

BTI 2014 | Bulgaria Country Report

Status Index	1-10	8.14	# 14 of 129	
Political Transformation	1-10	8.35	# 15 of 129	➔
Economic Transformation	1-10	7.93	# 17 of 129	➔
Management Index	1-10	6.38	# 20 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	7.3	HDI	0.782	GDP p.c.	\$	15932.6
Pop. growth ¹	% p.a.	-0.6	HDI rank of 187	57	Gini Index		28.2
Life expectancy	years	74.2	UN Education Index	0.810	Poverty ³	%	0.4
Urban population	%	73.6	Gender inequality ²	0.219	Aid per capita	\$	-

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The expectations set in the prior review period that Bulgaria would emerge from the global economic crisis with its public debt significantly reduced but at a serious social cost – high rates of poverty, rising inequality and increasing school dropouts – have fully materialized. The Bulgarian labor market has stagnated; employment levels, while high, are not as high when compared to rates in some southern European countries. The idea of joining the European Exchange Rate Mechanism II (ERM-II) was dropped from the government’s policy agenda and disappeared from public discussion. The sovereign debt crisis within the euro area, threatening the stability of the currency, made such discussions irrelevant.

Prime Minister Boyko Borisov during the review period managed his minority government while exacting strict party discipline from members of parliament with his Citizens for the European Development of Bulgaria (GERB) party and remaining substantially more popular than his ministers. In 2011 and 2012, some of the initial enthusiasm related to the determination of his government to fight organized crime and corruption dissipated. It became clear that neither organized crime nor corruption could be crushed by political campaigns or dramatic police action.

According to international organizations and also many Bulgarian journalists, Bulgaria has experienced a decline in media freedoms. Trust in state institutions continues to decline. A number of cases of conflict of interest or corruption surfaced during the review period, resulting in a massive waste of public resources. Analyses of the situation made by NGOs and media investigations uncovered, in many cases, that the causes for such dysfunction were essentially deeply engrained within existing legislation and governance practices, problems that cannot be addressed simply by demonstrating zero tolerance. In sensitive policy areas involving the use and misuse of public resources (such as the public purchase of pharmaceuticals, public property and land transactions, and so on) the government has failed to offer any adequate changes to legislation or to the existing and obviously inadequate government routines. The deeper lesson from Bulgaria’s experience is that improvement in governance needs leadership to initiate any changes.

Results, however, are only sustainable if they are linked to institutional practices and not just to the personality of a leader.

Exit from the recession caused by the global economic crisis as witnessed during the review period looks more painful and slower than ever. Early expectations were optimistic; yet by the end of 2012, there was no agency that would offer a forecast to when Bulgaria would return to growth rates desired to close the gap with the rest of the European Union countries. The government's macrostability indicators were good, if by macrostability we consider only a lack of excessive deficits and debt. It is important to note that such a performance would not be possible without the reserves accumulated during times of strong economic growth. If macrostability were to include the more ambitious goal of righting the economy, than the government has failed during the review period. The challenge ahead for Bulgaria is even bigger, as the global economic crisis uncovered serious weaknesses within the economy. It is necessary to find new ways forward following restructuring, as the country's pre-crisis growth was not based on knowledge or innovation in technology and processes, but in overinvestment in construction, trade and financial services.

The government lived up to its promises to invest in large-scale transport infrastructure. In Sofia, the capital, new metro stations were built quickly and boulevards renovated. The first Bulgarian highway ever to cross the territory of the country, from Sofia to the Black Sea coast, will be completed before the mid-2013 parliamentary elections.

Infrastructure investments were made in parallel with massive cuts to employment programs amid the worst of the economic crisis, while the social safety net was less than adequate and health care services deteriorated. As a result, indicators related to human development during the period did not improve. Opinions polls have shown, however, that Bulgarians, while recognizing infrastructure improvements, think that rising unemployment and health care issues should be prioritized.

History and Characteristics of Transformation

Bulgaria's democratic and market economy transformation after 1989 has been slow and often muddled. As a consequence, structural economic reforms have been delayed. In 1989, the country's former communist political elites declared plans for gradual reforms and a smooth transition to avoid social cataclysm; yet this also helped the elite maintain their political leverage during the process in order to keep control. The economic elite which emerged in the early 1990s involved itself in redistributing or establishing indirect control over state property, often with dubious legality. At the same time the intertwined political and economic elite showed no genuine interest in establishing a functioning or truly impartial judiciary. This created the basis for a stable symbiosis between the state and private economic interests. As a result, public approval over how the country's democratic system functions remained low, even though the 1991 constitution established the creation of democratic institutions and a functioning multiparty system. While democracy has always been the preferred form of governance for a large percentage of the

population, the prolonged democratic transition has been perceived primarily as loss of stability and order within the state.

From 1996 to 1997, Bulgaria experienced its deepest crisis as GDP fell by 10.1%, the banking system collapsed and a drop in foreign reserves destroyed confidence in the national currency. The currency board arrangement, introduced in July 1997, helped to stabilize the economy and bring inflation under control. However, popular disappointment with “traditional parties” of the left and the right gave way to populism and the emergence of new political actors from 2001 to 2007. Until 2001, Bulgarian politics was deeply polarized between the anti-communist right and ex-communist left. Rightist reformist parties missed the momentum to offer a viable reform agenda that went beyond ideological confrontation or adapt to the novel challenges Bulgaria was facing. Ideology lost its power of mobilization and ceased being a tool for the major political actors. Instead, nationalist populist rhetoric proved a better way of mobilizing support.

In 2001 Bulgarians elected the exiled monarch Simeon Saxe-Coburg-Gotha as prime minister, but his promises for a better life for ordinary Bulgarians proved difficult to deliver. Saxe-Coburg-Gotha’s party, the National Movement “Simeon II” (NDSV), lost public support and the general elections of 25 June 2005 yielded the most complex outcome in the country’s post-communist history. A tripartite coalition government was formed with the Bulgarian Socialist Party (BSP) in partnership with the Movement for Rights and Freedoms (DPS) and the NDSV (now renamed: National Movement for Stability and Progress) with BSP’s Sergei Stanishev as prime minister. The Stanishev government managed Bulgaria’s accession to the European Union and enjoyed high rates of economic growth and improved economic performance, but the value of the country’s gross domestic product per capita remained the lowest among EU countries. By the end of 2008 and beginning of 2009, Bulgaria’s economy and industrial base suffered unexpected losses from the global financial crisis. In the last two months of 2008, the country’s large budgetary surplus generated following the introduction of liberal economic policies dwindled close to nothing from the need to provide for social security buffers and to cover unexpected budgetary gaps. From 2007 to 2008, political corruption and the inability of the judiciary to deliver results that satisfied citizens’ expectations deepened a sense of frustration and mistrust in democratic institutions and damaged Bulgaria’s international image. Concerns in Europe shifted from economic-related issues to problems pertaining to the accountability and efficiency of the judicial systems and law enforcement bodies.

Bulgaria’s first elections for the European Parliament in May 2007 featured the emergence of a new right-leaning opposition party, Citizens for the European Development of Bulgaria (GERB), led by the then Sofia Mayor Boyko Borisov. GERB captured 117 of 240 seats in the July 2009 parliamentary elections. Borisov took office as prime minister with the support of the ultranationalist Ataka party (21 seats), the center-right Blue Coalition (15 seats), and the then new right-wing Order, Law and Justice (RZS) party (10 seats). The BSP-led Coalition for Bulgaria was left in opposition with 40 seats, as was the DPS, with 37.

The GERB-led government pledged to tackle corruption and organized crime. However, flawed investigations and deep-seated problems with the judiciary meant that few high-profile cases resulted in convictions.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

There is no challenge to the state's monopoly on the use of force. The government has demonstrated the political will to crack down on organized crime, more than any other government in the last 20 years. However, organized crime is still considered a fundamental challenge for the state and society. According to a European Commission report on progress in Bulgaria under the Cooperation and Verification Mechanism from 18 July 2012, although Bulgaria invested considerably since 2010 to improve the institutional and legal framework for the fight against organized crime, results have been limited. According to the Europol 2011 Organized Crime Treat Assessment (OCTA), the number of cases initiated in Bulgaria, while on the rise, is still low compared to the scale of organized crime. A Flash Eurobarometer report conducted in Bulgaria in May 2012 showed 96% of respondents considered organized crime an important problem. (Flash Eurobarometer 351).

Monopoly on the
use of force
10

The country's constitution defines Bulgaria as a nation-state, respecting the differences existing among Bulgarian citizens with regard to their ethnicity, native language and religion. Major groups in society accept and support the official concept of the nation-state. Bulgarian law does not define the term "national minority." The Bulgarian constitution does not recognize minorities but guarantees the right to ethnic self-determination.

State identity
9

In December 2012, the Committee on Honoring of Obligations and Commitments by Member States within the Parliamentary Assembly of the Council of Europe (PACE) discussed a proposal calling on Bulgaria to recognize Bulgarian Muslims and the Macedonian minority. The text has been repealed from the final version of the resolution on the post-monitoring dialogue with Bulgaria through an amendment submitted by a group of parliamentarians on a proposal from a Bulgarian member of parliament. According to the Bulgarian MP, there was no system in Bulgaria for recognition or non-recognition of minorities. As in 2000, when Bulgaria ratified the Framework Convention on National Minorities, the decision was to recognize the

right of self-identification of all groups so that they would be able to take advantage of their rights, set in the Framework Convention for the Protection of National Minorities.

Foreigners can obtain Bulgarian citizenship based on Bulgarian descent, having a Bulgarian parent, on grounds of adoption by Bulgarian citizens, “general naturalization” or for “special contributions” to Bulgaria. In 2012 Bulgaria granted citizenship to 18,081 foreigners. As in previous years, the bulk of foreigners granted Bulgarian citizenship were from Macedonia (8,185 people) and Moldova (5,705 people).

In 2012, a set of legal amendments were discussed to allow for an easier path to obtaining Bulgarian citizenship for wealthy foreign nationals who invest in Bulgaria above a specified threshold. The idea was promoted as part of amendments to the Encouragement of Investments Act, but they required in parallel changes to the Bulgarian Citizenship Act. The vice president has spoken publically against offering citizenship based on a person’s financial standing. The president was also opposed, but offered milder arguments, saying that the thresholds suggested were too high for Bulgaria’s economy. Foreign nationals would be granted Bulgarian citizenship by naturalization if they invest or donate certain amounts to important national funds, following amendments to the Encouragement of Investments Act and the Bulgarian Citizenship Act in 2012. The exact amounts of said investments or donations however can easily be changed, as they would be set as part of an ordinance of the Minister of Finance and the Minister of Economy, Energy and Tourism.

The state is largely defined as secular. Religious dogmas have insignificant influence on politics or law. The Bulgarian constitution provides for freedom of religion and belief and stipulates that the state shall assist in the maintenance of tolerance and respect among different denominations, and among believers and non-believers. The constitution prohibits religious discrimination but designates Eastern Orthodox Christianity as the “traditional” religion; the government provides financial support to this community as well as to several other religious communities perceived as holding historic places in society, such as Islamic, Roman Catholic or Jewish religious groups.

No interference of religious dogmas

10

The church is a public body and subject to state control. The state has no right to interfere in the canons, and the church may not meddle in state affairs. As Eastern Orthodox Christianity is predominantly focused on liturgy, the Bulgarian Orthodox Church is a weak political actor compared with its counterparts elsewhere. During the 1989 transition, the Patriarchate experienced a serious crisis and split, known as the schism in the Bulgarian Orthodox Church.

The Bulgarian Orthodox Church holds a relatively weak place in society and speaks out on issues only occasionally. In 2012, it voiced a protest over in vitro fertilization

and substitute maternity. However, during the review period, public discourse was focused on scandals involving bishops with luxury cars, and the disclosure by the Dossier Commission of the identities of top church leaders who had been agents for the communist-era state security apparatus. The death of Bulgarian Patriarch and Bishop of Sofia Maxim, who led Bulgaria's Orthodox Church for 41 years during both communist and democratic rule, brought church issues to the forefront and raised the question of who should succeed him.

The death of Patriarch Maxim and the question of his succession, not to mention the general connections of top clerics and their alleged past within the communist security apparatus, too became a political question. The situation brought to light the strong bonds between the political system and the church. The trial against Muslim imams who were suspected of preaching radical Islamist ideas (not criminalized as such in the penal code) is also suggestive that although Bulgaria's secularity may be enshrined in the constitution it may not be adequately practiced; also, it highlights the inability of government authorities to offer equal treatment to all religious communities in Bulgaria.

Bulgaria disposes of all fundamental structures of a civilian state apparatus. State resources are extracted and allocated on a broad basis.

Basic
administration
10

2 | Political Participation

The new electoral code, approved by parliament in December 2010 (in force since 28 January 2011) set up a permanently functioning Central Election Commission (CEC) with a five-year mandate. Presidential and municipal elections in October 2011 were the first to be carried out under the new legislative framework. The elections were generally characterized by a respect for fundamental rights and freedoms, but pervasive allegations of vote buying underscored the need for continued reform. Yet with new and cumbersome regulations, a lack of investment in capacity building and underpaid staff, the election was also marred by a large number of administrative issues and other irregularities. Electoral authorities and the courts received many complaints as a result, including a petition filed with Bulgaria's Constitutional Court by opposition members of parliament. Also a large number of registered voters relative to the voting-age population raised concerns, and suggested the need for a thorough audit of the voter lists. No major violations were officially confirmed by the relevant authorities, and the legality of Bulgaria's 2011 elections has remained uncontested. The ruling Citizens for the European Development of Bulgaria (GERB) party remained in power, winning several important mayoral seats, and replacing the Socialist President Georgi Parvanov with its own candidate, Rosen Plevneliev.

Free and fair
elections
8

Almost all media campaign coverage was paid for by those running for office, as provided by law. This resulted in the near absence of independent editorial coverage or analysis of the campaign in the public and private media.

Democratically elected rulers do have the effective power to govern and no political enclaves exist. Civil-military relations are well established in Bulgaria. Organized criminal and questionable business groups (for example, the holding company TIM) appear to be influential actors in Bulgarian politics.

Effective power to govern
9

Freedom of association and assembly is ensured as a basic right in the Bulgarian constitution. To protect the unity and integrity of the state, Article 11(4) of the Bulgarian constitution prohibits the existence of political parties on ethnic, racial or religious lines. According to the definition of the Bulgarian Constitutional Court, Article 11(4) prohibits the existence of political parties when the membership of which is expressly limited by the provisions of their statutes to persons belonging to a particular racial, ethnic or religious group, regardless of whether it is in a minority or a majority. Consequently, this constitutional provision may not be used to prevent any particular linguistic, ethnic or religious minority groups from “organizing themselves a priori.”

Association / assembly rights
10

No severe violations of the right to freedom of assembly in either law or practice can be reported. Further efforts are needed to enhance tolerance to minority groups, in particular for the lesbian/gay/bisexual/transgender (LGBT) community.

In Bulgaria, freedom of expression is by law unrestricted. Media pluralism is in place, confirmed by the large number of media outlets that operate in Bulgaria. However, there are many concerns about the domination of the media market by business interests seeking political influence.

Freedom of expression
7

During the period under review, the Bulgarian media sector continued to suffer with structural problems in relation to ownership transparency. Freedom of expression has thus deteriorated. A report compiled by the Media Democracy Foundation in October 2011 cites that so-called gray businesses that are taking over the management of media outlets have been a source of the worst problems concerning press freedoms. The political and business connections of media owners or editors are considered to contribute to self-imposed censorship and to a dearth in investigative journalism.

Online media is becoming increasingly important, but its role in expanding freedom of expression should not be overestimated. Many Bulgarian news sites seek to be information outlets rather produce their own news; an exception is the online versions of print media and news agencies. The explosive growth of the “yellow” press and also the “tabloidization” of Bulgarian media continue and can be explained with Bulgarian society’s increasing devaluation of information.

3 | Rule of Law

There is a working system of checks and balances between the executive, legislative and judicial branches of power, although the system is not without its problems. On 12 July 2012, Miroslava Todorova, the chairperson of the Association of Bulgarian Judges and a criminal judge from the Sofia City Court, was dismissed by the Supreme Judicial Council (SJC). A group of reformist judges, the association has been a strong critic of judicial corruption and of attempts by the government to use reforms as a disguise to subdue judicial independence. The group has consequently been unpopular with both the government and with powerful actors within the judiciary. The Todorova case illustrates the ongoing power struggle between the executive and the judiciary in Bulgaria, with each accusing the other of serving mafia interests.

Separation of
powers
8

The principle of judiciary independence is enshrined in the constitution. A specific feature of the Bulgarian judicial system is that, unlike in most European countries, it consists of three groups of magistrates: judges, prosecutors and investigators. The Supreme Judicial Council (SJC) as an independent elected body is charged with overseeing the governance of the judiciary, thus ensuring that the principle of judicial independence is observed.

Independent
judiciary
8

The Bulgarian justice system has been reviewed by the European Commission under a special Cooperation and Verification Mechanism, which was created to track Bulgaria's (and Romania's) post-accession progress. The commission's report from July 2012 touched upon judiciary independence, following a series of direct political criticisms of individual judges, concluding that "the overall impression is of a failure to respect the separation of the powers of the state which has direct consequences for public confidence in the judiciary." The report doubted the sustainability and irreversibility of judicial reforms and concluded that continuous monitoring was still necessary.

In 2011 – 2012, several international organizations expressed concerns about the undermining of judicial independence, including the U.N. Human Rights Committee in its concluding observations after Bulgaria's review before that body in August 2011, and the European Association of Judges as well as the U.N. Special Rapporteur on the independence of judges and lawyers in April and May 2012.

In a letter to various European institutions in 2012, 10 NGOs involved with the rule of law and human rights argued that the 12 July 2012 dismissal by the then-acting Supreme Judicial Council of Miroslava Todorova, the chairperson of the Association of Bulgarian Judges and a criminal judge from the Sofia City Court, was clearly politically motivated. What's more, in grounding the dismissal on disciplinary issues, the council did not take into account systemic problems within the judiciary, which include poor resourcing and the uneven distribution of cases to courts and judges.

The Todorova case is seen as the tipping point of a much larger assault on judicial independence. The actions of the Supreme Judicial Council provoked a serious outcry in Bulgaria's judiciary and in the human rights community. On 13 July 2012, more than 200 judges and citizens publicly protested in front of the council's building, in what became the first public protest of judges in Bulgaria's history.

The term of office of the Supreme Judicial Council expired in early September 2012. The council decides on the appointment of the next prosecutor general, a seven-year post that has absolute power over criminal policy and is completely independent. The term of office of the current prosecutor general expires February 2013. There have been a series of scandals suggesting possible external influence in the decision-making of magistrates (the most serious being an appointment scandal in the SJC).

Effective prosecution of high-level corruption and abuse of office cases has for a long time been a problem. The Citizens for the European Development of Bulgaria (GERB) government came to power with the promise to fight high-level political corruption. However, most of the high-profile lawsuits that involve organized crime or corruption have resulted in not-guilty verdicts. According to the European Commission, during the review period investigations into alleged corruption and abuse of office by magistrates have received a particularly weak response from the judiciary.

Prosecution of
office abuse
8

The system of asset control, whereby the National Audit Office collects and publishes asset declarations, is a useful contribution to transparency, yet the verification of declarations is deficient and the system offers no opportunities to detect illicit enrichment. According to the July 2012 EU Cooperation and Verification Mechanism (CVM) report, only a few times have inconsistencies in declarations been investigated by other authorities. The report concludes that this oversight strongly suggests that a gap exists and that an administrative body needs to have explicit responsibility for proactively pursuing cases of illicit enrichment.

Civil rights are guaranteed by the constitution and respected by all state institutions. Bulgarian citizens are protected by mechanisms and institutions established to prosecute, punish and redress violations of civil rights. The Bulgarian ombudsman intervenes when citizens' rights and freedoms have been violated by actions or omissions of the state, the municipal authorities and their administrations, as well as by persons assigned with the provision of public services. In 2011, the ombudsman received 5,530 complaints of violations of citizens' rights and freedoms, compared with 3,687 in 2010. The majority of complaints concerned the quality of public services, social assistance programs and problems over property rights.

Civil rights
8

The marginalization of the Romani minority remains Bulgaria's most pressing human rights problem. This group's access to basic human rights, general social inclusion and personal development is hindered by longstanding social stigmatization, poverty

and a climate of public hostility. Other human rights issues include harsh conditions in prisons and detention facilities, which includes overcrowding. Long delays within the judicial system, discrimination against persons with disabilities and against lesbian/gay/bisexual/transgender (LGBT) people as well as people with HIV/AIDS are additional civil rights issues.

The law provides women with the same rights as men; however, women face discrimination in hiring and pay. According to a report by the European Parliament published in 2012, women's salaries were 13.6% lower than men's salaries, and women occupy only 11% of business executive positions. The National Council on Equality between Women and Men, headed by the minister of labor and social policy under the Council of Ministers, is responsible for safeguarding the rights of women. Primarily a consultative body, the council is charged with promoting cooperation and coordination among NGOs and government agencies.

In 2012 the European Court of Human Rights delivered 64 judgments (concerning 72 applications), 58 of which found at least one violation of the European Convention on Human Rights.

The Commission for Protection against Discrimination has been very active in addressing cases of discrimination. The number of cases has been growing every year, and ethnic discrimination has constituted an important part of the commission's work. The commission has been under constant political attack since its establishment by nationalistic parties and politicians. The main accusation against the commission is that it acts as a political tool in the hands of the political party of Bulgarian Turks.

One of the main deficiencies in the work of the commission and in Bulgarian anti-discrimination policies in general is issues of structural discrimination, which are difficult to address on the basis of separate cases, but that need a broader outlook based on institutional settings and societal mechanisms that generate disadvantage and create performance gaps between different minority groups. In recent years, the Commission for Protection against Discrimination tried to get increasingly involved with such structural issues. This involvement provoked even stronger attacks by those not in favor of its work, culminating in the summer of 2012 in a public scandal over a commission report that found discriminatory texts in Bulgarian school textbooks. The report was part of a larger project with the participation of the Ministry of Labor and Social Policy, NGOs and experts from the Ministry of Education, Youth and Science, funded by the EU Progress program. Under public pressure, the commission removed the report from its website and blamed independent experts for its content. Participating ministries either remained quiet (Ministry of Labor) or said that such a report was a "threat to national security" (Ministry of Education). Since the scandal, the commission has kept a lower profile and has abstained from involvement in

generic issues that extend beyond the usual individual casework; a clear yet hopefully temporary setback in the pursuit of anti-discrimination policies.

4 | Stability of Democratic Institutions

Bulgaria's democratic institutions, including the judiciary and state administration, perform their functions with moderate effectiveness. Democratic institutions are free from extensive, counterproductive political friction. However, a clear and common direction toward the deepening of necessary reforms and a comprehensive approach to implementing change is still much needed in Bulgaria.

Performance of
democratic
institutions
8

During the review period, the executive and the judiciary clashed over issues of efficiency in the fight against organized crime. On the other hand, the behavior of the parliamentary group of the ruling Citizens for the European Development of Bulgaria (GERB) party has been often perceived as a mirror of the political will of the prime minister.

All relevant political and social players accept democratic institutions. While the public often expresses dissatisfaction with the performance of the Bulgarian democratic system, no alternative seems viable and non-democratic movements do not appear to exist. The right-wing extremist party Ataka does incite citizenry against ethnic and religious minorities.

Commitment to
democratic
institutions
9

5 | Political and Social Integration

The Bulgarian party system is fairly stable. In the turbulent period before and after the country's accession to the European Union, the ability of the established Bulgarian party system to articulate and aggregate societal interests and mediate between society and the state was put to test. Populism has gained more traction due to the continued erosion of the traditional political parties' authority, blurring the dividing lines between "left" and "right." At present, the two dominant forces in Bulgarian politics are the center-left Bulgarian Socialist Party (BSP) and the center-right Citizens for the European Development of Bulgaria (GERB) led by Prime Minister Boyko Borisov. According to a November 2012 survey of the National Center for Public Opinion Research (NCPOR), the electoral difference between GERB and BSP continues to shrink. GERB remains the first political force, with the support of 24.5% of voters, while BSP claims 19% of voters.

Party system
6

In 2012, Bulgaria's former EU Commissioner Meglena Kouneva announced officially the transformation of her civic movement into a political party, called Bulgaria of the Citizens. Half a million Bulgarians voted for her in the October 2011 presidential elections, a result that Kouneva cites as proof that the electorate, disillusioned with the established parties, are seeking an alternative. According to

opinion polls, about 60% of Kouneva's supporters trust European institutions, yet only 3% trust national institutions.

During the review period, a formal split in the Union of Democratic Forces (UDF) ended the tension that had been lingering between the two wings of the party. In early December 2012, politicians who quit the UDF party started a new civic alliance, called the "Unity" National Union, which will work for the unification of traditional right-wing parties.

One major challenge for the Movement for Rights and Freedoms (DPS) party ahead of the 2013 elections is a new party formed by Kassim Dahl and Korman Ismailov, called the Freedom and Dignity People's Party (FDPP).

During the review period, the Ataka party has intensified its radical nationalist rhetoric, albeit with declining public support (from 9% in 2009 to 2% in May 2012).

According to latest opinion polls, the DPS and Meglena Kuneva's Bulgaria of the Citizens are certain to make it into the next parliament. The two parties have almost equal positions – 6.4% would vote for DPS and 6.2% for Bulgaria of the Citizens, according to polls.

Societal interests are relatively well-represented in the political system. Bulgaria has established an institutional framework of social dialogue and social partnership at all levels. However, especially at the local level, there is a trend of policy capture by oligarchic actors that benefit from close relations with political parties and leaders. Marginalized groups in society, especially Romani, as well other socially and economically deprived groups in Bulgarian society, still lack the capacity to participate and are not empowered to effectively voice their problems and concerns to influence government decision-making.

On the other hand, a large number of NGOs are involved in policy discussions via different committees, working groups and consultation procedures. Interest group participation in politics is still not regulated by lobbying restrictions.

Democracy is undisputed among the Bulgarian population, and political protests do not call the constitutional framework into question. Bulgarian citizens' trust in their national democratic institutions, however, continues to decline and this deficit should be taken seriously. According to an opinion poll conducted by the Open Society Institute Sofia in May 2012, only 14% of Bulgarians trust the courts and even fewer people, at 12%, trust parliament. The executive is supported by 25% of respondents.

Trust in European Union institutions however is traditionally high, twice as high as trust in national institutions. In 2012, trust in presidential institutions increased to 34%; the rise can be attributed to the change in office in 2011.

Interest groups

8

Approval of
democracy

7

Bulgaria has about 30,000 registered NGOs, but only a small number of them (up to 1,000) are active. According to the first World Giving Index published by the Charities Aid Foundation (CAF) in 2012, Bulgaria, together with Serbia, is ranked 137 of 146 countries. In Eastern Europe, Bulgaria is ranked last out of 10 countries, after the Russian Federation. Only 10% of Bulgarians donated money in 2012; practically no one volunteers (4%). The irony is that Bulgaria is one of the nine countries where the CAF has a local office. There are also several large NGOs, including a local member of the CAF network, that have worked for years to promote giving in Bulgaria. Obviously these efforts need to continue. In general, the index shows that solidarity and donations are not common in Bulgaria and cannot replace the rapidly contracting safety nets. The economy of donation and volunteerism in Bulgaria is without any large-scale significance, but should continue to be used as tool to develop more solidarity.

Social capital
7

Transfers between households in Bulgaria declined during the economic crisis, showing that social capital also tends to contract in times of hardship – a phenomenon which was observed in other countries dependent on transfers as well.

In 2012, some civic initiatives gained momentum and compelled the government to revise important decisions, mainly in the field of environmental protection. In early 2013, civil protests broke out on a scale not experienced since the times of hyperinflation in 1996 – 1997.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

The UNDP Human Development Index (HDI) 2011 places Bulgaria among countries with high human development. With an index of 0.771, Bulgaria is ranked 55 (the threshold for high human development in 2011 was 0.742). As the threshold since 2009 has increased by eight points and Bulgaria's score has increased by five points, this means Bulgaria has not moved further above the threshold. However, the underlying data and methods for the HDI have changed and new countries have been included, so a comparison in values and rank with previous years can be misleading. But a long-term comparison, according to HDI authors, is reliable and shows that the gap with some comparator countries such as Hungary has widened significantly since the late 1980s and early 1990s, when both countries had almost the same HDI.

Socioeconomic
barriers
7

As an average measure of human development achievement, the HDI hides distributional differences, one reason why a value of the index discounted for inequality is also published. According to this adjusted criteria, Bulgaria is definitely

at a loss of 11.4%, with an index value of 0.683. This result is not untypical for countries with HDI and two comparator countries – Croatia and Serbia show similar losses to inequality. Most importantly, Bulgaria is listed among countries which rank significantly higher in GNI per capita than in HDI.

Bulgaria is listed among the countries with the highest relative poverty rate in the European Union, together with Romania and Latvia. The country's Gini score has risen constantly since 2006 and possibly even earlier, although Eurostat data from 2006 onwards is not fully comparable to previous years or to the same indicator collected by other agencies. The economic crisis had for a short time an inequality-reducing effect, due to the loss of income of more affluent groups, but has appeared to return to pre-crisis levels. Developed countries have had stable income distribution Gini scores for some time. This is the reason why the EU Gini score is very stable. Like other ex-socialist countries, Bulgaria has experienced significant institutional changes and an almost constant economic restructuring, so many important economic and social indicators have been in constant flux. If current neo-liberal economic policies persist, Bulgaria will likely reach and remain at a Gini score level that is high for the European Union.

In 2009, Bulgaria's Gini score was 33.4, compared to an EU average of 30.4; in 2008, Bulgaria's score was 35.9. Paradoxically, the economic crisis seems to have reduced the country's Gini score due to a larger percentage fall in higher incomes than in lower incomes. In general it can be observed that income inequality in Bulgaria is rather high for a European Union country.

Inequality is structurally engrained, especially in the case of Romani. Existing policies do not contribute to reducing inequalities.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	48568.7	47727.3	53544.6	51030.5
GDP growth	%	-5.5	0.4	1.8	0.8
Inflation (CPI)	%	2.8	2.4	4.2	3.0
Unemployment	%	6.8	10.2	11.2	-
Foreign direct investment	% of GDP	8.0	3.9	3.9	4.0
Export growth	%	-11.2	14.7	12.3	-0.4
Import growth	%	-21.0	2.4	8.8	3.7
Current account balance	\$ M	-4256.3	-796.3	141.4	-747.3

Economic indicators		2009	2010	2011	2012
Public debt	% of GDP	15.6	14.9	15.4	18.5
External debt	\$ M	54456.5	49018.0	39930.0	-
Total debt service	\$ M	5332.3	4034.8	4466.2	-
Cash surplus or deficit	% of GDP	-0.1	-3.5	-2.0	-
Tax revenue	% of GDP	21.0	19.1	19.1	-
Government consumption	% of GDP	16.3	8.2	7.8	7.8
Public expnd. on edu.	% of GDP	4.6	4.1	-	-
Public expnd. on health	% of GDP	4.0	4.2	4.0	-
R&D expenditure	% of GDP	0.53	0.60	-	-
Military expenditure	% of GDP	2.0	1.9	1.5	1.5

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

Most prices in Bulgaria are determined by the market. Exceptions include the prices for pharmaceuticals, which are negotiated by the National Health Insurance Fund. The list of pharmaceuticals eligible for public purchase is defined in a special bylaw. In 2012, the question of inefficient pricing was raised again after media reports found that drugs produced in Bulgaria are often sold cheaper in neighboring countries.

Vertical integration was found to reduce competition in the pharmaceutical market in Bulgaria. Big producers have their own warehouses, which are used also to trade with other pharmaceuticals. Some producers have also their own pharmacies.

Another regulatory area is electricity, water and natural gas prices, managed by the State Commission for Energy and Water Regulation (SCEWR). The commission regulates the markets for energy according to the Energy Act, as well as the sewage and water supply. The State Commission for Energy and Water Regulation is responsible for setting the rules for the complex market with a system of fixed and preferential prices, issuing certificates for producing electricity from renewable sources. In 2012, Bulgaria took steps to adopt the Third Energy Liberalization Package to avoid an infringement procedure from the European Commission. The deadline for the transposition of the legislation was missed in March 2011 and a reminder came from the European Commission early in 2012. The government announced that it was transposing the two relevant directives on common rules for

Market-based
competition
8

the internal market in gas and electricity and would soon ensure full compliance. The issue is mentioned in last published report of SCEWR from 2011 (the 2012 report at the time of writing was not yet published). The main task was to restructure the national electricity company and separate it from the electricity system operator. At the beginning of 2013 an infringement procedure was launched, and it became clear that the government had failed to comply with the Third Energy Liberalization Package, with draft amendments still to be prepared. As a result, the chairperson of SCEWR resigned.

Estimations on the size of the informal economy in Bulgaria vary within broad limits, from 10% to more than 30% of GDP. One influential study by the Center for the Study of Democracy estimates the informal economy at 20% to 30% of GDP. In 2011, the Bulgarian Ministry of Finance estimated the size of the so-called grey economy in the country at 20%. Undeclared employment is one of the main aspects of the informal economy that also has a potentially high social cost, due to individuals' lack of social insurance and often also of health insurance.

Attempts to reduce the size of the informal economy continued throughout 2011 and 2012. It was previously claimed that reducing taxes, apart from stimulating growth, would "whiten" the grey economy, as predicted in textbook economics. There is little evidence that such a causal effect worked in Bulgaria. Apart from having one of the lowest tax rates in the European Union, Bulgaria continues to have one of the largest informal sectors. As further tax reduction was impossible during the economic crisis, the government tried other tools to enforce compliance. Measures included tightened controls over retail traders to prevent the concealing of turnover, enforcing the use of cash registers as well as connecting all cash registers in real time to the tax authority. Filling stations, bus transport offices and finally vending machines were among the last to have cash registers connected to the national revenue agency, amid protests from businesses over unbearable costs and the analysis in the business press that additional revenue to the government would be more than offset by the additional costs to business. The Bulgarian example demonstrates however that tax compliance, which is the main reason for the existence of undeclared economic transactions due to either the tax or administrative burden, cannot be driven primarily by economic incentives. It has to do more with the rule of law, the functioning of institutions, the informal ethics of doing business and above all, consumer behavior and expectations. However, leading researchers of the informal economy in Bulgaria are more in favor of financial and economic mechanisms to curb it, rather than control and enforcement.

Since Bulgaria joined the European Union in 2007, anti-monopoly policies have been strengthened. At the end of 2008, a new law was adopted which puts special focus on transparency in the work of the Commission for the Protection of Competition (CPC)

and to cooperation with the EU Commission and national competition authorities of EU member states.

The CPC is empowered to enforce the Law on Protection of Competition, the Public Procurement Act and the Concessions Act. CPC's scope of activity covers all requests on ascertaining infringements on free market competition and the direct enforcement of provisions of the relevant articles in the EU Treaty. The CPC has carried out analyses of specific sensitive markets, such as the market for flour and bread, where rising prices created concerns over a possible social outcry. The commission established "disparities" in price fluctuations, indicating that the price of wheat flour did not react only to changes in grain prices. This was interpreted as a sign of possible price coordination. Such decisions left some suspicion that the CPC was under political pressure, as the government feared the popular reaction to rising bread prices. The clearing of large acquisitions and public sanctions for imitations, false advertising or other infringements of competition legislation were among the main activities of the CPC in 2012. In general, the CPC is a functioning body which protects the main aspects of competition.

Natural monopolies regulated by the state continue to garner public attention, especially in the utility sector, where activities are most visible to the average consumer. Prices for electricity, water and heating for households is a key item on every household budget and has an important impact on overall welfare. Individual consumers and consumer organizations have often complained about nontransparent price setting and billing practices. Such campaigns occur traditionally at the beginning of the heating season. In this context, the Bulgarian prime minister spoke a few times about a potential scenario of withholding the licenses of some utility operators in the electricity and water sector, which are large foreign companies. The statements, while not seen as entirely serious, were mostly expected to encourage operators to comply with new billing requirements that would require additional investment, and be less pushy in demands for price increases from the State Commission for Energy and Water Regulation.

As a member of the European Union, Bulgaria follows the EU customs code and all associated regulations and trading policies. Bulgaria's main trade partners remain EU countries and the Russian Federation. Among non-EU countries, Bulgaria engages in trade with Turkey, Ukraine and China. Trade with Russian Federation (and to a lesser but still significant extent, Ukraine) has the largest contribution to net foreign trade deficits, as it consists almost entirely of imports.

At the beginning of the economic crisis, the country's banking policy turned conservative, which further contributed to the contraction of the economy but reduced the risks of bad assets.

Liberalization of
foreign trade
10

Banking system
9

Regulation of the banking sector was praised and cited as a positive example by American economist Steve Hanke, who is credited as one of the fathers of the Bulgarian Currency Board. According to Hanke, banking regulations were tight during the economic boom and were then relaxed. At the end of the third quarter of 2012, the assets of the Bulgarian banking system reached BGN 79 billion. According to the economic review of the Bulgarian National Bank (BNB), the business model of Bulgarian banks, that is focusing on traditional lending to the economy and investments in low-risk securities other than shares, proved very stable amid the economic crisis. Despite that, the banks' credit portfolio deteriorated somewhat in 2011 and 2012, limiting opportunities for increasing interest revenue. Unserviced credit reached 11.6% in September 2012, compared to 9.5% in September 2011. In 2012, deposits and cash totaled almost 20% of assets in the Bulgarian banking system, a level that guarantees good liquidity. Deposits from citizens and households continued to grow in 2012, as in 2011. A reason for this may be the attempt to reduce consumption and save as a precaution against spells of unemployment, underemployment and eventual loss of income. Mortgage loans and consumer credit offered very weak signs of recovery.

8 | Currency and Price Stability

The Bulgarian National Bank (BNB) is fully independent, both legally and de facto. The governor and deputy governors of the BNB are appointed by parliament. Bulgaria has had a functioning currency board since 1997. The Currency Board Arrangement (CBA) continues to be the cornerstone of macroeconomic stability, providing a stable anchor and discipline in maintaining tight fiscal policies. The national currency is pegged to the euro, so the BNB can only influence to some extent credit expansion by placing a regulatory ceiling on lending or increasing the reserves required by commercial banks. The BNB must fully back all of its monetary assets with an equal amount in euros. The CBA leaves the BNB little room to maneuver in monetary policy; the BNB has only one policy instrument (reserve requirement) and is a limited lender of last resort. To support the currency regime, the Ministry of Finance has to maintain a tight and transparent fiscal policy.

Inflation in Bulgaria is not targeted by specific policy instruments, and has a quite different pace from countries in the euro zone. In 2011 and 2012, inflation was low to moderate, due to relatively low economic activity. The inflation rate was 4.2% in December 2012, and 2.8% in December 2011. Before the beginnings of the global economic crisis, inflation reached 7.8% in 2008 and 12.5% in 2007.

The global economic crisis had a positive impact on Bulgaria's current deficit. The current account came to balance after years of large deficits. The 2008 balance was -

Anti-inflation /
forex policy

9

Macrostability

9

\$12.0 billion; in 2009 the deficit fell to -\$4.3 billion and in 2010, the current account balanced with a negligible deficit of 0.6 billion (IMF data).

Since the IMF-proposed Currency Board Arrangement (CBA) was introduced in 1997, Bulgaria has enjoyed macroeconomic stability. The financial crisis however led to the rapid withdrawal of portfolio investments from the country and a drop in foreign direct investment. The main indexes on the Bulgarian Stock Exchange marked record losses from the end of August 2008.

In the beginning of March 2012, Bulgaria signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, but has not yet ratified the treaty. Bulgaria will still have to enact an implementation law only after it adopts the euro, a move that is not anticipated in the foreseeable future. Bulgaria insists that each country should decide independently its tax policy.

In 2012 there was no major change in Bulgaria's macroeconomic stability, although a large portion of the country's fiscal reserve inherited from a period of strong economic growth has been depleted. If public revenue remains low in 2013, Bulgaria will have to increase its public debt.

9 | Private Property

Property rights are regulated by law. The protection of property rights improved after Bulgaria's accession to the European Union. In 2007, Bulgaria was removed from the United States Trade Representative's watch list. However, enforcement of contracts by the courts remains slow, while corruption still is a major issue.

Property rights
9

The government has also been criticized by human rights activists for proposed legislation regulating the confiscation of property acquired through criminal activity. Critics claim that the amendments could open the door for abuse and confiscation or temporary seizures of property not necessarily acquired through criminal activity, and without appropriate sanction by the courts. Following this the constitutional court also rejected some of the bill's text. The non-conviction asset forfeiture was supported by the U.S. ambassador and ambassadors from EU countries. At the end of 2012 the law was enacted by parliament. According to the act, confiscated property will be used to compensate victims of crime proportionately.

Most large enterprises in key economic sectors have been privatized, while other enterprises filed for bankruptcy or simply disappeared. There are still state-owned assets in the energy, transport and construction sectors.

Private enterprise
9

Privatization was not always accompanied by de-monopolization, however, and despite efforts to create a truly competitive market some privatizations have led to the creation of private monopolies in sectors such as telecommunications and energy.

Privatizations of some previous monopolies have not gone well, and in 2012 and early 2013, growing discontent with the performance of electricity companies escalated into protests in some cities. Representatives of the opposition party Ataka in parliament have spoken in favor of withdrawing the licenses of private electricity companies, due to the consistent failure to observe changes in billing procedures required by the State Commission on Energy and Water Regulation (SCEWR). Previously SCEWR had officially threatened to cancel the license of one electricity company.

The global economic crisis put a halt to privatization plans for some large state-owned enterprises. In the state-owned arms-producing factory in Sopot, large protests were held to protest the non-payment of salaries at the end of 2012. The factory is heavily indebted and on the verge of bankruptcy, but government attempts to privatize it by direct agreement with a private investor or by changing the planned privatization procedures have so far been futile.

10 | Welfare Regime

Social inclusion policies were not on the top of the government's agenda, even before the economic crisis. In recent years, issues of social inclusion have been clearly reduced to a residual policy role. Rules are replaced by discretion, or rather by a seemingly automatic response to fluctuations in the economy, without adequate buffers to protect poor households from economic shocks.

The results of this approach are evident and have not gone unnoticed by key EU institutions. For example, in its country-specific recommendations from early 2012, the Council of the European Union states that, "Bulgaria has the highest rate of people at risk of severe material deprivation in the Union, with the elderly and children being particularly affected. Comprehensive measures are needed. Priority should be given to making social transfers more effective. Only half of the economically active Roma are employed." The council also mentions that the recently adopted National Strategy for Roma Integration, "targets multiple barriers but still needs to be underpinned by a detailed Action Plan if it is to be operational over the period 2012 – 2020." Citing a lack of a detailed action plan is perhaps a diplomatic way of saying there has been no substantial financial commitments toward the implementation of Roma integration policies. This is true not only in relation to the Roma; it concerns all policies relevant to social inclusion in Bulgaria. The council recommends that Bulgaria should, "Step up efforts to improve public employment service's performance. To alleviate poverty, improve the effectiveness of social transfers and the access to quality social services for children and the elderly and implement the National Roma Integration Strategy." Such recommendations can also be understood as pointing out that Bulgaria, a country that did not have generous employment programs to start with, had cut support in half in 2010 just when the economic crisis was gaining momentum – not

Social safety nets

7

a good way to improve performance. Social transfers in Bulgaria are inadequate, while social services are insufficient and many are of poor quality, as they are simply underfunded.

Parliamentary elections will take place in Bulgaria in mid-2013, a fact that will determine the government's stance on several important initiatives. The minimum wage, and pensions, will be increased. Potential dates considered for a pension increase were 1 July 2013, 1 April 2013 or early 2013; the final decision included in the budget was that pensions will be increased from 1 April 2013. The last pension increase, a 9% rise, was enacted mid-2009, which helped protect pension incomes during the economic recession. But this buffer has been used up; the 2013 increase will help compensate for the rise in inflation from the second half of 2009 to 2012.

Gender equality and gender empowerment are well respected in Bulgaria, and the country is ranked high on the Gender Empowerment Index and has one of the lowest gender pay gaps in the European Union.

Equal opportunity

7

Bulgaria maintains solid anti-discrimination laws and has established a Commission for Protection against Discrimination (CPD), which deals administratively with cases of discrimination on grounds of religious belief, ethnicity or race, gender, sexual orientation, disability and age. Social status is also considered a possible ground for discrimination.

In general, the Bulgarian public does not consider issues of prejudice and discrimination seriously, which makes the work of the Commission for Protection against Discrimination even more important. The existence of the CPD is a huge step forward in Bulgarian anti-discrimination policies, and the first years of its activity have been quite successful. The commission needs constant support from Bulgarian human rights organizations, watchdog groups and other civic and international organizations to continue its work in a rather difficult and often unwelcoming political and public environment.

11 | Economic Performance

The Bulgarian economy was seriously affected by the global economic crisis. In 2009, Bulgaria was in recession, with a negative growth rate of 6%. Economic growth in 2010 was close to zero, and 2011 showed modest growth. The country's economic performance in 2011 was disappointing when compared to forecasts. While the IMF expected a growth rate of 1.9% and the European Commission 2.2%, the country's real performance was 1.7%. Forecasts made by the financial minister at the beginning of 2011 were far too positive and apparently unrealistic, but the goal may have been to show optimism rather than offer accurate predictions.

Output strength

7

In the third quarter of 2012, Bulgaria experienced significant growth in the agriculture sector of 6.7%, compared to the same quarter of 2011, and some growth in the industrial sector (3.5% in the third quarter, and less in previous quarters), but services continued to decline. This strong growth led to an increase in the agriculture's share of the country's gross value added figures, but it is still small, at 11%. Overall, when final figures are available it will likely prove that 2012 was another year of near-zero growth. The real drivers of growth in Bulgaria are not yet in place and the apparent, though small, recovery in 2011 was not sustainable. Prospects for 2013 are slightly more positive, but there are many variables that could affect predictions; it appears that an exit from the crisis will be longer and more painful than prior expectations.

For a decade, the Bulgarian economy grew at a steady pace of more than 6% per year, so the current economic situation is perceived by households as a continuing deterioration. The data on household consumption published by the National Statistical Institute show a 4.3% nominal increase in household expenditure in 2011 compared to 2010, taking into account the changes in the consumer price index (4.2%) that consumption has remained constant. Preliminary data for 2012 indicate that there has been a small increase in household expenditure of about 4% to 5% in real terms. The average monthly salary rose in nominal terms in 2010 from BGN 609 to BGN 648, and then further to BGN 707 in 2011. A large part of this increase was due to the release of low-qualified workers, so it is not necessarily a good sign for the economy, although this was related to productivity gains.

Inflation since 2009 was low when compared to the rates in the years preceding the economic crisis. When compared to the average inflation rates in the European Union, Bulgaria's inflation rate is moderate. In 2009, the consumer price index dropped to 2.8% from 12.3% in 2008, the last year of strong economic growth. In 2010 – 2012, inflation remained low: 2.4% in 2010, 4.2% in 2011 and 3% in 2012. The GDP deflator value followed the same pattern, though the decrease was not that pronounced: 8.4% in 2008, 4.3% in 2009, 2.8% in 2010 and 5% in 2011.

The global economic crisis affected Bulgarian foreign trade in 2009. The contraction of exports was 23% (free on board) and the contraction of imports was 33% (cost, insurance and freight). In 2010 a recovery was underway, visible in exports (33%) yet less so in imports (14%). Declining imports were linked to both contracting FDI and shrinking consumer demand. The faster recovery of exports gave rise to theories that the global economic crisis was making the Bulgarian economy more competitive, so future growth would be more and more exports-driven rather than imports-driven, as was the situation before the crisis. For many years Bulgaria maintained large foreign trade deficits, exceeding BGN 19.3 billion in 2008 and then suddenly dropping to BGN 10.1 billion in 2009, BGN 7.2 billion in 2010 and BGN 6.15 billion in 2011. Preliminary data for 2012 indicates that the surge in exports is not a long-term trend that is changing the pattern of Bulgaria's development. In some months, exports contracted significantly when compared to 2011, and the growth of imports

seemed to return to pre-crisis levels, meaning Bulgaria will again run larger current account deficits.

12 | Sustainability

The Environment Protection Act was promulgated in 2002 and then amended many times, with amendments in December 2008. Legislation on water and waste management is in place and in line with European Union law. Bulgaria ratified the U.N. Framework Convention on Climate Change and the Kyoto Protocol, thus demonstrating its commitment to international efforts in reducing greenhouse gas emissions and mitigating climate change. Despite the efforts of environmental organizations, public environmental awareness is still quite low.

As an EU member state, Bulgaria participates in the pan-European network Natura 2000, which includes protected territories inhabited by rare and endangered species. The requirements of the two EU directives regulating Natura 2000 were transposed in Bulgarian legislation with the promulgation of the Biological Diversity Act in 2002. But the implementation of Natura 2000 in Bulgaria was controversial, if not an outright failure. In Bulgaria, organizations working for the protection of the environment are one of the strongest segments of civil society, as groups have been active both in using institutional tools and in organizing street protests. Protests organized by environmental organizations continued throughout 2011 and 2012, fueled by new cases of building in environmentally protected areas. One example from late 2012 that inspired action was the destruction of a dune area to build a hotel on the coast, one project in many massive construction plans that has changed dramatically the Bulgarian coast over the last 20 years. Early on both investors and the municipal and central authorities denied that the site was registered as a dune area. Media investigations and analysis by environmental organizations however showed that the area was indeed registered, and uncovered at the same time an alleged corrupt property transaction, as the municipal land in question had been privatized and then resold only days after, at a price exceeding the initial asking price by a factor of more than 10.

Weaknesses in Bulgaria's laws, which help pave the way for corrupt practices and the destruction of protected areas, were also the focus of public debate. Environmental organizations faced counter-protests from locals living in resort areas who are interested in expanding the region's recreational infrastructure.

In April 2011, Bulgaria adopted a new Renewable Energy Act, but meanwhile approval for renewable energy projects stopped without any official moratorium. Bulgaria is among the lowest-scoring countries in the EU Climate Policy Tracker (CPT), a comprehensive review of policies in the European Union which address greenhouse emissions. The main conclusion of the 2010 report was that Bulgaria still

Environmental
policy

8

has a long way to go in developing a low carbon economy, despite its efforts in using renewable energy and improving the overall energy efficiency of the economy. In 2011, the EU CPT report found no general improvement and remarked that Bulgaria placed too much attention on biomass and much less on solar and wind energy. The CPT also observed that plans to build a new nuclear power plant might shift attention from energy efficiency and renewable energy.

The safety risks of nuclear energy generation were part of the debates proceeding the first national referendum after the fall of communism, debates that were focused around plans for building a nuclear power station in Belene on the Danube River. After a series of controversial comments about the new station and negotiations with a Russian investor, the Borisov government announced in March 2012 that the project would not be realized, due to the lack of a strategic investor and overwhelming public costs. At the same time, the government made it clear that it supported the construction of a new reactor at the existing nuclear power station in Kozlodui. Immediately afterwards the Bulgarian Socialist Party initiated a procedure for a referendum, with the aim of returning the Belene project to the agenda. The referendum had a low turnout of little more than 20%. According to current legislation, the referendum has no binding force even though most politicians who cast votes did support the Belene nuclear power station project. The law requires only that the issue should be debated again in parliament.

On a percentage basis Bulgaria spends the least on education among EU countries (4.1% in 2010, Eurostat). Bulgarian 15-year-olds have earned below-average results in the OECD Program for International Student Assessment (PISA) survey, especially in science and mathematics. Results from the Progress in International Reading Literacy Study (PIRLS), published in 2012, showed that Bulgaria had since 2006 the largest deterioration in reading performance of fourth-grade students among all participating countries. Despite this result, Bulgarian students still maintain good reading scores.

School dropouts have increased in recent years, with part of the increase attributed to financial reforms that began before the economic crisis. We question Bulgaria's ability in achieving one of the goals of Europe 2020, important for long-term prospects of social inclusion – the reduction of the share of early school-leavers to 11%.

The cohorts, who will compose the statistical aggregate of early school-leavers in 2020, are students aged 8-14 in 2010. For those aged 7-10, who are now in primary school, the net enrollment rate was 91.5% for the school year 2011/2012 – down from practically full enrollment in the middle of the decade. In 2012, enrollment rates for first to fourth grade levels showed renewed improvement, partly because of the implementation of programs to combat school dropout, funded by the European Union. The enrollment rate in lower secondary education (ages 11-14) was 81.8% in

Education policy /
R&D

7

2011/2012, down from a high of 85.1% in 2006/2007. Bulgaria already has a large population of school dropouts from previous cohorts; action will need to be taken to reengage this group.

One positive step in secondary education is the elaboration of a new school and pre-school education act. Bulgarian education badly needs curricula modernization and the introduction of new teaching practices.

In the field of higher education, important reforms were also undertaken. An official ranking system of Bulgarian universities was commissioned by the Ministry of Education, Youth and Science and designed by a consortium of private organizations. The ranking system had two editions, in 2010 and 2011. Its maintenance and updating is expected to continue with funding from the European Social Fund. In 2010, Bulgaria spent approximately 0.6% of GDP on research and development (Eurostat).

Transformation Management

I. Level of Difficulty

Structural constraints on governance are moderate. Infrastructural deficits were reduced but long-standing quality of life issues increased during the economic crisis. Living standards in general are low in comparison to reference countries within the European Union.

Structural
constraints
4

The current government had as a priority from 2009 the investment in large transportation infrastructure projects. Highway construction continued in 2011 and 2012 despite the economic crisis. In early 2013, 90% of the highway connecting Sofia with Burgas on the Black Sea was finished; this will be the first complete highway to cross Bulgaria. The government expects future positive developments, such as investment growth and increased revenues, from tourism. These effects will likely not materialize before the economy recovers from the current crisis.

The government did little to address the main structural obstacles to development, which are the deficiencies in Bulgaria in comparison to its main economic partners and counterparts from the European Union.

Bulgaria has a traditionally strong NGO sector, which played an important role as a driver of reform in the pre-accession period. Think tanks have operated entirely by means of foreign donor support (predominantly from the United States) and have attracted the intellectual capacity of many high-profile policy and economic analysts and experts. However, since traditional NGOs in Bulgaria have emerged as result of top-to-bottom development, adapting to the agenda of foreign donors, their legitimacy has been put to test in recent years. Civil society in Bulgaria played an important role as a driver of reforms in the EU pre-accession period. However, recent reports (Civil Society Organization Sustainability Index, 2011) show that the current situation of the NGO sector is one of the most difficult in the past decade, as it faces critical challenges to its organizational capacity and financial viability. State support is minimal and there is no mechanism for distributing funds to NGOs at the local level. Access to EU funding proves difficult given competition, including with businesses.

Civil society
traditions
4

Unlike other Balkan countries, Bulgaria has maintained a good balance of interethnic relations in its diverse population, which includes a large Turkish minority and a Romani minority.

Conflict intensity
4

In 2011 and 2012 however ethnic tensions increased, not least due to the pressure of the economic crisis. The government did little to address extreme poverty and the unacceptable living conditions in Romani urban ghettos and rural settlements.

II. Management Performance

14 | Steering Capability

Question
Score

The Citizens for the European Development of Bulgaria (GERB) government during the review period appeared determined to take a longer-term perspective over reforms, but due to several constraints, instead proved unable to formulate major reforms, focusing on crisis management and policy-making led by public opinion.

Prioritization
7

Setting and maintaining strategic priorities has been constrained by external factors, such as the global economic crisis, as well as by institutional capacity and actors outside the government. The government cabinet was not able to act as a collective body and on several occasions, cabinet ministers were surprised by comments to the media by the prime minister in relation to their sphere of competence. The government during the review period was dominated by the charismatic leadership of Prime Minister Boyko Borisov. In crisis situations when governmental decisions met strong resistance from certain groups, Borisov would often intervene, revising ministerial decisions and making dramatic policy U-turns. This populist approach seemed effective in generating popular support. Toward the end of his mandate, Borisov continued to be the politician who maintained the best balance between approval and disapproval ratings. His GERB party, however, lost much of its popularity but still held promise of winning the most seats in the next parliamentary contest.

As a relatively new political party, having participated in general elections for the first time in 2009, the GERB party relies on a relatively limited pool of trained administrators and senior staff experts, which has undermined the capacity of the government to formulate evidence-based strategic reforms. Also, an overall lack of clarity on policy measures can be observed.

Policy measures have been continuously revised or retracted on several occasions and organized according to circumstances, as in the example of the economic crisis, when decisions were made according to the prime minister's ambitions to satisfy

diverging interests and to maintain his undisputed charismatic popularity. On the positive side, the government embarked on a clear prioritization of policies, such as the fight against organized crime and corruption and the building of a large transport infrastructure. The first of these priorities seemed to be pursued successfully in the first half of the government's mandate, but less so in the second. In 2012, there were several signs that the activities of organized crime were quite pronounced. The prime minister was fast in reacting to signals over corruption in public administration, in government and within the GERB by removing people from their positions or sending signals to the prosecution when necessary. However, there is little evidence that any of the structural causes for corruption were addressed, by strengthening institutions or blocking incentives for corrupt practices.

The prioritization of police actions and infrastructure building over socioeconomic reforms had already produced serious counter effects in 2010, and opinion polls have shown large cleavages between the expectations of the public and the priorities of the government. In 2011 and 2012, disparities between government priorities and expectations worsened. The public's largest area of dissatisfaction is with the state of the Bulgarian health care system.

Within this sector several government ministers were swapped out during the government's mandate, yet nothing substantial changed to address the sector's structural problems or its deficits.

Despite the progress the government has made in implementing its reform agenda, the main policy challenges for the country have remained broadly unchanged. The government was effective in implementing its policies for building large-scale transport infrastructure. The fight against corruption and organized crime was initially promising but then became increasingly evident that sustainable results would not be achieved by policing and prosecution alone. The government was less effective in addressing structural issues related to corruption and crime, yet managed to improve significantly the absorption of EU funds. The adoption of the euro, a major goal at the beginning of the current mandate, appears now off the agenda for reasons beyond the control of the government. Bulgaria's goal of joining the Schengen Area has been postponed several times. The government managed to meet the formal technical requirements related to border control, but the political environment in the European Union remained unsympathetic due to apparent failures in fundamental policies such as the integration of vulnerable minorities.

The major weakness in the government's work is its crisis management style and its heavy dependence on the personality of the prime minister.

The government has trouble following up on policy objectives, and is prone to retreat when facing opposition from vested interests.

Continuity across governments in Bulgaria is weak. Typical political discourse includes discarding almost all achievements of the previous government. This is correlated with a pattern of negative voting, when incumbents face massive public dissatisfaction and are ushered out often by brand-new political players with a large margin of voter confidence.

Policy learning
6

Often voting patterns reflect a preference for new political faces. Like other post-socialist countries, Bulgaria has faced the challenge of almost constant change in the economy and the public sector for two decades.

Society is used to reforms, both successful and failed. Some public fatigue with the stress of constant change has accumulated over time. Reforms in Bulgaria have been more the product of leadership initiative than an institutionalized search for innovation. This aspect is especially emphasized in the government during the review period.

15 | Resource Efficiency

The National Audit Office (NAO) supervises the implementation of the budget, and is independent from the executive and reports directly to parliament. The NAO's president and two vice presidents are elected by parliament.

Efficient use of
assets
7

The NAO has a broadly defined task to control the reliability and truthfulness of financial statements of budget-funded organizations as well as monitor the legality, efficiency, effectiveness and economy of the management of public funds and activities. NAO reports are publicly available and many have become required reading for the media and think tanks and have spurred public discussions.

Even after Bulgaria joined the European Union, state administrative performance remained poor. Administrative reform continues to be a key challenge. Efforts until now were targeted at reducing the number of civil servants, but little has been done to improve performance. Efforts against corruption have not been systemic but relate only to concrete cases. The demonstration of zero tolerance in cases of corruption, which appear in the media from time to time, cannot be a substitute to addressing the root causes of corruption.

During the economic recession of 2009 and in following years, including 2012, budgetary cuts were performed without much consideration to what was removed and made on a proportional basis alone, affecting sensitive sectors such as health care, social safety nets and employment programs.

The use of EU funds in 2011 and 2012 improved, with an increase in speed with which funds are processed: planning, contacting, disbursement and reporting. A

transparent and informative system for registering all projects funded by the European Union was put in place.

Administratively, the Bulgarian government remains centralized, although a strategy for decentralization was in place before the global economic crisis; since then the strategy has proceeded slowly, and in 2009 was halted, if not potentially reversed. Coordination within the government is the weakest point in governance as a whole, as it depends strongly on the personality of the prime minister. Separate examples of coordinated efforts can be found, however, such as the policy for closing child day care institutions and providing alternative services. This example, like other good governance examples, is related to the use of EU funds, as EU funds require multiyear strategic and operational planning. Were it not for EU pressure, such planning would probably have disappeared completely from Bulgarian policy-making, even as a tool for designing long-term sectoral policies, not to mention multi-sectoral policies requiring strong coordination across agencies.

Policy
coordination
6

The Europe 2020 strategy generated an attempt to make a medium-term strategy for the development of Bulgaria, providing an incentive to use new analytical, coordination and stakeholder consultation tools, a positive process in itself, regardless if targets are met.

Continuing reforms aimed at tackling corruption have not rekindled the public's trust in institutions. There is a systematic discrepancy between the scores for legal framework and actual practice and performance of different institutions in anti-corruption efforts. After 2009, the government's efforts have been overwhelmingly focused on tackling administrative corruption at mid- and low-levels. However, the culture of impunity in the upper echelons of the political system remains the main challenge to the success of Bulgaria's anti-corruption policies.

Anti-corruption
policy
6

Following a period of improvement (2009 – 2010), administrative corruption experienced by citizens in Bulgaria is once again on the rise in 2011 – 2012, although still below the levels observed under the previous government (2005 – 2009). According to the Center for the Study of Democracy, the average monthly number of corrupt transactions in 2011 was approximately 150,000. Public procurement remains the most effective instrument of political corruption.

16 | Consensus-Building

All major political actors agree on the goal of building a market-based democracy. A liberal market economy and the social disparities that result from such a system are generally accepted by the public as a reality of life, rather than a set of principles that should be balanced with values of social solidarity, a view held more often by an older generation with a memory of the communist past. Constructive criticism from

Consensus on goals
10

the European Union, aimed at fostering reform, is welcomed by the public and political actors, while the government works to take necessary corrective measures, albeit with moderate success. Trust in European institutions is twice as high as in national institutions. There is a discrepancy between areas in which reform is needed according to the majority of population and the priorities of the government. According to 24% of respondents in an opinion poll conducted by the Open Society Institute in May 2012, the current government has not succeeded in reforming any of the social and economic spheres. More than half of the Bulgarian population defines the situation in the country as unbearable (56.7%).

The National Reform Program (2011 – 2015) was approved by the Council of Ministers in April 2011. An update (2012 – 2020) has been prepared within the framework of the 2012 European Semester and addresses the recommendations made in the conclusions of the 2012 Annual Growth Survey. On 27 March 2012 the program was presented and discussed at a public debate with the participation of representatives of the state administration, non-governmental organizations, academics and social partners. The prevailing view expressed during the discussion was that the quality of the program has been improved as well as that the program reflects the criticisms of the previous NRP (2011 – 2015).

Reformers are able to overcome anti-democratic veto actors. Temptations to employ populism and nationalism are not rare in Bulgaria, but populist messages are tempered through the necessities of policy-making (especially when it comes to EU requirements). The radical nationalist party, Ataka, has mobilized its supporters against ethnic minorities.

Anti-democratic
actors
9

The political leadership is generally able to depolarize conflicts. Bulgaria has nationalistic parties which have developed their rhetoric mainly along anti-Romani and anti-Turkish lines. The leader of the Ataka (Attack) party, represented in the Bulgarian parliament, also occasionally employs anti-Semitic language, which is irrelevant in the Bulgarian context and has little if any impact. The main opponent of nationalistic parties is the Movement for Rights and Freedoms (DPS), whose membership consists predominantly of Bulgarian Turks and Muslims.

Cleavage /
conflict
management
7

In 2012, a trial against 13 Muslim imams, accused of preaching radical Islamic tenets (as they owned literature related to a radical Islamic movement) increased tensions. The accusations, potentially overblown, have cooled relations between Bulgarian Christians and Muslims according to observers.

Dividing lines within society appear mainly as a result of increasing social disparities and ineffective social inclusion policies, rather than by ethnically driven conflicts. However, riots in the village of Katunitsa in 2012 demonstrated how easily anti-Romani sentiment can potentially escalate into violence.

In January 2013, the DPS leader Ahmed Dogan was assaulted by an individual who pointed a gun at him while he was giving a speech to his party's conference. The incident underlined the heated pre-election atmosphere and the polarizing impact of Ahmed Dogan, who is one of the most controversial figures in Bulgarian politics. The DPS leader is associated with keeping peace among ethnic groups during Bulgaria's difficult economic transition, but is also linked with authoritarian practices within his party and in regions with a large population of Turks and Muslims, where the DPS party is influential. Dogan is also the only politician who has spoken openly about the "circles of companies" surrounding Bulgarian political parties, claiming this to be normal practice. While his party was in power, he received BGN 1.5 million as a consultant for four large-scale, state-funded hydroelectric projects, but the courts did not find any conflicts of interest. At the conference, Dogan resigned his leadership post, a move not related to the assault but previously planned. In forthcoming parliamentary elections, the DPS will face competition from a new political party lead by ethnic Turks who quit the DPS, unhappy with Dogan's leadership.

The Bulgarian political leadership assigns an important role to civil society actors in deliberating and determining policies. The legal basis for civic participation has long been in place; however, there was no clear way to provide for the opinions or advice of NGOs or other entities in policy-making, as clear criteria and mechanisms for the process of collecting comments was lacking.

Civil society
participation
8

In 2011, for the first time in nine years, environmental NGOs were successful in coming together for a national conference that elaborated joint input for strategic documents covering the next programming period up to 2020.

During the review period, traditional civil society organizations faced a lack of financial resources to sustain monitoring and watchdog activities.

In January 2012, the minister of EU funds management initiated a strategy for supporting the development of civil organizations for 2012 – 2015, and offered a vision over the creation of a civil sector financing mechanism.

Civil society activism in 2012 took the form of protests over Bulgaria's renunciation of the international Anti-Counterfeiting Trade Agreement (ACTA), President Plevneliev's veto over the Forestry Act, and a moratorium on shale gas exploration.

Reconciliation continues to be an issue of evolving political and institutional culture rather than of social relevance. In 2012, Bulgaria celebrated the 100th anniversary since the start of the Balkan War in October 1912, in which Bulgarian troops liberated much of the Bulgarian-populated parts of the southern Balkan peninsula from the rule of the Ottoman Empire. There are concerns regarding the way the authorities have approached the Holocaust, especially the 11,383 victims from Vardar Macedonia, northern Greece and eastern Serbia that were under Bulgarian rule in 1941 – 1944.

Reconciliation
8

17 | International Cooperation

The political leadership makes use of international assistance in its reform policies. Under the EU's Cooperation and Verification Mechanism (CVM), Bulgaria committed itself to achieve compliance with identified benchmarks in the areas of judicial reform and the fight against corruption and organized crime. The EU anchor remains indispensable for policy and institutional change in Bulgaria.

Effective use of support

9

The European Commission's report from 18 July 2012 on the progress made by Bulgaria under the CVM during the five years of Bulgarian membership to the European Union and, in particular, assessing whether the objectives of the CVM have been fulfilled, highlights that the CVM has made a positive contribution to Bulgaria's progress since its accession but also concluded that achievements still fall short of the mark.

The report acknowledged the progress which Bulgaria achieved in tackling crimes with a cross-border dimension in cooperation with other member states.

A Flash Eurobarometer poll conducted in May 2012 showed that 78% of Bulgarians wanted the commission to continue supporting reform in Bulgaria until it achieves standards comparable to other member states.

The Bulgarian government makes use of the support and assistance provided by the United States following the 18 July 2012 terrorist attack in Burgas.

The absorption of EU funds improved significantly during the review period. Without EU funds, the Bulgarian public sector could have potentially collapsed due to low public revenue. Macroeconomic simulation commissioned by the government showed also that EU funds had contributed to economic growth, which was modest in the absence of other important drivers, but that the situation could have been much worse without the boost.

The government is generally considered a credible and reliable partner within the international community. Following the previous tripartite coalition's troubles with frozen EU funds, the cabinet of Prime Minister Borisov took office with a promise to return international confidence in Bulgaria and fight high-level corruption. The government proved successful in unblocking EU funds and improving relations with the European Commission and the European Anti-Fraud Office (OLAF).

Credibility

8

Many EU countries see the high crime and corruption levels in Bulgaria as a serious argument for delaying its accession to the Schengen Area, treating accession as a tool for encouraging Bulgaria (and Romania) to combat corruption and crime successfully. In addition, concerns over Romani emigrants from Bulgaria seeking

ways to earn a living in other EU countries contributed, albeit unofficially, to the continued delay.

The political leadership actively and successfully builds and expands cooperative relationships with its neighbors and internationally, as well as promotes regional and international integration.

Regional
cooperation
9

Bulgaria relies entirely on the instruments of the European Union and pursues a transatlantic agenda of sustained involvement with the United States, and cooperates with Black Sea region countries and participates in international cooperation activities. In 2012 Bulgaria took over the presidency of the parliamentary assembly of the Black Sea Economic Cooperation organization (PABSEC).

Bulgaria supports NATO's Open Doors policy and the European perspective of its neighboring countries, although not unconditionally, as events with regards to its policy towards the Republic of Macedonia have showed. At the end of 2012, Bulgaria joined Greece in vetoing the opening of EU accession talks with the Republic of Macedonia, accusing the government in Skopje of systematically employing an ideology of hate toward Bulgaria. This diplomatic move is considered controversial, and the ruling party is under suspicion of playing with nationalistic sentiments before the 2013 parliamentary vote. Bulgaria's governments traditionally react to propaganda from Skopje with disregard, while the general public in Bulgaria openly ridicules them. The tough stance taken by the government vis-à-vis Macedonia, following the model set by Greece, is not contributing to reinforced regional cooperation.

Strategic Outlook

The Bulgarian government, elected in mid-2009, managed to restore confidence within the European Union by producing visible results in the fight against corruption and organized crime from the beginning of its mandate. Improvements in the management of EU funds were also forthcoming, and led to increased absorption rates in 2011 and 2012. Financial flows coming from EU funds contributed significantly to helping save whole segments of the public sector, faced with dwindling revenues, from collapse.

Bulgaria has managed to preserve macroeconomic stability especially when compared to Mediterranean EU members. But the economy was hard hit by recession and recovery has been slow and painful. Most importantly, the global economic crisis and its aftermath uncovered serious weaknesses within the Bulgarian economy, overlooked during previous periods of growth and optimism. New strategies and markets are needed, following a painful restructuring, as earlier growth was not based on knowledge or innovation in technology and processes, but in overinvestment in construction, trade and financial intermediation. Investment in these sectors has dwindled, and it is not yet clear in what sectors, if any, Bulgaria could be an attractive investment destination.

Bulgaria's main transformation problems lie in the realm of good governance and social cohesion, yet it is precisely these issues that remain unaddressed by leadership. The country must support a restructuring of the economy, which it has already started, improve the basis for social inclusion and development of human capital and make the economy more resistant to external shocks.

Some of the challenges from previous review periods remain, as they were either not addressed or addressed ineffectively. Other challenges have uncovered deeper issues. What may have appeared a problem of poor law enforcement now reveals systemic problems. Bulgaria's strategic challenges include:

- Inefficiency and corruption. Change laws and reshape governance to address root causes;
- Trust in state institutions. The government must build and maintain trust;
- Human development. The government must put this back on its priority list, and especially address critical issues of health care access;
- Build a knowledge-based society. This is the main chance for the Bulgarian economy to find a new path to long-term growth.

The government during the review period has unquestionably achieved its goals in building a large, core transport infrastructure. It also demonstrated unprecedented determination to punish corrupt

practices and deal with organized crime. These successes, along with the charisma of the leader of the ruling party, may help the GERB consolidate its electoral base.

But the advantages explaining the popular success of the GERB party are also its main weakness. Because of the personal leadership style of the prime minister, the GERB party is unlikely to restore trust in institutions and create sustainable governance mechanisms that are based on procedures.