XXIII. International Balkan and Near Eastern Congress Series on Economics, Business and Management
Plovdiv / Bulgaria

March 15-16, 2025

University of Agribusiness and Rural Development/Bulgaria
University "St. Kliment Ohridski" Faculty of Economics/Republic of North Macedonia
University "Isa Boletini"- Mitrovica, Faculty of Economics / Republic of Kosovo
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Investment and economic advancement

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Abstract:

Objective

Investments are a fundamental factor in renewing and expanding production resources, as well as in ensuring economic growth. The primary goal of this study is to analyze the role of investments in national economic development, particularly their impact on GDP, employment, infrastructure, and overall economic stability. The research aims to highlight the importance of foreign direct investment (FDI) and domestic investments in shaping long-term economic growth, particularly in developing economies and Bulgaria's specific context.

Materials and Methods

The study is based on a review of existing economic theories and empirical data on investment dynamics. It utilizes macroeconomic indicators such as GDP, FDI inflows, national income, and foreign trade statistics. Comparative analysis is conducted to evaluate investment trends at both international and national levels. The research includes statistical data from Eurostat, the World Bank, and national institutions such as the National Statistical Institute of Bulgaria and the Bulgarian National Bank.

Additionally, the study examines the role of investment policies, taxation incentives, and regulatory frameworks in fostering a favorable investment environment. Case studies from developing countries are used to demonstrate the correlation between investment inflows and economic growth. The methodology also includes trend analysis of investment activity before and after major economic disruptions, such as the COVID-19 pandemic, to understand their influence on national economies.

Conclusion

The study confirms that investments are a key driver of economic growth, leading to increased production, job creation, and improvements in infrastructure. Foreign direct investments play a crucial role in international economic integration, facilitating technology transfers, business development, and increased competitiveness. While investment inflows contribute to the expansion of production capacities, they are also highly dependent on the overall economic environment, financial stability, and government policies.

The analysis of Bulgaria's investment landscape suggests that the country remains an attractive investment destination due to its low corporate tax rates, EU membership, and strategic geographic location. Despite short-term fluctuations, Bulgaria demonstrates stable investment trends, with a focus on industrial and service sectors. The study also highlights the importance of sustainable economic policies that encourage long-term capital investments while mitigating risks associated with economic crises.

A key finding is that investment-driven economic growth is more pronounced in countries with well-developed financial markets and strong institutional frameworks. The research underscores the necessity of a balanced approach that includes both foreign and domestic investment strategies to ensure stable and sustainable economic progress.

Ultimately, the study emphasizes that effective investment management, transparent policies, and risk mitigation strategies are crucial for maximizing the economic and social benefits of investment activities, fostering long-term national prosperity.

Keywords: Investments, Economic Growth, Foreign Direct Investment (FDI), Macroeconomic Indicators

1. Introduction

Investments play a crucial role in the renewal and expansion of production resources within enterprises, as well as in the reproduction system and the facilitation of specific rates of economic growth. They are fundamentally linked to production and the establishment of the material foundation for its advancement, resulting in an increase in real capital and the enhancement and expansion of the production apparatus.

Investments profoundly influence the national income of each country, as well as key macroeconomic indicators such as gross domestic product (GDP1), gross national product (GNP2), national income, and national wealth, all of which are contingent upon their dynamics.

Furthermore, they play a crucial role in the enhancement of production processes. The actual investment of capital catalyzes the establishment of new industries, which serves as a foundation for job creation, infrastructure development, increased population income, and overall improvement in the well-being of individuals.

1.1. Definition and Key Aspects of Investment

The term "investing" encompasses a range of activities, all of which share a common objective: to utilize resources over time in pursuit of increasing the investor's profit. The funds for investment typically derive from existing assets, borrowed capital, and savings.

In the specialized literature, numerous definitions of the concept of "investment" exist. Some characterize it as "allocating capital to any type of business with the objective of subsequent growth. The capital gain realized from the investment should adequately compensate the investor for the decision to forgo the immediate use of available funds, reward them for the associated risks, and offset potential inflationary losses in the future." Consequently, "investment" is depicted as a long-term endeavor. Furthermore, while emphasis is placed on capital appreciation through investment, this growth is also viewed through the lens of inflationary losses and as a means of compensating for the risks undertaken.

Others characterize "investment" as "the total expenditure incurred in the form of long- term investments, which signify the allocation of funds to a specific activity over a designated period, for which the owner will receive compensation in the form of income exceeding the initial investment amount." "Investment" is also described as "expenditures for the acquisition of securities" and as "the procurement of physical assets, such as buildings, structures, equipment (investment in fixed assets), and inventories (investment in inventories), i.e., tangible or real investments." In this context, the first definition delineates investment as a method of acquiring securities, while the second defines it as a means of acquiring assets.

Other definitions describe investment as “the allocation of temporarily available capital into a specific asset with the objective of safeguarding this capital while achieving a profit or other beneficial outcome.” This definition further underscores the essential function of investments, specifically the preservation of capital and the generation of profit.

Similar definitions are articulated by other authors, who assert that the objective of investments is the prospective growth of capital, which should adequately compensate the

investor for the decision to forgo immediate expenditure of available funds and the associated risks. Consequently, the following definition of "investments" may be embraced:

Investment involves the allocation of various forms of value, including property and intellectual assets, into entrepreneurial activities with the objective of generating new capital, which encompasses both means of production and human potential. By incurring expenses, such as the acquisition of financial or tangible assets, one anticipates the formation of future profits, benefits, and/or a positive social impact.

1.2. The Role of Investment in Economic Growth

Domestic and international sources of investment in the nation's economy are pivotal to economic growth. The developmental experiences of various countries worldwide demonstrate that investments are integral to economic advancement. According to the classical definition, foreign direct investment (FDI) flows are typically characterized by "an increase in the book value of net investments held by an investor from one country in another." While direct investment represents a more specific category of cross-border investment, it occurs when investors residing in one country establish long-term interests in another, thereby possessing the capacity to significantly influence local companies, competition, economic growth, and welfare in the host nation.

[1] gross domestic product

[2] gross national product

This form of investment is also essential for international economic integration, fostering stable and enduring connections between efficient economies. Furthermore, it serves as a primary conduit for the exchange of knowledge, technology, and expertise between countries and foreign markets, acting as a catalyst for business development and the dissemination of innovations, which enhances the overall efficiency of national economies. Such investments can be a crucial instrument for economic development by facilitating international trade and providing access to global markets.

The positive influence of investment on economic growth becomes increasingly pronounced when financial development surpasses a specific threshold. This phenomenon is evident when financial development is assessed through both the banking sector and the stock market. Domestic investment and trade openness, in fact, foster job creation in developing nations. Such investments enable the establishment of local enterprises that necessitate a workforce, thereby enhancing employment, decreasing unemployment, and improving living standards. Furthermore, domestic investment in infrastructure, technology, and training contributes to heightened labor productivity. This enhancement allows developing countries to generate a greater volume of goods and services, thereby stimulating economic growth. Additionally, trade openness promotes the transfer of knowledge and technology from more developed nations to developing ones. Consequently, local enterprises are empowered to adopt more efficient and innovative practices, thereby bolstering their competitiveness.

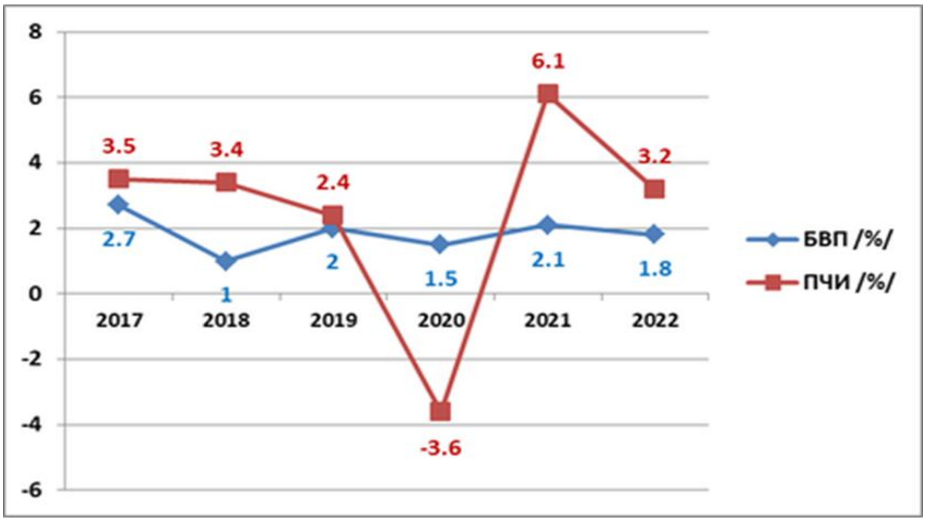
Conversely, domestic investment and trade openness foster economic diversification in developing nations. Rather than relying solely on traditional sectors like agriculture or raw materials, these countries can cultivate new industries, including manufacturing, services, and information technology. This approach mitigates economic dependence and establishes a more robust foundation for sustained growth. Furthermore, capital investment is increasingly recognized for its significance in promoting sustainable economic development. Such investment stimulates consumer spending and market demand, thereby contributing to an overall enhancement of economic growth. As household disposable income rises, coupled with a multiplier effect, the economy flourishes, enabling individuals to access a broader array of products and services.

2. Empirical Data and Analysis

2.1. Global Investment Trends

International studies have demonstrated a correlation between investment growth in developing economies and the gross domestic product (GDP) of these nations (Fig. I.1). This indicates that investment is pivotal to the economic growth of any country. Specifically, middle-income developing countries depend significantly on investment to rejuvenate their economies and foster sustainable development.

Fig. I.1. Summary data on the dynamics of gross domestic product and direct investment in developing countries for the period 2017-2022 /%/. Adapted from Eurostat data and the World Bank's summary of exported data.

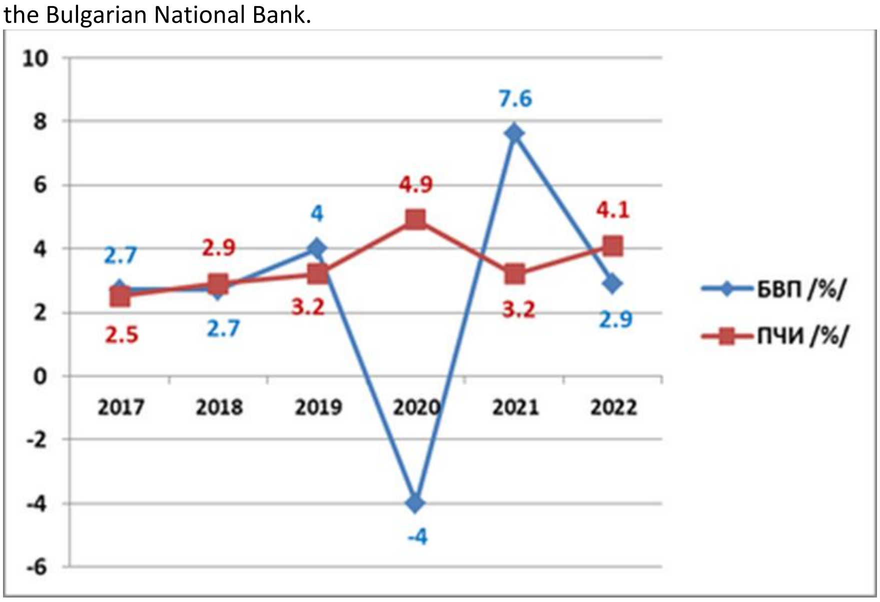


The data presented in Fig. I.1 indicate a relatively stable investment volume at the beginning of the period, followed by a significant decline in foreign direct investment (FDI3) in 2020, likely attributable to the onset of the global Covid-19 pandemic. This is succeeded by a notable increase in FDI in 2021, which is then followed by another decline in 2022, although not as pronounced as that of 2020. Throughout the entire period from 2017 to 2022, a relatively stable GDP volume is observed, and, in contrast to FDI, there are no negative values or excessively sharp fluctuations in the dynamics of this indicator.

To conduct a comparative analysis of the data presented in Fig. I.1., the situation is also observed at the national level:

2.2. Investment Trends in Bulgaria

Fig. I.2. Summary data on the dynamics of gross domestic product and direct investments in Bulgaria for the period 2017-2022 (%). Adapted from data provided by the National Statistical Institute, Ministry of Finance, and the Bulgarian National Bank.



The data presented in Fig. 1.2 illustrates that investments in our country are primarily influenced by fluctuations stemming from crises in the countries of origin, as well as by developments within the host economy of Bulgaria, particularly during the pandemic. Notably, two intriguing dynamics emerge following the initial two years of the period:

[3] foreign direct investment

2.2.1 Initially, investments during the first year of the pandemic (2020) reached a peak with a growth rate of 4.9%, whereas GDP (real, %) recorded its lowest negative value at -4.4%.

2.2.2. Secondly, the significant increase in GDP for 2021 to 7.6% can likely be attributed, at least in part, to the largest investments made during the entire period in 2020. It is reasonable to conclude that this growth was primarily fueled by domestic demand, as net exports for 2021 contributed negatively.

In contrast to the international landscape regarding investments and GDP (Fig. I.2.), our country exhibits a relatively stable trend in investments throughout the period, with a notable increase in 2020. Conversely, GDP demonstrates significant fluctuations during 2020-2021. Within the broader context of developing nations (Fig. I.1.), a contrasting trend is evident—investments experience substantial dynamic shifts between 2020 and 2021, while GDP levels remain largely unchanged.

However, both Bulgaria and other developing countries exhibit a trend in investment patterns characterized by a gradual decline in the number of investing companies, despite an increase in the volume of foreign direct investment (FDI). A general trend is also evident, with the largest volume of direct investment concentrated in the industrial sector, followed by the services sector.

3. Investment Climate and Policy in Bulgaria

Examining the current investment landscape in Bulgaria reveals a favorable outlook, as evidenced by the data presented above, which indicates a preference for investments. Our environment possesses distinct competitive advantages that must be considered when analyzing the investment climate in Bulgaria:

3.1 The country operates under a currency board until it joins the eurozone, thereby ensuring financial stability.

3.2 Bulgaria is a member of both the European Union (EU4) and NATO5.

Our country is appealing for investment due to its corporate tax rate of 10%, the lowest in the European Union.

3.3 A minimal "flat tax" on personal income (10%) and a reduced tax on dividends (5%); ● The most minimal operating costs in the EU.

3.4 Robust geostrategic position;

3.5 Facilitates liberalized access to markets comprising over 560 million consumers;

3.6 Provides enhanced depreciation rates (by 50%) for investments in new machinery and production equipment, including computers, hardware, and software devices.

3.7 Permits the utilization of a tax credit through the special procedure for VAT assessment on imports for the execution of investment projects exceeding BGN 10 million, among other provisions.

It is essential to recognize that the enhancement of the administrative environment for investments in Bulgaria is ongoing: approximately 83% of all proposed relief regimes have been eliminated or relaxed. Certain regulatory frameworks within the non-governmental sector have also been abolished, modified, and reassigned. Furthermore, incentives for investment promotion have been established under the Investment Promotion Act and its Implementing Regulations.

4. CONCLUSION

The analysis of the data, along with the investment environment, underscores the significance and function of investments in our country, highlighting their increasing importance. This indicates that, both internationally and within Bulgaria, the role of investments in socio-economic development is expanding.

Recognizing investments as a crucial element in the economic growth of nations positions them as vital and highly beneficial instruments for long-term development and prosperity. Conversely, it is a misconception to assert that investments solely benefit national economies. From a broader perspective, investments play a

[4] European Union

[5] North Atlantic Treaty Organization

fundamental role in the overall welfare of societies. This role is intricately linked to social systems, thereby enhancing value and providing additional advantages to the community. When the attraction of investments is paired with an effective management process, along with appropriate oversight and risk mitigation, the successful administration of investment projects can be assured through transparency, safeguarding the integrity of investments, protecting the interests of investors, and fostering long-term national development.

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