly in unstable political environments (Bulgaria - frequent changes of political power; Serbia - political protests; Romania - deep, systemic, and structural crisis of legitimacy of political institutions; Montenegro - recovery after institutional and political crisis), another part stems from historical mistrust between Balkan nations accumulated over centuries.

This leads to either the absence of normalization (Serbia-Kosovo) or very slow normalization (Bulgaria-Republic of North Macedonia) in relations between individual countries. Domestic political priorities shift away from European integration policies, which delays the ratification and launch of cross-border cooperation programs in the region. As a result, deadlines for project preparation and implementation are shortened. Examples in this regard include:

1.3.1. Status of the INTERREG VI-A Greece-Bulgaria 2021-2027 Programme

Despite the program being approved by the European Commission in 2022, the first call for project proposals was opened only at the beginning of February 2024. This was further delayed due to administrative requirements such as proposal evaluation, the results of which were announced at the end of January 2026, and the need to establish new management structures, registers of evaluators (February 2026), updating internal working rules for the 2021-2027 period, as well as environmental and strategic clearances.



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1.3.2. INTERREG VI-A IPA Bulgaria-Turkey 2021-2027 Programme

The status of the INTERREG VI-A IPA Bulgaria-Turkey 2021-2027 program is similar to that of Greece-Bulgaria. It started later than expected, with corresponding delays in implementation.

1.3.3. INTERREG VI-A IPA Bulgaria-North Macedonia 2021-2027 Programme

The program entered an active implementation phase only at the end of 2025, after overcoming initial delays related to administrative procedures and ratifications.

1.3.4. INTERREG VI-A Romania-Bulgaria 2021-2027 Programme

A similar situation is observed in the INTERREG VI-A Romania-Bulgaria 2021-2027 program, which is currently in an active phase of implementation after delays related to its later approval by the European Commission (November 2022). The delay is gradually being compensated through a series of new calls and updates to the rules implemented in the period March 2025 - January 2026.

1.3.5. INTERREG VI-A IPA Bulgaria-Serbia 2021-2027 Programme

This program can be identified as a positive example of cross-border cooperation. It demonstrates significant progress in implementation, although the contracting process continues actively throughout 2026.

2. The „Eurozone” Effect

Of primary interest is the analysis of the impact of the adoption of the single currency in Bulgaria on cross-border trade, the investment climate, and the reduction of transaction costs in joint projects with Serbia, North Macedonia, and Turkey.

2.1. Benefits for Bulgaria

In her speech entitled *„Bulgaria on the Threshold of the Euro: Towards a Shared Future”*, European Central Bank President Christine Lagarde outlined two key benefits for the country - prosperity and security. The main aspects within these directions include:



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2.1.1. Credit Rating

An increase in Bulgaria's credit rating by leading agencies such as S&P and Fitch, accompanied by a reduction in risk premiums and interest rates, which would make the country a more attractive center for regional investments.

2.1.2. Double Currency Conversion

Elimination of the need for double currency conversion, leading to reduced transaction costs. The result is approximately BGN 1 billion annually saved from currency conversion fees in trade with the EU.

2.1.3. Economic Resilience

Increased resilience of the Bulgarian economy against the impact of global economic crises and currency fluctuations.

The outlined positive effects for the country will inevitably have a favorable impact on cross-border cooperation between Balkan states and on the challenges identified in the analysis of institutional and political asymmetries.

2.2. Challenges Following Eurozone Accession

Returning to the subject of this report, it should be noted that the challenges and barriers inevitably created by Bulgaria's accession to the Eurozone have not been the subject of extensive scientific analysis by European and national institutions and academia. They can be grouped into several main directions:

2.2.1. Trade and Competitiveness

The deepening of integration processes leads to efforts to converge living standards in Bulgaria with those of other EU Member States that are part of the Eurozone. This process, together with economic factors such as inflation, has led to a significant increase in wages in the private sector and in the minimum wage during the period 2023-2024. This trend is expected to slow but continue in 2026 and 2027 under pressure from the public sector (the need for compensation in the security and defense sectors), as well as low unemployment levels.



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Secondly, the loss of flexibility and the ability to make currency adjustments relative to non-euro currencies should be taken into account in the event of economic shocks in Turkey or Serbia.

It should also be noted that any price advantage of goods in one Balkan country will inevitably encounter trade protectionism from others, creating an additional barrier to the development of cross-border cooperation.

2.2.2. Investment Attraction

A potential sharp increase in foreign direct investment and rising inflation (caused by incoming financial flows) may lead to further increases in real estate prices in Bulgaria and labor costs. This would make neighboring countries (such as Romania or Serbia) more attractive for greenfield industrial investments due to lower operating costs.

By remaining outside the Eurozone, Romania retains the possibility of currency adjustments, which Bulgaria relinquishes. This allows Romania to enter into direct competition with Bulgaria for attracting capital in the event of a global financial crisis.

2.2.3. Currency Conversion and Transaction Costs

The effect of eliminating the need for currency conversion, expressed as savings on transfer fees to the EU, is essentially unilateral, as fees for transfers to and from Balkan countries that remain outside the SEPA area (Serbia, Turkey, and North Macedonia) are preserved. This creates „two-speed“ financial integration - easy with the EU but still costly with neighboring countries.

The reduction of financial risk after adopting the single currency is also unilateral. Bulgarian and Greek companies will continue to bear the full risk of depreciation of the currencies of other Balkan countries against the euro. They are deprived of the buffer role previously played by the lev and the drachma as intermediate currencies in a regional context.

2.2.4. Challenges for Cross-Border Cooperation and Joint Projects

In the short term, Bulgarian beneficiaries will face a one-time increase in costs and corresponding rise in project expenses due to the need to adjust accounting systems to the euro. This may lead to short-term difficulties in working with partners from countries with weaker institutional frameworks.



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In the medium and long term, INTERREG projects with Serbia, Turkey, and North Macedonia will face differences in reporting currencies (currency asymmetry in joint financing). This may lead to budget inconsistencies in the event of sharp currency fluctuations, particularly with the Turkish lira.

3. Restructuring of Statistical Regions in Bulgaria (NUTS 2)

The restructuring of statistical regions in Bulgaria can be viewed as an instrument for more targeted support of peripheral border areas, which often remain in an „investment shadow.”

3.1. Reasons for the Reform and Objectives

The main driver of the reform is the population decline in the Northwestern and North Central regions below the critical threshold of 800,000 inhabitants required by Eurostat for NUTS 2 level. By applying an integrative approach, the new model of regional policy in Bulgaria aims to overcome lagging access to healthcare and transport in border areas and, consequently, the deepening demographic crisis.

Changes in the regions also affect the „Regional Aid Map,” allowing co-financing levels of up to 60-70% in poorer border territories. At the same time, separating Sofia into an independent region will allow better access to funding for small municipalities in the former Southwestern region.

3.2. Challenges for Cross-Border Cooperation

From the perspective of cross-border cooperation, a number of challenges emerge for Bulgaria and neighboring Balkan countries, including:

3.2.1. Multifactor Influence

Expectations for a positive effect of the changes on the demographic situation, access to healthcare, and transport in border areas are long-term objectives. Their achievement does not depend solely on changes in statistical regions, as this is only one of the prerequisites.

3.2.2. Deepening Economic Differentiation

Regional disparities in Bulgaria between border and central regions continue to deepen, with GDP per capita in border areas remaining significantly lower. This hinders large-scale



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joint investments with neighboring countries that are in similar or more difficult economic situations.

3.2.3. Reorientation of Administrative Centers

Insufficient administrative capacity (both resource and managerial) in small municipalities in border areas complicates the reorientation of administrative centers within the new statistical regions.

3.2.4. Reassessment of Established Governance Structures

The change in the scope of planning regions creates the need for reassessment and potential modifications of already established governance structures of INTERREG programs with neighboring countries (Serbia, North Macedonia, Turkey, and Greece).

3.2.5. Lagging Infrastructure Connectivity

There is significant lag in infrastructure connectivity-both transport and energy-particularly along the borders with Serbia and North Macedonia. This hampers the creation of functioning cross-border economic clusters.

4. Physical and Digital Connectivity

Physical and digital connectivity between individual nations and their states are key conditions for the existence and development of cross-border cooperation (CBC). For this reason, in 2026 the EU's efforts in the Balkans are focused on integrating physical infrastructure and accelerating digitalization through strategic investment packages and regional initiatives.

During the 20th century, accumulated historical distrust-fuelled by territorial claims (early 20th century) and nationalist policies of individual states-resulted in poorly developed transport links not only between Bulgaria and neighboring countries, but also within border regions. This places the development of transport, energy, and logistics infrastructure in border areas as a leading challenge for Balkan nations, and consequently the improvement of physical connectivity in the region and the digitalization of systems.

Transport infrastructure in border regions is mainly financed through the INTERREG (2021-2027) programs, the Transport Connectivity Programme 2021-2027 (TCP), and the Connecting Europe Facility (CEF). The challenges facing INTERREG (2021-2027) were outlined earlier in the report (1.3.1. to 1.3.5.).



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4.1. Transport Connectivity Programme 2021-2027

The funds allocated for Bulgaria during the programming period amount to €1.61 billion. Priority areas include:

- Rail transport (primarily rehabilitation of sections from Sofia to the borders with Serbia and North Macedonia, as well as completion of the Elin Pelin - Kostenets and Voluyak - Dragoman sections);
- Road sector (construction of the Ruse-Veliko Tarnovo motorway, the tunnel under Shipka peak, and completion of the Struma motorway);
- Improving navigation conditions (investments in the ports of Varna, Lom, and Ruse, purchase of dredging vessels, marking vessels, and navigation safety systems);
- BGN 92 million (just over €47 million) allocated for alternative fuel charging infrastructure.

The programme faces a number of serious challenges in Bulgaria in the following areas:

4.1.1. Rail Transport

The main challenges include engineering complexity in rehabilitating existing and constructing new sections, heavy administrative procedures for land expropriation (where necessary), coordination procedures, Environmental Impact Assessments (EIA), major delays, and the need to transfer entire stages to future programming periods. The introduction of modern safety systems is also required.

As a result, a significant portion of the program's resources for 2021-2027 is committed to implementing stages not completed during the 2014-2020 period. The issue of lobbying by Bulgarian road transport operators should not be overlooked.

A serious challenge is also the regional imbalance between infrastructure in Northern Bulgaria and the rest of the country.

4.1.2. Road Transport

The challenges are similar to those in rail transport: serious delays in project implementation, transfer of stages, environmental challenges and delays in EIA assessments, implementation of intelligent transport systems (ITS), and road safety measures.



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Again, there is a significant regional imbalance between Northern Bulgaria and the rest of the country. Considering road infrastructure under the NUTS 2 division, as of 2022 the Northwestern region has 17 km of motorway, the North Central region - 0 km, and the Northeastern region - 105 km, out of a total of 825 km of motorways. Project delays also significantly increase costs.

4.1.3. Water Transport

The main challenges in this sector are outdated port infrastructure, low intermodality, and the need to modernize traffic management information systems (VTMIS and RIS).

4.2. Connecting Europe Facility

„The Connecting Europe Facility (CEF) was established by Regulation 1316/2013 as one of the main EU instruments to accelerate infrastructure investments in trans-European networks in the transport, telecommunications, and energy sectors.” (Official website of the Ministry of Transport and Communications)

The program focuses on three main sectors:

- transport
- energy (financing European energy infrastructure for better connectivity and resilience)
- digital technologies (investments in broadband networks and digital services to improve connectivity between Member States)

4.2.1. Energy Connectivity

Energy connectivity is a key element of cross-border cooperation. Cross-border projects in the energy sector outline the following challenges:

- national pursuit of energy independence
- increasing share of renewable energy sources in total production
- lack of balancing capacities (not only in the Balkans but across Europe)
- lack of harmonized cross-border management creating regulatory barriers that hinder rapid integration of national markets



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4.2.2. Digital Connectivity

The digital component of the CEF is a financing instrument (budget €1.5 billion for 2021-2027) aimed at building gigabit and 5G infrastructure and digital corridors in the EU, including:

- 5G coverage along transport road and rail corridors (TEN-T network)
- quantum communication infrastructure (fast and secure European system for crypto key exchange)
- backbone networks for pan-European cloud hubs
- operational digital platforms

The growing need to build digital „green corridors“ creates the following challenges for cross-border cooperation, determined by the heterogeneous nature of the Balkans (EU Member States and candidate countries):

- lack of harmonized national regulations, including radio spectrum management
- service interruptions when crossing borders (roaming/handover problems; significant price differences between EU and non-EU services)
- increased risk of cyberattacks against critical cross-border infrastructure connecting medical equipment, transport, and administrative systems
- absence of strict digital security requirements and control over participating entities
- uneven integration of digital infrastructure across countries and uneven territorial distribution, especially in rural areas (digital divide)

4.3. Pan-European Corridors

Several Pan-European corridors pass through Bulgaria (IV, VII, VIII, IX, and X). Of these, only Corridor X is fully completed on Bulgarian territory. All others face serious delays:

- Corridor IV is not completed in the Botevgrad-Vidin section
- Corridor VII (entirely along the Danube River) lacks implementation of port reconstruction projects mentioned above
- Corridor VIII combines rail and road transport; both routes are largely built in Bulgaria



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- Corridor IX faces significant delays in the Ruse-Veliko Tarnovo motorway and the Shipka tunnel section

It should be noted that, again with the exception of Corridor X, the other Pan-European corridors also face delays in their extensions toward Europe through Romania (IV and IX), Romania and Serbia (VII), and North Macedonia-particularly the joint tunnel with Bulgaria-as well as Albania (Corridor VIII).

The challenges to constructing these corridors-and consequently to cross-border cooperation between Balkan nations and the rest of Europe-have already been discussed above. These include overcoming nationalist policies aimed at protecting strictly national interests, lack or insufficient administrative capacity for synchronizing large cross-border projects, and serious delays in individual project stages leading to increased costs.

5. Security Challenges in the Region

Globally, security-related challenges are increasing. The Balkan region is no exception, given the significant number of active and frozen military conflicts nearby, including the war in Ukraine. Positioned at a crossroads between continents, Balkan nations are also facing strong migration waves in all their forms. As a result, the following specific challenges stand out:

5.1. Own Financing

Difficulty in securing own financing for cross-border projects. Each country in the region is significantly increasing its defense budget in response to geopolitical uncertainty. This, combined with growing pressure to equalize living standards, often leads to the need to shift priorities in public budgets.

5.2. Hybrid Threats

The increase in hybrid threats-such as risks to energy security, disinformation, „instrumentalized migration,” and others-negatively affects trust between Balkan nations and leads to the hardening of nationalist policies. As a result, there is a tendency toward closing economies, with negative consequences for cross-border cooperation.



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5.3. Migration

Growing need for migration management as a shared challenge. This can be viewed both in terms of border protection-without hindering the movement of goods and capital-and as a need to align visa policies with those of the EU and combat human trafficking.

5.4. Skilled Workforce

Part of the migration problem is „brain drain,” which further deepens the demographic crisis and the shortage of qualified labor. Addressing this challenge has both a national dimension (movement of workforce from border to central regions) and a cross-border dimension (from North Macedonia to Bulgaria and from Bulgaria to Greece).

Conclusion

The detailed examination of the subject of this report identifies several main directions containing a large number of diverse challenges. Their resolution cannot be achieved using the tools of a single discipline, as they require legal, economic, engineering, digital, and sociological expertise. In the long term, cross-border cooperation among Balkan nations is inevitable, driven by globalization processes. In the medium term, the challenges will persist, and overcoming them will be a slow and complex process.

The report concludes that the greatest challenge to cross-border cooperation remains the fragmented approach. In this regard, an integrative approach is of key importance for overcoming the challenges facing Balkan nations.

The integrative model requires a transition from bilateral to multilateral projects that combine energy and transport security, economy, ecology, culture, and education. Membership in the Eurozone will act as a catalyst for trust among nations, attracting external investment in border areas, provided that institutional blockages at borders are overcome.

At the national level, efforts are needed to increase trust in political institutions and overcome institutional weaknesses.

At the regional level, joint efforts of all Balkan nations are required to overcome accumulated historical distrust and build digital connections that reduce the administrative burden in cross-border cooperation.



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It is necessary to move beyond the pursuit of strictly national policies and recognize the broader common perspective, integrating respective national interests within it.

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**AN INTEGRATIVE APPROACH TO REGIONAL DEVELOPMENT:
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**INTEGRATIVE APPROACH TO REGIONAL DEVELOPMENT: THE
NEW ZONING AND BULGARIA'S PATH IN THE EURO AREA.**

Penko Zashev*

Abstract:

This article examines the integrative approach in regional development in the context of Bulgaria's new zoning and the country's strategic path towards membership in the euro area. The integrative approach is based on coordination between economic, social and environmental policies, territorially oriented planning and active partnership between institutions, business and civil society. It aims to reduce regional imbalances, increase competitiveness and sustainable development of regions. The new zoning of the country aims at effective planning and absorption of European funds, better compliance with demographic and economic realities and creating prerequisites for balanced territorial development. Through integrated territorial investments, smart specialization and digitalization, conditions are created for sustainable economic growth and raising living standards. In this context, the path to the euro area requires macroeconomic stability, financial discipline and structural reforms that directly affect regional competitiveness and the investment environment. The successful implementation of an integrative approach in regional policy supports the fulfillment of the convergence criteria, reduces internal political differences, strengthens the economic resilience of the country. The synchronization of regional policy according to the process of accession in the euro area is a strategic tool for accelerating the economic development, social cohesion and integration of Bulgaria into the European Economic Area.

Key words: *European integration, territorial planning, sustainable development, economic cohesion, strategic planning.*

JEL:R11, R58

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Introduction:

Regional development is a key element of the socio-economic policy of each country, aimed at achieving balanced growth, reducing territorial disparities and improving the quality of life of the population. In the context of deepening European integration and dynamic economic processes, the need to apply an integrative approach in regional development is becoming increasingly important. This approach implies coordination between different sectoral policies, levels of government, and stakeholders in order to effectively use the available resources and potential of individual regions. In this context, the new zoning of Bulgaria represents an important step towards modernizing regional policy and adapting it to current demographic, economic and territorial realities. The changes in the territorial division aim at increasing the efficiency of regional governance, better coordination of public policies and uniform socio-economic development of the territories, through optimal distribution of resources and improving access to European and national funding, strategic planning, better absorption of European funds and strengthening regional competitiveness. The new zoning is seen not only as an administrative reform, but as a tool to promote integrated and sustainable development. At the same time, Bulgaria's path to membership in the euro area places additional requirements in terms of macroeconomic stability, financial sustainability and the implementation of consistent structural reforms. This process has a direct impact on regional development, as economic convergence and a stable investment environment are a prerequisite for reducing regional imbalances and achieving long-term growth. This article aims to analyze the role of the integrative approach in regional development in the context of the new zoning and the process of Bulgaria's accession to the euro area, focusing on the interconnections between territorial policy, economic convergence and sustainable development of the regions.

Methodology of the study:

The study is based on an interdisciplinary approach that combines instruments of regional economics, public administration and macroeconomic analysis. A systemic integrated approach is applied, considering regional development as part of the broader process of economic convergence to the euro area.

Object:



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The Regional Policy of the Republic of Bulgaria in the Context of European Integration
and the Preparation for Membership in the Euro Area.

Subject:

The interaction between the new territorial zoning (NUTS 2), integrated territorial policies, economic convergence as a factor for joining the euro area.

Purpose of the study:

To assess the impact of the integrated approach to regional development and the new zoning on reducing regional imbalances on the process of nominal and real convergence of Bulgaria to the euro area. The Regional Development Act of 2008 takes into account the direct effect of the provisions of European law after the admission of Bulgaria as an EU Member State and aims to create appropriate interconnections between the national legislation for regional development and that of the EU with a view to their effective implementation. Important directions of regional development policy at European level, related to the Lisbon Strategy of the EU, the principles of sustainable development and European territorial cooperation, are taken into account. The main objective of the state policy for regional development in Bulgaria is to create conditions for balanced and sustainable integrated development of regions and municipalities on the basis of a system of legally regulated documents, resources and actions of the competent authorities. This system is aimed in particular at:

- reducing interregional and intra-regional disparities in the degree of economic, social and territorial development;
 - Providing conditions for accelerated economic growth and a high level of employment;
 - development of territorial cooperation. The territorial scope of the regions as a basis for the implementation of regional policy in Bulgaria is in accordance with the requirements of the Common Classification of Territorial Units for Statistics (NUTS), applied by Eurostat for the regions in the EU under Regulation (EC) No 1059/2003.
- updating and refining the objectives of regional development in accordance with the strategic orientation of the cohesion policy in the EU for the period 2007-2013.



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- coordination between the strategic planning process and the programming process of regional development interventions, including those co-financed by EU funds;
- Creating clearer rules and simplifying the interlinkages between strategic planning documents for regional development;
- applying a decentralised approach to planning resources for the development of areas for targeted support;
- Optimization of the structure and functions of bodies and administrative units to improve the management of regional development on the basis of effective partnership
- Establishment of a mechanism for regional coordination in the implementation of operational programmes co-financed by EU funds, in coordination with the Ministry of Finance
- Introduction of a unified information system for regional development management in order to improve the overall process of planning, monitoring and evaluation of regional development and regional policy;
- Merging the by-laws into the Regulations for the Implementation of the Regional Development Act, which creates a better regulatory environment for the implementation of the provisions of the law.

In methodological and methodological terms, the Regional Development Act establishes the following principles: - a unified approach to planning and programming; - concentration of resources; - complementarity of funding from national public sources with co-financing with resources from private sources and international financial institutions; - interdepartmental coordination of the activities of the competent authorities in the process of planning, programming, resource provision, implementation, monitoring and evaluation;

With a view to creating clearer rules and procedures for the development, adoption, implementation, monitoring and evaluation of strategic and planning documents for regional and local development, the hierarchical relationship and coherence between the documents has been simplified in order to improve coordination between the authorities that develop and adopt them. Better coordination of administrative structures at central level has also been achieved, by optimising their functions and interaction in terms of regional development management.



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With regard to the planning, programming, monitoring and evaluation of financial assistance from the Structural Funds and the EU Cohesion Fund, the necessary prerequisites and a mechanism for regional coordination have been established by clearer delineation of functions and ensuring synergies between management bodies at central and regional level. A single information base for regional development management is introduced, which is expected to be completed in the future and functionally effective in order to comprehensively cover the process of planning, monitoring and evaluation of regional development and regional policy in the next planning period. The effectiveness and transparency of regional policy at the respective territorial levels are based on the requirements set for wider application of the principle of partnership and public participation at regional and local level. The monitoring and evaluation of regional development shall be placed on a strategic and systematic basis, clearly defining the criteria and indicators, as well as the forms and ways of reporting the results in order to achieve effectiveness and efficiency of the Ministry of Regional Development and Public Works General Directorate „Strategic Planning of Regional Development and Administrative-Territorial Planning“ development. In 2009, on the basis of Art. 17, item 8 of the Regional Development Act, the „Methodological Guidelines for Updating the Current Strategies and Plans for Regional and Local Development - 2009“ have been approved. The methodological guidelines are addressed to the development of updated documents for the implementation of the National Strategy for Regional Development, the regional development plans, the regional development strategies and the municipal development plans for the period up to 2013-2015. and provide specific guidelines on the development of the structure and content of the updated documents for the implementation of the strategies and plans for regional and local development until the end of their validity period. The update ensures greater applicability of the documents and improves their strategic orientation and practical contribution to the realization of national and pan-European goals of regional development. The update of the documents for strategic planning of regional development, which further develop the methodological basis for planning, take into account the third dimension of the cohesion policy - territorial cohesion, the integration of global environmental goals in the process of regional and spatial planning, as well as the construction of the information society. A new contribution to achieving a harmonious and balanced territorial situation in Europe has been made with the



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adoption in May 2011 of the EU Territorial Agenda 2020, in line with the objectives of smart, sustainable and inclusive growth of EU regions. The Community Strategic Guidelines for Cohesion Policy for the period 2007-2013 give a new impetus to the pursuit and support for economic growth, employment and sustainable development in the EU, starting with the strategies outlined by the European Councils of Lisbon and Gothenburg. Includes the following priorities, that have an impact on the formulation and implementation of regional policy: „Europe and its regions - a better place to invest and live“with a focus on expanding and improving transport infrastructure; balance between environmental protection and economic growth; increasing the share of renewables. „Improving knowledge and innovation for growth“and a specific focus on increasing investment in research and development (R&D); facilitating innovation activities and promoting entrepreneurship; building an information society for all; improving access to financing for innovative solutions. „More and better jobs“by increasing employment and modernizing the social assistance system; improving the adaptability of the workforce and mobility in the labour market; increasing investment in human capital, improved education and skills; strengthening administrative capacity; improving healthcare. „Territorial cohesion and cooperation“by promoting the role of urban regions in increasing growth and employment; support for diversification territorial and cross-border cooperation.

New strategic directions and requirements in relation to the planning and programming of regional development after 2013. The Europe 2020 strategy sets out three interdependent priorities:

- Smart growth: building an economy based on knowledge and innovation;
- Sustainable growth: promoting a greener and more competitive economy with more efficient use of resources;
- Inclusive growth: boosting an economy with high levels of employment that leads to social and territorial cohesion.

Smart Growth Priority In the area of innovation: an EU flagship initiative „Innovation Union“aimed at improving the framework conditions and access to research and innovation



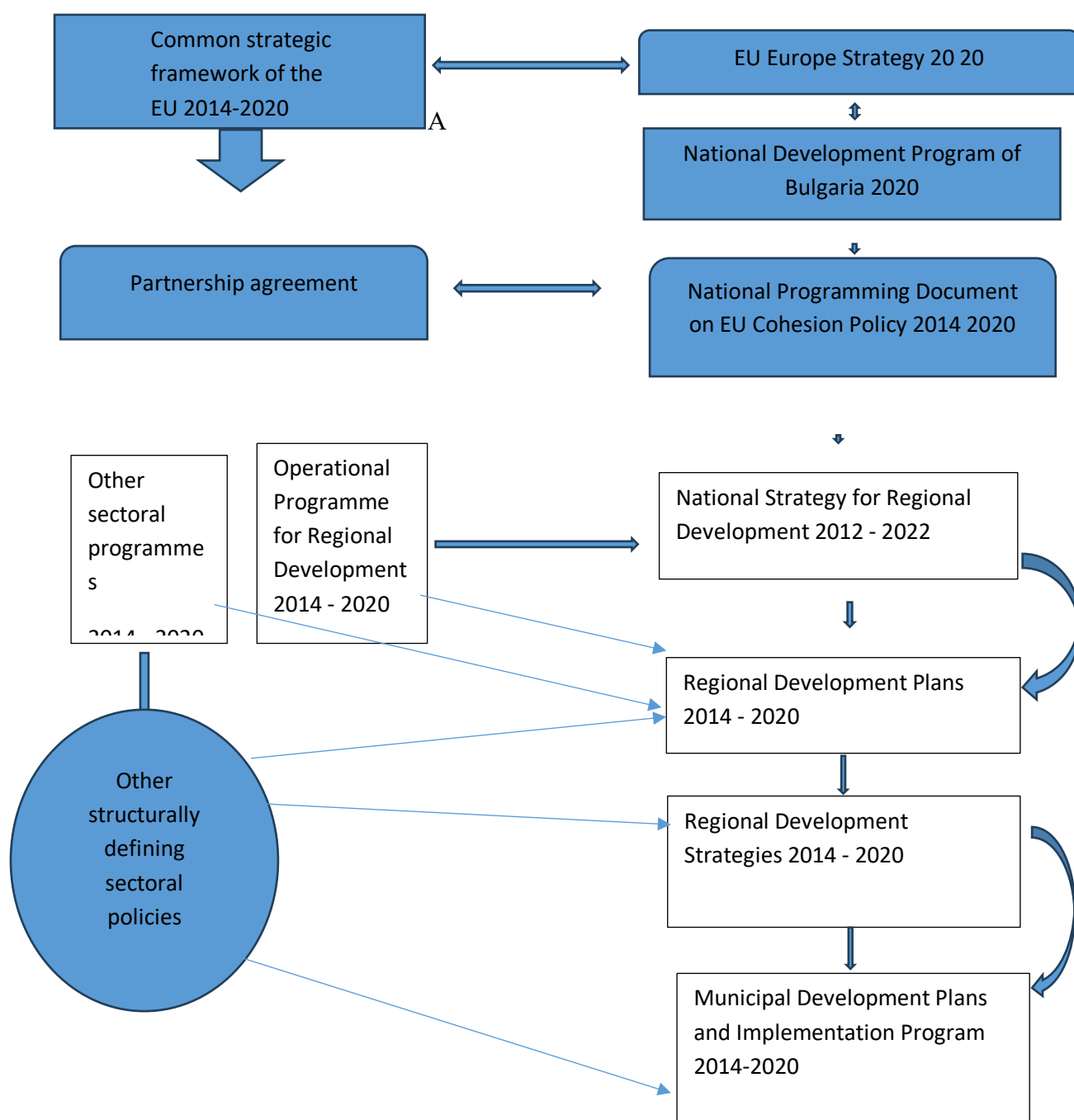
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funding in order to strengthen the innovation chain and significantly increase investment; In the field of education: EU flagship initiative „Youth on the Move“to improve the performance of education systems and increase the attractiveness of tertiary (tertiary) education at international level; In the area of digital society: the EU“s flagship initiative „Digital Agenda for Europe“, aiming to accelerate the spread of high-speed internet access and reap the benefits of a Digital Single Market for households and businesses. Sustainable growth priority Climate, energy and mobility: the EU’s flagship initiative „A Resource-Efficient Europe“, which aims to eliminate the quantitative dependence between economic growth and resource use by reducing carbon emissions in the economy, increasing the use of renewable energies and energy efficiency, and modernising the transport sector; Competitiveness: the EU“s flagship initiative „Industrial Policy for the Globalisation Era“, which aims to improve the business environment, in particular for SMEs, and to support the development of a strong and sustainable industrial base enabling global competitiveness. Inclusive Growth Priority Employment and Skills: an EU flagship initiative „Agenda for New Skills and Jobs“to modernise labour markets by facilitating labour mobility and the development of lifelong skills by increasing labour market participation and achieving better matching labour supply and demand; Fight against poverty: the EU“s flagship initiative, the European Platform against Poverty, aims to ensure social and territorial cohesion so that the benefits of growth and employment are widely shared by all, and that people living in poverty and social exclusion have the opportunity to live a life of dignity and be an active part of society. EU policies and legislation, as well as its financial instruments in the future, should be mobilised to achieve the objectives of the Europe 2020 strategy. Cohesion and regional development policy will have a special place and role among these policies and instruments. Economic, social and territorial cohesion will remain at the heart of the Europe 2020 strategy as a factor in mobilising resources to achieve the objectives and priorities of the strategy. Diagram of the links of the documents for strategic planning and programming of regional development. 1Scheme of the EU Common Strategic Framework 2014 - 2020



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MAIN CHALLENGES AND POTENTIAL FOR DEVELOPMENT OF THE NATIONAL SPACE.



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The National Concept for Spatial Development of the Republic of Bulgaria, 2013 - 2025 is the first spatial planning document in the last three decades, which is being developed for the entire national space under completely different political and socio-economic conditions, the country's membership in the European Union and a changed attitude towards the content and role of spatial planning.

Policy and legislative framework: Bulgaria has significant historical experience in regional and spatial planning at national level, which in this document builds on and orients itself to the new global challenges related to resource conservation and adaptation to climate change and takes into account the basic principles of modern climate change Sustainable and **territorial development policy**.



Figure 2: spatial connections with neighbouring countries

The European Commission proposes to establish a comprehensive and coordinated Common Strategic Framework to specify the objectives, priorities and necessary reforms to maximise the impact of cohesion policy investments and achieve the objectives of smart, sustainable and inclusive growth. The new zoning and accession to the euro area are part of the broader process of Bulgaria's economic integration into the European Union. The changes in the regional structure are due to balanced development and efficient use of European funds, which strengthens the economic stability of the country. For its part, the introduction of the euro requires precisely such a stable and predictable economic environment. Thus, two policies



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complement each other and outline a coherent path towards deeper European integration and sustainable growth. In this context, the European Commission proposes the creation of a comprehensive and coordinated common strategic framework to specify objectives, priorities and necessary reforms in order to maximise the impact of cohesion policy investments and achieve the objectives of smart, sustainable and inclusive growth.

Problems and Challenges to the Territorial Division in the Republic of Bulgaria for the Implementation of the EU Cohesion Policy.

According to the RRA, Bulgaria is divided into six level 2 regions according to NUTS, which are called „planning areas“. They are the main regions whose economic development is assessed in terms of gross domestic product (GDP) compared to the European Union (EU) average. By dividing the regions according to similar characteristics, the EU assesses the level of development every three years through reports assessing progress in cohesion and allocates financial resources according to indicators characterising the level of development of the regions. Under Regulation 1059/2003, EU countries are subdivided hierarchically according to the NUTS classification into territorial units at several NUTS levels. Each level is formed according to the number of inhabitants in it (level 2 is formed with a population between 800,000 and 3 million people). The questions that arise regarding the territorial division in Bulgaria are two: (1) Does the number of inhabitants in the current regions correspond to the requirements of the EU regulation? AND (2) Does the current division promote sustainable regional development of regions in cohesion policy? One of the main points of contention is whether the city of Sofia can be separated as a separate level 2 region. Back in 2007, Sofia had a sufficient number of inhabitants, but due to the high level of GDP, it would have lost the opportunity to receive funding from all the Structural Funds at that time. For this reason, it was included in the South-West region. Subsequently, a large part of the key investments in infrastructure during the two programming periods from 2007 to 2020, financed by the Operational Programme on Transport (53.8% for 2007-2013 and 65.8% for 2014-2019.1) were invested in the South-West region, which further increased the standard of living in it and led to a decrease in the quality of life in the regions of Northern Bulgaria. where there is no high-speed road from Sofia to Varna. The GDP of North Central and South Central is extremely low compared to the EU average. In 2018, these three regions remained the least developed in



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the EU, followed only by Mayotte. In addition to the main tasks, the National Concept for Spatial Development for the period 2013-2025 supports the preparation of the Operational Program for Regional Development and the coordination of the actions and priorities set with those of the Rural Development Program to achieve balanced development of the national territory. It provides the guidelines and justification for the selection of territories in which concentration and integration of resources is possible to support the development of tourism, for the preservation and socialization of cultural heritage, for cross-border cooperation in the protection of natural values. The elaboration of the National Concept for Spatial Development 2013-2025 uses principles, methods and procedures imposed in practice that guarantee the successful achievement of the goals.

➤ *Integrated planning* ensures the complex treatment of all problems on the territory in order for the NCPR to fulfill its main role as a spatial framework and as a basis for regional and sectoral planning.

➤ *The scientific approach to planning*, a mandatory principle for all levels and activities in spatial planning, due to the scale of the study, the scope of the problem, the changed priorities in socio-economic and regional development in accordance with global problems, the huge amount of information.

➤ *The priority protected public interests* guarantee the balance with individual interests in the implementation of the ideas and priorities of the national development policy.

➤ *Publicity, transparency, partnership and civic participation in the decision-making process* are guiding principles in the process of drafting the NCPR, at all stages from the collection and updating of information and the discussion of interim results to the preparation of the spatial model for the development of the national territory, the adoption, approval, implementation of the document and the implementation of the set priorities and measures.

➤ *The continuity, coherence and continuity of the planning process* support the rational and adequate use of the experience gained over the years in the development of important documents.



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➤ *Interdisciplinarity, transdisciplinarity and synergy* in the generation of ideas that stimulate creativity and innovation are applied to avoid the sectoral approach and to synthesize proposals for spatial development.

➤ *Concentration* - thematic, financial, geographical, resource and temporal - suggests more appropriate behaviour in the use of limited resources where they are most needed or where they will have the greatest impact.

The main tool in the development of the National Concept for Spatial Development is *the Geographic Information System* with the proposed structured geospatial data base.

Conclusion

The study shows that the integrative approach to regional development, combining territorial planning, fiscal stability, institutional coordination, is a key factor for Bulgaria's successful adaptation to the new economic environment within the euro area. The process of new zoning level 2 has the potential to improve access to European funding and strengthen economic cohesion. The new configuration allows for more accurate targeting of investments in infrastructure, innovation and human capital. The analysis shows that through the functional unification of economically related areas, prerequisites are created for more sustainable economic growth outside the capital region. Integrated territorial investments are identified as an effective tool for regional planning. The analysis shows that Bulgaria maintains stable indicators in terms of inflation, budget deficit and public debt franc and the Maastricht criteria. Membership in the euro area is expected to reduce currency risk and increase foreign investment, especially in industrialized regions, the highly developed economic centers are likely to realize faster benefits, while weaker ones require targeted compensatory policies. The euro area alone does not guarantee convergence, an active policy is needed to increase the percentage of productivity and digitalization. The study finds that the new zoning can serve as a tool for better preparation of economic integration in the euro area, regional policy should be linked to fiscal discipline and investment in competitiveness. Integration in the euro area will have a stronger positive effect in the presence of well-structured regional economies.

1 accelerates the administrative reform related to the new zoning 2

2. Strengthening investments in transport and digital infrastructure



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3. Developed regional strategies for adaptation to the euro area
4. Improving coordination between national fiscal policy and regional programmes

References:

Operational Programme Regional Development (2007 - 2013)

Methodological Guidelines for the Development of a National Strategy for Regional Development of the Republic of Bulgaria (2012 - 2022)

Regional Development Plans for Level 2 Areas (2014-2020)

Regional Development Strategies (2014-2020)

Municipal Development Plans (2014-2020)



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**GOOD PRACTICES AND EUROPEAN EXPERIENCE IN REGIONAL
DEVELOPMENT: EXPERT DIALOGUE ON INTEGRATED
TERRITORIAL DEVELOPMENT POLICIES, ECONOMIC COHESION
AND SUSTAINABLE GROWTH**

Makari Ivanov Lazarov*

Abstract:

This report analyzes good practices and European experience in the field of integrated policies for territorial development, economic cohesion and sustainable growth. In the context of growing territorial imbalances, climate challenges and the need to achieve sustainable development goals, the study examines the instruments of Cohesion Policy 2021-2027, with a focus on Integrated Territorial Investments (ITI), Community-Led Local Development (CLLD) and Territorial Agenda 2030. Through analysis of current data from the Joint Research Centre (JRC) and European Commission reports, key success factors are identified: place-based approach, multi-level governance, functional territorial strategies and combined funding. The main results show that cohesion policy contributes significantly to achieving SDG 1, 8 and 10, reducing poverty by up to 0.98% by 2029 and regional inequalities by 4.29%. The limitations of the study are related to the availability of data on long-term impact and the specificity of national contexts.

Keywords: *integrated territorial investments (ITI), place-based approach, multi-level governance, community-led local development (CLLD), sustainable development goals (SDGs), economic cohesion*

JEL: R11, R58

I INTRODUCTION

Contemporary regional development in the European Union is characterized by complex challenges related to accelerating urbanization, demographic changes, climate risks

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and deepening territorial imbalances between urban and rural areas, central and peripheral territories (Borisov, Petrov, Tsonkov, 2024; Petrov, 2021; Tsonkov, Petrov, 2024). In this context, traditional sectoral approaches in public policies prove insufficient to address the multidimensional nature of regional inequalities (Tsonkov, Borisov, Slaveva, 2025; Tsonkov, 2023). The need for integrated, place-based strategies that combine resources from different funds and policy areas necessitates a rethinking of conventional models of territorial planning and management (Tsonkov, 2022; Tsonkov, 2024).

EU Cohesion Policy, as the main instrument for reducing economic, social and territorial differences between regions, has undergone substantial evolution over the last two programming periods. The introduction of Integrated Territorial Investments (ITI) in 2014-2020 and the strengthening of the territorial dimension through Policy Objective 5 „A Europe closer to citizens“ in the current 2021-2027 period reflect a paradigm shift towards a holistic approach in regional development. Simultaneously, Territorial Agenda 2030 and the Long-Term Vision for Rural Areas by 2040 set ambitious goals for achieving sustainable territorial cohesion and a just transition in all European territories.

The aim of this report is to systematize good practices and European experience in the application of integrated policies for territorial development, to analyze their impact on economic cohesion and sustainable growth, and to formulate recommendations for expert dialogue regarding the future of cohesion policy after 2027. The study is based on analysis of current European Commission documents, scientific publications from the Joint Research Centre (JRC) and implementation reports on Territorial Agenda 2030 and Rural Vision 2040.

To achieve this goal, the study formulates the following specific research questions: (1) What are the expected macroeconomic effects of Cohesion Policy 2021-2027 in Bulgarian regions? (2) Is there a conflict between national economic growth and reducing regional imbalances in the application of ITI? (3) What institutional barriers limit effective multi-level governance of integrated policies in Bulgaria?

II. LITERATURE REVIEW



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In the scientific literature, the integrated territorial approach is viewed as a response to the limitations of traditional sectoral policies. Barca (2009) formulates the concept of „place-based approach,“ which emphasizes adapting policies to the specific characteristics of territories rather than applying universal solutions. This perspective is developed by OECD (2019), who emphasize the importance of multi-level governance for addressing territorial imbalances.

Cohesion Policy during the 2014-2020 period has been the subject of extensive research regarding the effectiveness of new instruments. Medeiros (2019) analyzes the introduction of ITI and concludes that their success depends on the capacity of local institutions and the degree of stakeholder engagement. In this regard, ESPON (2020) reports identify key success factors: integrated planning, combined funding and long-term commitment of local communities.

Regarding territorial cohesion, Faludi (2018) distinguishes the concept from economic and social cohesion, insisting on a specific focus on spatial aspects of development. This perspective is adopted in Territorial Agenda 2030, which sets the goal of „a future for all places“(Territorial Agenda 2030, 2020).

Contemporary studies by Varga et al. (2025) demonstrate the quantitative impact of cohesion policy on Sustainable Development Goals, while OECD (2024) analyze the challenges facing beneficiary capacity in absorbing EU funds.

Critical analysis of the literature reveals a substantial gap: existing studies focus primarily on the institutional design of instruments but neglect empirical evaluation of their economic impact on specific regions. Varga et al. (2025) apply model simulations but without specific data for Bulgarian regions. The JRC analysis for Bulgaria (2021) is among the few exceptions that quantitatively assess the impact on individual NUTS 2 regions, identifying the absence of an „equity-efficiency trade-off“- a unique characteristic of the Bulgarian context that allows simultaneous achievement of national growth and reduction of regional imbalances. Literature on Bulgaria (Borisov, Petrov, Tsonkov, 2024; Tsonkov, 2023; Petrov, Tsonkov, 2023) identifies structural problems - monocentric growth around Sofia, Plovdiv, Varna and Burgas, negative demographic trends and lack of connectivity - but does not offer systematic analysis of the effectiveness of integrated instruments in the Bulgarian context (Tsonkov, Petrov, 2024).



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III. METHODOLOGY

The study applies qualitative analysis of policy documents and quantitative analysis of data on the impact of cohesion policy. The methodological framework includes:

Analysis Criteria:

- Degree of integration of policy instruments (ITI, CLLD)
- Effectiveness of multi-level governance
- Achieved results regarding SDGs
- Functional scope of territorial strategies

Data Sources:

- European Commission and JRC reports
- Data from Cohesion Open Data Platform
- National reports on program implementation
- OECD reports on beneficiary capacity

For quantitative analysis, results from the spatial-dynamic general equilibrium model RHOMOLO, developed by JRC, are used, which simulates the effects of cohesion policy on Bulgarian NUTS 2 regions. The model accounts for: (1) direct demand from investments; (2) indirect effects through supply chains; (3) long-term supply effects from capital accumulation; (4) spatial spillovers between regions. Qualitative analysis includes assessment of the institutional framework through comparative analysis of World Bank, European Commission and national legislation documents (Regional Development Act, 2020).

IV. RESULTS AND DISCUSSION

4.1. Policy Framework and Investment Priorities 2021-2027

Cohesion Policy for the period 2021-2027 has a budget of €392 billion - almost one third of the total EU budget. Funding is implemented through four main funds forming an integrated investment framework:



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Table 1. Structural Funds and investment priorities in the period 2021-2027

Foundation	Main objective	Budgetary priorities
European Regional Development Fund (ERDF)	Social and economic development of all regions	Minimum 30% for green priorities, minimum 8% for sustainable urban development
Cohesion Fund	Investment in the environment and transport	Less developed regions and countries
European Social Fund+	Support for employment and social inclusion	Human Capital and Social Innovation
Just Transition Fund	Supporting the regions most affected by the climate transition	Territories in transformation

Source: European Commission, 2021

The enhanced territorial dimension is implemented through Political Objective 5 (PO5) „A Europe close to citizens“, which requires at least 8% of ERDF resources to be dedicated to cities and functional urban areas through ITI, CLLD or similar instruments.

Bulgaria, which has €10.9 billion in cohesion funding for 2021-2027, this means a minimum of €872 million for integrated urban development through ITI. According to European Commission data from May 2024, Bulgaria has allocated €664.7 million (BGN 1.3 billion) to 40 urban municipalities through ITI, which is below the minimum requirement of 8%, but with additional funds from the Just Transition Fund (€100.4 million for residential energy efficiency in three coal regions). This distribution shows that despite the mandatory introduction of ITI, the Bulgarian approach retains a highly centralized character, which limits the autonomy of local authorities in the choice of projects.



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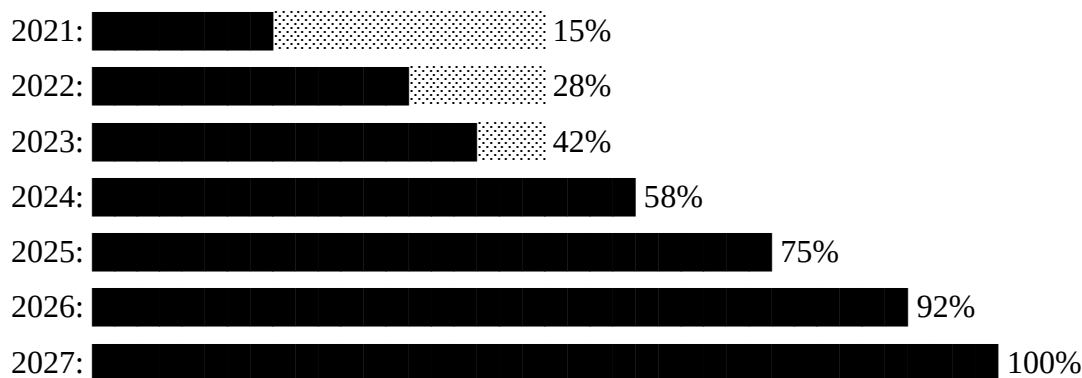


4.2. Up-to-date data on the impact of cohesion policy

According to current data from the European Commission from 2024-2025, cohesion policy has a significant impact on the capital expenditures of the Member States:

- The increase in EU grants contributes to an increase in government capital expenditure from 3.4% in 2019 to an estimated 4.6% in 2026.
- In Bulgaria, Greece, Latvia, Poland, Portugal and Slovakia, EU-funded spending is expected to grow by more than 1% of GDP
- Capital expenditures will remain relatively high at 4.4% of GDP in 2027.

Figure 1. Cumulative expenditure on cohesion policy in the EU (% of total budget)



Source: Cohesion Open Data Platform, 2025

The analysis of the data from the JRC for Bulgaria reveals significant potential for economic growth. According to the RHOMOLO model, the cohesion policy 2021-2027 could increase Bulgarian GDP by 3.4% by 2030 and by 2.4% by 2040 (ten years after the end of the period). This long-term impact is due to the accumulation of public capital and spatial spillovers between regions. Interestingly, although the Capital Region (BG41) generates the highest investment returns, it has low spillovers to other regions. Conversely, investments in peripheral regions (BG31, BG32) generate significant positive externalities for neighboring territories.



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This means that redirecting funds to less developed regions can increase GDP in BG31, BG32, BG33 and BG34, without significantly reducing the overall national effect - a phenomenon that the JRC defines as a „balanced Cohesion Policy portfolio“.

4.3. Challenges to the capacity of beneficiaries

An OECD analysis (2024) identifies serious challenges to the institutional capacity of beneficiaries:

- **Thematic expertise shortage:** In Umbria, Italy, the program initially hired 22 external experts, expanded to 30 in 2024 with a budget of €8 million
- **Administrative difficulties:** Less than half of the non-public beneficiaries surveyed have a separate team or officer to manage EU-funded projects (compared to 76% at national and 90% at regional level)
- **Dependence on external consultants:** 72% of beneficiaries turn to external consultants for project preparation, which creates a risk of replacing their own capacity instead of building it

These challenges are particularly acute in less developed regions, where the lack of networks or financial resources to access qualified advisers creates inequalities in the system.

For Bulgaria, these challenges are critical, as the country has no previous experience with ITI from the period 2014-2020, when 20 other Member States have applied the instrument. According to the World Bank (2021), „the government of Bulgaria is developing a new era of regional development focused on ITI“, but the process requires „capacity building of Regional Development Councils“. As of May 2024, the ITI selection methodology has been approved, but the first calls for projects have not yet been launched, which poses a risk of delays in absorption and the loss of a critical period for economic recovery.

4.4. Integrated territorial instruments: European experience

4.4.1. Integrated Territorial Investments (ITI)



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ITIs allow for the combination of resources from different European Structural and Investment Funds to address the specific needs of a particular territory. Key features:

- **Flexibility:** Combining resources from different funds and policy areas
- **Place-based approach:** Adapting to the specific needs and potentials of defined territories
- **Integrated Strategy:** Bringing together different policy areas and stakeholders

The minimum requirements for territorial strategies include: interventions to be based on a strategy targeting a specific geographical area; responding to development needs in an integrated way; involving relevant stakeholders; territorial authorities to be responsible for the strategies.

The data show that the success of ITI depends on three critical factors: (1) the degree of decentralization of management; (2) a functional rather than an administrative approach to the territories; (3) combined financing from multiple funds. In Bulgaria, despite legislative changes (Regional Development Act, 2020), the Regional Development Councils acquire „territorial responsibility“, but the actual distribution of funds is controlled by the central government. ITIs apply within NUTS 2 administrative boundaries, without taking into account the functional urban agglomerations that often cross these boundaries. While successful European practices (e.g. Czech Republic) combine the ERDF, ESF+, Cohesion Fund and EAFRD, Bulgarian ITIs are mostly single-fund (ERDF), which limits their effectiveness.

4.4.2. Community-Managed Local Development (CLLD)

CLLD promotes a bottom-up approach where local partnerships from the public, private and social sectors develop and implement development strategies. According to 2024 EU CAP Network data, the LEADER approach continues to be an effective tool for rural areas.

Table 2. Comparison of ITI and CLLD

Criterion	SMALL	CLLD



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Level of application	Urban/functional areas	Local/rural level
Approach	„Top-down“with local adaptation	„Bottom-up“
Scope of funding	Multiple funds	Mainly ERDF, ESF+, FEP
Key players	Regional authorities, city administrations	Local Action Groups (LAGs)
Flexibility	High	Very high

In Bulgaria, CLLD has a longer history than ITI. In 2014-2020, 35 CLLD programs were implemented, covering 57 municipalities, mainly in rural areas. For 2021-2027, the number

The CLLD increased to 90, covering 220 municipalities, signaling an expansion of the territorial approach. This development shows that the bottom-up approach is easier to apply in the Bulgarian context than the top-down integrated strategies, possibly due to the smaller scale and higher degree of local engagement. The data shows that CLLD is particularly effective in rural areas, where local communities have the best knowledge of specific challenges and opportunities.

4.5. Functional urban areas and cross-border cooperation

The European Commission has initiated a pilot project to provide technical support in selected functional areas to improve the implementation of cohesion policy. The functional areas approach demonstrates that policies cannot be designed separately on each side of the border, but jointly over the common territory.

The benefits of stronger urban-rural cooperation include:

- More sustainable land use and planning



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- Better services (public transport, healthcare, education)
- Better management of natural resources
- Higher productivity

The analysis of the data for Bulgaria reveals strong functional links between regions, which the current administrative structure does not adequately address. According to JRC data, the Southwest region (including Sofia) accounts for 86% imports/production, with a significant part of these imports coming from other Bulgarian regions. The Northwest region (BG31) supplies 13% of imports to North Central (BG32), 18% to Northeast (BG33), 13% to Southeast (BG34), 22% to Southwest (BG41) and 12% to South Central (BG42). These data show that economic ties between regions are intense, but

policies are designed within NUTS 2 boundaries, without taking into account functional agglomerations. This creates a risk of fragmentation of policies and a lack of synergies between neighbouring regions.

4.6. Territorial Agenda 2030 and a long-term vision for rural areas

The Territorial Agenda 2030 provides a political vision for the goal of territorial cohesion under the motto „A future for all places“. A performance review was carried out in 2024, which showed that priorities are more relevant than ever, despite the multiple crises since 2020.

The review identifies seven pilot actions involving 17 countries, focusing on:

- Lagging territories
- Cross-border planning
- Climate action in Alpine cities
- Reducing land urbanization

Long-term vision for rural areas by 2040:

In March 2024, the European Commission published a first progress report, which presents 30 actions in different policy areas, of which nine have already been completed. Key achievements:



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- Launch of a platform for rural revitalization
- 60 research and innovation projects with a budget of €253 million
- Supporting LEADER and guiding around 150 communities to create smart villages
- Establishment of the EU Rural Observatory

For Bulgaria, these initiatives are of particular importance, as the country has the highest share of the rural population in the EU (approximately 25%). Data show that between 2014 and 2022, the gap in social progress between the most developed and the weakest developed regions in the EU reached 39 index points, with Bulgarian regions being among the worst performers. This underlines the need for active implementation of the Territorial Agenda 2030 and Rural Vision 2040 in the Bulgarian context, with a focus on integrated strategies that connect rural and urban areas through functional approaches.

4.7. Impact on the Sustainable Development Goals (SDGs)

Modern research shows that cohesion policy can make a significant contribution to the achievement of Sustainable Development Goals 1, 8 and 10 (Varga et al., 2025)

Table 3. Impact of Cohesion Policy on SDGs

SDG	Description	Expected impact
1	Eradication of poverty	Reduction of up to 0.98% by 2029 and 0.69% long-term by 2040
8	Decent work and economic growth	Positive impact on GDP and employment, especially in less developed regions

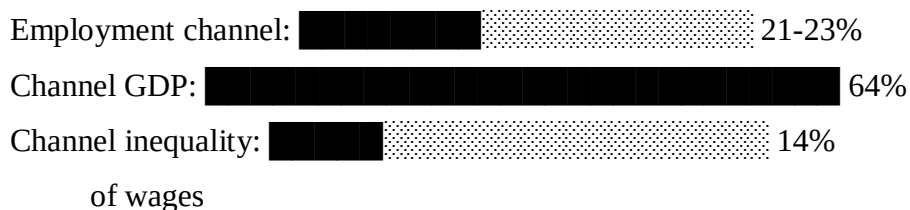


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10	SDG Reducing inequalities	A 4.29% reduction in the gap according to the Tail Index

Figure 2. Poverty reduction channels through cohesion policy



Source: Varga et al., 2025

The analysis of the channels shows that economic growth (the GDP channel) is a major driver of poverty reduction, contributing 64% of the overall effect. This confirms the thesis that infrastructure investments and business support have a direct impact on social outcomes. For Bulgaria, this has important policy implications: a focus on economic growth in less developed regions (through infrastructure, innovation and R&D) can both boost national GDP and reduce regional inequalities. JRC data show that in Bulgaria there is no systematic „trade-off“ between efficiency and fairness, which allows for the design of policies that achieve both goals at the same time.

4.8. Multi-level governance: good practices

The OECD analysis (2019) identifies key elements of successful multi-level governance:

Greek Focal Network Model:

- The focal network supports the implementation of macro-regional strategies in the context of each operational programme
- Increases awareness of the strategy and its implementation
- The constant flow of information from the National Coordination Body allows focal network nodes to play a significant role in communicating the strategy

Swedish Communication Model:

- Developed brochure „The Baltic Sea Strategy for Beginners“ for all stakeholders



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- Educational seminars on the macro-regional strategy for managers and project employees
- Representatives of agencies are invited to other training organizations

Danube Financing Dialogue (DFD):

- A 2012 initiative bringing together SMEs from across the Danube region, international financial institutions and national funding partners
- It is considered a highly effective initiative to connect projects with investors

For Bulgaria, the implementation of such models is critical, as the country is characterized by a highly centralized administrative structure. The data show that despite legislative changes (Regional Development Law, 2020) that give „territorial responsibility“ to Regional Development Councils, the actual allocation of funds is controlled by the central government. This creates an imbalance between formal responsibility and real power at the regional level. Successful European practices (Greece, Sweden) demonstrate that effective multi-level governance requires not only the decentralization of resources, but also the building of institutional capacity at local level through permanent networks for communication and training, which is still systematically lacking in the Bulgarian context.

Discussion

Data from the JRC demonstrate that the Cohesion Policy 2021-2027 has the potential to increase Bulgarian GDP by 3.4% by 2030. However, the distribution of effects between regions is uneven - the capital region generates high returns but with low spillovers, while peripheral regions have lower returns but with significant positive externalities for neighbors.

The analysis confirms the lack of „equity-efficiency trade-off“ in the Bulgarian context. This means that it is possible to achieve high national growth while reducing regional imbalances. Simulations show that redirecting 50% of energy efficiency funds from the capital region to less developed regions increases GDP in BG31, BG32, BG33 and BG34, without significantly reducing the overall effect. This provides a unique opportunity for a „balanced Cohesion Policy portfolio“ that balances national growth with territorial justice.

Four key institutional barriers have been identified: (1) a highly centralized model that limits the autonomy of Regional Development Councils; (2) lack of functional approach - ITIs



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are applied within NUTS 2 boundaries, without taking into account functional agglomerations; (3) limited combined financing - Bulgarian ITIs are mostly single-fund (ERDF), in contrast to successful European practices; (4) delay in the launch of the first projects - as of May 2024, the methodology has been approved, but the calls have not yet been published, which creates a risk of losing a critical period.

Conclusion

European experience in regional development has demonstrated that successful policies require an integrated approach combining different sectors and instruments; involvement of local stakeholders in all phases of planning and implementation; flexibility in adapting to local specifics; and a long-term perspective ensuring sustainability of results.

Cohesion policy remains a 'safe haven' for communities, cities and rural areas, with investments valued when they come on time and adapted to the real needs of the territories. Integrated Territorial Investments and the Territorial Agenda 2030 provide a proven framework for achieving economic cohesion and sustainable growth in the context of achieving the Sustainable Development Goals.

The analysis of specific data for Bulgaria confirms that the cohesion policy 2021-2027 has the potential to increase Bulgarian GDP by 3.4% by 2030, while reducing regional imbalances. All six Bulgarian NUTS 2 regions are among the poorest in the EU, with the North-West (BG31, 41.7% of the EU average GDP) and North Central (BG32, 43.3%) having the lowest values. Despite this potential, the current implementation of ITI in Bulgaria is characterized by a highly centralized model, lack of genuine multi-fund financing and delays in the launch of the first projects.

In order to achieve the objectives of the Territorial Agenda 2030 and economic cohesion, structural reforms are needed to:

(1) greater decentralization of ITI governance, with real powers for Regional Development Councils;



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(2) the introduction of functional urban agglomerations crossing the administrative NUTS 2 borders, in view of the data on the intensive economic links between the regions (e.g. the North-West region supplies 13-22% of imports to the other Bulgarian regions);

(3) speeding up ITI approval procedures to avoid the risk of delays in the absorption;

(4) systemic measures to build administrative capacity, especially in less developed regions, to avoid dependence on external consultants. Otherwise, the risk is that the Cohesion Policy will maintain the status quo of monocentric growth around Sofia, instead of promoting balanced territorial development, despite the unique opportunity for a „balanced Cohesion Policy portfolio“ that the lack of „equity-efficiency trade-off“ provides.

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**STATE AND OPPORTUNITIES FOR DEVELOPMENT OF URBAN-
AGGLOMERATE AREAS IN BULGARIA**

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Abstract:

This article attempts to assess and analyze the main urban and agglomeration areas in Bulgaria. In practice, these are those important territories that form the foundations of the regional economy of the country, bring to the fore settlement problems, as well as guidelines for their development. The report focuses on parts of the national spatial concept for the development of the Bulgarian urban space and the definition of the problems of agglomerations. Some problems are identified in order to search for more effective solutions and demonstrate expertise in the search for innovative practices. The author attempts to give new meaning to these areas as drivers for Bulgarian regional economic development and at the same time as a place where investment activity is concentrated. Relevant conclusions, analyses and assessments are made related to the guidelines for improving existing agglomerations and emerging models for the development of new urban areas.

Keywords: *infrastructure, development, regional, economy, space.*

JEL: *R12, M21, R58, O18*

Introduction

The ongoing socio-economic processes in Bulgaria over the past quarter century have led to the structuring of a new spatial-territorial model of the country. This model is characterized by clearly defined regional differences and imbalances in the socio-economic status of the regions. In the period 2000-2025, new opportunities arose for the development of urban-agglomeration areas in Bulgaria. They are focused on overcoming regional imbalances and promoting a

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polycentric growth model. The main directions are determined by the National Concept for Regional and Spatial Development (NCRSD) for the period 2026-2040 and the Integrated Territorial Investments (ITI) instrument. The attempt to strengthen the network of large and medium-sized cities in order to balance the dominant role of Sofia and to create secondary centers of economic growth has not yielded significant results. It is obvious that the Sofia large municipality has emerged as a national leader in the economy and has practically formed a strong centrifugal core, which has directly dependent on the other large cities of the capital. After 2020 and the introduction of the Green Pact philosophy, investments in environmental infrastructure, circular economy and improved digital connectivity within the agglomerations have come to the fore. This means developing and promoting partnerships between municipalities in the agglomeration area for joint management of transport, waste and social services. Thus, the focus in the period 2026-2034 should be on cities or urbanized areas, in order to begin to solve problems in regional development, which obviously have a clearly defined territorial aspect. Solving this conundrum should be aimed at a more even territorial distribution of the population, optimizing the concentration of the population in the capital and some larger regional centers and ensuring territorial cohesion of the peripheral regions of the country. At the same time, the New Concept (NKRPD 2026-2040) sets a long-term vision for reducing territorial disparities and supporting areas with growth potential. However, this can be done by overcoming regional imbalances, which requires the mobilization of serious institutional and organizational resources aimed at optimizing housing policy, urban development plans and infrastructure, and above all, creating more territorial centers of socio-economic development. In other words, there is a need to modernize the connections between the centers of agglomerations and their peripheries. Based on the concept of spatial development of the country, we can assume that in spatial and territorial terms, these centers should be built as agglomeration cores that can have an impact on the surrounding settlements of the order of 100-110 kilometers for large cities and 40-50 kilometers for cities from 40 to 100 thousand people. In practice, during the period 2026-2040, agglomerations in Bulgaria should be shaped as key geo-economic centers for development in demographic, social, cultural, educational and economic terms. Thus, in socio-economic terms, agglomerations are called upon to bring the Bulgarian state among the developed middle European countries and



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generate sustainability of our economy. Connectivity is of essential importance, which is directly related to national integration and applies mainly to the republican and to a lesser extent to the municipal road network connecting the regional centers and the main international corridors. Connectivity also contributes to the economic development of the country, connecting the domestic and foreign markets with the regions of production and consumption. The principle of connectivity means, above all, a priority approach to the rehabilitation and improvement of roads and all types of infrastructure.

MATERIAL AND METHODS

For the preparation of this material, methods of description, comparative analysis, reference to statistical data, expert assessment and characteristics of individual territorial communities in a hierarchical order were used. This is a result of the current understanding that in the conditions of a dynamically developing economy it is necessary to approach the researched problems chronologically and stepwise, as well as to use traditional methods such as geographical, socio-economic and mathematical, network and others. Through them, regularities and results of the state of the environment and the ongoing intensive processes in the territorial plan are derived, which are an important argument for the analysis and assessment of the ongoing processes in regional development.

ESSENCE AND MODELING OF AGGLOMERATIONS. BULGARIAN AGGLOMERATION AREAS.

Theoretically, we can assume that „agglomeration is the process of merging large cities and the smaller settlements located around them into a common urbanized territory. Agglomeration is also called the settlement formation resulting from the merger. Moreover, from a historical point of view, urban agglomerations are spatial forms of urbanization [Among the largest agglomerations in the world today are those of Tokyo - 34.2 million inhabitants, Guangzhou - 24.9 million inhabitants, Seoul - 24.5 million inhabitants, Delhi - 23.9 million inhabitants, Mumbai - 23.3 million inhabitants, Mexico - 22.8 million inhabitants, etc. In Europe, the largest agglomerations are London, Paris, Moscow.]. Inherent in urban agglomerations is a greater increase in population in the periphery compared to the center. In our country, the processes are develop differently. First of all, urban agglomerations are limited in size compared to agglomerations in Europe. They develop on the basis of cities located in



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flat and fertile lands, which limits their growth. Second, the formation of agglomerations is accompanied by restrictive measures for settlement in large and largest cities. The migrating population settles in the surrounding settlements and only externally is the effect of suburbanization created. The conditions for the emergence of agglomerations are the territorial proximity of settlements and the complex and diverse connections between them (economic, social, transport, cultural). The main characteristic of agglomeration is the intense connection between the core and the periphery, which is expressed in daily labor migrations and common infrastructure. The distinction you make between the different types of satellites is interesting: Bedroom cities: Residential areas with a minimal economy of their own, where people only spend the night. Satellites: More independent settlements that have their own industry or services, but remain in the orbit of the big city. Suburbs: Immediately adjacent areas that often merge physically with the core. The conditions for the process to take place are territorial proximity and the existing diverse production, transport, and cultural connections. The emergence and development of urban agglomerations occurs mainly in two main types. The first type - the dynamic development of the city forms a need for new territories, new infrastructure, and within the city limits almost all opportunities for this have been exhausted. The city grows at the expense of urbanization of neighboring territories by building new satellite settlements or transforming previously independent settlements into satellites. They are a place for localization of various activities - industrial enterprises, production and trade warehouses, scientific centers and technology parks, new residential areas, new recreation areas, etc. The second type is when independent neighboring settlements, through their growth and involvement of ever new territories, approach and connect into an interconnected whole, in which a new core is formed. A typical example in this regard is the formation of the so-called „resource“ agglomerations such as the Ruhr in Germany (12 cities), the Donetsk-Makeevo agglomeration in Ukraine (10 cities and a number of villages), etc. When neighboring large cities, expanding, connect into a single settlement with diverse activities, polycentric urban agglomerations are usually formed. The main prerequisites for the formation of urban agglomerations are different, but most often they are: uniform development; built-up areas are more than agricultural land; there are mass daily trips from one settlement to another settlement of the agglomeration (trips to work, for education, for trade, for culture, etc.) In Bulgaria, the



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most urbanized territories are the regions around the largest cities. Such are the Plovdiv-Pazardzhik Plain, the Sofia Valley, the Pernik Valley, the Stara Zagora Plain, the Burgas and Varna Bays, etc. Ludogorie, Strandzha, Sakar, Kraishteto, Rhodopes and other agricultural regions are poorly urbanized. In our country, according to the Law on Protection from Noise in the Environment, the Minister of Regional Development and Public Works is required to organize the creation and maintenance of a register of agglomerations. The register is being developed in order to document the main characteristics of agglomerations. According to this law, agglomerations are considered settlements with a population of over 100,000 inhabitants. Currently, the settlements that meet this requirement are the cities of Sofia, Plovdiv, Varna, Burgas, Ruse, Stara Zagora, Pleven. In practice, however, at least about 30 more municipalities combined in twos and threes form an agglomeration area of at least 100 thousand or more people. This is because nearly 72% of Bulgaria's population is concentrated in 36 large cities. This percentage is fully comparable to the urban population in the EU. That is why the priority for the next programming period 2014-2020 is urban development with an indicative budget of 3 billion leva, the beneficiaries of which will be precisely these 36 cities. According to expert assessment, the engines of the country's economic development are Sofia, Varna, Burgas, Ruse, Stara Zagora and Plovdiv. At the bottom are Montana, Vidin and Razgrad. A worrying trend is observed in a number of cities, including, for example, Veliko Tarnovo, whose development direction is deteriorating. Two types of regional policy can be implemented. Regional policy aimed at reducing disparities, the object of which are underdeveloped rural, border, mountainous municipalities (with a summary score below 75% of the national average - for 2025, a total of 19 municipalities). The second line is aimed at developing growth centers - urban agglomerations; large cities that are regional growth centers; highly developed tourist municipalities; urban municipalities with development potential. In this direction, however, in addition to the aforementioned 37 municipalities, nearly 50 municipalities have the potential to form agglomeration areas, but with a population of less than 100 thousand people. This shows that with regard to agglomeration areas in Bulgaria, it is necessary to build a hierarchical arrangement of agglomerations. They can be according to the following pattern. First-degree agglomerations should be cities and municipalities with over 200 thousand people, these are Sofia, Varna, Plovdiv, Burgas, Ruse-Byala-Razgrad, Stara Zagora-Kazanlak, the second group



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of agglomerations should be with a population of 100 to 200 thousand people, their number is about 15, and the third degree of agglomeration from 50 to 100 thousand people includes about 20 cities. With a careful approach to the state of agglomerations, only 5 urban agglomerations - Sofia, Varna, Plovdiv, Stara Zagora and Burgas have the opportunity for rapid economic development. This requires agglomerations to be approached scientifically by defining criteria by which the territorial scope of urban agglomerations should be determined, for example, they should be the following. First of all, the agglomeration area is a network of stable settlements with a population of not less than 50 thousand people. The population of individual settlements retains its place of residence, but the connections between the settlements are intensified. The settlements in the agglomeration area are located within a 60-minute isochron around the center of the agglomeration. This will create an opportunity for the larger cities of the country to strengthen their connections with the surrounding settlements. On the other hand, this will shift the natural borders of the cities and will impose a new system of infrastructure connectivity. The geoeconomic effect should be sought primarily in the direction of the formation of settlement systems as forms of urbanization, and not as grassroots administrative units. When they are united, functional urbanized regions (FUR) are formed. The third level of this structure (FUR) is revealed on the basis of daily labor migrations, population density, the structure of economic employment, the intensity of social and household trips, the degree of development of the housing stock and the settlement territory, the level of service, etc. Thus, today the more highly developed functional urbanized areas have the character of settlement agglomerations. Currently in Bulgaria we can speak of the following agglomerations: Sofia - Pernik, Plovdiv (Stamboliyski-Plovdiv-Assenovgrad), Varna - Devnya, Burgas (Burgas - Kameno-Sredets and Burgas-Sunny Beach), Veliko Tarnovo - Gorna Oryahovitsa - Lyaskovets, as well as to a lesser extent Dimitrovgrad-Haskovo-Kardzhali, Pleven-Dolni Dabnik-Trustenik, Montana-Vratsa-Mezdra, Kyustendil-Dupnitsa-Blagoevgrad, Stara Zagora-Kazanlak, Ruse-Razgrad and Sliven-Yambol and others. Of all of them, only the Sofia-Pernik agglomeration has been formed, and the rest are in the process of formation. The most important condition for the formation of a settlement agglomeration is the presence of a large city (over 100 thousand inhabitants or not one between 50-100 thousand inhabitants), which will be the core, but in our conditions, we will also encounter the need to build an agglomeration between two cities with an average size



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of 40 to 90 thousand people. For example, the formation of smaller agglomerations, such as between Pleven, Lovech and Troyan, especially with the construction of the Hemus highway, may be of strategic importance for the development of Northern Bulgaria. Of course, an important condition is that the mentioned cities have a more significant economic and demographic potential for establishing connections with the surrounding area. It should represent an area of settlements and be divided into an intensive and peripheral part [However, when forming agglomerations in Bulgaria, it is generally assumed that the potential of such cities as Sofia, Plovdiv, Burgas and Varna is of significant importance, while the others do not have the necessary centrifugality.]. It is important in Bulgaria to adopt the vision that agglomerations can also be formed on the basis of several cities with a relatively smaller population. In this case, they do not have a clearly defined center, but they achieve good economic results. A typical example in this regard is the forming agglomeration Veliko Tarnovo - Gorna Oryahovitsa - Lyaskovets.

**FORMATION OF A REGIONAL MODEL FOR THE DEVELOPMENT OF URBAN
CENTERS AND AREAS.**

The formation of agglomerations has a significant economic, social and cultural effect. The concentration of population is accompanied by a concentration of economic and service activities, which reduce production costs, transport costs, etc. The settlements in the agglomeration not only converge and grow together, but also complement each other in their functions. The agglomeration of settlements also has some negative aspects, such as excessive anthropogenicization of the environment, overpopulation, air pollution, deterioration of the microclimate, etc. These negative manifestations can be controlled through timely administrative and technological solutions to emerging problems.

Given the processes of change in Bulgaria by 2026, there is a formed regional model of center - periphery in all regions except the South-Eastern and North-Western regions. This can be used to create at least a two- and three-polar development model to achieve sustainable and balanced development of each region. For example, it can be accepted as a model of polycentric development of the South-West region for planning two main centers Sofia and Blagoevgrad. However, this means closer integration of Kyustendil and Dupnitsa with Blagoevgrad, as well as improving its infrastructure. In practice, the Struma highway, in its final form, will create



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such prerequisites, but in the future, the construction of the Rila highway, as well as an alternative road Sandanski-Goce Delchev, as well as the modernization of the checkpoints with the Republic of Macedonia, will be very valuable for the development of a secondary center. In the South Central Planning Region, the city of Plovdiv has a strategic role, especially after the agglomeration with Asenovgrad was built. It is now clear that the 24-kilometer Plovdiv ring road in the direction of the Trakia Motorway is a deficit. Another important road in the southeast is the Asenovgradsko Shosse - the Skobeleva Maika road junction, along the Trakia Residential Complex to the Trakia Motorway. It is also necessary to seek an increase in internal permeability along the Asenovgradsko Shosse, with an expansion of the existing network and new lanes for traffic along Kuklen, Markovo, Parvenets, Komatevo, Proslav and connect with the Peshtersko Shosse in the West and the Trakia Motorway to Kositevo, Tsalapitsa. The other is the search for solutions for parallel lanes in the industrial zone. This will allow the city to turn towards the Rhodope Mountains and other smaller settlements. South of Plovdiv, a serious transport center can be established around Haskovo. There, it is necessary to form a secondary center with several sub-routes around Haskovo, which will be included in one agglomeration together with Dimitrovgrad, Asenovgrad, Chirpan and Kardzhali. In this way, the three cities will be competitive, because their population potential will be about 200 thousand people and they will have a higher competitive environment. Another secondary center can be built along the Pazardzhik-Smolyan axis, while looking for opportunities for building new roads and infrastructure mainly for the construction of a future new spatial area related to the development of tourism, services and the food and wood processing industry. Of strategic importance is the closer integration between Pazardzhik and Smolyan, and why not Velingrad. This integration will have significant economic importance and influence on municipalities such as Dospat, Krichim, Belovo, Peshtera and others. In the new conditions, the Southeastern planning region has strategic importance, which in practice has two natural centers, Burgas and Stara Zagora. However, in order to have a strong economic profile, the planning region must develop connections in the North-South direction or the construction of the Primorsko-Sozopol-Burgas-Sunny Beach agglomeration beam, which should have a purely touristic focus, for the provision of services, as well as its development as a logistics, educational and scientific center as an exit gate of the European Union to the Caucasus region, Near Asia and Iran. Regarding the



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centrifugal economic role, Burgas must develop the Burgas-Sredets agglomeration, where the foundation of Bulgaria's heavy industry can be laid. The second direction is the development of the agglomeration beam in the direction of Burgas-Karnobat-Aitos, where the food industry and equipment manufacturing can be developed. In this direction, the construction of the Sliven-Yambol beam can also have a pull-out development for the region. To a large extent, these are two very serious cities that need a new economic profile or at least overcoming their industrial decline. These two cities can be the bridgehead of the integration of the economy of Northeastern Bulgaria and integration with Shumen and Targovishte, as well as have a secondary role regarding the state and development of the Turkish economy in its European part, by creating joint production and promoting economic exchange and close integration with that of the EU.

At the same time, in the Northeastern planning region, the city of Varna is emerging as an agglomeration leader. But today, according to expert assessment, the city of Varna is in a deplorable socio-economic state with extremely poor infrastructure and a lack of creative geo-economic solutions for its development and management. First of all, in terms of the urban picture, the city has advanced faster towards the peripheral zones than it has been developed, which is why the infrastructure environment has deteriorated. The condition of the power grid is poor, the water supply system is below satisfactory, the roads are not up to the level of car traffic, with low permeability and a number of other problems. In practice, the city needs new spatial development, construction of the first and second semi-rings for peripheral traffic, it needs a second bridge over Varna Lake, a new port, and why not a metro from Varna Airport to the Golden Sands resort. The development of the city in the direction of Devnya and Beloslav is not with the necessary polycentricity and in practice the satellite settlements and towns are losing effective connectivity with the city of Varna. In this region, the condition of the secondary centers Shumen and Dobrich is not good. First of all, the city of Dobrich and its periphery need additional support from the state, mainly related to investment projects and programs for improving the infrastructure and sustainable development of the city of Dobrich in the conditions of new spatial development of the country. At first, a closer integration of Dobrich with the cities of Kardam, General Toshevo, Kavarna, as well as with the neighboring Tervel, Silistra, Dulovo and Kanairdzha is needed to transform the city into the main economic



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center of the entire Dobrudzha, and from there to solve problems related to the socio-economic development of the region and the modernization of the infrastructure. The situation is also complicated with the city of Shumen, which should have a pulling significance in relation to the cities of Targovishte, Kaspichan, Provadia, Dalgopol, Veliki Preslav and others.

In the northern central planning region, there are two important features, the first is the orientation of the river ports towards the river and filling corridor No. 7 with content, and the second is the implementation of agglomeration areas along the direction of corridor No. 9, which includes the city of Ruse, the city of Byala, the city of Gorna Oryahovitsa, the city of Veliko Tarnovo, Gabrovo and others. The main problems with the construction of the agglomeration rays Ruse-Byala and Gorna Oryahovitsa-V. Tarnovo-Gabrovo are the outdated infrastructure, the lack of effective planning, the attraction of investments and the lack of will for change. Ruse, for example, is in dire need of a new transport scheme, firstly the orientation of the city towards the Danube River, secondly connectivity in the North-South direction or in other words the construction of an effective and fast infrastructure for the connection with Romania and the construction of Shtraklevo Airport with its adjacent railway connectivity, as well as a connection to the port terminals on the Danube River. Ruse has a centrifugal role and in practice, if the Ruse-Varna railway line is built and modernized, two extremely sustainable centers of the Bulgarian economy will be created in Northern Bulgaria. In practice, both the city of Ruse and the city of Varna do not have enough resources to stand out as sustainable regional centers. In practice, strong and weak years have alternated in their development, or in other words, they are dependent on the conjuncture of our state development and policy. On the other hand, the region around Veliko Tarnovo has its own unique potential and development model. First of all, with the complementary role of Gorna Oryahovitsa as an industrial center, with a key station, airport and the necessary educational infrastructure. As an extension, there is also the proximity to the city of Gabrovo, which until recently also had great potential for socio-economic development. In practice, in Northern Bulgaria, the North-Eastern and North-Central planning regions have incredible potential, but it remains unrealized. In my opinion, the directions in the right direction are the construction of the Hemus motorway as soon as possible, the electrification of the Samuil-Silistra, Dobrich-Kardam railway line, the doubling of the Ruse-Varna railway line, and closer integration between the cities in Northern Bulgaria.



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In recent years, the situation in Northwestern Bulgaria has been the most difficult. Although Pleven and Lovech were annexed to it, the difficulties remain. In practice, several agglomeration areas can be formed in it, but it seems to me that it is worth the region to stop at the agglomerations Pleven-Lovech-Troyan, Montana-Vratsa-Mezdra and Vidin-Kula-Belogradchik. As well as an attempt to specifically influence cities and municipalities such as Lom, Byala Slatina, Knezha, Cherven Bryag, Lukovit, Teteven and others. In practice, urbanization is not an effective solution in this territory. In practice, we have a different socio-economic situation and a different economic profile of the region. Rather, it needs small and medium-sized enterprises and investments related to the sustainability of the population in it, rather than its concentration in agglomerations and other urban systems. At present, some municipalities incorrectly fall into the „rural” category. Such a striking case is Kozloduy. Many municipalities cannot apply even under the Operational Programs, precisely because they fail to prove their belonging to the respective category of municipalities in which they are placed. The aim is to revise the map at the moment. But from an urban point of view, the population goes to larger cities, because the large city provides greater opportunities for professional realization and a higher standard of living. In order to overcome this trend, it is necessary to develop an urban concept for determining the investment attractiveness of regions and cities in Bulgaria for a period of 20-30 years, in parallel with the demographic and economic. Both urbanists and economists should be involved in its preparation. This concept for investment attractiveness of regions and settlements in Bulgaria should become the government's basis for balancing intra-regional differences. The concept should identify the territories and settlements that are investment attractive, while the rest should be included in a special socio-economic policy of the state.

GUIDELINES AND RECOMMENDATIONS FOR THE DEVELOPMENT OF AGGLOMERATIONS

In these territories, the need to combine investments in the renovation of the physical environment (buildings and infrastructure) with measures to stimulate economic development and social integration, both in the cities themselves and in the connecting territories, is most obvious. The goal is a comprehensive and complex renovation/restoration/regeneration of the territory, taking into account the interrelationships between the physical, economic and social



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aspects of urban development. It is widely accepted that only an integrated and sustainable approach to urban development can allow cities to respond to the challenges of globalization, demographic and climate change. The idea of the „three pillars” of sustainable development - economic, social and environmental - is widely used in the definition of European policy, and thanks to expert and political discussions within the EU, a common understanding of the basic principles that integrated plans must comply with has gradually been reached. In this direction, agglomeration territories, where they are designated as urban territories, need a certain basic functional purpose, with similar characteristics and condition of the physical environment, social and ethnic structure of the population, character and structure of the basic funds. The main problems are in three types of zones. First of all, there are zones with a predominant social character. These are urban territories with predominant residential functions, with a concentration of socio-economic problems and poor condition of the technical infrastructure, building stock and the residential environment as a whole. Second are zones with potential for economic development. These are urban territories with a predominant purpose for production and other business activities with functional characteristics and condition of the technical infrastructure that do not satisfy the investment demand for the development of existing and new economic activities. Third are zones of public functions with high public importance. These are central city areas, central pedestrian zones and other areas with an existing or possible concentration of public functions of high public importance, areas with a predominant number of buildings with administrative and public functions, as well as the presence of buildings - immovable cultural values. All this gives us reason, when approaching agglomeration areas, to focus on two approaches, one is the normative approach, and the second is the economic approach. In practice, for the most developed urbanized territories, the normative approach is currently proposed to achieve a tangible effect, but the inclusion of business strategies and initiatives of local businesses in these plans is missing. In this direction, in the management of agglomeration territories, it is necessary to apply an integrated approach of joint actions between the real economy and the public sector, so the strategies must be embedded not only in national policies, but also in territorial cooperation programs and sectoral operational programs, in pre-accession assistance and neighborhood programs, managed centrally, but also be included in municipal strategies and action plans, while seeking balanced centralized and



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decentralized management through regional networks. This can be adopted by implementing policies to promote polycentric and balanced territorial development with an emphasis on small and medium-sized cities at the regional level. This should be done simultaneously with the promotion of integrated development in cities, rural areas and specific areas - applying an integrated multi-level approach to urban renewal and development. At the same time, public-private partnerships should be encouraged, especially related to the management and connection of the ecological, landscape and cultural values of the regions. The new regional policy in agglomeration areas should be defined according to the main objectives and sub-objectives of the new housing policy, which outlines the principles and guidelines of management activities to improve the condition of the housing stock and the housing environment and increase the level of housing satisfaction. A basic document for the implementation of the regional policy for future territorial development, identifying the areas in which Bulgaria expects funding for its regions from the European Regional Development Funds. In strategic relations related to the dynamics of the development of production and warehouse activities with different trends in the land use process, such as slowed growth rates and renewal in the relatively old parts of the zones, for an imbalance of a significant part of the new capacities and service economy in undeveloped territories /on „green“/, led by the municipalities as „industrial parks“ related to the spatial development of the territories and the construction of a new environment of accessibility.

CONCLUSION

Overcoming regional imbalances requires the mobilization of serious institutional and organizational resources aimed at optimizing housing policy, urban development plans and infrastructure. In the period under review, the process of urban agglomeration is intensifying. Daily migrations of a labor and service nature are becoming increasingly important. Rational distribution of local infrastructures and services to ensure balanced growth of the regions. The functions of cities are growing, and inter-settlement transport connections are strengthening. More and more features of the urban lifestyle and culture are being introduced into the Bulgarian village, which is an important characteristic of the spatial course of urbanization. This, in turn, leads to the development of sustainable, dynamic and cohesive urban centers,



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interconnected and contributing to the well-being of the surrounding less urbanized territories. In practice, if the aforementioned agglomerations develop in Bulgaria, the volume can help with complex and integrated territorial planning, as well as with the implementation of not only regional but also individual socio-economic sectoral planning at the national level, in the context of pan-European spatial development. The future lies in the balanced polycentric territorial network of urban centers, contributing to the creation of favorable conditions for the establishment and development of economic and social activities, for example, accessible services and job creation in or near the cities where people live permanently. The better functional characteristics of large and medium-sized cities allow the development of new economic activities that diversify the local economy and reduce risks in terms of unemployment and income and improve the basic conditions for business activity.

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**GLOBAL EXPERIENCE AND INNOVATIVE PRACTICES IN THE
DEVELOPMENT OF SMART CITIES (SINGAPORE, VIENNA,
BARCELONA, TALLINN AND BULGARIA)**

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Abstract:

The report examines global experience and innovative practices in the development of smart cities, analyzing the models of Singapore, Vienna, Barcelona, Tallinn, and Bulgaria. It explores the concept's dimensions, applies SWOT and PEST analyses, and identifies key success factors such as strategic governance, digital transformation, social engagement, and sustainability. The conclusions highlight that the smart city is not merely a technological phenomenon but a strategic tool for achieving sustainable, inclusive, and competitive regional development, with recommendations for adapting international practices to the Bulgarian context.

Keywords: *smart city, digital transformation, sustainable development, urban management, good practices*

JEL: R58, O18, O33

Introduction

In the context of accelerated urbanization, digitalization, and other global challenges, the concept of the smart city is becoming a leading paradigm for sustainable regional development (European Commission, 2021). Modern cities face the difficult task of combining economic growth, social cohesion, and environmental protection while simultaneously meeting

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the demands of their residents for quality life and access to innovative services. A smart city is a system in which technologies, sustainable resource management, and the significant role of citizens ensure conditions for gradual and effective urban development (Nam & Pardo, 2011). The importance of the topic is driven by the fact that smart cities are a key tool for achieving EU priorities in implementing the Green Deal and digital transformation. In Bulgaria, attention is also being paid to smart cities as a means of improving quality of life and competitiveness, as outlined in documents such as the National Concept for Spatial Development (2013-2025) and the National Smart Specialization Strategy (MRRB, 2013).

The aim of this report is to examine the experience and good practices in the development of smart cities globally, focusing on examples such as Singapore, Vienna, Barcelona, Tallinn, and Bulgaria. The objectives of the report are: to examine the concept of the smart city and its main dimensions; to present management practices and models from the selected cities; to apply SWOT and PEST analyses to clarify the effective factors supporting urban development; to formulate conclusions from their examples and suggest opportunities for adapting them to the reality in Bulgaria. The research methodology is based on qualitative comparative analysis and combines the study of strategic documents, scientific literature, and real-world examples from smart city practices. In this way, it builds upon the examination of existing approaches, problems, and opportunities offered by the smart city idea in the context of the digital transformation of Europe and Bulgaria, as well as the prospects for sustainable regional development under digitalization.

1. Analytical Framework

The idea of the Smart City emerged during the 1990s and early 2000s as a combination of Information and Communication Technologies (ICT), urban planning, and sustainable development. It describes a new way of viewing urban systems, where technologies are not merely a means to achieve efficiency but a tool for ensuring a better life for all, social integration, and environmental value. There is no single definition of a „Smart City“ in the literature, but it is typically described as one that uses technologies and new ideas to manage its resources and enhance interaction between institutions, businesses, and citizens.



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The European Commission (European Smart Cities Initiative, 2014) defines it as one encompassing six main aspects: smart economy, smart mobility, smart environment, smart people (education and skills), smart living (quality of life), and smart governance (web-communication). These dimensions form a systemic model where sustainability, digitalization, and civic participation are viewed as interconnected pillars. Thus, a smart city is not only a technological phenomenon but a socio-economic system that uses data, knowledge, and collective intelligence for decision-making. In the context of regional development, smart cities are seen as catalysts for innovation and competitiveness. They stimulate the emergence of new knowledge-based and digital service-based economic models and contribute to reducing regional inequalities by introducing „smart“ infrastructures and open platforms. However, the challenges are significant: high initial costs, the risk of digital exclusion, and the need for flexible data management and cybersecurity.

For Bulgaria, the smart city concept aligns with the goals of the National Regional Development Strategy (2021-2030) and the Research, Innovation, and Digitalization Program for Smart Transformation. In this context, smart urban management is perceived as a strategic tool for enhancing regional competitiveness and promoting integrated territorial planning. Therefore, the smart city is not just a technological project but a long-term vision for sustainable development that requires a combination of policy, technology, and social engagement. This framework will serve as a basis for the analysis of specific international practices in the following chapters.

2. Global Experience and Innovative Practices

Over the past 20 years, the development of smart cities has become a global trend that has changed how people plan, manage, and live in cities. Leading cities worldwide have different understandings of what it means to be a smart city - from technological management and digital connectivity to environmental sustainability and social participation. These understandings are not uniform; instead, they reflect the specifics of each country's economy, culture, institutional organization, and governance. In Asia, Singapore is renowned as an



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example of a national vision where digital technologies are implemented at all levels of governance.

In Europe, cities like Vienna, Barcelona, and Tallinn have different interpretations of a smart city, but all are sustainable and innovative, incorporating high-tech solutions, active civic engagement, and green policies. In Bulgaria, there is a gradually increasing interest in similar practices, with smart city initiatives beginning to be introduced within the framework of the country's regional development policy.

2.1. Singapore - „Smart Nation“ and Integrated e-Governance

General Characteristics

Singapore is often cited as one of the world's most sophisticated „smart“ cities. In 2014, the government launched the national Smart Nation Singapore program, driven by a total digital transformation of the state by integrating technologies into public administration, infrastructure, and citizens' daily lives. The idea is that technologies and data are strategic resources that can increase management efficiency and quality of life (Smart Nation Office, 2022). The state is a leading investor and coordinator, while the private sector and universities actively work on creating innovative solutions.

Innovative Practices

At the core of the strategy lies the construction of a comprehensive digital infrastructure. Singapore has created a national network of sensors and Internet of Things (IoT) devices that collect data on traffic, the environment, and security. One of the most renowned practices is the Virtual Singapore platform - a 3D digital twin of the city used for modeling traffic flows, construction, and resource management. Additionally, the state implements e-governance at the national level: citizens have access to over 95% of administrative services online through a single portal (SingPass). In the public transport system, „smart“ cameras, sensors, and artificial intelligence are used to optimize movement and manage public transport. An important practice is the Smart Health Initiative, which includes remote patient monitoring and the integration of medical data.

Results and Effects



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Thanks to these policies, Singapore is among the leading smart cities globally (IMD Smart City Index, 2023). E-governance saves resources, increases transparency, and encourages people's participation through digital services. Singapore is also distinguished by achievements in rational energy use and environmentally friendly transport. All this has been achieved through joint planning efforts and innovation in public services.

Challenges

Despite its successes, Singapore also faces challenges. The main ones are related to managing large data volumes and protecting personal data. High digitalization carries risks of hacker attacks and dependence on technological platforms. Social disparities in access to technology also exist despite state support, requiring constant attention to include vulnerable groups in the digital environment.

2.2. Vienna - A Model for Sustainability and Quality of Life

General Characteristics

Vienna is known as a successful example of a smart city in Europe, thanks to its long-term strategy, the Smart City Wien Framework Strategy 2019-2050. It focuses on sustainability, social justice, and quality of life, not just technological advancement. Vienna aims to achieve carbon neutrality by 2040, combining digital innovations with environmental and social policies (City of Vienna, 2020).

Innovative Practices

Vienna works on smart solutions for managing energy, mobility, and housing policy. The Smart Energy Vision 2050 energy management system combines renewable sources and digital consumption control. In transport, there is a smart public transport system that connects different modes of mobility through a single digital access point (WienMobil). Additionally, Vienna invests in „smart districts“ such as Aspern Seestadt - an example of sustainable urban development with low-carbon technologies and social inclusion.

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The city regularly ranks first in quality of life lists, and its level of energy savings and public transport is among the highest in Europe. The connection between technologies and social policies ensures equal access to services and reduces digital inequality.

Challenges

The main difficulties are related to managing urban growth and the need for balance between innovation and social sustainability. Vienna must ensure long-term financing for its major plans and prevent social division in new urban districts.

2.3. Barcelona - From Smart Technologies to „Smart Society“

General Characteristics

Barcelona is among the pioneers of the smart city idea in Europe. Since 2011, the city has been shaping the Smart City Barcelona plan, aimed at using technologies to improve services and encourage citizen participation. Barcelona's approach is distinguished by the idea of the „smart person“ - prioritizing not only technology but also people and the community as the main resource of intelligence.

Innovative Practices

Barcelona initiated a large-scale system of sensors and IoT devices that collect data on lighting, traffic, air quality, and waste. CityOS was created - a platform for integrating urban data, allowing citizens and businesses to develop applications and solutions. The city rapidly developed digital citizenship with the Decidim Barcelona initiative, an e-participation platform where people can make proposals and vote on policies.

Results and Effects

These policies have made Barcelona an example of open governance and an innovative public sector. The city achieved good results in energy efficiency, smart lighting, and waste management, while also increasing trust and citizen participation in decision-making.

Challenges

The main difficulties are related to coordination between different administrations and securing sustainable funding for digital initiatives. There are challenges associated with protecting personal data and maintaining ethical standards in managing urban information.



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2.4. Tallinn - e-Governance and Digital Identity

General Characteristics

The Estonian capital, Tallinn, is among the world's leading examples of digital governance and the integration of smart technologies in the public sector. The e-Estonia strategy has turned the country into a digital state, with Tallinn as its experimental core. The main principle is the transparency and accessibility of services through a digital identity (ID-kaart), which allows citizens to vote, pay taxes, and sign documents online (e-Estonia, 2022).

Innovative Practices

Tallinn uses blockchain technologies to protect public data and has introduced X-Road - a national platform for the secure exchange of information between institutions. The city also develops smart transport, lighting management, and digital twins for urban planning.

Results and Effects

The Estonian model ensures efficiency, transparency, and a high degree of public trust. Around 99% of public services are performed online, and the level of digital literacy among the population is one of the highest in the EU. This creates preconditions for sustainable development and low administrative costs.

Challenges

The main risks are related to data security and cyber protection. Nevertheless, the Estonian model shows that digital transformation can be achieved even in a small country with limited resources when there is a clear strategy and public consensus.

2.5. Bulgaria - Opportunities and Challenges for Smart Cities

General Characteristics

In Bulgaria, the concept of smart cities has been developing gradually over the past decade, supported by European programs and national digitalization strategies. The main focus



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is on improving urban mobility, energy efficiency, and e-governance (Ministry of e-Governance, 2023).

Innovative Practices

Sofia is implementing smart transport systems (the „Smart Sofia“ campus), lighting management, and open data through the Opensoft platform. The city participates in the European Digital Cities Challenge network, aiming to increase digital maturity. Burgas is establishing itself as an example of sustainable development through the implementation of „smart“ bus stops, video surveillance and waste management systems, and the Smart Burgas project.

Results and Effects

Despite limited resources, Bulgarian cities show progress in integrating digital solutions and sustainable policies. European funding plays a key role in accelerating transformation.

Challenges

Main difficulties include insufficient coordination between institutions, a lack of long-term strategies, and a shortage of qualified personnel. Stronger partnerships between the public and private sectors and more active citizen involvement in decision-making processes are needed.

3. SWOT Analysis of Smart City Development

The analysis of strengths, weaknesses, opportunities, and threats (SWOT) reveals various dimensions of smart city development, both globally and regionally. Among the strengths are high technological development, digitalization of public services, and improved quality of life. Cities like Singapore and Tallinn demonstrate a sustainable e-governance model and effective integration of information technologies in managing public resources. Vienna and Barcelona, in turn, prove that social engagement and sustainable urban planning are key elements of a „smart“ city, while Bulgarian examples show the potential for applying European good practices through targeted funding. On the other hand, weaknesses are associated with high initial investments, the need for long-term infrastructure maintenance, and imperfect inter-institutional coordination. In some cases, digitalization creates social inequalities - between



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better and less included population groups, as well as between different regions. Regarding opportunities, smart cities have the potential to expand the application of artificial intelligence (AI), the Internet of Things (IoT), and big data to increase the efficiency and resilience of urban systems.

European and international funding also opens opportunities for developing public-private partnerships and innovation transfer. Among the main threats are the growing risks related to cybersecurity and personal data protection, as well as the possibility of excessive technologization without real social impact. Economic fluctuations and political instability can also hinder the sustainable implementation of innovations, especially in countries with limited administrative capacity, as is the case with Bulgaria. In summary, the SWOT analysis shows that the success of smart cities depends not only on technological factors but also on society's ability to integrate them in a responsible, ethical, and socially oriented manner.

4. PEST Analysis of the Environment for Smart City Development

The PEST analysis (political, economic, social, and technological factors) reveals the systemic interaction between external conditions and the processes of building smart cities. Political factors include governance stability, the presence of clear strategies, and a legislative framework that encourages digital transformation. The examples of Singapore and Tallinn show that strong state support and long-term policies are decisive for success. In Europe, the political will for green and digital transformation is supported through initiatives like the European Smart Cities Framework and the Horizon Europe program, which also have a direct impact on Bulgaria.

Economic factors relate to access to financing, investment in infrastructure, and digital technologies. Cities with high GDP and a stable private sector, like Vienna and Barcelona, can more easily sustain innovation, while smaller or developing economies, including Bulgaria, depend more on external funds and programs.

Social factors include the level of digital literacy, public trust, and a culture of participation. The Estonian model shows that public engagement and transparency in governance are prerequisites for successful digitalization. At the same time, in countries with



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lower digital culture, there is a risk of excluding part of the population from the innovation process.

Technological factors are the most dynamic and include the development of artificial intelligence, the Internet of Things, blockchain, and automation. They create new opportunities for efficient resource, transport, and energy management. However, technological dependence also poses challenges related to security and the need for constant adaptation to rapidly changing standards.

In conclusion, the PEST analysis shows that smart cities function in a complex environment where success is determined by the combination of political vision, economic sustainability, social support, and technological readiness.

Conclusion

The development of smart cities represents a key element of contemporary urban transformation and sustainable regional development. The analysis of leading examples such as Singapore, Vienna, Barcelona, and Tallinn shows that the successful implementation of the „smart city“ concept depends not only on the deployment of modern technologies but also on strategic governance, social engagement, and sustainable financing.

These cities demonstrate different models - from highly technological and centrally managed (Singapore), through socially oriented and sustainable (Vienna), to civic and democratic (Barcelona), and fully digitalized (Tallinn). The Bulgarian experience, albeit at an earlier stage, shows growing potential, particularly through the use of European programs and public-private partnerships.

The SWOT and PEST analyses confirm that the development of smart cities requires a balanced combination of political vision, economic stability, social trust, and technological innovation. Cybersecurity, social justice, and sustainable resource use are emerging as key challenges for the future. In conclusion, smart cities are not merely a technological phenomenon but a strategic tool for building more sustainable, inclusive, and competitive societies. It is the integration of human capital, digital technologies, and innovative management that is the decisive factor determining the success of this model in the 21st century.



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