



# COHESION POLICY AS A FACTOR FOR THE DEVELOPMENT OF THE ECONOMY OF BULGARIA

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## **Abstract**

*The urgency of this article is dictated by the importance of one of the largest sources of financial support at the European Union level, namely the Cohesion Policy. Its purpose is to promote economic and social cohesion by reducing disparities between the Member States and allowing all regions to compete effectively in the European market. The article presents the possibilities of the cohesion policy for the development of the Bulgarian economy. The idea is that through the implementation of various projects, using the financial instruments of cohesion policy, economic, social, and territorial convergence of the Bulgarian economy is achieved. The article analyzes various economic indicators affecting the investment climate of Bulgaria as a member state of the European Union. Cohesion policy is proven to be a modern and effective tool that promotes the implementation of progressive ideas and approaches and helps to create better-living conditions for European citizens, promoting economic, social and territorial cohesion between the regions of Europe.*

**Keywords:** cohesion policy, competitiveness, development, economy, integration.

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## **1 INTRODUCTION**

The characteristic feature of the European Union is that it develops economic relations and creates a single common market between the member states of the Union. Thus, the Common Market

enables the free movement of goods, services, capital, and people within the EU internal market.

The process of political, legal, economic, and socio-cultural cohesion of European countries must discuss integration issues. European integration is carried out through the Council of Europe and the European Union.

To achieve convergence of economies, five basic criteria and a fixed exchange rate regime need to be met:

- Inflation rates in the year are mostly left by people who are no more than 1.5% and the average plains are on three pages with the lowest inflation.
- the ratio of domestic debt to GDP should not exceed 60%.
- the long-term interest rate in the year immediately before the accession of the country should not be higher than 2% compared to the 3 countries with the lowest interest rate.
- during the last 2 years, it has previously joined the Union to be developed in the exchange rate mechanism and not to devalue its currency, together with it is included in the exchange rate range.

The main objective of the Maastricht Treaty is to develop and implement economic and monetary policies that ensure price stability, exchange rate controls, cash management, and coordination of Union banks.

### 1.1 Convergence criteria

The convergence criteria aim at ensuring balanced economic development within the European Monetary Union (EMU) and avoiding tensions between the EU Member States. (ECB, 2018)

Convergence criteria are evaluated:

- Price developments
- Fiscal developments
- Convergent stability
- Exchange rate developments
- Long-term interest rate developments

They are measured by taking into account the harmonized level of consumer price inflation, the budget deficit as a percentage of GDP, government debt as a percentage of GDP, the

interest rate on long-term loans, and the deviation from the central rate.

The convergence criteria have been established to assess the readiness of Member States' economies to adopt the single currency

### 1.2 Eurozone

With the declaration of the euro as the European Union's official base currency in 1999, the Eurozone appears. It covers the EU Member States that have adopted the euro as their currency. In fact, this is the next stage of the European Economic and Monetary Union (EEMU).

The eurozone currently includes 19 countries using the euro as its official currency. To become a member of the Eurozone, it must fulfill the main Maastricht criteria.

1. Exchange rate stability, with deviations of +/- 15% in both years.
2. Fiscal sustainability measured by two indicators: a budget deficit of up to 3% of GDP at the end of the year and a level of the public debt of up to 60% of GDP.
3. Low inflation not exceeding HICP by more than 1.5% in the three EU countries with the lowest positive inflation.

For the moment, the obstacle to Bulgaria's accession to the Eurozone is still the wait for joining the currency stability mechanism, or the so-called "Eurozone waiting room".

The fulfillment of the Maastricht criteria and the evaluation of Eurostat benchmarks (Eurostat, 2020), debt and deficit data of the General Government sector based on the EC forecast are listed in Table 1.

#### **What are the benefits of Bulgaria's joining the Eurozone?**

- No currency risks.
- Low-interest rates.
- Lack of transaction costs.
- Increase in foreign investment.
- Price transparency.
- Maintaining smaller foreign exchange reserves.
- Support from the European Central Bank (ECB) and the European Stabilization Mechanism (ESM).

Table 1. Nominal criteria for inclusion in the Eurozone and the values of Bulgaria indicators

	2009	2010	2011	2012	2019
<b>Budget balance</b>					
Reference value	Up to 3.0% of GDP				
Bulgaria	-4.3%	-3.1%	-2.0%	-1.4%	0 %
<b>Gross national debt</b>					
Reference value	Up to 60.0% of GDP				
Bulgaria	14.6%	16.2%	16.3%	18.5%	19.0%
<b>Inflation (HICP)</b>					
Reference value	0.6%	0.8%	3.0%	3.0%	2.1%
Bulgaria	2.5%	3.0%	3.4%	2.4%	1.2%
<b>Long-term interest rate</b>					
Reference value	6.5%	8.6%	7.7%	5.0%	3.3 %
Bulgaria	7.2%	6.0%	5.4%	4.5%	1.6 %

\*Source: (Economix, 2014)

#### What are the disadvantages of Bulgaria's joining the Eurozone?

- Price speculation
- Providing a high initial ESM contribution (around EUR 300 million)
- Guarantee the ability to provide several billion liquidities when needed.

The use of multiple currencies invariably leads to price increases and makes price comparisons difficult.

The single currency (the euro) enables these shortcomings to be eliminated and benefits consumers and businesses on the one hand. The single currency fully contributes to the creation of a single market.

Bulgaria's membership in the Eurozone has greater benefits than disadvantages for economic development and investment. (Todorova D. , 2015)

### 1.3 Schengen area

The Schengen Agreement is a treaty between European countries for the establishment of a

single visa system, the removal of border controls at internal borders, and the harmonization of control at external borders.

The Schengen area already covers 25 countries, forming the Schengen area.

The purpose of the Schengen Agreement is to create a Europe without borders, within which movement is completely free for EU citizens, legal immigrants, and third-country nationals with a 'Schengen visa'.

The countries have a common visa policy, abolished internal border controls, jointly control the external borders of the area, have a database of criminals and stolen vehicles.

#### What are the benefits of Bulgaria from joining the Schengen area?

- Freedom to travel and work for Bulgarians in the other Member States.
- Development of the economic space
- Growth of the economy
- Increasing jobs
- Increasing the number of tourists from the EU and Schengen countries
- Membership of the EU Common Market (with free movement of goods, people, and capital) will have a serious effect on trade flows.

#### What are the challenges facing Bulgaria?

- Negative consequences of emigration for Bulgaria.
- Due to the demographic crisis and the departure of the country, the population decreases by about 40,000 people a year, which means the complete disappearance of a medium-sized city every year.
- Preventing illegal immigration

Bulgaria's desire to become a full member of the Schengen area, as well as EU requirements for countries with external borders are a prerequisite for completing the necessary reforms in key sectors.

Bulgaria's entry into the Schengen area has a multiplier effect because entry into the country will mean free access to travel to any point in the Schengen country. (Lesenski, Angelov, & Bogdanov, 2008)

Table 2 compares some of the key economic indicators of the Eurozone and the EU with the United States and Japan:

*Table 2. Comparison of key indicators of the Eurozone, the European Union, the USA, and Japan*

No	Economic Indicators	Eurozone -15	EU - 28	USA	Japan
1.	Population (million)	333	504	314	128
2.	GDP (trillion euro)	9.5	13.4	12.3	3.5
3.	GDP per capita (thousand EUR)	28.5	26.6	39.3	27.6
4.	Share of the world GDP (%)	13.7	19.4	18.9	5.6
5.	Exports - goods and services (% of GDP)	26.8	18.3	14.1	15.4
6.	Gross fixed capital formation (% of GDP)	18.4	17.9	15.8	21.2
7.	Gross Savings (% of GDP)	20.2	18.9	12.9	24.5

\*Source: Author based on sources for:  
- the Eurozone and the EU: ECB, Eurostat, IMF  
- the United States and Japan: IMF.

Evidence shows that the Union-Eurozone agreement is a strong and open trade bloc that plays a huge role in developing the global market.

#### 1.4 Bulgaria and the European Union

Bulgaria's membership in the European Union enables Bulgaria to:

- new markets,
- increase of foreign investments translated,
- major financial projects from financial institutions and funds in the enlargement of the European Union
- achieving a higher standard of living,
- improved economic well-being,
- higher international prestige,
- strengthening democracy,
- increasing competition,
- free movement of labor, goods, services, and capital,
- a liaison between the Balkans and the Black Sea regions and a bridge for relations between the European Union and Turkey,
- improving the long-term transport infrastructure,
- transparency of taxation rules and business accounting,

- simplified business administration procedure for exports to another EU Member State. (Todorova D. , 2015)

The main objective of Bulgaria's economic policy is directed towards the socio-economic integration of Bulgaria, as an equal member in the EU, through achieving higher growth and increasing competitiveness.

Growth, restructuring, and stability must be combined, not opposed. To improve the quality of life of people, it is necessary to pursue policies aimed at raising incomes, employment, social justice, free access to education, science, and healthcare.

Bulgaria's EU membership favors the economic development and competitiveness of the economy by absorbing funds from the respective funds.

One of the important prerequisites for the development of Bulgaria is the ability of the country to absorb the funds from the EU structural funds. Globalization of the economy, European integration, and new market conditions are determining factors for the development of Bulgaria. (Todorova D. , 2015)

#### **What we can characterize the investment climate in Bulgaria?**

The main economic factors that characterize investment activity have a favorable impact, namely:

- A strategic geographical location that provides the link between Europe and Asia - providing access to markets with millions of users,
- Stable macroeconomic and financial stability - The Bulgarian lev is pegged to the euro according to the currency board arrangements,
- Comparable taxes compared to those in the European Union,
- Highly skilled workforce,
- Incentives to encourage investment,
- EU funding - over € 8 billion from EU funds in the coming years
- Free movement of capital, etc.

One of the important conditions for the successful investment activity is the efficient use of the funds. It is of importance to maximize the return on each unit of investment.

Effective management and rational use of investments is of importance for every company and is related to the formulation and resolution of several basic issues related to the definition of investment policy:

1. Where and what will be invested in?
2. What are the necessary investment funds?
3. What are the possible sources of funding?
4. What is the effectiveness of investment projects?

Attracting foreign investment is one of the main tasks in the development of each country. Free world capital is channeled where an adequate economic environment, clear government guarantees, security, and return on investment are provided.

In the competition for attracting foreign investments Bulgaria has the following advantages:

- Improving general macroeconomic conditions,
- Stabilization and adequate implementation of liberal foreign investment legislation,
- Purposeful government policy to encourage foreign investment by outlining clear priorities,
- Regulate your own and limited real estate rights,
- Granting concessions to activities and activities in maritime and river ports, civil airports, the Republican road network, and the public rail transport,
- Review and refinement of legal texts regulating the necessary guarantees for foreign investors. (Crosssectoral, 2016)

An additional factor influencing the investment climate in Bulgaria is the existing tax system, which provides additional stimulation of the investment activity by offering:

- 10% corporate tax
- 10% personal income tax

The acceleration of Bulgaria's economic growth is also associated with maintaining a significant rate of investment growth. The positive economic development expectations related to Bulgaria's membership in the European Union attract significant financial resources for foreign direct investment and foreign loans.

In the shrinking export markets, some foreign producers are faced with the need for rapid restructuring, cost reductions, and efficiency gains, targeting substitutes for imports.

In this respect Bulgaria has several advantages:

- EU and NATO membership
- proximity to the European market
- a stable exchange rate linked to the euro,
- low production costs.

For 2019 According to the World Economic Forum ranking, which covers 141 countries, Bulgaria is ranked 49<sup>th</sup> in competitiveness (Schwab, 2019). The score is 4.4 points out of 7.

Switzerland is the most competitive economy in the world, with 5.7 points. Followed by Singapore, the USA, Finland, and Germany. The top 10 are complemented by Japan, Hong Kong, the Netherlands, the United Kingdom, and Sweden.

"Economies that are constantly ranked high in the competitiveness rankings are those that can develop, attract and retain talent and are constantly bringing new high value-added products and services to the market," the World Report said. economic forum. (Schwab, 2018) (Schwab, 2019)

The financial support that Bulgaria receives from the European Structural Funds generally affects the development of the country's economy, international trade, trade in goods, tourism, integration of transport services, attracting foreign investors.

Collaboration between business, government, and society is an effective formula that leads to increased investment and greater productivity and competitiveness of Bulgaria. (Todorova D. , 2014)

As a member state of the European Union for Bulgaria, it is of the utmost importance to explore the link between economic integration, monetary integration, and convergence.

Analyzing the various economic indicators affecting the investment climate of Bulgaria gives an idea of the place Bulgaria occupies in the common European market.

The environment that surrounds us shows the unequal social and economic development of individual European countries, which in turn raises

the problem of their ability to compete on an equal footing. It is for this reason that the idea of pursuing a Cohesion Policy in the European Union is born, which uses a system of instruments to help reduce the established economic and social disparities in the European Member States.

## 2 WHAT IS THE SIGNIFICANCE OF COHESION?

Cohesion has an impact both on the economic development of the countries and on the policies pursued:

- Opportunity for a single European policy
- It promotes the proper functioning of the single European market
- Provides good trade and economic positions
- It implies lower investment costs for companies
- The economic development of countries
- Democratic development of European countries
- Bridging Europe's partition
- Promoting the sustainable development of EU Member States while respecting environmental and social standards.

The disparities in the degree of economic development of individual economic regions within and outside the European Union are very tangible.

They are based on differences in the natural environment, namely geographically, as well as economic and social differences.

The Structural Funds are the main financial instruments of the EU cohesion policy and represent the second-largest item in the overall European budget.

The Structural Funds provide financial support for the economic and social development of poorer and less-favored European countries and regions so that they can successfully cope with the requirements of the common market and align their standard with that of the more advanced Member States.

The European Union provides about 37% of the Union budget as structural instruments for accession assistance and structural projects in the new Member States. Each of the Structural Funds covers a specific thematic area:

- European Regional Development Fund (ERDF).
- The European Social Fund (ESF).
- Cohesion Fund.

## 3 HOW CAN WE DESCRIBE A NATIONAL COHESION?

The main objective of the economic policy of Bulgaria is aimed at the socio-economic integration of the country, as an equal member in the EU, through achieving higher growth and increasing competitiveness. Growth, restructuring, and stability must be combined, not opposed. To improve the quality of life of people, it is necessary to pursue policies aimed at raising incomes, employment, social justice, free access to education, science, and healthcare.

The main means of achieving these goals are:

- Competitive growth.
- Increasing investment.
- The rapid development of the latest scientific and technical fields.
- Creation of modern infrastructure.
- Structural and technological modernization of the economy.
- Development of the financial system.
- Creating efficient and effective institutions.
- Reducing crime and corruption

The professional and rational use of these funds will help to bring our economy closer to the economies of the EU Member States. Achieving good results and high competitiveness will lead to a better life for people.

The main macroeconomic indicators that make it possible to assess the Bulgarian economy are shown in Table 3.

The degree of absorption of the Structural Funds is essential for increasing economic growth and reducing unemployment in Bulgaria, as European funding is the main financial resource flowing into the Bulgarian economy. It equals 4% of the country's GDP.

The use of European financing is a highly effective form of development of the Bulgarian economy, the opportunities of which should be used to the maximum extent to increase the economic growth and employment in Bulgaria.

Table 3. Macroeconomic indicators of Bulgaria

Indicator	Measure	2007	2009	2010	2019*
Population	million people	7.6	7.6	7.5	7.1
GDP	billion euro	28.9	32.8	31.0	52.8
Real GDP growth	% temp	6.2	-6.3	-2.0	3.1
GDP per capita	euro	3782	4328	4123	7798
Export of goods and services	% real temp	5.2	-12.3	-3.8	1.5
Import of goods and services	% real temp	9.9	-19.5	-6.1	6.8
Average annual inflation	%	7.6	2.3	2.2	0.9
Unemployment	%	6.9	12.0	16.0	4.1
Budget deficit (-) / surplus (+)	% of GDP	3.5	-2.5	-3.0	2.0
Foreign direct investment, net	billion euro	8.3	2.3	1.9	0.9
Foreign direct investment, net	% of GDP	28.7	6.9	6.0	2.0

Source: (NSI, 2020)

Bulgaria is one of the last places to absorb the Structural Funds. It is, therefore, necessary to take measures to overcome the existing problems. With the most transparent procedures, effective implementation of European regulations, simplification of documentation, and electronification of procedures, illegal practices can be avoided.

## 4 CONCLUSION

This article presents cohesion policy as one of the most important and important policies of the European Union, as it pays priority to the economic and social disparities between the Member States.

To reduce these disparities, cohesion policy promotes solidarity through economic, social, and territorial cohesion. The cohesion policy funding that European citizens benefit from aims to help improve the competitive position of the EU as a whole and its poorest regions.

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