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## THE ECONOMIC DEVELOPMENT OF BULGARIA AND SERBIA IN THE CONTEXT OF CROSS-BORDER COOPERATION AND EUROPEAN INTEGRATION

**Georgi Nikolov**

UNWE, Bulgaria

✉ gnikolov@unwe.bg

ORCID: 0000-0003-4152-6300

**Nikola Tanakov**

UNWE, Bulgaria

✉ ntanakov@unwe.bg

ORCID: 0000-0001-7140-4908

**Abstract:** *This article examines the economic development of Bulgaria and Serbia through the lens of cross-border cooperation and the process of European integration. A comparative analysis is conducted using secondary data from national and European institutions to explore macroeconomic trends, regional disparities, and the impact of European Union programs, including Interreg IPA CBC and pre-accession funds. The findings indicate that bilateral cooperation and the countries' engagement with the EU exert a significant positive influence, particularly on peripheral and economically lagging regions. The Bulgarian experience is also considered as a potential model for institutional and administrative convergence with EU standards.*

**Keywords:** *cross-border cooperation, economic development, European integration, Bulgaria, Serbia, IPA, regional policy.*

### 1. Introduction

Economic integration in Southeast Europe has acquired particular significance in light of the European Union's policies aimed at enlargement, convergence, and the reduction of regional disparities. In this context, cooperation among the countries of the region becomes not only a political and economic necessity but also a strategic opportunity for sustainable development and social cohesion (European Commission, 2024; Manasijević, 2024). The focus on Bulgaria and Serbia—two

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neighboring countries with historical and cultural ties but situated at different stages in the European integration process—allows for an in-depth exploration of the dynamics between EU membership and accession aspirations, as well as of the instruments through which cross-border cooperation can mitigate the effects of structural disparities and regional peripheralization (Đukanović, 2020; Stamenković & Petrović, 2021).

This research is driven by the need for a comprehensive understanding of the effects of cross-border partnerships within the framework of EU-funded programs and policies aimed at socio-economic convergence. The emphasis on border areas and economically vulnerable regions seeks to assess the extent to which joint development initiatives, financed through European instruments, effectively address local needs, stimulate economic activity, and create the preconditions for long-term regional inclusion (Interreg IPA CBC Bulgaria–Serbia, 2021). Particular attention is given to the way in which European policies are translated into practice within the cross-border space between Bulgaria and Serbia, including through the implementation of specific projects and strategic initiatives supported by EU funds (European Court of Auditors, 2022).

The aim of this study is to evaluate the impact of cross-border cooperation and European integration instruments on the economic development of both countries, with a focus on less developed areas where socio-economic disparities are most pronounced (NSI, 2023; SORS, 2023; Eurostat, 2023). The research is based on a mixed-methods approach, combining both quantitative and qualitative analytical techniques.

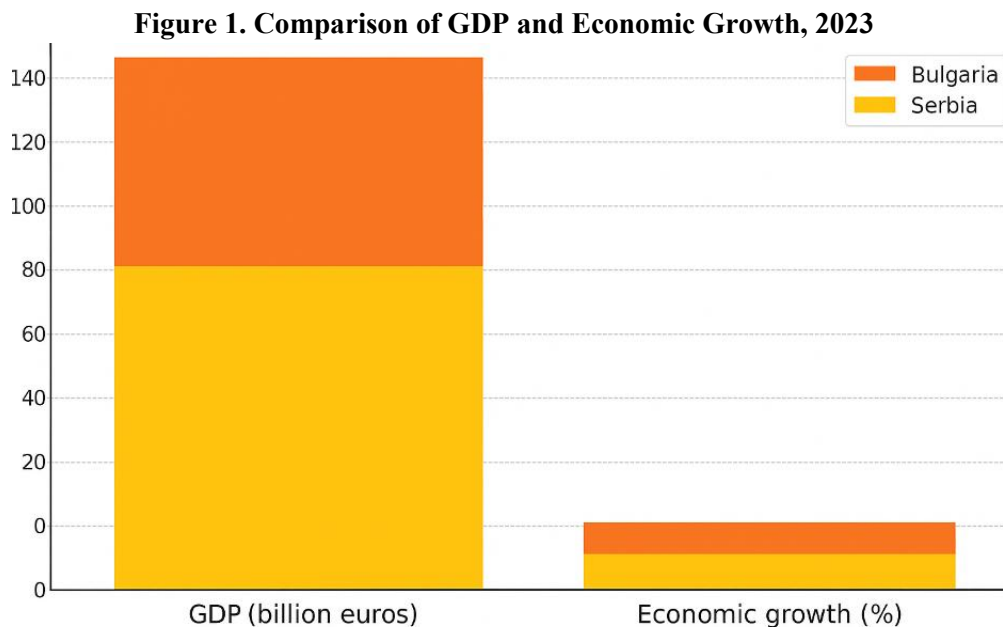
Data were collected from the national statistical institutes of Bulgaria and Serbia (the National Statistical Institute of Bulgaria and the Statistical Office of the Republic of Serbia), as well as from Eurostat and the European Commission. The study involves a substantive analysis of strategic documents, cross-border cooperation plans, and programmatic frameworks, combined with a comparative evaluation of implemented projects in order to identify the specific economic effects of integration mechanisms on the targeted regions (Interreg Annual Report, 2022; European Commission DG REGIO, 2023).

The study is guided by the hypothesis that cross-border cooperation and European integration tools contribute to enhanced economic resilience and socio-economic convergence between Bulgaria and Serbia, with particularly positive effects observable in marginalized and peripheral areas (Boeckhout & Nicolaidis, 2020).

In this regard, the focus extends beyond statistical indicators to include deeper processes of institutional interaction, network-based integration, and the transfer of best practices, which are reshaping the emerging geography of development along the shared border between the two countries.

## 2. Economic Profile of Bulgaria and Serbia

In 2023, the economic profiles of Bulgaria and Serbia reveal a number of similarities and differences that reflect both their historical trajectories and contemporary challenges and opportunities. Macroeconomic indicators position Bulgaria as the larger economy, with a gross domestic product (GDP) of approximately €89 billion, compared to Serbia's GDP of around €63 billion at current prices (Eurostat, 2024; IMF, 2024). However, the pace and structural nature of economic growth in the two countries diverge. Bulgaria recorded a growth rate of 1.8%, driven by contractions in foreign trade and a slowdown in industrial production, whereas Serbia achieved a higher growth rate of 2.3%, supported by public investment and export-oriented sectors (World Bank, 2024).



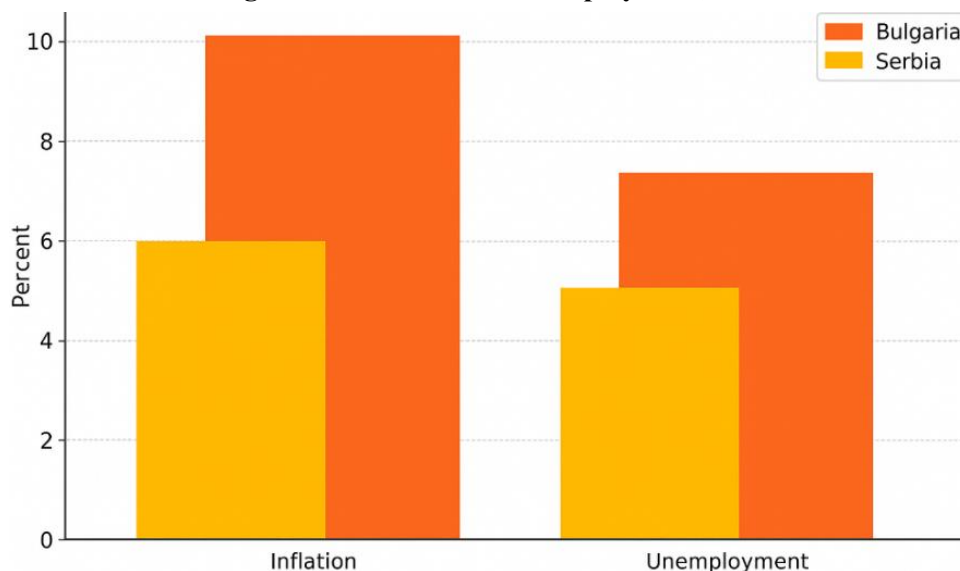
*Source:* Data compiled from official statistics provided by Eurostat and the World Bank for the year 2023.

Inflationary pressures remain a sensitive issue across the region. Bulgaria experienced a decline in inflation to 5.9% compared to the previous year, attributable to relatively stable fiscal policy and a drop in energy prices. In contrast, inflation in Serbia remained elevated at approximately 10.5% in 2023, driven by rising food and energy costs and a monetary policy geared toward stimulating domestic consumption (National Bank of Serbia, 2024).

Bulgaria's labor market displayed relative stability, with unemployment declining to around 4.7%, supported by job growth in urban centers and service-oriented sectors. Major employment concentrations were observed in Sofia, Plovdiv, and Varna, regions that also benefit from better infrastructure, access to education, and higher investment density (UNDP Serbia, 2024). By contrast, Serbia's labor market remained structurally challenged, with unemployment exceeding 9%. Rural

and border areas—especially in eastern and southern Serbia—continue to suffer from limited access to employment, education, and connectivity, exacerbating socio-economic inequality (UNDP Serbia, 2024).

**Figure 2. Inflation and Unemployment, 2023**



**Source:** Data obtained from Eurostat and the World Bank, 2023.

In terms of economic structure, both countries have made strategic efforts to develop high value-added sectors. Bulgaria has positioned itself as a regional hub for advanced industries such as information technology, electronics, mechanical engineering, and the automotive sector. This transformation has been facilitated by EU funding, favorable industrial policies, and the expansion of logistics and industrial zones around Sofia, Ruse, and Plovdiv (InvestBulgaria Agency, 2023). Serbia has also recorded sectoral progress, albeit more incrementally. The pharmaceutical industry, agribusiness, and business process outsourcing have emerged as priority sectors, particularly in cities such as Novi Sad and Niš, where targeted government incentives have attracted foreign capital and enhanced export capacity (Serbian Chamber of Commerce, 2023).

Despite these advances, both economies remain characterized by significant territorial disparities. Metropolitan centers like Sofia and Belgrade generate over 35% of national GDP and dominate in terms of investment, innovation, and population growth (OECD, 2024). Peripheral regions—such as Vidin and Kyustendil in Bulgaria, and Pirot and Zaječar in Serbia—continue to lag significantly behind, with GDP per capita often less than half the national average (Eurostat Regional Yearbook, 2024). The spatial inequalities are largely a product of demographic decline, insufficient infrastructure, and weak integration into national and European markets.

Foreign direct investment (FDI) and external trade orientation represent another axis of divergence. As an EU member state, Bulgaria enjoys access to structural and

cohesion funds, as well as a predictable legal environment that attracts long-term investors. German, Austrian, and Dutch companies are among the most prominent investors in industrial regions like Burgas, Stara Zagora, and Varna (InvestBulgaria Agency, 2023). Serbia, while outside the EU framework, has pursued a pragmatic foreign investment strategy, leveraging bilateral agreements with non-EU actors such as China, the United Arab Emirates, and Russia. These partnerships have facilitated investment in infrastructure, energy, and manufacturing, offering access to new markets but also exposing Serbia to geopolitical volatility (CEFTA Report, 2023; EBRD, 2024).

In conclusion, the economic profiles of Bulgaria and Serbia in 2023 reveal differentiated development strategies rooted in divergent institutional affiliations and policy frameworks. Bulgaria's economic strategy is anchored in European integration and high-tech industrial development supported by EU funding and regulatory stability. Serbia, meanwhile, follows a hybrid approach, balancing European ambitions with strategic partnerships outside the EU. Notwithstanding their differing trajectories, both countries face common structural imperatives: reducing regional disparities, enhancing labor productivity, and investing in human capital to ensure inclusive and sustainable growth across their entire territories. (Velikova, 2019)

### **3. Political and Institutional Frameworks for Sustainable Development**

Cross-border cooperation between Bulgaria and Serbia has emerged as a key strategic instrument for promoting socio-economic convergence in peripheral regions along their shared border. Within this framework, the Interreg IPA Cross-Border Cooperation (CBC) Bulgaria–Serbia Programme, co-financed by the European Union through the Instrument for Pre-Accession Assistance (IPA II), played a central role during the 2014–2020 programming period. This programme was designed not only to mobilize financial and institutional resources but also to address structural disparities by enhancing territorial cohesion, fostering sustainable development, and strengthening cross-border connectivity (European Commission, 2021).

Over the course of the programming period, more than one hundred projects were implemented, targeting a range of thematic priorities. These included the preservation of natural and cultural heritage, the promotion of sustainable tourism, the improvement of cross-border accessibility, the facilitation of social inclusion, and the deepening of institutional cooperation between local actors. The projects addressed both physical infrastructure gaps and socio-institutional deficiencies, offering comprehensive and multi-sectoral benefits to the region.

At the economic level, the programme's impact is discernible through several flagship projects that achieved notable results in terms of investment, employment, and direct local benefits. For instance, the road rehabilitation project connecting Kyustendil (Bulgaria) and Niš (Serbia) significantly improved transportation

efficiency. Travel time between the two cities was reduced by approximately 35%, while traffic volumes increased by over 20% in the first year following the project's completion (Ministry of Regional Development and Public Works, 2020). This intervention not only enhanced mobility but also served as a catalyst for increased cross-border trade, tourism, and economic interaction (Botseva, et al., 2021). Concurrently, investments in cultural infrastructure provided complementary support for regional development. The establishment of multifunctional cultural centers in Bosilegrad and Vidin illustrates this dual focus on cultural preservation and economic revitalization. These centers have contributed to job creation, strengthened local identity, and supported the development of cultural tourism. By offering venues for performance, exhibitions, and community engagement, they foster both social inclusion and economic activity in previously underutilized areas.

To illustrate the measurable outcomes of selected key initiatives, Table 1 presents economic indicators including investment levels, employment effects, and the number of direct beneficiaries:

**Table 1. Economic Impact of Key Projects**

| No. | Project                    | Investment<br>(millions €) | Jobs<br>Created | Direct<br>Beneficiaries |
|-----|----------------------------|----------------------------|-----------------|-------------------------|
| 1.  | Kyustendil–Niš Road        | 4.5                        | 120             | 15,000                  |
| 2.  | Bosilegrad Cultural Center | 1.2                        | 18              | 3,000                   |
| 3.  | Vidin Cultural Center      | 1.5                        | 22              | 4,500                   |
| 4.  | SME Support Program        | 2.8                        | 60              | 90                      |

*Source:* Impact Evaluation of the Interreg IPA Cross-border Programs 2014–2020

The SME Support Programme, another notable example, directed targeted funding toward local enterprises, resulting in the creation of 60 jobs and directly assisting 90 businesses. Such interventions fostered entrepreneurship, built local capacities, and increased economic resilience—key priorities in peripheral border areas with historically limited access to capital and market networks.

Beyond the quantifiable economic outcomes, the Interreg IPA CBC Programme also contributed to deep institutional and social transformations. By promoting collaborative networks among municipalities, non-governmental organizations (NGOs), educational institutions, and business associations, the programme facilitated new forms of multi-level governance.

Local authorities, in particular, enhanced their administrative capacity in areas such as strategic planning, financial oversight, and transnational project management. According to Balogh and Gál (2019), this increased institutional competence has laid the foundation for more effective public administration and long-term regional partnerships.

The active engagement of NGOs and civil society organizations has further enriched the programme's social impact. NGOs played a mediating role between citizens and state institutions, ensuring that project implementation remained responsive to local needs. They were especially instrumental in advocating for the inclusion of marginalized groups in educational, cultural, and employment

initiatives, thereby promoting a more inclusive and equitable development trajectory.

Moreover, this cross-border civic engagement has contributed to the cultivation of a shared regional identity, grounded in mutual understanding and cooperation beyond national and ethnic boundaries.

In conclusion, the Interreg IPA CBC Bulgaria–Serbia Programme stands as a compelling example of how structured cross-border cooperation can advance regional integration, economic modernization, and institutional renewal.

Through a combination of infrastructure investments, support for entrepreneurship, cultural revitalization, and participatory governance, the programme has contributed meaningfully to the transformation of historically marginalized border regions.

Although challenges remain—particularly with respect to administrative coordination and the sustainability of project outcomes—the accumulated experience during the 2014–2020 period confirms that such cooperation is both feasible and impactful, provided that commitment is sustained across local, national, and European governance levels.

#### **4. The Role of European Integration**

European integration constitutes a strategically significant trajectory for the Western Balkan countries, particularly for Serbia, as it offers a multidimensional platform for advancing economic modernization, institutional reform, and regional stabilization. This process transcends the mere fulfillment of formal accession criteria; it embodies a transformative agenda that aligns national development strategies with the normative and regulatory framework of the European Union.

Central to this transformative process is the Instrument for Pre-Accession Assistance (IPA III), the primary financial mechanism through which the EU supports candidate and potential candidate countries during the 2021–2027 period. Under the current cycle, Serbia stands to benefit from over €1.5 billion in EU assistance, which is allocated to key sectors such as administrative capacity-building, infrastructure enhancement, competitiveness, and social inclusion (European Commission, 2023). The successful absorption and deployment of these funds is intimately tied to Serbia's ability to harmonize its governance structures with EU standards and demonstrate tangible progress in key areas of reform.

However, Serbia's path toward European integration is fraught with structural and political challenges that must be addressed with a comprehensive and sustained commitment to reform. Among the most pressing of these are the necessity of profound judicial reform, the establishment of robust anti-corruption mechanisms, and the resolution of the long-standing dispute regarding the normalization of relations with Kosovo. These issues are not peripheral but rather form the core of the EU's conditionality framework, with particular emphasis on democratic consolidation, rule of law, and good governance (European Parliament, 2024). The resolution of these challenges bears significant implications for institutional

integrity, public trust in governmental institutions, and the overall credibility of Serbia's European aspirations. Moreover, the effectiveness with which Serbia can implement and internalize the objectives of IPA III is largely contingent upon its capacity to undertake systemic reforms that go beyond technical compliance and reflect genuine political will.

Nevertheless, the European integration process offers Serbia a structured and credible framework for institutional learning, policy innovation, and sustainable development. Through gradual alignment with the *acquis communautaire* and the adoption of European administrative and legal standards, Serbia is positioned to gain access to one of the largest and most sophisticated internal markets in the world. This access carries the potential not only to accelerate economic growth but also to foster cross-border cooperation, enhance regional cohesion, and improve the quality of public administration (European Commission, 2023). The process of harmonization and reform also facilitates the transfer of knowledge and technology, stimulates public sector modernization, and promotes transparency and accountability within governmental institutions.

In this context, the experience of Bulgaria emerges as a particularly instructive example for Serbia, offering both practical guidance and normative inspiration. Since joining the EU in 2007, Bulgaria has developed a comprehensive and well-functioning framework for the management and oversight of EU funds. This includes the institutionalization of partnership principles, the establishment of multi-level governance structures, and the operationalization of diverse funding instruments such as the Cohesion Fund, the European Regional Development Fund, and the European Social Fund Plus (Ministry of Finance of the Republic of Bulgaria, 2024). These mechanisms have been instrumental in supporting infrastructural modernization, particularly in the domains of transport and energy, while simultaneously fostering innovation, entrepreneurship, and social inclusion.

What makes Bulgaria's experience especially relevant is not merely the technical proficiency in fund management, but the broader transformation of its administrative and institutional landscape. The implementation of transparent procedures, the advancement of digital governance, and the establishment of coherent coordination between central and local authorities have collectively enhanced the effectiveness and legitimacy of public institutions (Ministry of Finance of the Republic of Bulgaria, 2024). These reforms have contributed to greater efficiency in public administration and improved the absorption capacity for EU funds—an area in which Serbia continues to face significant constraints. Bulgaria's trajectory thus serves as a concrete example of how sustained institutional adaptation, when aligned with EU standards and supported by coherent policy planning, can yield tangible developmental outcomes.

In conclusion, while Serbia's accession process is undoubtedly marked by complex political and institutional hurdles, it simultaneously offers a singular opportunity for comprehensive modernization and integration into the European institutional, economic, and normative order. Instruments such as IPA III represent more than financial assistance; they function as catalysts for strategic convergence and institutional resilience. In navigating this path, Serbia can draw valuable lessons



from Bulgaria's experience, which illustrates the critical importance of administrative capacity, transparency, and coordinated governance in achieving the objectives of European integration. The successful emulation of such models may significantly enhance Serbia's preparedness for membership and strengthen its position within the evolving architecture of the European Union.

## **5. Challenges and Prospects**

The development of modern infrastructure and the advancement of digitalization represent fundamental pillars in the endeavor to deepen economic cooperation between neighboring states, particularly in cross-border regions characterized by both shared potential and historical disparities. In this regard, strategic projects dedicated to the construction, modernization, and integration of transport and communication networks—most notably the development of Corridor X—occupy a central role in reconfiguring border areas into dynamic logistical and technological corridors. As an integral component of the Trans-European Transport Network (TEN-T), Corridor X not only facilitates seamless physical connectivity but also fosters the conditions necessary for the enhanced circulation of goods, services, labor, and capital (European Commission, 2023). This, in turn, significantly stimulates bilateral trade, boosts cross-border investment, and invigorates tourism, thereby contributing to the broader objectives of territorial cohesion and regional competitiveness (European Committee of the Regions, 2021).

Concurrently, the systematic enhancement of digital infrastructure constitutes a critical complement to physical connectivity, as it enables the formation of integrated cyber-ecosystems capable of supporting innovation, entrepreneurship, and knowledge exchange across borders. Initiatives such as the deployment of high-speed broadband networks, the establishment of interoperable digital platforms, and the creation of shared cross-border data and cybersecurity frameworks are instrumental in bridging digital divides and fostering inclusive digital transformation (European Commission, 2023). These efforts not only empower small and medium-sized enterprises (SMEs) to engage in cross-border e-commerce and innovation networks but also underpin the resilience and adaptability of regional economies in the face of technological disruption and global uncertainty (European Investment Bank, 2022).

Despite these advances, one of the most persistent and structurally embedded challenges to effective cross-border cooperation lies in the asymmetrical patterns of regional development. Economic dynamism remains disproportionately concentrated in capital cities and metropolitan centers, while peripheral and rural regions—particularly those adjacent to national borders—often face stagnation, depopulation, and structural marginalization. This spatial imbalance risks exacerbating socio-economic inequalities and undermining the long-term viability of cross-border initiatives. The OECD has emphasized the need to counteract such disparities through holistic and place-sensitive policy interventions that prioritize human capital development, support research and development (R&D), and encourage the proliferation of social enterprises in disadvantaged areas (OECD, 2022). Enhancing the quality and accessibility of education, fostering vocational

training aligned with regional economic needs, and cultivating innovation ecosystems tailored to local contexts are essential components of a strategic response that seeks to transform underperforming border regions into active participants in the broader regional economy (OECD, 2022; European Commission, 2023).

In this context, the prospects for achieving sustained economic convergence between neighboring countries—especially within the institutional framework of the European Union and its cohesion policy—are inextricably linked to the implementation of integrated cross-border development models. These models are premised on the principles of joint economic planning, shared resource management, and institutional coordination. Among the most promising mechanisms for operationalizing such models are the creation of joint industrial parks and cross-border economic zones, which serve to amalgamate production capabilities, research institutions, and transport infrastructure on both sides of the border. These zones can function as innovation-intensive growth poles, supported by targeted investments from EU structural and cohesion funds, as well as by programs such as Interreg, which are specifically designed to foster transnational cooperation and regional synergies (European Committee of the Regions, 2021; Interreg Europe, 2023).

Moreover, the successful realization of such integrative initiatives depends critically on the removal of non-tariff barriers and the simplification of cross-border administrative procedures. Harmonization of legal and regulatory frameworks—encompassing areas such as labor mobility, tax policy, environmental standards, and public procurement—is essential for facilitating cross-border investment, reducing transaction costs, and enhancing institutional trust between partner regions (European Commission, 2023; European Investment Bank, 2022). The establishment of transparent, predictable, and interoperable governance structures is equally vital for ensuring the sustainability and scalability of cross-border projects.

In conclusion, the sustainable development of cross-border regions necessitates a comprehensive, multi-level governance approach that aligns infrastructure modernization, digital transformation, and economic integration into a coherent strategic framework. Only through such an integrated, inclusive, and forward-looking paradigm can regional disparities be effectively addressed, unlocking the latent potential of border areas and laying the groundwork for a model of growth that is not only economically viable, but also socially equitable and innovation-driven.

## **6. Conclusion and Recommendations**

The present study clearly affirms that cross-border cooperation and European integration serve as essential mechanisms for promoting economic convergence and sustainable growth in both Bulgaria and Serbia. These processes not only enhance physical infrastructure and facilitate access to strategic resources but also exert a significant impact on institutional modernization, the strengthening of administrative capacity, and the deepening of regional cohesion (Tzifakis & Tsardanidis, 2020).

Of particular importance is the development of administrative potential in border regions, where there is a pressing need for enhanced institutional effectiveness, knowledge transfer, and the application of sound governance practices. In this

context, European cross-border cooperation programmes such as INTERREG contribute to building the capacity of local administrations and improving coordination across various levels of governance (European Commission, 2022). Integration efforts should also be accompanied by support for innovative public–private partnerships capable of mobilizing resources, fostering entrepreneurship, and creating new opportunities for youth employment and social inclusion.

The study further underscores the importance of targeted regional development policies that take into account the socio-economic specificities of border areas. The implementation of integrated interventions—particularly those related to access to education, healthcare, and social services—is crucial for overcoming social marginalization and territorial inequalities (Bachtler et al., 2017).

In this regard, Bulgaria’s experience in implementing policies within the EU’s Cohesion Policy framework may serve as a valuable reference for Serbia, especially during its pre-accession reform phase. The transfer of good practices and institutional expertise can facilitate Serbia’s adaptation to EU standards and strengthen the administrative preparedness of its institutions.

In conclusion, Serbia’s integration into the European Union and the deepening of its cross-border cooperation with Bulgaria should be regarded not only as strategic objectives but also as practical tools for addressing regional imbalances and achieving long-term sustainability in the economic and social development of both countries.

A synergistic approach is required—one in which national and European policies are effectively integrated and implemented at the local level, with the active participation of all relevant stakeholders.

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## EKONOMSKI RAZVOJ BUGARSKE I SRBIJE U KONTEKSTU TRANSGRANIČNE SARADNJE I EVROPSKE INTEGRACIJE

**Apstrakt:** Ovaj članak analizira ekonomski razvoj Bugarske i Srbije kroz prizmu prekogranične saradnje i procesa evropske integracije. Korišćeni su komparativna analiza i sekundarni podaci iz nacionalnih i evropskih institucija u cilju proučavanja makroekonomskih trendova, regionalnih disproporcija i uticaja programa Evropske unije, uključujući Interreg IPA CBC i predpridružne fondove. Rezultati pokazuju da saradnja između dve zemlje i njihova posvećenost Evropskoj uniji imaju značajan pozitivan efekat, naročito na periferne i ekonomski nerazvijene regione. Razmatra se i bugarsko iskustvo kao model institucionalnog i administrativnog približavanja standardima EU.

**Ključne reči:** prekogranična saradnja, ekonomski razvoj, evropska integracija, Bugarska, Srbija, IPA, regionalna politika.