

Regionalisation and European integration in Bulgaria and Romania: A Comparative study - Bilateral project - THE ECONOMIC RESEARCH INSTITUTE, BAS AND THE INSTITUTE OF NATIONAL ECONOMY, RA 2013-2015

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BULGARIA: ECONOMIC AND SOCIAL DISPARITY IN A REGIONAL PERSPECTIVE AND EUROPEAN INTEGRATION

Abstract: *The paper presents the current economic and social regional performance in Bulgaria. It is aimed at outlining the regions' differences in the country and giving relevant recommendations how to narrow this disparity in the future development. The purpose of the regional progress is to achieve faster economic progress and cohesion in order that the country catch up sooner with the average EU level of economic development. Three basic aspects of the regional disparity are considered: demographic, social and economic. The efficiency of the national policies for regional development in Bulgaria as well as the opportunity given by the EU funds are discussed in view of achieving considerable progress in the regional cohesion in Bulgaria and the country's efficient EU integration.*

Keywords: *regional development, regional differences, Bulgaria, EU integration*

JEL Classification: *F15, F42, O18*

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Introduction

The transition to a market economy in Central and Eastern Europe (CEE), including the structural changes, caused in practice an increase in internal regional differences in the individual countries. It turned out that economic integration did not lead to favorable results for all regions. Therefore countries like Bulgaria and Romania making effort to integrate their economies within the European Union (EU) must comply with an economic policy reducing adverse effects of these differences.

In this part of the project, features of internal regional disparities in Bulgaria are presented. The objective is to outline the country's regional position in the EU and to suggest the efforts it has to make in order to achieve full integration within the community. Three aspects - demographic, economic and social - are considered to analyze complex regional disparities. It shows the unfavorable trend of increasing territorial disparities in Bulgaria in favor of the most developed region, South-West, including Sofia, the Capital. The obviously inefficient national regional policy and inadequate role of the European structural funds are outlined. Suggestions are made to conduct a policy leading to increasing level of economic development and reducing differences between territorial units in Bulgaria.

Bulgaria's territorial subdivision

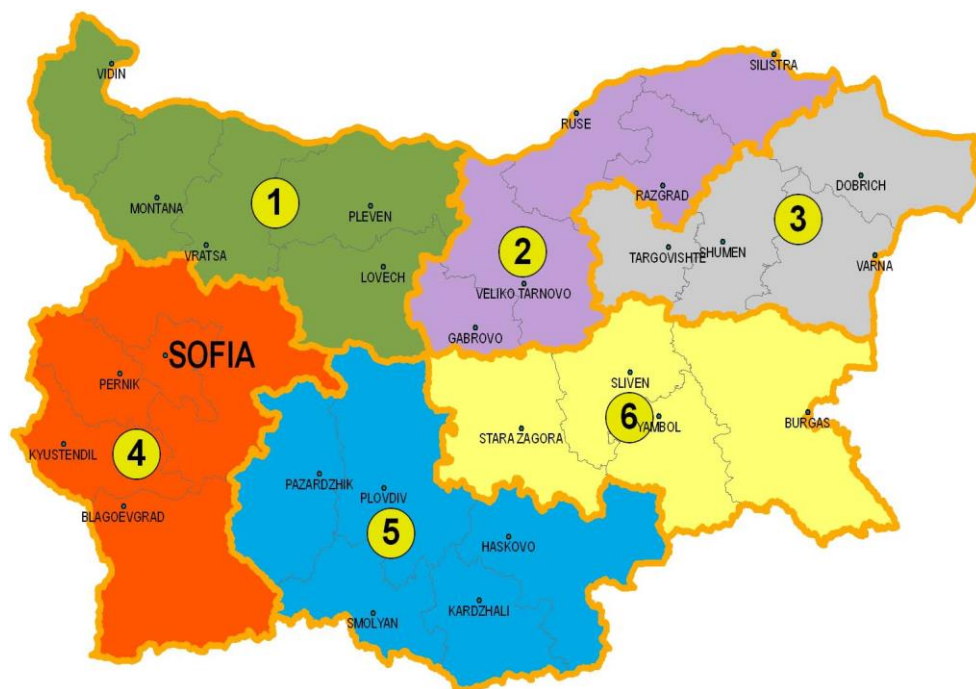
According to the EU methodology (and terminology) the country is divided into 6 planning (called also statistical) regions (NUTS 2), 28 districts (NUTS 3)¹ and 264 municipalities (LAU 1). The six planning regions are North-West (regarded as the poorest region), North-Central, North-East (where the big Black Sea town of Varna is located), South-East (where the other important Black Sea town of Burgas is located), South-West (where Sofia, the capital city, is located) and South-Central (where the second largest town of the country, Plovdiv, is located - see Figure 1).

Population Census 2011 shows that the population distribution in Bulgaria is very uneven. 39.2% of the country's population lives in 9 municipalities with population over 100,000 people. In 60 municipalities numbered fewer than 6,000 people and there lives 3.1% of the population. The number of cities is 255, of villages - 5047 and 181 are settlements that have no inhabitants numbered. One-third of the population lives in the seven largest cities, which have a population of over 100,000 people.

¹ The territory of each Member State (MS) is divided into regions under the Nomenclature of Territorial Units for Statistics (NUTS) classification. It is a geographical nomenclature for collection and harmonisation of statistics and for socio-economic analysis. There are three NUTS levels. NUTS 2 has 271 regions.

According to the national definition of rural areas, 231 out of the total of 264 municipalities in Bulgaria are classified as rural.¹ The ratio of urban to rural inhabitants is relatively constant, although slowly increasing in favour of the urban areas. By data of the 1992 Population Census this ratio is 67.2% to 32.8%; of the 2001 Population Census – 69.0% to 31.0% and of the 2011 Population Census - 72.5% to 27.5%. The average number of the population in rural municipalities is 13,800, but there are significant differences among them. About 40% of the rural municipalities are of small size – with population below 10,000 people, and almost one third of the municipalities in this group have less than 5,000 people. There are only 18 rural municipalities with population above 30,000.

Figure 1. Map of Bulgaria divided into the six planning regions



¹ The national definition of rural areas defines rural areas as municipalities (LAU 1), in which no settlement has a population over 30,000 people. See: Republic of Bulgaria, (2009), Rural Development Programme (2007-2013).

Demographic profile

Since 1990 the population in Bulgaria has aged considerably. According to United Nations data at the end of the 20th century Bulgaria is ranked the sixth in Europe by the largest share of population aged 60 and over, just after Italy, Greece, Germany, Japan, Sweden and Belgium. The proportion of this age group in the villages is twice higher than in the towns of the country.

Before 1990 the rate of natural increase in population was positive although continuously dropping; after that and until now it is negative, over -5.0 per 1,000 population (Table 1). Throughout the last 20 years the country faced marked depopulation - from nearly 9 million inhabitants in 1989 to 7,242,7 million in 2013. By data of the 2011 Census, the population number decreased by 581,750 within the last 10 years (2001-2011), as the natural decrease in population accounts for two thirds of this reduction (68.9%) and the external migration causes nearly one third (31.1%). The latter means that 192,663 people or 2.62% of the total population have migrated out of the country.¹

These trends lead to an unfavourable change in the age structure in Bulgaria and a significantly reduction of the working-age population. In addition the rural areas are much more vulnerable in terms of labour market development and the situation will aggravate in the future.

Table 1. Bulgaria: Basic demographic indicators, 1989-2013

	1989	1995	2006	2013
Population to 31.12 (thousand)	8 993.4	8384.7	7679.3	7 242.7
Share of urban population, %	67.3	67.8	70.6	73.0
Birth rate, per 1000 persons, including	12.5	8.6	9.6	9.2
- in the towns	13.0	8.8	10.1	9.3
- in the villages	11.4	8.0	8.3	8.7
Death rate, per 1000 persons, including	11.9	13.6	14.7	14.4
- in the towns	8.8	10.7	12.0	12.1
- in the villages	18.2	19.9	20.8	20.5

¹ After 1989, emigration from Bulgaria has a strong negative impact on the demographic composition, labour force and ageing of the population. Large-scale emigration of mainly young and active people led to a declining number of the labour force, as well as to sharpening the regional disparity in the country. This issue however is out of the scope of the present study.

	1989	1995	2006	2013
Natural increase rate, per 1000 persons, including	0.6	-5.0	-5.4	-5.2
- in the towns	4.2	-1.9	-2.4	-2.8
- in the villages	-6.8	-11.9	-12.7	-11.8
Life expectancy at birth, (years), total:	71.2 (1989-1991)	70.6 (1993-1995)	72.67 (2005-2007)	74.45 (2011-2013)
- men	68.0	67.1	69.24	71.02
- women	74.7	74.9	76.30	78.01
Total fertility rate, per 1000	1.81	1.23	1.38	1.48
- in the towns	1.66	1.15	1.31	1.39
- in the villages	2.24	1.51	1.60	1.77

Source: NSI.

Over the period 2004-2011 the number of the population in Bulgaria decreased by 5.6%. Only two districts marked an increase in population: Sofia – by 6.5% and the third largest district Varna – by 3.5%. The other 26 districts marked depopulation, as in 13 of them it is very sharp – by over 10%.

The country is marked by a process of depopulation, particularly in some rural areas. According to NSI Census 2011 data, there are about 200 so-called “ghost-villages”, where no people live and which are not indicated on the country’s administrative map.¹ There are around 500 villages numbering between 10 and 20 habitants, mostly old people. In some towns and villages depopulation reached 70-80% during the last two decades, like in Trun, Godech, Bregovo, Makresh, and others, located mainly in the North-West region. The outflow from the villages and abandonment created a vicious circle, shaping a picture of desolated infrastructure, deserted houses, lack of health centers, schools and deteriorating elementary conditions of social existence. The depopulation of entire small municipalities is an eloquent fact of internal migration. For example, in 2009 only, over 100 of 5,178 officially existing Bulgarian villages were depopulated. Over 70% of the population in the rural areas around the district Veliko Tarnovo consists of people at the retirement age and only 3% are aged from 3 to 18 years (Rangelova, R. and G. Bogdanov, 2012). The territorial scope of small villages steadily increased.² Regions with low levels of urbanization, which are mainly border

¹ See: <http://www.nsi.bg/census2011/pageen2.php?p2=179> (accessed : 21.05.2014).

² According to the NSI National Register of settlements many people live in villages on 31 December 2013, more than one-tenth of all 5009 villages in Bulgaria are totally depopulated. Otherwise, 564 villages have no population or single-digit number of inhabitants. The total number of villages with a

(peripheral) regions are generally adversely affected by integration processes. Almost all small settlements are located in mountainous, hilly and the western and southern border areas around the country - themselves with great natural potential for grazing of cattle, sheep and goats (Rangelova, R., 2014). Since this trend continues, very soon many other Bulgarian villages will become deserted because of the lack of jobs and visions for the development of rural infrastructure. If the existing trends of depopulation in the rural areas continue, leading to the shrinking of their demographic and economic potential, the contribution of these rural areas to the future development of the country will get smaller and smaller.¹

Based on the voluntary self-identification by the interviewees in the 2011 Population Census, the distribution of population by ethnic origin is the following: ethnic Bulgarians strongly predominate over other groups (84.8% of the total population); Bulgarians of Turkish origin account for 8.8%, the Roma for 4.9%, as the bigger shares of these two ethnic groups live in the villages (Table 2).

Table 2. Population structure in Bulgaria by ethnical groups, 2011, Total=100%

	Total	In the towns	In the villages
Bulgarians	84.8	90.3	70.0
Turkish	8.8	4.6	20.6
Roma	4.9	3.7	8.1
Other	0.7	0.7	0.8
Not identified	0.8	0.7	1.0

Source: 2011 NSI Population Census.

The main trends in internal migration are closely connected with the described depopulation and ageing in Bulgaria, whereby the situation in different regions and places varies depending on their level of economic development, people's cultural traditions, and their entrepreneurial skills. Since 1990 onward a comparatively stable structure of internal migration between urban and rural areas is observed. The total number of internal migrants fluctuated from 152,269 in 2003 (the highest) to 82,197 in 2012 (the lowest), as women are much more active to change their place of residence

single-digit number of inhabitants is 395 and 169 places that can hardly be called settlements, since they have no a permanent resident.

¹ *National Demographic Strategy of the Republic of Bulgaria, 2006-2020*. Ministry of Labour and Social Policy, Sofia.

than men. The highest number in internal migration flows is "town-to-town" migration. Nearly two thirds of all internal migrants in the last a few years are coming from the towns and most of them migrated again to towns (Table 3). This has implied people moving from smaller towns to bigger ones and particularly to the biggest cities in the country – mainly Sofia, Varna, Burgas and Plovdiv. The importance of Sofia could be explained because the Capital is the leading university centre with the highest proportion of students, as well as more opportunities for professional realization. The larger scale of migration among the urban population is due mainly to the bigger share of urban population in the total population in Bulgaria (73% in 2013). The second largest migration flow is from "village-to-town" and its scope shows a downward trend. The same trend applies to the people moving in the opposite direction - from the towns to the villages. The smallest share among internal migration flows is hold by migration from the villages to the villages (9.3% in 2010 and 9.4% in 2013). Although "villages-to-towns" migration and "towns-to-villages" migration are comparable in scale (about 22%-24% in the total number), migration to towns in general (68.4% in 2010 and 67.1% in 2013) outnumbers migration to villages in general (31.6% in 2010 and 32.9% in 2013) which can be interpreted as a kind of urbanization. Besides, the intensity of migration from the villages is higher than that from the towns.¹ This contributes to deepening differences in the living conditions in cities and villages.

Table 3. Internal migration, 2010 and 2013, number

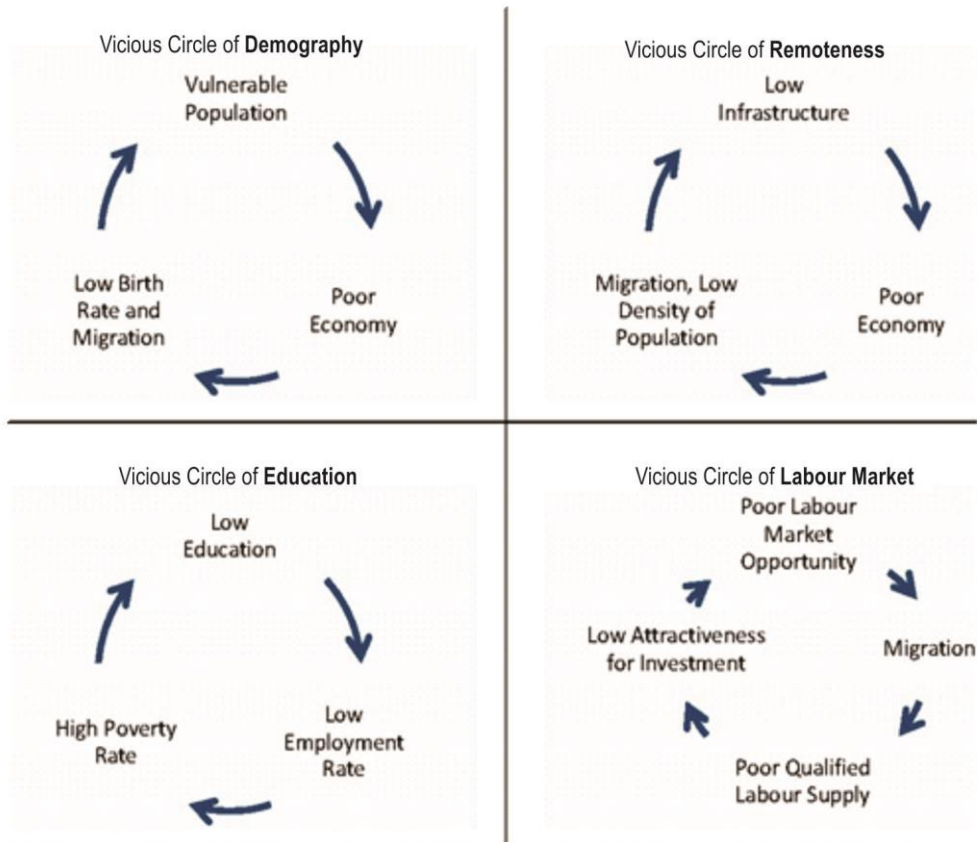
		Outflow		Inflow
		From the towns	From the villages	Total
To the towns	2010	67 441	36 294	103 735
	2013	39 301	18 681	57 982
To the villages	2010	33 881	14 078	47 959
	2013	20 298	8 098	28 396
Total	2010	101 322	50 372	151 694
	2013	59 599	26 779	86 378
Migration balance	2010	2 413	-2 413	0
	2013	-1 617	1 617	0

Source: NSI.

¹ See: NSI, Table on population: <http://www.nsi.bg/otrasalen.php?otr=53> (accessed: 29.12.2014).

Four specific problems characterise rural areas and they are determinants of poverty in rural areas and in turn promote rural-urban internal migration but also outward migration. They are the following: unfavourable demographic situation, remoteness, low educational levels, poor labour market opportunities (Figure 2).

Figure 2. Vicious circles of migration reproducing and fostering poverty in rural areas



The effect of the existing migration processes in Bulgaria is predominantly negative – the population is concentrated in a small number of settlements while a big number of settlements are depopulated. This trend results in the country's unbalanced demographic and economic development, which leads to major

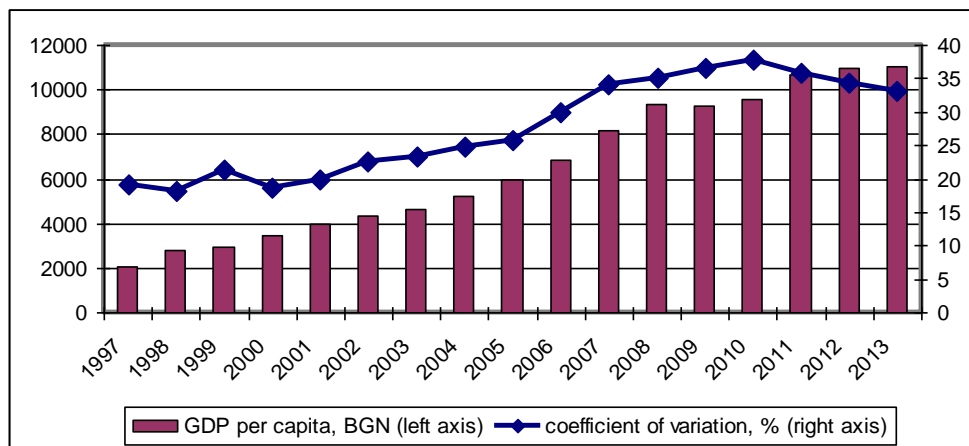
problems that the national and regional governments will have to face in the near future.

Economic and social disparity

The average level of economic development for the six planning regions (NUTS 2 level) in Bulgaria, measured by income (GDP) per capita, increased nearly five times from 1997 to 2012 (Figure 3, left scale), but at the same time the disparity among the regions also increased nearly twice (Figure 3, right scale). In other words, the gap between the Bulgarian regions is increasing.

Bulgaria is the country with the lowest level of economic development among the EU-28: the GDP per capita in 2013 is EUR 5,646 compared to the EU-28 average EUR 26,605 and to Romania - EUR 7,239. This fact aggravates the regional disparities in Bulgaria within the EU. The most favourable position among the regions in Bulgaria is held by the South-West (EUR 9169 in 2012) while, the North-West and the North-Central regions ranked at the bottom of the scale, respectively EUR 3,484 and EUR 3,860 (Rangelova, R. and G. Bogdanov, 2012).¹

Figure 3. Average GDP per capita and coefficient of variation for the six regions in Bulgaria, 1997-2012



Source: NSI.

¹ See: NSI, Data table 1.1.4 Gross domestic Product, <http://www.nsi.bg/otrasalen.php?otr=42&a1=2191&a2=2192&a3=2196#cont> (accessed: 13.01.2015).

The North-West region is the poorest region not only in Bulgaria but also among all 271 regions on the EU territory.¹

Typical of the regional disparities for the CEE EU countries is the contradiction of the type centre-periphery, *i.e.* there is one area, without exception this is the Capital City, with high population density, high activity and high income of population. In other words, the Capital is significantly different from all other areas in the country. Contrary to the Capitals, the border areas, particularly in Bulgaria have much lower economic activity and low incomes.² In the case of Bulgaria the fastest development marks the South-West region (where Sofia is located), and the slowest - the North-West region (Figure 4). While in 1997 GDP per capita in the North-Western region held 75.6% of the country GDP average and 62.1% of that of the most developed region, in 2012 these percentages are already 62.2% and 38.1% respectively, which illustrates the very sharp deepening disparity between the two extreme regions. The South-West region grows also fast above the country average level, which means the gap between Sofia and all other areas also continues to widen.

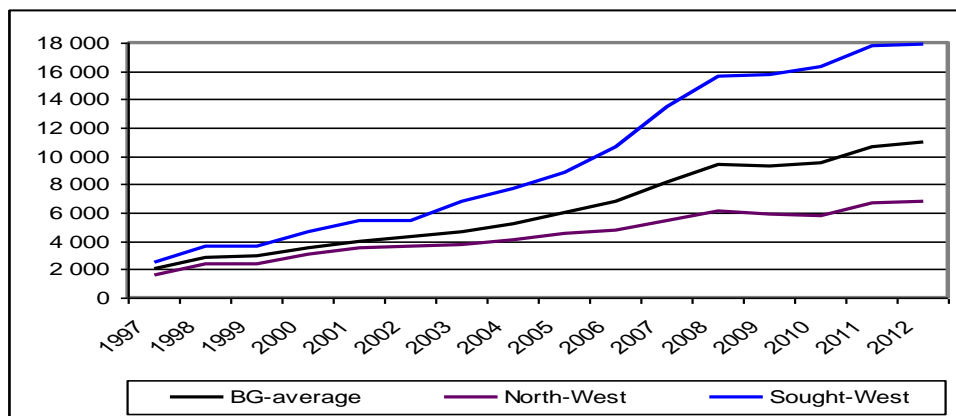
The household income dynamics in the country within the last 10 years implies a growing gap between Sofia, the Capital and the poorest areas in Bulgaria. According to NSI data the average annual income growth in the Capital over the decade 2004-2013 is 12.8%, while the average rate for the country is 8.5%. The region with the slowest growing income is Lovech - with only 2.9%. During this period, only six regions recorded growth outpacing average for the country. They are: Sofia, Plovdiv, Stara Zagora, Pleven, Pernik and Yambol. In the other 22 regions of the country the income growth is lower than the national average.³ The data above indicate another noticeable divergence between the north and the south regions in Bulgaria. The main factors for the tangible effects of the crisis in the north of the country are demography, lack of investment, insufficient absorption of EU funds and poor infrastructure.

¹ Quoted Eurostat data for GDP per capita in 2008 the North-West region in Bulgaria is the poorest among all EU regions with 28% GDP per capita if EU-27=100%. Among the last positions are also North-Central region in Bulgaria and South-Central region (30 %). The North-East region in Romania is with 29%. For the sake of comparison the richest is the central part of London (343% compared with the average EU=100%). In total 64 regions in the EU those with under 75% (EU-27=100%) are located as follows: 15 in Poland, 7 in the Czech Republic and 7 in Romania, 6 in Bulgaria, 6 in Hungary, 2 in the UK, 1 in Spain, 1 in Estonia, 1 in Lithuania and 1 in Latvia.

² Out of the eight districts ranked with the worst development potential, seven are located on the edge of the Bulgarian territory, in areas bordering other countries in the North-West, North-Central but also South-West regions.

³ For the names of regions where the districts are located see Figure 1 and Table 5.

Figure 4. GDP per capita in Bulgaria - average, South-West Region and North-West Region, 1997-2012, BGN



Source: NSI.

The average rate of income growth depends mainly on the state of the labor market, as wages formed over 50% of total household income in the country. The age structure of the population is also an important factor - the greater part of the inhabitants is of retirement age, the greater the share of total household income form of pensions. For example, pensions account for only 14.1% of household income in the Capital, while this percentage is 32% of income in Vidin. The high share of income from pensions generally implies not only a lower starting base of income, but a slower rate of increase due to administrative determination of this type of income. Therefore, currently there are no signs of gradually narrowing the income level gap between the Capital and in the rest of the country. Furthermore, the continuing pattern of income growth in the Capital in the time of the crisis 2008-2009 and post-crisis recovery make these differences more serious.¹

International perspective of regional differences for Bulgaria

Analyzing regional disparities, it is interesting how Bulgaria relates to the other EU countries. The data in Table 4 allow for such a view and the changed position of the EU

¹ See: Chart of the day: When other areas will catch on capital income? ("Графика на деня: Кога другите области ще настигнат столицата по доходи?"). 02.08.2014. Available at: <http://www.investor.bg/ikonomika-i-politika/332/a/grafika-na-denia-koga-drugite-oblasti-shte-nastignat-stolicata-po-dohodi,177357/>

countries in the first decade of the 21st century.¹ In 2000, Bulgaria is among the countries with average level of regional dispersion. For 10 years this level increases too much (by +18.2) and in 2011 the country marks striking highest regional dispersion (45.5%). Next countries with very high increase in regional disparities are also from CEE - Romania (+9.4), Slovakia (+7.4), Hungary (+5.1), etc. It is noteworthy that regional differences increased in most of the countries (18). This fact confirms that efforts to achieve economic efficiency of the CEE countries were at the expense of increased regional differences within their territories. Only in 7 countries they decreased more or less. The only CEE country, where differences reduced is Latvia (-6.4).

Table 4. The dispersion of regional GDP (at NUTS level 3) per inhabitant, 2011

States	2000	2011	Change	States	2000	2011	Change
Bulgaria	27.3	45.5	+18.2	France	23.9	26.9	+ 3.0
Hungary	38.9	44.0	+ 5.1	Czech Rep.	22.0	26.2	+ 4.2
Estonia	38.4	42.1	+ 3.7	Belgium	28.4	26.2	- 2.2
Romania	30.6	40.0	+ 9.4	Italy	25.8	25.2	- 0.6
Latvia	43.3	36.9	- 6.4	Lithuania	21.0	24.8	+ 3.8
Slovakia	27.8	35.2	+ 7.4	Slovenia	19.2	21.6	+ 2.4
Ireland	29.6	35.1	+ 5.5	Austria	25.9	21.4	- 4.5
Croatia	30.4	35.0	+ 4.6	Denmark	18.5	21.1	+2.6
Poland	32.7	34.9	+ 2.2	Spain	20.6	19.5	- 1.1
UK	30.2	32.5	+ 2.3	Finland	20.6	18.7	-1.9
Germany	30.3	28.4	- 1.9	Netherlands	16.6	18.3	+1.7
Portugal	27.8	27.9	+ 0.1	Sweden	15.9	17.3	+1.4
Greece	..	27.0	..	Malta	2.1	4.3	+ 2.2

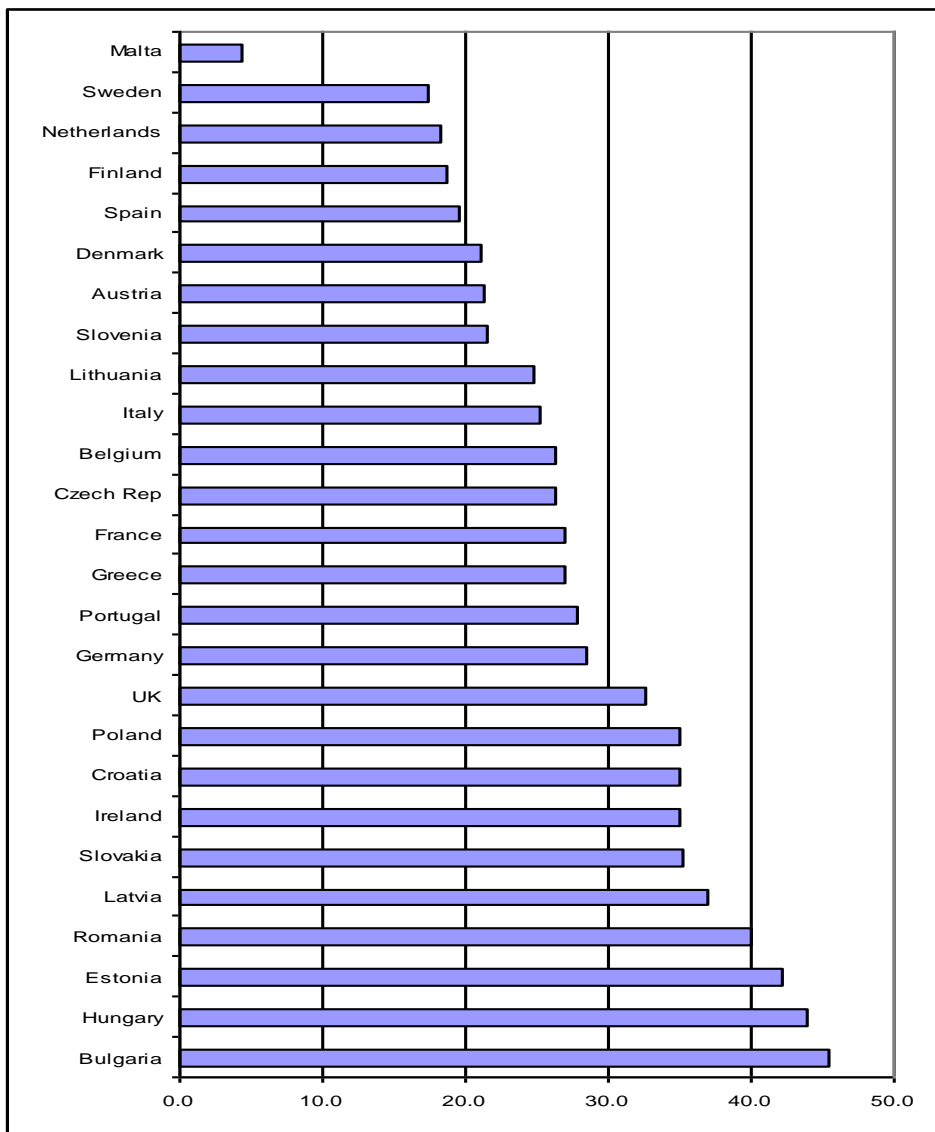
Source: Eurostat.

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tsdec220&plugin=1>

¹ The dispersion of regional GDP (at NUTS level 3) per inhabitant is measured by the sum of the absolute differences between regional and national GDP per inhabitant, weighted with the share of population and expressed in percent of the national GDP per inhabitant. The indicator is calculated by regional GDP figures based on the European System of Accounts (ESA95). The dispersion of regional GDP is zero when the GDP per inhabitant in all regions of a country is identical, and it rises if there is an increase in the distance between a region GDP per inhabitant and the country average.

In this situation the ranking of countries by internal regional differences in 2011 looks like this (Figure 5):

Figure 5. The dispersion of regional GDP (at NUTS level 3) per inhabitant, 2011



Source: Eurostat.

Empirical analysis of regional disparity

There is a good deal of empirical work on the regional development, differences and policies in Bulgaria. Various studies focus on different aspects of the regional development: economic growth (Totev, S., 2012), competitiveness, economic convergence, social cohesion, social policy (Shopov, G., 2014), infrastructure development (Hristoskov, Y., 2014), regional policy (Ivanov, S., 2012), regional policy for sustainable development, and others. Concerning empirical evidence all those studies show a similar picture of the regional differences, as they amplify the whole real situation.

A study is devoted to the relationships between regional and macroeconomic development (Shopov, G., 2014). The study refers to the following thematic issues: level and dynamics of social disparities between regions and districts in the country during the period 2001-2008; quantitative and qualitative assessment of changes in these differences, including identifying socially leading and lagging regions and districts; assessment of the relationship between social development and general socio-economic development. Quantitative estimates of the differences are produced by a model based on the taxonomic method. For valuation purposes the following indicators are used: income per household; unemployment; doctors per 100 thousand residents; population at risk of poverty or social exclusion; inequality in income distribution (via Gini coefficient).¹ Based on the temporal analysis the author draws some important conclusions, among which: (a) From the viewpoint the macroeconomic conjuncture (business cycle), the differentiation between various regions was higher in the pre-crisis year 2008, while in the crisis year 2011 these differences are relatively shrunk; (b) The analysis of coherence in the arrangement of the areas confirmed the link between social and economic development of the regions and that the social profile of the majority of them correspond to their overall socio-economic situation.

Another study is on the relations between different economic and social indicators by region including towns and villages in Bulgaria (Totev, S., 2010, pp.68-86). The correlation between the GDP per capita and the share of rural population is negative and relatively strong (-0.66), while the correlation between GDP per capita and level of

¹ The empirical study is based on a number of socio-economic indicators. The first group includes a number of indicators for the level of economic and social development in an individual region: number of population, income of population, economic activity of firms and population, cultivated agricultural land, average revenue in municipal budgets per resident, etc. The group of indicators for the individual region potential includes among others: territory, density of population, percentage of agricultural land in total land; percentage of woodland territory in total land; age structure of the population, etc.

unemployment, although negative, is weak and insignificant (-0.30). The strongest is the relationship between the population density and GDP per capita (0.92). The study shows that the most developed region of Bulgaria remains the South-West region, and the least developed one – the North-West region.

A regional analysis shows that disparities between the regions in Bulgaria in terms of socio-economic development are combined with depopulation, turning less developed regions into the most disadvantaged places for living in Bulgaria. A look at the most relevant indicators show that the North-West region can be considered as the most affected net migration loss region (Rangelova, R. and G. Bogdanov, 2012).

The different level of infrastructure is one of the essential reasons for the uneven socio-economic development at a regional level. The infrastructural disparity at a regional and district level is due to the differences in the socio-economic potential of those territorial entities. However, as long as the infrastructure development mostly depends on the state policy, but the economic development is related to the behaviour of the market economic agents, the infrastructure-economy relation is of determining importance and able to be controlled by the government (Hristoskov, Y., 2014).¹

For the purpose of this Project we undertake similar analysis, using available data for the most recent year (2013) delivered by the National Statistical Institute, homogeneously produced under the heading “Environment, regional statistics and indicators for monitoring” (Table 5). As far as the differences between territorial units concern the overall socio-economic situation, we choose ten basic indicators. By means of the descriptive statistics we could easily compare the relative performance of the two statistical zones: first - North and South-East, and second - South-West and South Central in favour of the second (south regions). The second level of disaggregation is represented by six statistical regions, which include altogether 28 districts. As a whole, the results of this study show again that the most developed region of Bulgaria remains the South-West region, whereas the least developed one – the North-West region.

The correlation analysis gives an idea about the relations between the different indicators (see Appendix) and suggests policies for narrowing the regional disparities. The correlation between the share of the district's population in total country population (regarded as population density) is positive and relatively strong in 7 of 9 variables. The strongest is the relationship between the population density and the total output (0.96), followed by value added (0.95), stock of Foreign Direct Investment – FDI (0.93), share

¹ The Bulgarian expert Y. Hristoskov carried out an empirical study of the relationship between the level of infrastructure and the socio-economic development of the NUTS2 statistical regions of the EU and of the NUTS3 statistical areas in Bulgaria.

of people with higher education (0.80), level of wages and salaries (0.79), share of households with Internet access (0.66) and rate of natural increase of population (0.52).¹ Only in two cases, the correlation between population density and unemployment and population density and share of people living in the villages – is negative (-0.38 and -0.61 respectively).

Table 5. Economic, demographic and social indicators by two statistical zones, six regions, and 28 districts, 2013

	Population structure based on the territory, %	Natural increase rate, ‰	Share of value added in total, %*	Unemployment rate, %	Annual wages and salaries (BGN), average =100	FDI in non-financial enterprises, %	Share of total output, %*	Population living in the rural areas, %	Population with higher education, %	Households with Internet access, %
	1	2	3	4	5	6	7	8	9	10
Bulgaria	100.0	-5.2	100.0	12.9	100.0	100.0	100.0	27.0	9.6	53.7
North and South-East										
North-West	11.28	-10.5	6.27	14.0	-	3.00	5.48	36.4	-	42.8
Vidin	1.32	-14.3	0.43	17.7	81.1	0.25	0.37	35.9	14.6	44.0
Vratsa	2.46	-10.1	1.99	14.9	122.9	0.68	1.40	41.0	20.4	48.2
Lovech	1.87	-10.2	1.01	10.7	90.9	0.58	1.08	37.5	15.8	34.6
Montana	1.95	-11.7	0.86	16.7	91.6	0.16	0.95	35.7	18.4	36.4
Pleven	3.58	-9.1	1.98	12.1	92.3	1.33	1.68	33.3	22.9	47.6
North-Central	11.53	8.3	8.19	15.3	-	3.76	7.80	33.1	-	49.6
Veliko Tarnovo	3.47	-6.9	2.07	16.2	95.1	0.38	2.03	30.1	26.6	46.6
Gabrovo	1.63	-10.7	1.41	8.8	103.6	1.09	1.46	18.0	24.9	48.2
Razgrad	1.66	-7.0	1.14	20.7	98.6	0.55	1.07	37.6	13.7	51.2
Ruse	3.17	-8.0	2.84	12.5	99.4	1.60	2.65	22.8	23.6	57.6
Silistra	1.60	-6.8	0.73	21.3	90.1	0.14	0.59	55.1	15.1	37.6
North-East	13.17	-4.1	10.93	16.8	-	8.75	10.11	26.6	-	51.5
Varna	6.54	-2.4	6.62	13.7	116.8	6.10	6.13	16.2	31.4	57.1
Dobrich	2.55	-6.7	1.95	15.8	93.8	1.29	1.50	30.9	18.4	54.1

¹ The coefficient numbers are rounded.

	1	2	3	4	5	6	7	8	9	10
Targovishte	1.62	-5.8	0.95	15.7	94.2	0.89	0.96	45.8	16.7	29.4
Shumen	2.46	-4.6	1.41	26.0	97.0	0.47	1.52	37.4	21.3	49.8
South-East	14.69	-4.1	12.08	13.0	-	14.51	16.60	20.2	-	46.5
Burgas	5.72	-3.0	4.54	12.7	107.5	10.45	10.38	25.1	20.2	44.8
Sliven	2.68	-2.2	1.20	15.9	91.6	0.42	1.17	33.9	20.5	41.1
Stara Zagora	4.53	-5.8	5.30	10.6	123.3	3.41	4.05	28.2	19.5	52.3
Yambol	1.76	-6.5	1.04	16.1	93.1	0.23	1.00	29.9	24.2	44.8
South-West and South Central										
South-West	29.36	-3.7	48.91	9.8	-	59.82	46.33	16.4	-	64.3
Blagoevgrad	4.39	-2.7	2.71	13.5	86.0	1.52	2.90	40.5	18.0	60.5
Kyustendil	1.80	-11.4	0.79	14.9	90.1	0.17	0.75	30.7	22.5	52.4
Pernik	1.78	-11.1	0.73	13.0	88.0	0.98	0.98	21.1	16.9	48.4
Sofia	3.32	-8.2	3.55	10.0	121.1	5.41	6.04	38.7	14.4	44.1
Sofia	18.07	-1.5	41.13	8.2	168.3	51.74	35.66	4.6	45.8	70.9
South-Central	20.06	-4.5	13.62	13.5	-	10.16	13.68	32.9	-	52.7
Kardzhali	2.08	-1.8	0.63	7.0	89.6	0.48	0.51	58.2	15.6	45.8
Pazardzhik	3.72	-4.2	2.33	13.0	95.1	1.97	2.07	52.8	16.6	36.1
Plovdiv	9.36	-4.	8.25	13.4	103.7	7.06	8.69	25.3	23.4	60.7
Smolyan	1.60	-6.6	0.92	20.3	89.0	0.33	0.77	44.9	20.0	45.2
Haskovo	3.30	-6.8	1.49	14.3	86.2	0.32	1.64	27.5	20.3	54.2

Legend:

- 1 - Share of the district's population in the total country population, %
- 2 - Natural increase rate, per 1 000 persons, ‰
- 3 - Share of the district' value added at factor cost in total country value added, % *
- 4 - Unemployment rate, %
- 5 - Average annual wages and salaries of the employees under labor contract (BGN), unweighted average =100
- 6 - Share of Foreign Direct Investment in non-financial enterprises at cumulative base to 31.12.2013, %
- 7 - Share of total output, %*
- 8 - Share of rural population, %
- 9 - Share of the population aged between 25 and 64 years with higher education, %
- 10 - Share of households with Internet access, %*The indicators are calculated according to the methodology of Structural business statistics for all non-financial enterprises which have submitted annual reports on their activities in the NSI.

Source: NSI. Environment, regional statistics and indicators for monitoring.

The strong and positive correlations between the basic economic growth indicators like total output, value added, FDI, share of people with higher education, level of wages, households with Internet access and other are positive and very strong. They are very closely connected with the population density, which means the larger the district the higher the economic activity. In the case of Bulgaria the best performance is found Sofia, the Capital, and the next ranking districts (Plovdiv, Varna and Ruse) stay far behind it. The left districts form a third group, as some of them are in very low positions by the individual indicators (Vidin, Lovech, Montana, Smolyan, Targovishte, etc.). The most developed regions (South-West) have only 16.4% of the rural population whereas the least developed one – the North-West region has the highest proportion of rural population in Bulgaria – 36.4%.

A special attention deserves the FDI stock distribution by region and district. There is a drastic difference between South-West regions with share of FDI stock of 59.82%, i.e. nearly 60% of the total in the country, mainly due to Sofia (51.74%), while the share of North-West region is with only 3%, which is 20 fold smaller, followed by North-Central (3.76%), North-East (8.75%), etc. (Table 5). Many of the districts hold under 1% of the FDI stock, even under a quarter of a percent: Silistra – 0.14%, Montana – 0.16%, Kystendil – 0.17%, Vidin – 0.25%.¹

The following **conclusions** can be drawn regarding the analysed demographic, economic and social disparity from a regional perspective:

- Population density problems: The North-West region has the lowest share of population in Bulgaria making up 11.38% of the total Bulgarian population at the end of 2013; a large part of its territory is situated on the borders to Romania in the north, alongside the Danube River, and to Serbia in the east. Next to it we find the North-Central region with 11.53% of the total Bulgarian population. The largest is South-West region making up 29.36%, which is nearly one third. These indicators show very uneven population density;
- The most developed region of Bulgaria is the South-West region; the poorest regions (North-Western and North-Central) keep lagging behind.
- Demographic problems: low birth rate, higher mortality, high negative natural increase since 1990 onward (over -5 per 1000), depopulation, particularly in

¹ It should be noted that despite the fact that many governments give incentives and tax benefits to attract FDI, empirical studies on Central and Eastern European countries have consistently shown that FDI crowd out and take away market opportunities from domestic enterprises and make the domestic firms less efficient. However, it could be that not all FDI firms are alike, particularly when only some FDI use local intermediate inputs and have strong backward linkages.

villages, out-migration of the young people caused by lack of employment, low population density;

- Labour market problems: low educational status, higher unemployment and long-term unemployment;
- Spatial dimension of poverty is exacerbated by a poor and deteriorating infrastructure;
- Rural welfare has been constrained by the low level of income, driven by low wages in rural areas, high unemployment, and low level of agricultural productivity.
- In terms of FDI, the situation is more serious, as in most of the areas there are not delayed funds from abroad or their size is insignificant. The very uneven FDI distribution by territory and the lack of active investment policy are reasons for these differences and will likely increase them.

Regional policy in Bulgaria

The State regional policy in Bulgaria is governed mainly by the Regional Development Act, in force since 2008. Basically it is aimed at: reduction in interregional and intraregional differences in the degree of economic, social and territorial development; ensuring conditions for accelerated economic growth and high employment; development of territorial cooperation.

Regional policy in Bulgaria is carried out through a system of documents for strategic planning and programming of regional development, among which:

- National Development Plan;
- National Strategic Reference Framework;
- Operational programs co-financed by European Union funds;
- National Strategy for Regional Development;
- Regional development plans for level 2 regions (NUTS 2);
- The regional development strategies;
- Municipal Development Plans.

We are not going to consider the regional policy in details here. Judging by the data analyzed above, however, it is evident that the state (domestic) regional policy does not give visible results or visible consequences in Bulgaria. Regional policy does not

contribute to economic and social cohesion. On the contrary, the disparities between regions in the country have worsened in the last decades, in particular 10-15 years.

One should admit that a common feature of the current Bulgarian policy remains the substantial number of strategies, action plans, programs, etc. but they have pure declarative character, lacking of goals with indicators for the achievement of actual real. The policy is not focussed enough on actual narrowing the regional differences.

An analysis of the Institute for Market Economics (IME), in cooperation with the Bulgarian company "Regiostat", confirms this statement. The two organizations prepared socio-economic profiles of the 28 districts in Bulgaria, based on 58 indicators, which are divided into eight main categories - economy, infrastructure, taxes and administration, demography, education, health, environment and social environment. According to their basic findings the majority of local authorities do not work actively enough to improve the business environment. Thus, despite the transfer of certain tax powers to municipalities, in general tax revenues continue to form a relatively small part of their budgets.¹

We should note the importance of policies for regional sustainable development in Bulgaria. Regional economic development can be defined as sustainable if it is a prerequisite for achieving well combined economic, social, environmental and institutional development in the regional context. Therefore sustainable regional development is associated with working institutions committed to solving the problems associated with creation and reviving (where applicable) economic activity, decreasing income inequality, activating labor market and reducing unemployment. Problems of environmental protection and compliance with environmental regulations are other requirements for sustainable regional development.

According to the Bulgarian author S. Totev, the development of the regional processes in most countries has shown that the State priority is directed to the national economy efficiency, as tackling the growing regional disparities remains after that. This is especially true for countries with relatively less developed economy. Therefore, it is difficult to accept that in Bulgaria the process of regional convergence will be prioritized at the expense of economic efficiency. The failure of any regional policy in Bulgaria so far proves this fact. These circumstances suggest that if Bulgaria in the future conduct a regional policy, in the best case it will be in search of convergence without detriment to economic efficiency (Totev, S., 2012, pp.113 -127).

¹ Regions at several speeds. ("Региони на няколко скорости"). Available at: http://www.capital.bg/politika_i_ikonomika/bulgaria/2013/11/14/2182311_regioni_na_niakolko_skorosti/ (accessed: 09.02.2015).

EC Funds and regional development

Undertaking cohesion policy the EU takes into account that economic development, productivity and employment opportunities differ widely across the EU. About a third of the EU's budget goes to reducing these disparities – helping its least developed regions benefit from the EU market. Funding is given to programmes for developing the skills of local workforces, encouraging entrepreneurship, improving infrastructure and protecting the environment. Millions of Europeans have already benefited from targeted regional funds.¹

The 2007-2013 Cohesion policy of the EU was focused on the following three priority objectives (Cohesion Policy, 2005; Eurostat regional yearbook 2014):

- "Convergence", aimed at reducing regional disparities in Europe by helping those regions whose GDP per capita is lower than 75% of the EU average catch up with the richer regions. To achieve this goal, the majority of the financial resources of EU funds - over 80% were spent.
- "Regional Competitiveness and Employment". It covers all regions in Europe, which are not covered by the "Convergence", i.e. supports richer regions to achieve even better results with a view to creating a positive chain effect throughout the EU, and promote more balanced development by removing the "islands" of poverty.
- "European territorial cooperation", aimed at promoting cross-border cooperation between countries and regions, which would not occur without support under cohesion policy.

In June 2013 Brussels pointed out that regional aid should be used to reduce disparities between regions - both in the country and within the EU. Therefore, the new guidelines of the European Commission (EC) on the rules for state aid are aimed at promoting investment in less developed regions and where a high unemployment level is registered. The aim is to support business expansion or modernization of the existing equipment. Thus the state aid is directed to improve economic development and employment.

The EU policy for reducing regional disparities will persist for the programming period 2014-2020. The expectations are the efficiency of regional policy to grow socio-economic cohesion to become actually the main goal of each EU policy. EU budget

¹ EU Funds. Regional policy. Available at: <http://www.eufunds.bg/en/page/17>

proposals for 2014 to 2020 allocate EUR 376 bn to such programmes.¹ The Commission is also proposing a new approach to make this round of funding more effective in achieving the long-term aims of Europe 2020, the EU's growth and jobs strategy.²

In June 2014 the EC approved the map of national regional aid in Bulgaria for 2014-2020. The EC's analysis showed that all regions of Bulgaria are eligible for regional aid. Guidelines of the EC are regions with GDP per capita below 75% of the EU average to allow priority to regional investment aid. In five regions the GDP per capita is below 45% of the EU average. Only in the South-West region the percentage is between 60 and 75% of the EU average.³

Practice in Bulgaria, however, is contradictory. Regional economic differences increase despite the Eurofunds which are originally aimed at shrinking them.⁴ We are not going to analyze the situation in depth. Only one example in the agricultural sector. Although funds for agriculture increased, production in the sector decreased. In the period 2003-2006 to the agricultural sector EUR 100 mln. were allocated. The total allocation from Cohesion Policy funding for the 2007-2013 period was EUR 6.9 billion. However, the gross value added of agriculture reduced by one-fourth compared to the period before joining the EU (January 2007). Bulgarian farmers become more dependent on EU subsidies. They increasingly rely not on production and market, but on direct subsidies.⁵

¹ In 2014-2020, Bulgaria will allocate around EUR 7.6 billion (current prices) in total Cohesion Policy funding. The country will manage seven operational programmes under EU Cohesion Policy. Of these, four programmes will be funded by the European Regional Development Fund (ERDF) – EUR 5.09 billion and the Cohesion Fund - EUR 2.28 billion, the European Territorial Cooperation - EUR 165.7 million, and the Youth Employment Initiative - EUR 55.2 million. (See: European Commission. Cohesion Policy and Bulgaria, July 2014).

² Growth & jobs focus for regional cohesion funding 2014-2020 - 06/10/2011. Available at: http://ec.europa.eu/news/regions/111006_en.htm (accessed: 2.02.2015).

³ EC approved state aid maps for the regions in Bulgaria. ("ЕК одобри картата на държавните помощи за регионите в България"). 26.06.2014. Available at: <http://www.investor.bg/европроекти/264/a/ek-odobri-kartata-na-dyrjavnite-pomoshti-za-regionite-v-bylgaria,175046/>

⁴ See: The poorest regions go down despite the Euro funds ("Най-бедните райони у нас затьват въпреки еврофондовете"). SEGA (newspaper), 3 January 2012. Available at: <http://www.segabg.com/article.php?id=583605> (accessed: 3.09.2014).

⁵ According to data analysis Bulgaria possesses 3% of EU farmland and uses 3.3% of the European workforce in the sector, but produces only 0.8% of gross value added in the agriculture community. See: Farmers become more dependent on EU subsidies ("Земеделците стават все по-зависими от европейските субсидии"). SEGA (newspaper), 13 February 2015. Available at: <http://www.segabg.com/article.php?id=738738>

The reasons for the Eurofunds inefficiency are known and widely discussed in the country. Firstly, this is because the very uneven distribution of EU funds among the regional units. For example, much less European funds are attracted in the least developed regions than in Sofia. Unevenness is coming also from different sectors and activities.¹ Secondly, there are many questions about adequacy of all projects. For example, investment in gardens and parks is not convincing in time of crisis. The regions need economic development, including permanent employment. Even though people find a job for some time in the parks, this is part time job. Thus such projects seize more funds for entirely efficient activities of municipalities. Thirdly, this is inefficient projects management. There is a wide range of shortcomings. But speaking about the least developed areas, according to the public opinion, in many small towns in the northwest, people live in fear of local ruling circles, surrounded by a large number of officials without the necessary professional qualities. These people neither can organize projects nor are willing to work on such projects.

Naturally, many aspects of improving projects efficiency are discussed within the EU. Among the other measures the country should apply are those aimed at achieving a better and timely communication between all stakeholders in the process of absorption of EU funds. These measures should include promoting better cooperation between the central government and local authorities, as well as strengthening the role of local structures for the provision of information, guidance and advice to final beneficiaries. Further work should significantly improve the management of EU funds - regulating the detailed rules for the application, granting and receipt of funds as well as procedures to follow up. Establishment of an electronic procurement procedure through the online platform for the submission of tenders is also among the measures that would improve the country's performance in the new programming period. Such a procedure facilitates better accountability and greater transparency of the process.

Conclusions and recommendations

Based on the analysis we can draw the following conclusions regarding demographic, economic and social differences and disparity from a regional perspective in Bulgaria.

The analysis shows a large gap between the level of economic development of Bulgarian regions and average European regions' levels. The only exception is South-West region, whose demographic, economic, social and infrastructural indicators stand out above the rest areas and closer to the average level of European regions. The

¹ An analysis of the Ministry of Agriculture and Foods states that for the financial year 2012 in Bulgaria about 80% of direct subsidies for the country goes to 6% of farms, which are large farms of grain.

contribution of the South-West region to the national GDP (47.4% in 2013) is almost equal to the contributions of the other five regions combined. At the same time, the North-West region occupies the last place in almost all major development indicators (7.6% of national GDP). Other areas, particularly the North-Central region, however, are much closer to development in the North-West than to the South-West, which lag behind seriously.

Sustainable development of the regions in Bulgaria is difficult because of the general trend to reduce the country's population, depopulation of less developed areas and migration to more attractive regions and cities, such as Sofia. The economic crisis has exacerbated the demographic problems and strengthens the disproportions in the territorial distribution of population.

The formation of inter-region and intra-region disparities requires various directions of regional policy:

- *Reducing the disparities.* It could be achieved if we reallocate resources to territorial units with the lowest level of development. Thus the processes of regional divergence will mitigate.
- For this purpose however, *an adequate and targeted strategy* referred to how to achieve these objectives is necessary. Such a strategy should rest upon the endogenous economic potential of the regions as well as to seek the maximum combination of regional policy with economic efficiency.
- *Developing regional growth centers* which could contribute to the development of the entire region. In this case, the region should better use the resources in the perspective so that territorial units could achieve a level of development comparable to national or even European benchmarks. In fact this means creation of secondary centers in areas that balance somewhat strong gravitation influence of the Capital area. It must also be large enough or far enough from the main center to be able to build an own field of influence.
- The incomes gap between the countryside and Sofia could be filled with more serious efforts *to attract domestic and foreign investment*, quality and continuous education and training, infrastructure development and a better business environment which encourages entrepreneurship.
- The economic policy should introduce *a regional approach to the implementation of the sectoral policies* (development of agriculture, industry, etc.). The National sectoral policies should include regional development, especially the underdeveloped regions through their economic restructuring.

- Regional policy is and will remain the objective of any EU economic policy. This is particularly important for Bulgaria. The country needs to align its regional policy to the EU, taking advantage of the fact that the EC provides funding the most deprived regions in the member states like Bulgaria.

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Appendix. Correlation matrix of the ten indicators given in Table 5.

	1	2	3	4	5	6	7	8	9	10
1	1									
2	0.521** 0.004	1								
3	0.945** 0.000	0.400* 0.035	1							
4	-0.380* 0.046	-0.117 0.554	-0.352 0.066	1						
5	0.795** 0.000	0.329 0.087	0.841** 0.000	-0.396* 0.037	1					
6	0.926** 0.000	0.392* 0.039	0.989** 0.000	-0.362 0.058	0.832** 0.000	1				
7	0.955** 0.000	0.431* 0.022	0.980** 0.000	-0.374* 0.050	0.845** 0.000	0.991** 0.000	1			
8	-0.579** 0.001	0.001 0.994	-0.558** 0.002	0.304 0.116	-0.518** 0.005	-0.544** 0.003	-0.573** 0.001	1		
9	0.799** 0.000	0.343 0.074	0.813** 0.000	-0.268 0.168	0.695** 0.000	0.777** 0.000	0.779** 0.000	-0.732** 0.000	1	
10	0.662** 0.000	0.309 0.110	0.597** 0.001	-0.219 0.264	0.497** 0.007	0.542** 0.003	0.576** 0.001	-0.644** 0.000	0.634* 0.000	1

Notes: * Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Legend:

- 1 - Share of the district's population in the total country population, %
- 2 - Natural increase rate, per 1 000 persons, ‰
- 3 - Share of the district value added at factor cost in total country value added, % *
- 4 - Unemployment rate, %
- 5 - Average annual wages and salaries of the employees under labor contract (BGN), unweighted average =100
- 6 - Share of Foreign Direct Investment in non-financial enterprises at cumulative base to 31.12.2013, %
- 7 - Share of total output, %*
- 8 - Share of living in the rural areas population, %
- 9 - Share of the population aged between 25 and 64 years with higher education, %
- 10 - Share of households with Internet access, %

*The indicators are calculated according to the methodology of Structural business statistics for all non-financial enterprises which have submitted annual reports on their activities in the NSI.

Source: NSI. Environment, regional statistics and indicators for monitoring.