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# MODERN ECONOMIC GROWTH - CONDITIONS AND FACTORS OF DEVELOPMENT

## ABSTRACT

The focus of this paper is on economic growth and the conditions that influence its importance for the regional economy. We define its framework, philosophy and possibilities to influence the development processes of individual territories. Also important are the conditions and growth factors, which are discussed separately. Endogenous and exogenous factors of territorial and spatial development are given a special place in the exposition. The concepts and features of spatial and territorial development are discussed in terms of the functioning of the national economy and the measurement of growth. Special attention is paid to the factors and conditions that, in theoretical order, form the model of regional economic growth. Comparative analysis of processes and phenomena that bring out the specifics and peculiarities of regional economic growth and its significance for regional development is made. In conclusion, relevant conclusions and recommendations are made regarding the importance of regional economic growth for the development of regions and national spaces.

**KEYWORDS:** growth, development, space, territory, region, strategy, governance and model

**JEL:** J11, K23, R11, R53

## INTRODUCTION

In the modern development of a number of countries, the economic regime has been adopted by the government or legislated as the main economic and political objective. Its purpose is to promote stability of general price development and to achieve a higher level of employment of the working population. In the microeconomic framework drawn for each subsequent year, the governments of all countries set the desired rate of GDP growth. On the basis of the one-year expectations, projections and growth rates of gross output in the near and longer term are outlined. Hence, growth takes on simultaneously and equally the role of a short-term objective and a long-term fundamental, overarching goal of economic

development. Pursuing a policy of growth as a direct objective means taking its realization as the fundamental, long-term, ultimate goal of economic development. In this sense, the objective of growth is usually identified with a general increase in economic welfare, in the standard of living of the population thanks to the growth of real GDP. According to EUROSTAT data, our country has a relatively low standard of living, as GDP per capita (in purchasing power standards) was generally below two-thirds of the EU average. This situation is most noticeable in the North and South-East, where the highest mortality rate in the EU (1 854 deaths per 100

000 inhabitants) and the lowest level of GDP per capita is recorded, at around 39% of the EU average (European Union, 2023, p. 43). As an indirect, mediating objective, economic growth fulfils several different functions. Real GDP growth is seen as contributing to the positive dynamics of individual aggregates and to the resolution of significant macroeconomic problems. One of the most important indirect functions of the growth target is to achieve higher or full employment of the available workforce. The employment rate has been rising for the last 3 years after an initial decline since the onset of the Corona crisis and from 52.7% in 2020 to 53.2% in 2022 (NSI, 2023). Higher production means additional jobs, a drop in the unemployment rate. The objective is fully in line with the principle role of the labor factor, it emphasizes the involuntary forms of unemployment and the need to reduce them to a minimum acceptable level.

Another implicit function relates to the need for an equitable distribution of income in society, which increases in conditions of growth in the economy. The Gini coefficient over the last three years has been declining for our country and from 40 in 2019/2018 to 38.4 in the 2022/2021 reference year, but in the North West Planning Region over the same period it has increased from 36.7 to 40.0 in 2022/2021 and the South West Region has the highest values where there is a decline over the same period from 44.0 in 2029/2018 to 39.4 in 2022/2021 (NSI, 2023). In addressing this significant universal contemporary problem, it is considered that redistribution of income increments meets less resistance in society than is the resistance to redistribution of an income that is constant in magnitude. As a result, growth models are shifting from inferring constants to framing rising GDP growth rates as a necessary condition for growth (Mladenova, 2022). Of more limited importance is a third indirect function related to the possibility of demonstrating the superiority of one's own economic system through accelerated economic growth. Within the framework of the still existing differences in the efficiency of the economies in highly developed and developing countries, the emphasis is on the size of the market and the greater chances of exporting goods in industrial countries, creating opportunities for distribution and receiving more financial and other types of aid from the more backward countries. Thus, the impact of the more significant economic growth that has taken place in some countries is being reinforced. It spreads to other less developed countries and encompasses the world economy as a whole.

## 1. ECONOMIC GROWTH AND ITS CRITICAL NOTES

According to the Encyclopaedia Britannica, "Economic growth, the process by which a nation's wealth increases over time" (Cornwall, 2023). The relatively rapid rates of growth realized in most countries in the 1960s, which led to the growth target, are now difficult to match. As the stage of steady and continuous growth passed, a reserved and discredited attitude towards economic growth as the main objective began to take shape in the 1980s. Some countries are growing faster than others and many scholars are trying to find a mathematical way of relating some measure of output, such as GNP, to inputs and other h to explain the changes, but as Ivic also says "The increase in output per capita in economic theory is expressed as economic growth, without which no economic development, but does not have any economic growth to be a function of economic development" (Ivic, 2015). The critique of the goal of higher economic growth unfolds from two real perspective positions.

The first critical strand is orientated towards the problem of continuous economic growth, in which output for each successive year at comparable prices exceeds its magnitude in the transition year and this ratio is maintained over a relatively long period. A process of realised growth of this kind over an extended period is in principle not possible. Its manifestation is not evident in the actual measurement of growth rates in the modern economy. The idea of exponential growth contradicts the decline in growth rates observed in almost all developed

countries in the 1990s, as well as its marked unsustainability, the conjuncture dynamics of the gross product.

The second critical strand concerns the problem of commodity scarcity and environmental damage, which are among the most significant secondary and corollary consequences of growth. This perspective also gives rise to a reserved attitude towards the determination of high and increasing rates of economic growth. According to some scholars, however, studies have shown that certain nations with a wealth of natural resources have had incredibly slow rates of economic growth (Gylfason, 2000) (Song, Xie, Shahbaz, & Yao, 2023). The critical attitude towards growth as a goal presupposes the ever closer connection of the local with the global modelling of the economy. It is not intended to negate the importance of the growth target entirely, but it imposes substantial adjustments in the requirements for specific numerical values of the required current and projected growth rates. Changes in the rates as a component of the growth objective derive to a large extent from the contradictory influence of the indirect objectives, from the expansion of the field of indirect state regulation of the economy. The modification of the objectives and the corresponding functions of the various directions of the implemented government policy are reflected on the short- and long-term growth trajectory. In a number of cases, the short-term instability of the process or the temporary lowering of its rates is not possible or preferred to be overcome, even though upward economic development is aimed at in the long term. Whether the current trend will persist, the deviations will deepen and turn into a sign of an economic downturn depends on the strength of the combined manifestation of traditional and random factors.

## **2. GROWTH CONDITIONS AND FACTORS**

Economic growth is presupposed by the action of many different in nature, origin and type of factors, by some previously formed, objectively set or subjectively consciously provoked conditions. Their manifestation is differentiation in strength, degree and direction of impact on the economy and closely interrelated. By acting as causes or drivers of growth, they can actually both stimulate and localize, constrain macroeconomic activity, so as to predetermine cyclicity in the economy. The action of conditions and factors is joint and diversely combined, they are elements of one system, not a mechanical assembly. It is very important for the modern and especially for the broader view of growth that some conditions and factors can be predicted, guided and indirectly controlled, while others are unpredictable. Hausmann and others argue that growth spurts tend to be highly unpredictable: most growth spurts are unrelated to the standard determinants, and most cases of economic reform do not lead to growth spurts (Hausmann, Pritchett, & Rodrik, 2005). Some of the factors are appropriate and desirable, and some appear unexpectedly, sometimes by chance. Along with the constantly acting, intrinsic, permanent factors of growth, it is influenced by many partial, incidental, contingent and highly fluctuating factors. This polyvariance in different directions is a consequence of the complex factor conditioning of growth, of the existence of direct and reverse connections between the economic system and its specific factors.

For the purposes of any analysis of growth, the factors should, as far as possible, be regarded as relatively autonomous, independent of the influence exerted on them by the previous and current magnitude and dynamics of gross output. This approach allows them to be included in the compiled mathematical models as independent variables in order to express their own direct impact on the final production results. Limiting research to direct relationships and neglecting the reverse influence is especially imperative when the factors represent economic processes and phenomena, intermediate production results, resulting relative indicators. They can be attributed with equal grounds to the system of growth factors or to the economic system, but in the specific case the factor system is preferred.

In economic theory there is a unity of relation of the need to perform factor analysis of growth. Klenow and Rodriguez Clare (1997) reviewed the development of existing research on theoretical and empirical economic growth (Klenow & Rodriguez-Clare, 1997). However, its place in any study can be both introductory, starting, and concluding, with the character of conclusion and summary. When the principle scheme, the general contours of the factor system consisting of elements and subelements are outlined, it plays the role of a preliminary level of analysis. The specific way and degree of action of individual factors, studied through the means of mathematical modelling based on empirical data, are intended to reveal the sources of the established increase in the volume of production. Therefore, the fundamental need to form a system of growth factors can be realised specifically, and lately its meaning is not so purely theoretical, but mostly practical. Mixed purpose presupposes broad gradual entry into the details, type and rates of growth. Therefore, factor analysis is present in all modern studies, regardless of their ultimate goal and selected indicators; its place is not only a starting point but a final one. The early theories contained almost no analysis of the factors affecting growth, at least not as preconditions for it. They are considered within extremely narrow limits, in most cases as a consequence and primarily in terms of their own growth-induced change. The absence of a comprehensive factor analysis is in accordance with the quantitative dynamics of a limited number of macroeconomic indicators, then placed at the center of the growth theory.

But it is fully consistent with the prevailing view of optimized economic growth, the impossibility of overproduction or underproduction, when the conditions for full employment of the available labor and capital resources are met. In earlier theories, growth was equated with production, optimal was equivalent to potential, actual was identical to what was desired by macroeconomic actors (sectors). In recent years, governments have changed their focus from providing capital to innovation systems. The main characteristic of this emerging economy is the shift from a "global production network" to a "global innovation network" (Li & Zhang, 2020). In response to the impossibility of clearly, absolutely distinguishing the quantitative characteristic from the qualitative condition of the factors in the theory, there is a gradual transition from identification to distinguishing the conditions from the factors of growth. The complexity of this problem, reinforced by the peculiar role and the inconstant, changing action of the factors, predetermines its permanence and relevance. In most of the early theories, no criterion was derived to separate the conditions from the factors, they were mixed up and considered collectively as causes contributing to the realization of the growth process. Subordinated to the goal of proving or rejecting the presence of growth in the economy, and later to establish its rates, they do not emphasize the factor conditioning of growth.

In the first factor analyses, as essential arguments for identifying the conditions with the factors and their joint development, their similar content, their deep interpenetration, the continuous process of successive transformation of some conditions into factors, and vice versa, are emphasized. The significance of the problem increases in parallel with the changes in the parameters and characteristics of growth, in the scales of production. The set of prerequisites for growth gradually expands in scope, the role of conditions sometimes acquires an important, although often secondary, indirect importance. The irregularity in the course of the modern growth process, its implementation not only with positive but also with negative rates, combined less often with significant collapses in production, directs more and more attention to separate analyses of conditions and factors. A conditional dividing line begins to be drawn between them, since they may be similar in essence and content, but they are not completely identical.

In the characterization of the conditions, relatively separated from the factors, two theoretical directions are distinguished. One direction can be assessed as more extreme because it emphasizes the specific national (domestic and socio-economic), international, historical, geographical and natural conditions. Their separation from the factors is consistent with a

general outline of the environment, the objective prerequisites, the environment in which growth takes place.

At the next step in the system of conditions for the realization of economic growth, an arrangement of its main and additional elements is carried out. As a distinguishing feature, the determining role of the conditions in relation to production in general or in particular its growth, pace and predominant type is applied. This theoretical direction is closer to traditional views on growth, because it starts from the assumption that conditions are favorable and factors make the continuous growth of GDP possible.

Expectations arise that in case of admissible deterioration of conditions, the factors will neutralize the negative effect, prevent fluctuations in GDP, and growth will remain generally stable. However, the application of the approach requires a complex assessment of the conjuncture, the achieved level of development, the peculiarities and the open nature of modern economies. Unfavorable macroeconomic and political environment, global oil and financial shocks can slow down growth in some countries and accelerate it in other regions. It is not excluded that they deepen and turn the temporary lowering of its rates into crisis impulses, into a long-term decline. On the face of it, the insignificant conditions in such a case will predetermine a downward movement of real GDP, the more prolonged and widespread of which may turn them into a source of recession in the economy. The interest in distinguishing the conditions from the factors became active especially after the shocks that shook the world economy in the 1970s, which caused a number of structural, technological and institutional changes, as a result of which there was a transition to a new type of economic growth (Stoichev, 2005).

The other theoretical direction is more moderate and accepts the formation of the system of conditions as a kind of preparatory stage preceding the production process. In a similar sense, the same elements refer once to conditions and a second time to factors, since, after being incorporated into production, the given conditions become factors of growth. As a distinguishing feature, therefore, the movement, the functioning of the conditions in the firm, abstracted naturally from the creation, modification and development of the elements of the system itself, is mainly applied. If one relies on the conditions as pre-prepared, secured, necessary prerequisites for growth, the factors will consist of analogous constituent parts, but already in actual operation. The creation of the conditions will precede and to some extent presuppose their becoming factors in given circumstances. Hence, it is reasonable to expect stable economic growth, without large amplitudes and significant fluctuations in GDP growth rates. Delineating such a system of conditions is initially associated with uncertainty and indeterminacy. It can be taken as inherent rather to predictions and forecasts, but not to actual growth analyses, which are mostly regression. Realization of the system's capabilities in reality implies many conditions and is not unambiguous.

Thus, for example, the criteria used in the theory do not contradict the probability that a part or all of the elements of the conditions will not be activated or will turn into obstacles (impulses) for growth. At the same time, the reverse spillover and transformation of factors into conditions, which is often found in long-term analyzes of economic growth as a rule, is neglected. The probabilistic nature of the system resembles more the potential possibilities of production, refers again to the concept of production capacity and corresponds less to the actual manifestation of the conditions under which economic growth is achieved. As soon as the conditions are ensured, mandatory, the rates of growth should also be high and constantly increasing, but in reality they are fluctuating. The structuring of the systems of conditions and factors of growth and cycle aims to arrange them by varieties, in groups, in subsets. In each group, the rule of gradation of subordination is followed, by which the subfactors are scaled in a descending sequence according to the strength of their action. In this way, the more important



factors are separated from the less significant factors, and the processes affecting the factors are also included in the analysis.

However, any system of conditions or factors is elastic, has open boundaries, is subject to continuous adjustment and addition. In any particular period or national economy, the action of some factors may not manifest itself or be weak, while at the same time new factors appear or others of the existing ones become decisive. The changes occurring in the system of factors take a subordinate place in the analyzes and are sometimes completely underestimated. For growth as an inalienable part of the cyclical conjuncture this additional and neglected aspect should also be given greater importance. The factors should not only characterise the current performance indicators of the various production resources, but should also be evaluated as creating prerequisites for a subsequent increase in gross output. Considering changes in the relative share, degree and direction of impact of traditional objective resources forms expectations for positive or negative growth in the short term. A sharp decline in the participation of important factors in past periods may negatively affect the dynamics of indicators in the future. The activation of new or difficult-to-control factors also has a differentiated effect, not excluding longer shocks in the economy. The shifting structure of the factor system is one of the symptoms of the unsustainability of growth in the modern economy.

### **3. ENDOGENOUS AND EXOGENOUS FACTORS**

In recent years, there have been significant changes in the interaction and interconnected influence of endogenous and exogenous factors on growth and cycle characteristics. After the 1930s and even more so after the 1970s, growth was subject to gradually increasing exogenous impact. Exogenous factors are assigned a less and less complementary, secondary position, although their mostly indirect influence on growth is not denied. Financial and oil crises, military and social conflicts arise on a regional basis, but they cannot be contained quickly, nor can they be localized. They affect indirectly first the national parameters of economic development and subsequently on other countries, geographically distant and not involved in their emergence and development. By deepening and expanding their spread, they trigger recessionary shocks (respectively expansionary explosions) in the world economy as a whole. The growing role of exogenous factors does not succeed in completely displacing the endogenous prerequisites, the predominant importance of which remains. But gradually, their relative contribution to the realised rates of growth changes, and their influence on its general direction becomes more limited. As a result of the modified trends of the interrelated influence of exogenous and endogenous factors, the need for a joint, parallel and equal analysis of these two inseparable groups of growth factors stands out. The results of a study by Chirwa et al reveal that there is still no agreement on the dominant theoretical model of economic growth among economists that can fully account for differences in international productivity (Chirwa & Odhiambo, 2018).

With the strengthening of the action of exogenous factors in relation to endogenous factor conditioning and growth rates, the possibilities for their relatively separate study are narrowing. New or existing sources of growth are emerging, which cannot be categorically distinguished as their external or internal factors. From such a point of view, it is necessary for their characteristics to be uniform, mixed, combining at the same time intrinsic and atypical processes and phenomena for the economy. The combined approach is increasingly being imposed as a new, perspective direction of factor analysis of growth, which is due to a large extent to the strengthening of the importance of the subjective factor. Evidence of the inseparability of the endogenous from the exogenous beginning can be found, for example, in the modern role of migration processes and especially in the functions of the state.

Migration processes have a peripheral relation to growth. Over time, their intensity increases, so their indirect influence must be considered. Migration across national borders can change the available labor force, which decreases or increases depending on the ratio between emigration and immigration flows. The activation of these flows is both internally and externally conditioned. It is mainly presupposed by the current state of the national economy, but it also depends on the degree of development and the standard of living of the population in other countries, the opportunities for work according to the acquired qualification, the restrictions or encouragement of the inflow of foreign workers. Farhidi believes that by creating a feedback loop from population to the level of industrialization and GDP in this setting, the growth rate of GDP per capita is lower under the endogenous population scenario than exogenous population growth (Farhidi, 2023). Bilaterally assumed migration affects demographic and economic growth. In less developed countries, regions with military conflicts, economies in transition, its influence is stronger and must be considered.

It is known that the total number of Bulgarian populations has been continuously decreasing in recent years, from almost 9 million in 1985 to only 6,519,789 people as of September 7, 2021. The decrease is mainly due to the deepening negative natural growth, but not least of the intensive emigration flows. The cardinal internal political changes, the economic crisis, the uncertainty and the high level of unemployment in our country after 1990 pushed many people to look for better opportunities to show their professional skills abroad. According to various estimates, some of them leave the country only temporarily, do not settle permanently and do not acquire citizenship in other countries. The external prerequisites in this case have not only a positive, but also a restrictive effect. Emigration processes are hindered by legislative restrictions introduced in some Western countries, as well as by international agreements concluded for the purpose. Therefore, regardless of the presence of national conditions that favour and facilitate emigration, externally predetermined factors reduce the actual number of Bulgarian emigrating. Due to the different relative share, the dynamics of the population and labour force continue to depend primarily on birth and death rates. Out of 29 NUTS level 2 regions across the EU, Bulgaria's six regions fall into the group of regions with the lowest participation rate in adult education and training - below 5.0% in 2022 (European Union, 2023, p. 67). The consistent and so far uncontrollable decrease in its total number has a negative impact on the labor market, the scale of consumer demand, and the values of the main macroeconomic indicators. Real GDP per capita is falling more slowly than the overall negative growth of real GDP. As a factor of growth and cyclicity, the state also stands out. On the one hand, as a political institution, the state regulates and directs market processes "from the outside" by applying the means of macroeconomic policy. Its indirect external influence does not necessarily require it to be classified as an independent factor of growth. It is universally inherent, permeating and predetermining both the level and the effect of all its other underlying factors. Therefore, government policy can be subdivided into subfactors with specific concrete content and meaning. The depreciation policy affects the capital, the educational and health policy - on the workforce, the foreign trade and scientific and technical policy - on the general conditions for the activity and sales of the companies. On the other hand, along with private entrepreneurship, a real state sector is also developing, through which the state participates directly in the macroeconomic circulation along with companies and households. Its market behavior is a reason for the state to be conditionally separated, to be considered as an important internal factor of growth (Pirimova, 2001).

Therefore, the indirect and direct, external and internal influences on economic growth are simultaneously combined in one factor from different aspects. Their relative participation is specific and depends on the structure of the GDP created by forms of ownership, on the degree and strength of state intervention in the economy, on the priorities of the government's fiscal or

monetary policy. It allows the state to be classified as a predominantly exogenous or endogenous growth factor according to the specific features of a given economy.

In the economies of Western countries, the share of the real state sector is relatively small. It does not remain constant, it fluctuates over the years, increasing during periods of negative growth and decreasing during positive GDP growth rates. However, in the long term, the public sector in these countries remains within roughly the same framework. With the limited scope of the state-organized production of goods and services, the external nature of the factor prevails. In terms of growth and the business cycle, the state enters into the role of an exogenously manifested, complementary, secondary factor. Therefore, regulatory functions, tax and monetary policy levers prevail, which the government applies carefully and in a limited way to influence economic processes.

Under the Bulgarian conditions, the exogenous nature of the government's participation in the economy cannot be deduced so unequivocally that it is not clearly distinguished. In the Bulgarian economy, the share of the state sector has been decreasing in the last ten years, but it is still significant. In 1998, private companies already produced 56.7% of the gross added value, but although predominant, their share is not permanently established and continues to grow. According to the latest data from the NSI, in 2022 the gross added value (GVA) per employed person increased in real terms by 5.7% compared to 2021, and per man-hour worked increased by 5.9%, and the level of labor productivity in the industrial sector amounts to BGN 49,550.0 VAT per employee and BGN 29.8 per man-hour worked. In the service sector, each employed person produces an average of BGN 44,000.8 GST, and an average of BGN 26.8 of the current volume of the indicator is created for one man-hour worked. Labor productivity is the lowest in the agricultural sector - BGN 12,390.3, and BDS per employed person is BGN 8.6 per man-hour worked. In 2022, the industrial sector increases its relative share in the added value of the economy by 4.8 percentage points and reaches 28.6%. The relative share of the agricultural sector in the added value of the economy is 4.4%, which is a decrease of 0.6 percentage points compared to 2021.

The relative share of the added value realized by activities in the service sector also decreases to 67.0% in 2022 compared to 71.2% in 2021 (NSI, 2023). The contraction of the public sector does not affect all industries and economic sectors equally, subject to the restructuring of the economy, it is a slow and gradual process. While the overall participation of state-owned enterprises in GDP is relatively high, they can be considered an active direct segment of the market mechanism, an intrinsic factor of growth. The difficulties experienced by municipal companies, the strict budget restrictions and minimal subsidies, the delay in the privatization process and the agrarian reform are therefore among the most significant sources of the decline in GDP and the low rates of economic growth in our country over the last ten years. At the same time, however, the resolution of the complex problems and the exit of the country to a normal pace of development require the implementation of a consistent, versatile, flexible macroeconomic policy. The state's strong indirect, exogenous intervention intertwines and sometimes clashes with its role as an important independent economic entity.

Combining the two purposes of the government is unusual, it is not possible to define one of them as predominant for the current parameters of growth. It is nonstandard, insofar as in market economies the real state sector is smaller, and the political functions of the state are not so markedly broad and dynamic. The typically Bulgarian conditions specified require a different approach in empirical research and analysis. For now, they allow a conditional separation of the market and non-market participation of the state, comparing their role for the achieved growth rates, but make it difficult to rank them in terms of importance.

Undoubtedly, a unified endogenous-exogenous approach should be applied to the analysis of growth factors. It requires the development of a system of conditions, factors and subfactors of



growth, tailored to the specific features of each national economy. Compiling a set of prerequisites for growth that is universally valid, acting everywhere and permanently, is not possible. The summarizing factors are tailored to the specific economic conditions of the individual countries, to the perceived degree of aggregation of the factors, their subdivision into more or less groups and sub-factor aggregates.

In modern conditions of dynamic interaction between growth factors and cyclicity, significant transformations occur in the set of endogenous factors. In the combination of productive resources and general conditions, the center of gravity shifts gradually and decisively from labor to capital. According to research based on the Chinese experience, regional differences in economic development can also be overcome by improving the quality of human capital. (Zhang, Kumar, Huang, & Yuan, 2023). Over time, the changes in the number of the working-age population do not occur so intensively, the rate of employment becomes mostly productive, advanced technology requires relatively less and more highly qualified labor. The size of the available and functioning fixed capital and the changes in its production and technical characteristics predetermine to an ever wider extent the type, rates of growth and its main form. These comprehensive changes and the undeniably crucial role of investment and capital for growth and its instability also predetermine the emphases of more recent factor studies.

The increase in the share of production investments partially excludes the necessary direct participation of the labour force in the created output. Intensive capital formation requires large financial investments, making growth more expensive. At the cost of delayed consumption and a technologically driven increase in unemployment, its current rates are understated. The accumulated new production capacities have a positive effect on growth in the longer term. Additional investments and changes in the volume and quality of working capital are both factors of growth and of the business cycle. They are one of the prerequisites for the alternation of lower and higher rates, for the instability of economic growth. If one traces the sequential, logically connected chain consisting of the invention, implementation and absorption of technical innovations, the accompanying rate of growth in the economy is not uniform. In the absence of a change in the action of other factors, the innovation process presupposes a wave-like dynamics of GDP, an objective transition from slow to accelerated economic growth. The trend towards higher and increasing real GDP growth is realized in future periods. It is mediated by a preceding deterioration in growth indicators, which may turn into a recessionary decline. The greater the distance between current consumption and investments, the more the danger of deepening and extending the duration of the decline in production grows, growth is lower and causes an impending crisis in the economy when the investment process is slowing down. According to a study of the economy of the countries of Central and Eastern Europe, in which Bulgaria falls, they have characteristics of the states in the former communist countries, which distinguish them from developed capitalist societies: the inability to create a predictable political environment, the inability to prevent the use of state institutions of powerful private groups to allocate wealth and opportunity to themselves and the failure to introduce extensive and effective regulations enforcing competition, including financial markets. This research states that for CEE countries, economic growth is driven mainly by their domestic capital represented by domestic investment and human capital, and FDI does not affect their economic development, but international trade has proven to be a driver of growth. According to Bostan, a country like Bulgaria needs adequate human capital, economic stability and liberalized markets to benefit from long-term capital flows, domestic or foreign (Bostan, et al., 2023). This assessment of the role of investments in GDP growth and its cyclical fluctuations has a generalizing, initial meaning. In research, it is further developed with the help of the actual absolute and relative changes in gross capital formation as a part of GDP by elements of final use. To more fully reveal their impact, it is necessary to consider the shares in the total investment costs of the actually acquired tangible fixed assets, their composition, and technical

level. They act as growth factors, although in the future, when aligned with the sectoral structure, they are primarily aimed at the industries with the highest relative weight in GDP. It is important to distinguish investments related to reconstruction or modernization from investments aimed at actually increasing available production capacity (Nedyalkova, Bauman, & Filipov., 2005). The allocation of funds between the replacement of worn out, obsolete equipment and the implementation in production of additional, fundamentally new machines and equipment is uneven over time. It depends on the amortization flows, on the optimal period of operation inherent to each type of equipment, on the life cycle and the investment strategy of individual companies (Geneshki, 2002).

The investment process is naturally continuous, the amount of gross capital formation over the years does not remain constant. Delving deeper into the problems and elements of capital shows that increasing costs of capital are not necessarily a factor in continuous, sustainable growth. Their positive effect depends on the preponderance of additionally created and implemented capacities, on the reduction of the share of unfinished construction. The effect is negative or neutral in relation to GDP growth, presupposes negative or zero growth when investments in similar machinery and equipment, replacing obsolete ones, prevail. The higher technical and technological level of additional equipment compared to the capabilities of already functioning capital has a stimulating effect on growth, but it is indirect. In this regard, significant problems arise from the impossibility of its direct expression, of calculating its relative contribution to the realized increase in GDP. It is known that in the Bulgarian economy the return on investment is relatively low. The increase is unlikely to be commensurate with the resulting more efficient use of capital given the condition, wear and tear and deteriorating adequacy of most of the capacity from a demand point of view. Despite the restraining effect, however, growth rates will increase slightly. The role of capital investment for growth is inseparable from the problems of the economic structure, scientific and technical progress, direction and priorities of the government's macroeconomic policy. In their role as prerequisites for increasing the volume and increasing the effect of investments on economic growth, government measures indirectly aim to overcome the huge differences in the level of technical support of individual industries and economic sectors. The problem of the relationship between investment and politics has acquired new expressions and dimensions in recent years. Its updating is caused by the gradual change in the structure of national economies and the world economy as a whole. In their role as prerequisites for increasing the volume and increasing the effect of investments on economic growth, government measures indirectly aim to overcome the huge differences in the level of technical support of individual industries and economic sectors. The problem of the relationship between investment and politics has acquired new expressions and dimensions in recent years. Its updating is caused by the gradual change in the structure of national economies and the world economy as a whole.

The development of a number of new types of production and the slow but steady withdrawal from the market of industries that have exhausted their potential or become obsolete in a short time are widening the gap in the technical base available to economic sectors. Its unevenness is manifesting itself as one of the sources of the unsustainability of growth at the current stage. On the one hand, firms in nascent industries are putting in place state-of-the-art, sometimes fundamentally new, technical and technological equipment, but their prospective expansion is a continuous process in which they have not yet reached the upper limits of their productivity and market presence. Innovative processes are also taking place in relatively stable, traditional types of production whose capacities are not at such a high level, but as a rule they are not so intensive there (Dimov, Ustoichivo regionalno razvitie: rolyata na stopanskite sektori v regionalnoto planirane, 2003). On the other hand, in the lagging industries, the state of the technical base is deteriorating, new investments are small, interest in improving their equipment is declining, but they are operating at the majority of their capacity. As a rule, the costlier,

higher value in demand output of these industries provides them with a substantial share of GDP. The relative differentiation between investment driven by the market and market changes and investment induced by economic policy allows their specific importance for growth and its cyclical nature to become apparent. Market-driven investment generally fluctuates accordingly and unidirectionally with changes in GDP, although it results in a certain lag of the growth (decline) in output. The interrelationship between the two appears regular in both the short and long run. Policy-induced investment is not as closely related to the current value of GDP, although it also influences it. In the short term, the volume of such investment may rise or fall when positive economic growth is achieved. If policy aims to stimulate firms' investment in new technologies, for example, growth rates may slow in the short term, while in the longer term they are raised and accelerate (Dimov, Balansirano razvitie na raionite v Bulgariya – sashtnost i osnovni instrumenti, 2005). The bilateral conditionality of investment in modern times, the associated technological and structural changes in the economy partly predict the new type of economic growth. In its factor analyses, objective and subjective circumstances are derived under which its regular cyclical manifestation is justified. The deepening of these analyses takes into account the processes taking place at the sectoral level and, more recently, at the firm level, concentrating on their generalization (Geneshki, 2002). Among the objective prerequisites for the transformation of the type of growth, it is necessary to highlight the role of the life cycle of firms in terms of the cost and type of investment, the general state and trends in the economy. The special emphasis proposed here on the stages through which firms pass in their existence is still poorly developed. It creates opportunities to examine the magnitude of investment inputs in relation to the characteristics of the initial stage of formation, market establishment and improvement, local expansion, upgrading and reconstruction, retrenchment and finally discontinuation of the individual firm. The cycle, which basically consists of the above summary stages, may have different durations. It is determined by the type and size of the company, the type and number of products of one or more types created, the specific justified duration of the production facilities, the relevant industry. According to the tactical behaviour and strategic programme within each stage of the cycle, the firm undertakes and implements investment decisions typical for it (Dimov, Balansirano razvitie na raionite v Bulgariya – sashtnost i osnovni instrumenti, 2005). In cases of intensified registration of new firms or a relatively high relative share of recently started firms, an increase in investment can be expected. The first stages of the life cycle imply the advance purchase and installation of the necessary production equipment in new firms, additional investments in machinery and equipment for longer established firms, provided that sales of their products are regular and increasing. Regardless of the specific motivations, the market as a whole is growing, opportunities for investment-led economic growth are emerging. Where a large proportion of firms are formed in more remote periods, a more extensive refurbishment of existing facilities and equipment is necessary. The stage of modernisation and reconstruction also implies an increase in investment, which under normal market conditions can become a source of intensive economic growth. The significant share of firms in the last two stages of their life cycle has a pronounced negative impact on growth. They are losing interest in investing, making partial and marginal capital investments, consistent with keeping production within the already established limits. The total amount of investment in the economy is then likely to fall, growth rates to decline. The growing role of investment and scientific and technological innovation in modern times is not accidental, but natural. It is an expression of the desire to overcome the strong dependence of growth on the absolute or relative limitations of objective factors, which has led to a general slowdown in its pace. The effect of investment is not unidirectional insofar as it is both complex endogenously and exogenously assumed; its size and type also depend on the life and reconstruction cycle of the vast majority of firms operating in the macro economy. Its manifestation presupposes a sufficiently sustainable, long-term development of production units. It is disturbed in case of intensive processes of premature closure (bankruptcies) of firms,

emphasized short duration of their existence. The positive role of investments also declines as a result of the dynamic structural changes in the economy that they cause.

## CONCLUSION

The aspects of the amendment and transformation of some of the more important conditions and factors of growth reflect only a small part of the new moments arising from the specificities of modern economic development. They call for a rethinking of a number of basic patterns of growth and requirements for its sustainability. From the perspective of the new realities, the fluctuations in rates reported, the changes in the general characteristics and type of process, the expected tendencies towards unstable, undulating GDP dynamics are intensifying. The permanence of real GDP growth determines the relatively short duration of a business cycle. It is affected by the different intensity of development of the public and private sectors, the continuous change of government policy options, instruments and priorities, the restructuring of the structure of the economy, changes in the value of exports and imports. In order to outline and motivate the growth prospects in Bulgaria, it is important to compare the magnitudes of growth rates that do not characterize the process as proportional. The additional interest is provoked by the specific arrangement of the rates during the previous period. Traditional notions often introduce a uniformity requirement, according to which the rate of GDP increase should rise from year to year in the case of growth and fall accordingly in the case of decline. The problems of economic growth and the business cycle have traditionally been developed as interrelated but distinct areas of economic theory. In the period since the 1930s, scientific interest has continually shifted its center of gravity, moving from cyclicity to growth and vice versa. Theoretical disputes do not die down, but are relatively moderate when growth is more persistent and when volatility in real economic development prevails, when the relevant scientific field takes over. In the last decade, the problems and manifestations of growth have been changing and have given rise to a new integrative stage in the development of theory. Its deep roots are to be found in the first major theoretical models of growth, which assumed to one degree or another a temporary, non-permanent violation of the basic requirement of equilibrium, of uniform GDP dynamics. In the latter growth models, the possibilities for joint analysis are broader given the different types of growth norms and long-term trajectories of the process they infer.

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