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GLOBAL FOREIGN DIRECT INVESTMENT AND ITS IMPACT ON BULGARIA

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Abstract: This paper analyses shifts in global Foreign Direct Investment (FDI) and their impact on Bulgaria, focusing on the period 2021-2024. The study combines secondary data analysis from sources such as UNCTAD, Eurostat and the Bulgarian National Statistical Institute with a SWOT framework to assess Bulgaria's position amidst evolving European and global FDI patterns. Global FDI declined sharply during the COVID-19 pandemic in 2020 but rebounded strongly in 2021, driven largely by increased investments in digital economy sectors and green energy. However, from 2022 onwards, FDI flows experienced instability and declines, particularly in developed countries, although digital and renewable energy investments continued to grow.

In Bulgaria, FDI inflows showed resilience and growth after the initial pandemic shock, with significant increases in 2022 and 2023. The country's investment attractiveness is enhanced by the growing IT sector investments, though challenges remain, such as bureaucratic inefficiencies, underdeveloped infrastructure, and a dependence on European markets. Bulgaria's integration into global value chains, especially in manufacturing and IT services, aligns with EU priorities in digitalisation and sustainability.

The study concludes that Bulgaria's FDI attractiveness depends on addressing institutional and infrastructure weaknesses, leveraging EU recovery funds effectively, and promoting high-tech to sustain long-term economic growth and competitiveness in a fluctuating global investment environment. Policy improvements in governance and strategic investment in innovation are necessary for Bulgaria to take advantage of emerging global FDI trends.

Keywords: foreign direct investment; global trends impact

JEL codes: F21; F23

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Introduction

The rapid evolution of the global economic landscape over the past few years has significantly impacted the patterns and volume of Foreign Direct Investment (FDI) worldwide. The COVID-19 pandemic caused unprecedented disruptions, leading to a sharp decline in global FDI flows in 2020, particularly affecting developed economies. However, a notable rebound occurred in 2021, driven by heightened investments in digital infrastructure and green energy sectors. Despite this recovery, the trend remains highly volatile, influenced by geopolitical tensions, policy changes, and the ongoing transformation of international supply chains. As the world gradually transitions toward digital and sustainable economies, understanding these shifting dynamics becomes imperative for emerging markets and small open economies like Bulgaria, which are influenced by these global trends.

In the European context, FDI flows experienced fluctuations driven by both internal EU policies, e.g. introduction of an investment screening mechanism, and external global factors. The European Union's emphasis on digital transformation, green transition, and economic recovery initiatives – such as the Next Generation EU funds – has created new opportunities for cross-border investments. Simultaneously, the global trend of nearshoring is reshaping the distribution of FDI within Europe, favouring Eastern European countries, including Bulgaria. Bulgaria's strategic geographical location, combined with its stability and competitive tax regime, positions it as an attractive destination for high-tech investments, especially in the digital and green sectors. However, challenges such as insufficient infrastructure and bureaucratic inefficiencies hinder the full realisation of its potential, necessitating targeted policy interventions to leverage emerging opportunities.

This article explores the global dynamics of FDI from 2021 to 2024 and makes some comparisons with trends over longer periods of time, with a particular focus on their implications for Bulgaria's investment landscape. The time period is selected based on the assumption that there is a shift in the FDI dynamics caused by three major geopolitical events: the breakout of the COVID-19 pandemic in 2020, the beginning of the war in Ukraine in 2021 and the new tariff measures implemented by the United States of America (USA) in 2025. If the new Framework Agreement on Reciprocal, Fair, and Balanced Trade between the European Union (EU) and the USA becomes a formal, legally binding document, it will have the potential to be the next key event with significant influence on global FDI. By examining the FDI shifting dynamics, the study assesses how Bulgaria's small, open economy can capitalise on the ongoing global and European investment trends. Analysing data from international organisations and national sources, the research highlights Bulgaria's resilience amidst worldwide decline, its evolving sectoral priorities, and strategic opportunities for long-term growth. The insights serve to inform policymakers, investors, and academia about Bulgaria's positioning in the broader context of global FDI flows and the pathways for enhancing its competitiveness.

Methods

This study adopts a combination of statistical methods for descriptive analysis and SWOT analysis of Foreign Direct Investment (FDI) to outline their patterns in Europe and the impact on Bulgaria. The selected period ranges from 2021 to 2024, because it marks the beginning of a shift in global investment dynamics and the factors influencing investors' decisions. The research methodology incorporates both qualitative and quantitative techniques, combining secondary data analysis with a SWOT (Strengths, Weaknesses, Opportunities, and Threats) framework to assess Bulgaria's position in the evolving FDI landscape.

In order to ensure coherence and comparability of data, the study relies on a consistency of data sources that include: United Nations Conference on Trade and Development (UNCTAD), National Statistical Institute and Bulgarian National Bank data sets – adding the national perspective of FDI data. The selection of these sources ensures that the study is grounded in authoritative, globally recognised economic datasets.

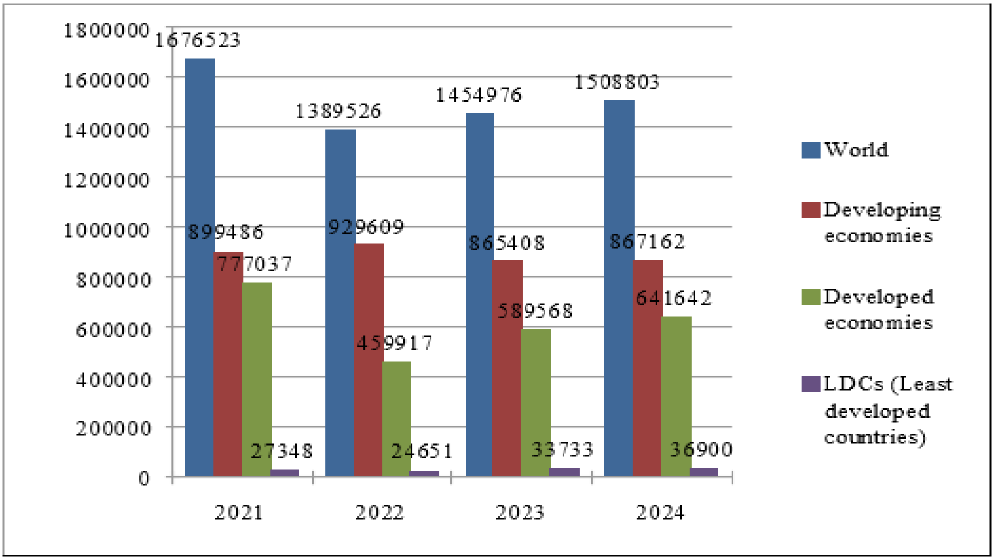
The data is evaluated through two primary theoretical lenses: Dunning's OLI (Ownership-Location-Internalisation) paradigm, which posits that FDI is driven by firm-specific advantages, location factors, and internalisation benefits (Dunning, 1980) and Institutional Theory, highlighting the importance of regulatory quality, governance, and institutional trust in influencing FDI flows (North, 1990). These two frameworks collectively explain the location advantages of Bulgaria, but also help assess the institutional challenges the country faces in order to formulate polices to enhance location advantages, but also to reduce perceived regulatory risk.

While the study offers a detailed evaluation of FDI, certain limitations must be acknowledged. FDI data often experience a time lag due to collection and reporting processes, which can affect real-time analysis. The unpredictable nature of economic policies and geopolitical events influences FDI trends beyond what historical data suggest. Despite these limitations, the methodological approach ensures a robust and data-driven analysis of FDI patterns and the implications for Bulgaria.

Results

Global and European FDI Trends in 2021–2024

UNCTAD data presented in Figure 1 below shows that in 2021, global FDI inflows almost doubled, reaching $1,676,523 million compared to $868,563 million in 2020, exceeding the pre-pandemic $1,658,784 million in 2019. The major increase was in developed countries, while the emerging economies recorded a weaker recovery. According to the same source, low financial flows and transactions in advanced economies are the main reason for the decline in global FDI inflows in 2022. The positive trend of increasing flows to developing countries continued for a second consecutive year, but this is insignificant and concentrated in a few large emerging economies, while inflows to smaller developing countries are stagnant, and in the least developed countries, even decrease. UNCTAD reports a small increase in global investment inflows in 2023, but it was a result of significant financial flows passing through a few European conduit economies. Similarly, in 2024, despite data showing a slight increase in global FDI inflows, this was again due to the influence of financial flows passing through several European conduit economies, which are often used as transfer centres for investment. This volatility of global inward FDI flows is a result of the influence of the three major events mentioned above and can be seen as confirmation of the growing importance of managing political and regulatory risks as factors considered in the investors' decision-making process.



Source: UNCTAD Data Hub Statistics.

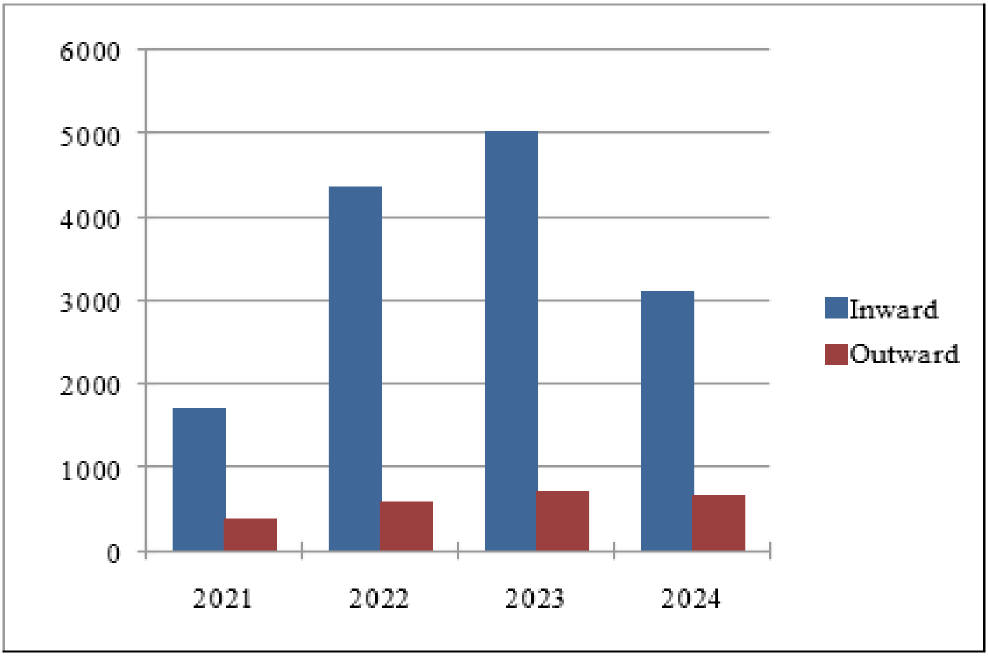
Figure 1. FDI inward flow in USD million, annual data 2021–2024

The sectoral dynamics of global FDI are changing, with investments in IT and digital services growing significantly (accounting for 25% of inward FDI in 2023 according to UNCTAD data), and Europe's green transition attracting significant FDI in renewable energy projects (up 30% between 2021 and 2023 according to UNCTAD data). Focusing financial resources on green sectors can be defined as a growing trend in support of sustainability, but on the other hand, it reinforces the so-called "nearshoring" that, in this case, means shortening the Global Value Chains (GVC) and FDI returning to developed countries, including to Europe, and thus widening the development gap.

FDI in Bulgaria 2021–2024

Figure 2 below visualises the dynamics of Bulgaria's inward and outward FDI flow for 2021 – 2024. According to data, inward FDI flows to Bulgaria in 2021 fell sharply to $1,698 million, one of the lowest levels in recent years. In 2022, FDI inflows rebounded, marking a growth of 55% compared to 2021 and reaching $4,347 million. The growth continued in 2023, when FDI inflows were $5,011 million, followed by a sharp decrease of more than 38% in 2024, when the inflow was $3,090 million. The volatile investment inflows in the last four years reflect the global FDI shifts that still do not show signs of stabilising. These changes require targeted government policies on a national, regional, and EU level.

After the significant drop in 2020 to $235 million, the outward FDI flows grew steadily in the next three years: from $383 million in 2021, to $585 million in 2022, and exceeding the pre-pandemic level and reaching $700 million in 2023. In 2024, outward FDI flows fell to $639 million. The increasing outward FDI flows hint at Bulgaria's potential for international expansion.

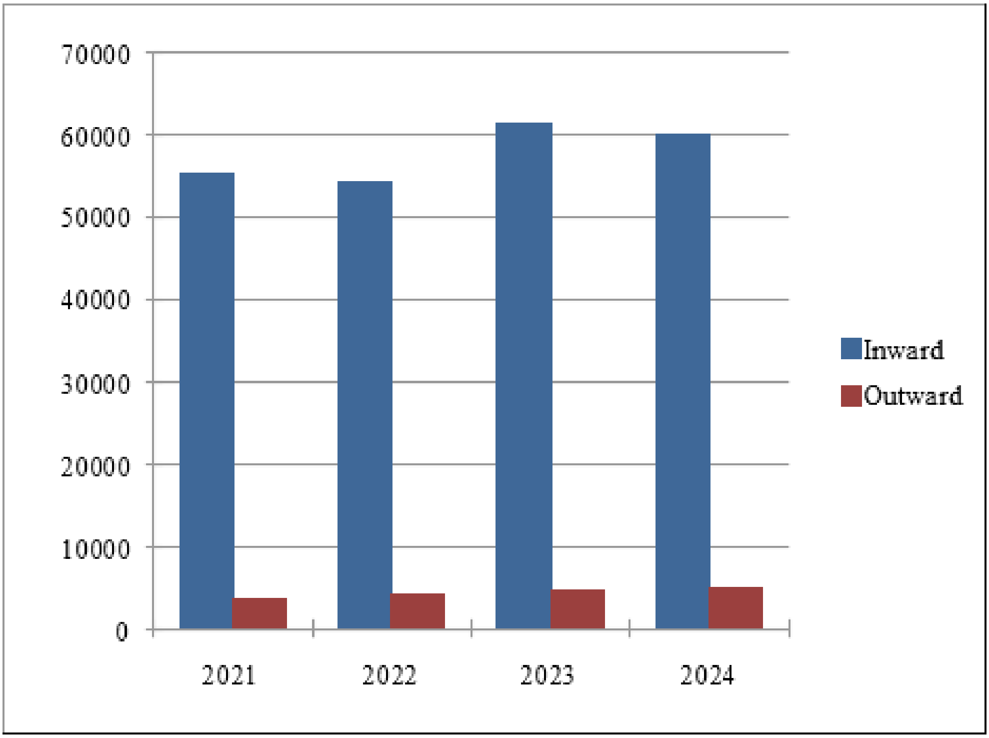


Source: UNCTAD Data Hub Statistics.

Figure 2. Bulgaria, FDI inward and outward flows, in USD million, annual data 2021–2024

Figure 3 presents the changes in the Bulgarian inward and outward FDI stock for the period 2021 – 2024. The inward FDI stock in Bulgaria at the end of 2021 amounted to $55,144 million, then slightly decreased to $54,179 million in 2022, and recorded significant growth (almost 8%) in 2023 when it reached $61,282 million. There was a slight decrease in 2024 of 2.2% and the inward FDI stock stabilised at $59,924 million. The total amount of outward FDI stock increased steadily from $3,519 million in 2021 to $4,040 million in 2022, $4,689 million in 2023 and to $4,924 million in 2024.

The volume and dynamics of inward FDI stock reflect Bulgaria's long-term investment competitiveness, defined by the World Bank as" ... ability of countries not only to attract, but also to retain and integrate private investment in their respective economies." (World Bank, 2017). Maintaining relatively stable levels of inward FDI stock in the economy is a sign of economic stability and a consistent investment environment that can attract long-term FDI.



Source: UNCTAD Data Hub Statistics.

Figure 3. Bulgaria, FDI inward and outward stock, in USD million, annual data 2021–2024

The dynamics of Bulgaria's overall investment attractiveness in the period 2014–2024 can be measured by the FDI (stock) to GDP ratio. It is interesting to note that in terms of the levels and historical dynamics of the FDI stock to GDP indicator, Bulgaria shows similarities with Sweden. Bulgaria, like Sweden, maintains a relatively high investment attractiveness, which, however, has been declining in recent years. In 2021, this ratio is 65.3%, a sharp decline from 2020 when the percentage was much higher – 85.8%. This trend persists in the following years, when it is 59.7% for 2022, then slightly increases to 59.8% in 2023, followed by a drop to 53.4% in 2024. The high FDI/GDP ratio (over 50%) can lead to technological progress, as is evident from the growth of investment in Bulgaria in the ICT sector, where new jobs have been created, and productivity has increased (15% annual growth in FDI in this sector according to National Statistical Institute data). However, it can also be an indicator of increased dependence on foreign capital (and potential crises in the event of a sharp decline in FDI, as is currently observed), displacement of local firms from the market, or increased foreign control in key sectors.

Traditionally, the main investment partners for Bulgaria are the developed economies in the EU, with the Netherlands, Austria, Germany, and Italy leading the way (Bulgarian National Bank, 2025). Since joining the EU, Bulgaria has reorganised its production structure in line with European markets. The industrial sector – especially base metals, mechanical engineering and automotive components – dominates the country's participation in GVC. These industries are characterised by high dependence on foreign inputs and limited domestic value added, reflecting Bulgaria's role as a supplier of intermediate goods in regional production chains (Panusheff, 2022). Sectors such as information technology and business process outsourcing are emerging as growth drivers, although from a lower base than manufacturing.

According to the National Statistical Institute data (NSI, 2025), FDI flow in activities in the field of information technology and information services has doubled in size in recent years, supported by Bulgaria's skilled workforce and competitive production costs. This indicates a growing foreign interest in Bulgarian high-tech products and services, which also carry high added value. This trend has been observed since earlier, when medium-sized enterprises actively entered the ICT sector, and determined the long-term concentration of FDI in this sector (Hristova-Balkanska, 2016). However, innovation capacity remains limited, as suggested by Bulgaria's low ratio of Gross Domestic Spending on R&D (0,8% of GDP in 2023), well below the EU average of 2.1% for the same year (OECD, 2025).

Discussion

In Table 1 below, the results of the study are organised in a Strengths-Weaknesses-Opportunities-Threats Matrix (SWOT) to highlight Bulgaria's position in the context of the evolving FDI landscape and to rationalise recommendations for future policies.

Table 1. Bulgaria's strengths, weaknesses, opportunities, and threats analysis

Strengths: Stable macroeconomic framework and cost-effective business climate. Attractive FDI destination Dynamic IT sector with strong growth potential. Stable geographical distribution of FDI in Bulgaria, by the developed EU member states.	**Weaknesses:** Limited innovation capacity Bureaucratic and judicial inefficiencies. Relatively low quality of infrastructure related to transport and trade. Dependence on FDI from a limited number of EU countries High exposure to external shifts in FDI flows.
Opportunities: Rising global demand for IT and renewable energy solutions. EU recovery funds supporting digitalisation and green projects. Nearshoring FDI trends and shortening of GVC.	**Threats:** High volatility of global and European FDI flows. Growing importance of political and regulatory factors in investors' decision-making. Risk of limited absorption of EU recovery and development funds.

Bulgaria has traditionally maintained a high level of FDI as a percentage of GDP, indicating the interest of foreign investors in the country, as well as the degree of openness of the economy. The growth of FDI inflows in Bulgaria shows that the country maintains an image of an attractive investment destination in terms of macroeconomic stability and a cost-effective business climate.

According to the World Bank Logistic Performance Index, which measures the quality of trade and transport-related infrastructure (1 = low to 5 = high) shows that in 2022 Bulgaria scored 3.1, which is below the EU average of 3.6 (World Bank, 2025). Therefore, Bulgaria's underdeveloped infrastructure can potentially hinder the long-term strategies of direct investors.

A study of the business climate in Bulgaria, conducted in 2019 among Swedish investors in Bulgaria, shows that despite measures taken to facilitate administrative procedures and reduce the administrative burden, 40% of the interviewed investors cite bureaucracy as the main problem, complemented by problems with the judicial system – 33%, and non-transparent legislative procedures – 23% (Business Sweden, 2019).

Recent reports underline a declining investment activity on a global scale (UNCTAD, 2025). This will affect the production capacity and infrastructure development in the countries attracting FDI, like Bulgaria. EU Member States are Bulgaria's main trade and investment partners, and it is highly dependent on the development of European economies, which also have problems with low growth. There is also a risk that Bulgaria will fail to implement effective policies and programs for economic recovery and thus miss the opportunity to make the most of the funds provided under EU financial mechanisms.

The trends of "bringing back" direct investments to Europe and shortening of the global value chains provide positive opportunities for Bulgaria, given its EU membership and the traditionally high presence of European investors in the country. The stability of the geographical distribution of FDI in Bulgaria, by the developed EU member states, indicates a high degree of integration of the Bulgarian economy into the European market and European value chains, providing opportunities for upgrading its position to higher added value levels.

The trend of growth of the IT industry worldwide provides additional opportunities for Bulgaria, as the country has a dynamically developing IT sector, which can support economic recovery by attracting foreign investment. The priorities of the EU's economic recovery, such as digitalisation and environmental protection, can enable Bulgaria to direct European funds towards intelligent restructuring of the country's economy towards higher added value tech production.

However, risks persist due to Bulgaria's dependence on European FDI dynamics, limited innovation capacity, lack of high-quality infrastructure, and bureaucratic hurdles. Addressing these challenges requires policy interventions to strengthen institutional capacity and infrastructure.

Conclusion

Bulgaria's geographical proximity to major European markets and improving transport infrastructure increase its logistical attractiveness for integration into the GVC. Digital transformation is advancing, with a growing share of high-tech manufacturing and IT services supported by the significant FDI flow to the Bulgarian IT sector.

Consistent economic policies, a predictable regulatory environment, and institutional capacity are becoming key factors for attracting FDI in recent years and are still ongoing challenges for Bulgaria. Streamlining administrative procedures and better governance are essential to improving the investment climate.

By addressing structural weaknesses and capitalising on emerging opportunities, Bulgaria can solidify its position as a competitive FDI destination, fostering long-term economic growth. To further enhance its attractiveness to foreign investors, Bulgaria should:

1. Strengthen innovation capacity – invest in scientific and technical infrastructure to attract high-tech FDI. Develop a closer collaboration with multinational corporations to

drive innovation and R&D.

2. Further development of trade and transport-related infrastructure.

3. Streamline bureaucracy – improve transparency and simplify administrative procedures to improve the business climate.

4. Leverage EU funds – prioritise investments in IT and renewable energy.

5. Promote Bulgaria as a tech hub – strengthen incentives for IT and digital services FDI.

Conflicts of Interest

The author has no conflicts of interest to declare.

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