

# BTI 2012 | Bulgaria Country Report

<b>Status Index</b>	1-10	<b>8.29</b>	# 14 of 128	
Political Transformation	1-10	8.65	# 13 of 128	➔
Economic Transformation	1-10	7.93	# 17 of 128	➔
<b>Management Index</b>	1-10	<b>6.65</b>	# 17 of 128	

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at <http://www.bti-project.org>

Please cite as follows: Bertelsmann Stiftung, BTI 2012 – Bulgaria Country Report. Gütersloh: Bertelsmann Stiftung, 2012.

© 2012 Bertelsmann Stiftung, Gütersloh

**Key Indicators**

Population	mn.	7.5	HDI	0.771	GDP p.c.	\$	13780
Pop. growth <sup>1</sup>	% p.a.	-0.6	HDI rank of 187	55	Gini Index		45.3
Life expectancy	years	73	UN Education Index	0.802	Poverty <sup>3</sup>	%	7.3
Urban population	%	71.7	Gender inequality <sup>2</sup>	0.245	Aid per capita	\$	-

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

During the period under review, the party of former Sofia mayor Boyko Borisov, Citizens for the European Development of Bulgaria (GERB), won the parliamentary elections of 5 July 2009 with a clear majority in the party's first electoral contest. This much-anticipated result was the consequence of popular fatigue with the former socialist-led tripartite coalition. Although the government of Sergey Stanishev made history by signing Bulgaria's treaty for European Union accession in 2007 and the country enjoyed high rates of economic growth, general quality of life did not improve for the majority of Bulgarian citizens. Moreover, EU membership and the global economic crisis acted as a magnifying glass over the country's deficiencies in spheres beyond EU leverage, such as health care. A majority of citizens supported GERB because of the party's promise to put an end to corruption and organized crime as well as, crucial to many Bulgarians, restore the justice system. The cabinet operates as a minority government without a coalition partner, a decision that was articulated as a matter of honor rather than a sophisticated political calculation.

In Bulgaria the global economic crisis started to affect the country in the second half of 2009, although there were early signs in 2008. Bulgaria's GDP contracted by 4.9% in 2009 and by 0.1% in 2010. Austerity measures began early. Unlike most other EU countries, the Bulgarian government aimed at preventing a deficit by cutting costs almost at the pace of revenue contraction. Bulgaria however did not enact any economic stimulus. The benefit of this strategy is that Bulgaria will likely emerge from the crisis without much public debt. Yet long-term effects may be seen such as growing poverty and inequality, levels which are already among the highest in the European Union, and increased school dropout figures plus, potentially, a sharp increase in the uninsured who have little access to other health care services. Plans to speed up the integration of the Roma minority by massive investment in housing and technical and social infrastructure have also been postponed. A large bulk of structural funds will be used to support the building of large-scale national infrastructure, such as highways.

Bulgaria had set the adoption of the euro as a main priority, yet was not invited to join the Exchange Rate Mechanism (ERM II), the precursor step to joining the eurozone. Part of the economic contraction in the first half of 2010 was due to macroeconomic mismanagement.

In its June 2010 report on the progress of Bulgaria under the Cooperation and Verification Mechanism, the EU Commission pointed to a strong reform momentum which had been established in Bulgaria since the commission's last annual report in July 2009. Political will to fight organized crime was featured in television shows, in a number of special police operations with flashy names such as, "Octopus," "The Fakirs," "Terrorists," "Sweeties," "All Trumps," "The Gunsmiths," "The Sheikhs," "The Twerps" and so on. A series of scandals, however, involving the disproportionate use of police force, broad or unregulated use of special surveillance and constant confrontation with the judiciary over court results, undermined much of the legitimacy of the government's endeavors to justify its "law and order" rhetoric.

## History and Characteristics of Transformation

Bulgaria's democratic and market economy transformation has been slow and incoherent. As a consequence, structural economic reforms have been delayed. Unlike in other Central and Eastern European countries, Bulgaria's dissident movement was relatively weak. In 1989, the country's former communist political elites declared their plans for gradual reforms and a smooth transition to avoid social cataclysm; but this also helped the elite maintain their political leverage amid the transformation process, in order to keep control.

Throughout the first half of the 1990s, Bulgaria suffered with political polarization and showed little progress in economic reforms. The economic elite which emerged involved itself in redistributing or establishing indirect control over state property, often on the edge of the law. 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 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 state order.

From 1994 to 1997, the Bulgarian Socialist Party (BSP) government of Jean Videnov was unable to carry out rigorous structural reforms. As a result, 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. A period of hyperinflation followed, and the severe economic and political crisis forced an early general election in April 1997. The early elections were won by a Union of Democratic Forces (UDF)-led coalition and Ivan Kostov was appointed prime minister.

The currency board arrangement, introduced in July 1997, helped to stabilize the economy and bring inflation under control. Kostov's government served a full four-year term and succeeded in performing major economic and structural reforms that had been delayed for years. However, the lack of transparency in conducting privatization deals, allegations of political corruption as well as the continuing ideological polarization and confrontation pushed voters away from the UDF party.

Popular disappointment with the "traditional parties" of the left and the right gave way to populism and the emergence of new political actors between 2001 and 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 beyond ideological confrontation and to adapt to the novel challenges Bulgaria was facing. Following his party's defeat in the 2001 elections, Kostov, the emblematic leader of reform-oriented rightists, withdrew from active politics and refused to speak to his supporters for almost three years. 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 the run up to the 2001 elections, the political movement behind Simeon Saxe-Coburg-Gotha won a landslide victory. The popular appeal of the former monarch's promise that he would "make the country prosper in 800 days" and the powerful symbolism of his return won him almost 50% of seats in parliament. The general elections of 25 June 2005 yielded the most complex outcome in the country's post-communist history. Seven political groups surpassed the 4% election threshold. A tripartite coalition government was formed with the Bulgarian Socialist Party (BSP) in partnership with the Movement for Rights and Freedoms (MRF) and the National Movement Simeon II (NMSII; now renamed as the National Movement for Stability and Progress) with BSP leader Sergei Stanishev as prime minister. The Stanishev government managed Bulgaria's accession in 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. The government deviated from most anti-poverty policies and instead embarked on a neo-liberal economic model. By the end of 2008 and beginning of 2009, Bulgaria's economy and industrial base suffered unexpected losses from the global financial crisis and a gas dispute between Russia and Ukraine. 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. Bulgaria's economic growth however didn't help to improve the governance of the country. 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. The continuing erosion of the classic left-right political cleavage resulted in the emergence of new oppositional groups outside parliament and a new form of social representation. From the fall of communism in 1989 to the current administration, no Bulgarian government has been re-elected.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

There is no challenge to the state's monopoly on the use of force. The government in the period under review has demonstrated the political will to crack down on organized crime, more than any other government in the last 20 years. In 2010, dozens of police raids on organized crime groups were carried out and even broadcast on television. However, as noted by the EU Commission in July 2010, important cases have seen little progress in the courts.

The Bulgarian 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."

In a heated debate in the last few days of 2010, the Bulgarian parliament approved a new Electoral Code which was then vetoed by President Georgi Parvanov, who objected to rules barring certain categories of people with dual citizenship from eligibility to stand as candidates.

The state is largely defined as a secular order. Religious dogmas have insignificant influence on politics or the 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 the Muslim, Roman Catholic and Jewish religious groups.

Question  
Score

Monopoly on the  
use of force  
10

State identity  
10

No interference of  
religious dogmas  
10

The Bulgarian Orthodox Church holds a relatively weak place in society. The church in Bulgaria is also a weak political actor, in comparison with its counterparts elsewhere and does not actively participate in public debates on policies such as bioethics or abortion. An exception is the debate on the introduction of compulsory religious education in schools. Despite the intensity of this debate in recent years however, no changes in policy can be reported.

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

There are no legal constraints on free and fair elections in Bulgaria. Aside from the legal aspects of contests, however, electoral irregularities such as the buying of votes, corporate influence over voting or intimidation, and the granting of immunity by politicians to individuals facing serious criminal charges (actions that marked previous elections), remain a source of concern for domestic and international observers. Bulgaria maintains a pluralistic media environment which offers voters a wide range of political views. Media independence from political and economic influence however is debatable.

Free and fair  
elections  
9

On 5 July 2009, four weeks after the European parliamentary elections of 7 June 2009, Bulgaria held its first parliamentary elections since joining the European Union. More than 60% of eligible Bulgarians cast a vote. This turnout represented a marked increase over elections in 2005, when 55.8% of the electorate took part.

The 2009 parliamentary elections were held under new rules. On April 2009, the governing parties adopted last-minute amendments to the election law, introducing a mixed electoral system for the first time in Bulgaria, with the addition of 31 single-member majority districts to the proportional representation system. The amendments were subject to heated debates over the observance of the principle of equality of votes enshrined in the Bulgarian constitution, since the 31 constituencies which would each elect one member to parliament differ considerably in population. The issue was put to the Constitutional Court by 70 members of parliament, but the challenge was rejected in an evenly split vote. The changes which were expected to limit the governing coalition's main political rival's margin however produced unintended consequences. Out of the 31 new single-member districts, Boyko Borisov's Citizens for European Development of Bulgaria (GERB) party managed to win 26.

As with almost every other political party that has won parliamentary elections in the past 20 years, GERB came to power amid harsh criticism over election regulations and the party's intentions to introduce major changes toward integrating

principles for all elections in Bulgaria. On 22 December 2010, the parliamentary majority passed a new Elections Code, which raised yet another heated debate and was later returned for revision by President Georgi Parvanov. The new electoral code was drafted to govern a number of elections. According to the official statement of the president, the code had many legal shortcomings, while some of its legal norms were declared a retreat from what had been achieved over the last 20 years, as well from democratic standards for the organization of European elections. The president saw as a major shortcoming the restrictions on the active and passive voting rights of Bulgarian citizens. President Parvanov objected to the code's residence requirements and to rules barring certain categories of people with dual citizenship from eligibility to stand as candidates. These provisions, when included in the code, were widely seen as a move to curtail the practice of "voting tourism" which has benefited the Movement for Rights and Freedoms (MRF) party. Parvanov also objected to the abolition of the direct election of district mayors and the rules for the composition of the new Central Electoral Commission, which would be in charge of all elections at all levels of government, saying that the new body would be "totally politicized." Still, a presidential veto is not absolute and can be overridden by parliament without substantial difficulty.

Democratically elected rulers do have the effective power to govern and no political enclaves exist. Civil-military relations are well established in Bulgaria.

Effective power to govern

9

The freedom of association and assembly is ensured as a basic constitutional right in the Bulgarian constitution. In order 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 in 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

Bulgarian authorities are generally considered to respect constitutional freedoms of assembly and association, but the Bulgarian Helsinki Committee reported that during the period under investigation the right to peaceful assembly has been arbitrarily restricted on several occasions. At the end of 2009 and early 2010, the Bulgarian parliament adopted amendments to the Meetings, Rallies and Manifestations Act. Some of them were aimed at making the act, adopted under the old constitution, compliant with the 1991 constitution. At the same time, with these amendments parliament allowed the opportunity for state institutions to restrict any public event that took place close to government offices by establishing forbidden zones for such events. This caused great public outrage. In February 2010 the

president sent the bill back to parliament, asking that specific spatial parameters be included to define the minimum size of designated public areas, in which public events will not be allowed. On 17 March 2010, the parliament approved the amendments. According to the Venice Commission's assessment, the draft law conformed to European and international standards. The law nevertheless contains certain shortcomings, notably because it seeks to regulate the exercise of freedom of assembly in considerable detail.

During the period of investigation one particular case remained the focus of attention of the Council of Europe in relation to freedom of association and assembly. In 2005 The European Court of Human Rights found Bulgaria in breach of the provisions of the European Convention on Human Rights concerning the Macedonian minority, specifically in relation to the denial of registration for the very small, nationalistic Macedonian party, OMO Ilinden-Pirin (United Macedonian Organization Ilinden-Party for Economic Development and Integration of the Population), confirmed by the Sofia city court in the beginning of January 2009 on grounds of signature forgery. In May 2009 the Bulgarian Supreme Court of Cassation decided as the last moment that the party could not demand re-registration as they had not respected the formalities of the relevant law at the time, that is, the 2005 Political Parties Act. The Committee of Ministers ended the supervision of the case by issuing a Final Resolution in December 2009, which, according to Bulgarian authorities, unequivocally states that Bulgaria did abide by the ECHR judgment in question. However, new applications are pending before the court, raising again the questions of registration of the UMO Ilinden party. In February 2010 the Commissioner for Human Rights, Thomas Hammarberg, published a report on his visit to Bulgaria on 3-5 November 2009, pointing out, among other things, this case. The commissioner invited the authorities to consider an amendment to the constitution to better safeguard minorities' freedom of association and assembly and to fully align practices with Council of Europe standards. Bulgarian authorities commented that no convincing arguments in support of such legislative revisions were provided in the report of the commissioner.

In Bulgaria freedom of expression is unrestricted for citizens, groups and the press within the basic democratic order. Media pluralism is in place, which is confirmed by the large number of media outlets that operate in Bulgaria. During the period under review, the Bulgarian media sector suffered with structural problems in relation to ownership transparency. Amid the economic crisis, the media market found itself vulnerable in relation to offering space for the diversity of opinion. Huge economic barriers to the entering of new actors in the market have emerged, determined by the advertising market, with all its associated flaws. On the positive side, other notable developments include the role of online media and blogs in broadening the scope of free speech.

Freedom of  
expression

8



The issue of ownership became especially heated during the economic crisis. In October 2010 parliament adopted new legislation that obliged print media to make public the names of their owners once a year. The new regulation however does not apply to electronic media. When discussing media ownership in Bulgaria, one should consider the problem of capital origin. The latest developments on the media market have led to a near monopoly by a new media group, whose source of capital is a matter of discussion in society. This new group is owned by Irena Krasteva, a former head of Bulgaria's state lottery company, and Delyan Peevski, a member of parliament from the Movement for Rights and Freedoms (MRF) party. The group's portfolio includes BBT TV channel, Weekend Weekly, Monitor Daily, the Telegraf Daily, the Politika Weekly, a local Veliko Turnovo daily called Borba, a local Plovdiv daily called Maritsa, TV7 EAD, and the newspaper Express.

The severe economic crisis also affected the quality of journalism during the period under review. According to the reports of Freedom House in 2009–2010, media in Bulgaria remained “partly free,” facing, as did many other countries, economic pressures. In other international reports on the freedom of the press, Bulgaria together with Romania scores lower than any other EU member state and is compatible with countries such as Serbia, Albania and Belarus. In 2009 Reporters without Borders warned that investigative journalism and media pluralism were “seriously threatened” by organized crime and pressure from political and business quarters.

The Bulgarian media landscape also became a scene for a confrontation between President Georgi Parvanov and the government of Boyko Borisov. Parvanov cited the example of amendments to the Law on Electronic Media, put forward by the ruling majority to reduce the number of people on the regulatory body, the Council for Electronic Media (CEM), from nine to five. Under the amendments the president will now appoint two instead of four CEM members, whose term will be two years, unlike the terms of those appointed by parliament to serve three years. Parvanov, who vetoed the changes, said that they were intended to instill fear within the media by demonstrating that the government could not be stopped from achieving its goals. According to Parvanov, it was also meant to frighten “certain media.” Parvanov also said that he was using his veto on the Law on Electronic Media to express his general opposition to the government's legislative program. In May 2010 the prime minister reacted to the president's claims by sending a letter to editors-in-chief of Bulgarian-language media, demanding a response to three questions about alleged pressure from the government. Following this, media bosses and editors-in-chief produced official statements declaring the government was not exerting pressure on their publications and programs. The outcome from this initiative by the prime minister however is questionable.

### 3 | Rule of Law

While many problems remain, there is a working system of checks and balances between the executive, legislative and judicial branches of power. During the period under review the Bulgarian parliament was in the process of adopting important amendments to the Judicial Authority Act, including new rules for admission to positions in the judiciary, and checks by the State National Security Agency (DANS) on members of the governing body of the judiciary, the Supreme Judicial Council, before top magistrates are allowed access to classified information. The changes proposed by the Citizens for the European Development of Bulgaria (GERB) government are part of the new Strategy for Judicial Reform in the context of Bulgaria's EU membership. According to opponents of the reforms, the idea of an executive agency testing members of the Supreme Judicial Council would threaten the constitutional principle of separation of powers.

Separation of  
powers  
9

The principle of independence of the judiciary is enshrined in the constitution. A specific feature of the Bulgarian judicial system is that, unlike most European countries, it consists of three groups of magistrates: judges, prosecutors and investigators. The Supreme Judicial Council as an independent elected body is charged with overseeing the governance of the judiciary, thus ensuring that the principle of the independence of the judiciary is observed. An independent judicial inspectorate was set up and launched its first inspection missions in 2008. The Bulgarian judiciary has been for years in a state of constant reform, with procedural changes and institutional revamping, but results until now have been modest. Genuine independence of the judiciary continues to be hampered by corruption and clientelism. Administrative justice remains a concern as does criminal procedures (especially the pre-trial phase).

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. On 23 June 2010 the government passed a Strategy for Judicial Reform in accordance with the conditions of full membership of the European Union. The strategy includes structural, functional and administrative changes to the court system, the work of the Supreme Judicial Council, the responsibilities of the judiciary and administrative questions. The European Commission considered the changes introduced to the Penal Procedure as an important step forward. Amendments to the Judicial Authority Act by the end of 2010 endorsed the much-debated idea of the ruling majority for the creation of an "anti-mafia" tribunal on grounds that the judiciary as a whole was overloaded, and "incapable" of coping with organized crime.

In parallel to legislative activities under the judiciary reform process and in the context of the government's desire to live up to its law-and-order rhetoric, the

executive and judicial branches have entered a vicious circle of mutual accusations. Throughout the period under review the prime minister and the interior minister declared the judiciary incompetent and of sabotaging the efforts of Bulgarian police each time a judicial decision ran counter to the publicly stated expectations of the executive. In 2010 some high profile cases ended with release or no conviction for suspects on grounds of a lack of sufficient evidence. Representatives of the judiciary have reacted by accusing the executive of interference and by claiming that there are problems with democracy in Bulgaria. However, scandals involving magistrates in 2009–2010 in property, corruption and “brokerage” schemes further damaged the image of the judiciary, suggesting that Bulgaria’s problems with the rule of law lie beyond their scope of efforts. This impression will hopefully prove wrong, but it is actually favorable to the ruling majority.

Effective prosecution of high-level corruption and abuse of office has for a long time been a problem in Bulgaria, yet only recently has it become a political priority. The Citizens for the European Development of Bulgaria (GERB) government has demonstrated the political will to fight high-level political corruption. However, Bulgarian institutions still have a complex learning process ahead to provide convincing results. Most of the high-profile lawsuits that involve organized crime or corruption have ended in a not-guilty verdict. In addition to launching a number of investigations into the activities of former government ministers, Prime Minister Boyko Borisov also reacted swiftly in cases where allegations concerned his party’s own functionaries. During the period under review, Bulgaria succeeded in securing a number of indictments in organized crime and high-level corruption cases, including against two members of parliament, three former ministers, three former deputy ministers and, for the first time, an acting minister. A number of senior state officials and mayors were also indicted for high-level corruption. In March 2010 the General Secretary of the State Agency for Bulgarians Abroad, Stefan Nikolov, was arrested and charged with abuse of power. The arrest followed the detention of the Director of the Migration Department of the Bulgarian Interior Ministry, Stefan Hristov, on charges he was giving permanent Bulgarian residence status to people who were not entitled to it. In July 2010 Sergey Stanishev, the leader of the opposition Socialist Party, was formally charged in connection with a missing classified report handed to him while he was acting prime minister.

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 their rights. The Bulgarian ombudsperson 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 the persons assigned with the provision of public services. By the end of 2009 the number of complaints submitted to the ombudsperson increased by 12% in comparison to 2008. The Bulgarian Commission for Protection against

Prosecution of  
office abuse

8

Civil rights

9

Discrimination (CPD) acts as an independent state authority for prevention of discrimination, protection against discrimination and ensuring equal opportunities. The proceedings before the CPD are very similar to those before the courts, and a decision by the commission has all the features and weight of a court judgment. In 2009, 1,039 complaints were lodged with the CPD, while in 2008, 738 complaints were booked.

According to reports of local and international human rights organizations, Bulgarian authorities respect the human rights of citizens in general, but problems still persist, notably regarding discrimination against minorities, particularly Roma and against people with disabilities. Roma in Bulgaria often live in segregated housing settlements without legal security of tenure, which places them at high risk of forced evictions. In 2010, there were some cases of police brutality; for example, on 26 July 2010 police entered the home of the Mustafovi family in Kardzhali without proper authorization and mistreated several family members. This incident and other police actions, as well as a significant increase in eavesdropping, justified by the government as an important instrument in fighting organized crime, has raised serious discussions over police brutality and general violations of civil rights. Restrictive legislation has been enacted with regards to the Internet, enabling government agencies to arbitrarily collect data on users.

A recent resolution of the Parliamentary Assembly of the Council of Europe names Bulgaria as a country with “major systemic deficiencies” which results in repeated violations of the European Convention on Human Rights. The number of ECHR verdicts against Bulgaria is continuously rising, from 51 in 2007–2008 to 61 in 2009 and 69 in 2010. By the end of 2010, the Justice Minister Margarita Popova declared that soon citizens will be able to file claims with Bulgaria’s own Human Rights Court instead of with the European body. The new court will strictly adhere to deadlines of issuing rulings on human rights cases and will compensate those whose rights are deemed violated.

In 2010, major legislative reforms were controversial as the reforms potentially breached fundamental rights. One example was a legislative proposal allowing Bulgarian courts to confiscate property suspected to have been provided through criminal activity; the other example was the proposal on the creation of specialized courts to hear high-profile organized crime and corruption cases, under special procedures. The Ministry of Justice consulted the Venice Commission to ensure that these new proposals would not be seen as breaching the fundamental human rights of suspects. The Venice Commission has approved the proposed amendments to the so-called law on seizing inexplicable property, saying it had all the safeguards needed to protect citizens’ rights, and concluded that the draft laws did not give rise to any fundamental problems of compliance with European standards.

#### 4 | Stability of Democratic Institutions

Bulgaria's democratic institutions, including the judiciary and state administration, perform their functions with moderate effectiveness. During the period under review, some friction could be reported between the executive and the president on several occasions, as well as between the executive and the judiciary over the issue of efficiency in fighting 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.

Performance of  
democratic  
institutions  
8

Bulgaria is a parliamentary democracy and the constitutional powers vested in the prime minister and the government gives these institutions significant influence. The presidential institution has limited competencies, mainly in foreign policy, defense and legislative veto powers. However, President Georgi Parvanov, a former Bulgarian Socialist Party (BSP) leader whose second term in office ends in 2011, managed to position himself as to exert informal influence on decision-making. During the period under review, Parvanov and Prime Minister Boyko Borisov were in constant conflict. In November 2010, Parvanov announced the formal beginnings of his new political group, The Alternative for Bulgarian Revival (ABV, an acronym that stands for the first three letters of the Bulgarian alphabet).

A disturbing tendency during the period under review is the widespread use of special surveillance devices and spectacular demonstrations of police action against alleged suspects. Although the internal minister's actions to secure the observance of laws and ensure public order, according to his own words, enjoy widespread public approval, critics point to the danger of Bulgaria resembling more a police state than a democracy. A number of arrests have been filmed and broadcast on TV, and in some cases viewers witnessed the undue humiliation of suspects by the police. The arrest of former Defense Minister Nikolay Tsonev on 1 April 2010 spurred public outrage over police brutality, as masked police officers made Tsonev kneel while Deputy Sofia Prosecutor Roman Vasilev called him "a criminal." Concerns are also growing in the wake of a wiretapping scandal involving the political establishment that shocked Bulgaria in early January 2011.

Shortcomings regarding the accountability of the judiciary persist. Since July 2009, the Bulgarian judiciary has faced a series of corruption allegations as well as allegations over the trading of influence and mismanagement, all of which have damaged the judiciary's public reputation.

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 seem to exist.

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 traditional political parties' authority, blurring not only the dividing lines between "left" and "right" but also between nationalist and, paradoxically, pro-European sentiments. European Union membership after 1 January 2007 and the new challenges it presented reinforced the process of reorganizing the Bulgarian party system. Generally a process of fragmentation has continued, but also new questions have arisen, such as over the place and role of businesses and business leaders, many of whom have already created their own parties that are especially active on the local level. Informal leadership is another common feature of the relatively new political formations that emerged after the 2005 parliamentary elections. This trend was first introduced by the former mayor of Sofia and current Prime Minister Boyko Borisov and his Citizens for a European Development of Bulgaria (GERB) party. GERB is a typical "leader's party," following the model of the National Movement Simeon II, formed around the Bulgarian King Simeon Saxe-Coburg Gotha, which won the 2001 elections only months after emerging on the political scene. The electoral cycle of 2009 confirmed GERB as the biggest and most influential party in the country and confirmed that the country's "traditional" parties of the left and right in Bulgaria, the Bulgarian Socialist Party (BSP) and the Blue Coalition, were weakening. They also confirmed the rise of populist players and parties formed around charismatic personalities, campaigning on issues of anti-corruption, personal integrity and a moderate nationalism. The emergence of the new political project of President Georgi Parvanov, the Alternative for Bulgarian Revival (ABV), changes the situation on the left of the political spectrum. Parvanov's political intentions are not clear; yet the movement has declared itself as an alternative to the ruling GERB party.

Party system  
6

In the parliamentary elections of 5 July 2009, GERB won a landslide victory with about 40% of the votes, claiming 116 seats in the 240-seat Bulgarian parliament. Deciding not to form a multiparty coalition, Borisov appointed 16 ministers from his party to form a cabinet as a minority in parliament. The Bulgarian Socialist Party-dominated Coalition for Bulgaria won 17.7% of the vote (40 seats), Ahmed Dogan's Movement for Rights and Freedoms (which had been a partner in the two

previous governing coalitions) won 14.45% of the vote (38 seats), Volen Siderov's ultranationalist National Union Attack (Ataka) won 9.36% of the vote (21 seats), the center-right Blue Coalition (co-led by the leaders of its two major constituent partners, Martin Dimitrov of the Union of Democratic Forces and Ivan Kostov of the Democrats for a Strong Bulgaria) won 6.76% of the vote (15 seats), Yane Yanev's right-wing Order, Law and Justice party won 4.13% (10 seats).

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.

Interest groups

8

A large number of NGOs are involved in policy discussions via different committees, working groups and consultation procedures. Interest group participation in politics is not yet regulated by lobbying restrictions; by the end of 2010 the National Assembly had not voted on a lobbying law, although discussions have been in progress for several years. The Citizens for the European Development of Bulgaria (GERB) government and their block in parliament seems to have postponed discussions on this controversial issue. There exists confusion between lobbyist activities and advocacy, the latter performed extensively by non-governmental organizations strictly in the public interest.

Democracy is undisputed among the Bulgarian population, and political protests do not call the constitutional framework into question. The decreasing trust of Bulgarian citizens in their national democratic institutions, however, should be taken seriously. Only 14% of Bulgarian citizens surveyed in June 2009, or prior to the general elections of 5 July 2009, declared that they had trust in the judiciary, compared to an EU average of 45%. Trust in the national government in the same period was expressed by only 17% of Bulgarian citizens, compared with 50% who claimed they trusted the European Commission. These results reflect deep disappointment with the country's mainstream political elites and a pervasive perception on behalf of society over the unfair nature of the country's transition process, rather than mistrust in democracy per se. To 32% of Bulgarian citizens, Europe means democracy; this result represents the highest percentage after Romania among member states, combined with 61% of respondents expressing trust in the European Union in 2010. Public opinion polls have shown unprecedented levels of support for the Citizens for the European Development of Bulgaria (GERB) government among Bulgarian society after the party assumed power. Almost a year after, Prime Minister Boyko Borisov's approval rating was 64.7%; in the following months it fell to 43% to 44%, while the GERB party's approval rating has fallen from 30.4% in June 2010 to 27.5% in October 2010. In May 2010, the Bulgarian institution that secured the highest level of support by the population was the police, at 53%. The Bulgarian parliament is trusted by 30% of

Approval of  
democracy

8

the population, while the approval rating for President Parvanov has been gradually falling, although slowly. The stable, high approval ratings for Prime Minister Borisov and the Bulgarian police reflect, after all, a general dissatisfaction with the democratic performance of the political establishment after the fall of communism, particularly the perception that even after entering the European Union, the rule of law still does not apply equally to everyone in Bulgaria. It is disturbing that a majority of Bulgarian citizens would like to see state power strong and concentrated, even if it means a stronger police state; many believe this would solve the country's social and economic problems. No alternative to this type of populist, democratic regime has been put forth.

A 2008 study on social relations showed that in general, Bulgarian society holds a degree of prejudice against people with other ethnic backgrounds. According to the study, only 10% of Bulgarians would allow their children to study in a class where one-third of pupils are of a minority ethnic background, although there is some variance in attitude to different ethnic groups. Only one in every four Bulgarians feels comfortable about having Roma as close neighbors.

In Bulgaria there are a large number of registered non-governmental organizations (NGOs). A 2009 survey showed that 50% of Bulgarians have neither trust nor distrust for civic organizations. In 2009, the report showed that as well 50% of Bulgarians had participated in some form of charity giving, whether donating money to a person in need or sending a text message in support of a campaign. In general, more systemic civic involvement is less widespread.

One aspect of social capital which attracted attention during the economic crisis is inter-household transfers, including remittances, which can serve as an alternative social safety net. Data from crisis monitoring surveys carried out by the World Bank and The Open Society Institute show that such transfers have a pro-cyclical character. Also, poorer households are less likely to have relatives or friends able and willing to provide financial support.

Social capital  
7

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

In most European Union countries there are few individuals living on less than \$2 per day, yet in Bulgaria as of 2003, some 2.3% of the population did so. The 2003 report was the last year the World Bank officially published this indicator for

Question  
Score

Socioeconomic  
barriers  
7



Bulgaria. (In the next survey in 2007, the indicator of relative poverty threshold was instead used.)

The last Human Development Index places Bulgaria among countries with high human development. Bulgaria is also 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. In 2009 Bulgaria's Gini score was 33.4, compared to an EU average of 30.4; in 2008 the Gini score was 35.9. Paradoxically, the economic crisis may 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.

Bulgaria fares well on criteria of gender equality and gender empowerment, is ranked high on the Gender Empowerment Index and has one of the lowest gender pay gaps in the European Union. Yet persistent structural poverty affects disproportionately certain ethnic and social groups, especially Roma, the rural population and elderly people with low pensions.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	42113.7	51824.9	48568.7	<b>47714.5</b>
GDP growth	%	6.4	6.2	-5.5	<b>0.2</b>
Inflation (CPI)	%	8.4	12.3	2.8	<b>2.4</b>
Unemployment	%	6.9	5.6	6.8	-
Foreign direct investment	% of GDP	31.4	19.3	7.0	<b>4.5</b>
Export growth	%	6.1	3.0	-11.2	<b>16.2</b>
Import growth	%	9.6	4.2	-21.0	<b>4.5</b>
Current account balance	\$ mn.	-11437.0	-11875.3	-4256.3	<b>-736.1</b>
Public debt	% of GDP	18.6	15.5	15.6	<b>18.0</b>
External debt	\$ mn.	32966.8	48602.7	53498.9	<b>48077.2</b>
Total debt service	\$ mn.	4197.0	5375.0	5210.1	<b>4014.4</b>

Economic indicators		2007	2008	2009	2010
Cash surplus or deficit	% of GDP	3.3	3.1	-0.1	-
Tax revenue	% of GDP	23.1	23.3	21.0	-
Government consumption	% of GDP	16.7	16.6	16.3	<b>15.8</b>
Public expnd. on edu.	% of GDP	4.1	-	-	-
Public expnd. on health	% of GDP	6.6	7.1	7.4	-
R&D expenditure	% of GDP	0.48	0.49	-	-
Military expenditure	% of GDP	2.6	2.1	2.0	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 7 | Organization of the Market and Competition

Since 2002, the EU Commission has concluded in its regular reports that Bulgaria is a functioning market economy. The Commission for the Protection of Competition, responsible for state-aid control and anti-trust matters, plays an important role in the liberalization of Bulgaria's economy. During the period under review in general there has been no improvement in the ease of doing business in Bulgaria. The country was ranked 44 on the World Bank Doing Business 2007 index, and ranked 45 in 2008. In both 2010 and 2011, Bulgaria's ranking was 51. The ease of paying taxes has improved. Market entry has been further facilitated by removing obstacles to registration and licensing, but other aspects such as property registration, obtaining construction permits, investor protections and closing a business have become more challenging. Most prices are determined by the market. The government regulates electricity, water and natural gas through the State Agency for Energy and Water Regulation, as well as pharmaceutical prices, which are regulated through a special bylaw defining prices for drugs eligible for public funding. Regulation of prices in these fields still suffers from a deficit of transparency, although there has been some improvement. There are some concerns about market capture; for example, Lukoil, the owner of Bulgaria's sole refinery, remains the principal player on the retail petrol market. Corruption, inefficient bureaucratic processes and deficient law enforcement have also been reduced. Attempts to reduce the size of the informal economic sector by reducing taxes have proven futile. Opinions on the size of the informal sector in Bulgaria diverge widely, ranging from 12% to 35% of GDP. One of the more influential studies on the size of the informal economy was carried out by the Center for the Study of Democracy, which estimates its size between 20% and 30% of Bulgaria's GDP.

Market-based  
competition  
8

In 2008 a new law on competition was drafted, as a result of a twinning project with an Italian authority and funded by the European Union. The new law, made effective December 2008, pays special attention to transparency in the work of the Commission on Protection of Competition and to cooperation with the EU Commission and national competition authorities of EU member states. The most important part of the commission's work represents cases of acquisition, which could lead to excessive monopoly power, but the bulk of decisions are related to public procurement, contested by procedure participants.

Anti-monopoly  
policy  
9

There are some problems with natural monopolies regulated by the State Commission on Energy and Water Regulation. The commission is responsible for licensing and price setting for water, heating, electricity and gas. The control and transparency of the commission's work has somewhat improved and details of the deliberations in the commission have become more accessible to the media and other observers.

Some concerns remain over how effective state regulation is with regards to the utilities sector (electricity distribution) as well as with regards to Lukoil, a quasi-monopolist in the oil sector.

As a member of the European Union, Bulgaria follows the EU customs code and all associated regulations and commercial policies.

Liberalization of  
foreign trade  
10

The European Union is Bulgaria's largest trading partner. Other important trading partners include neighboring countries and Russia (mainly oil and energy). Main import items include raw materials (38%), investment goods (27%) energy (19%) and consumer goods (16%).

Foreign trade transactions contracted dramatically in 2009 and 2010. Imports were especially hard hit, due to a decline in foreign direct investment. Yet a benefit of this was a decrease in the country's current account deficit, one of the main macroeconomic challenges for Bulgaria. In 2010 the export market started showing signs of recovery, which has been interpreted as a sign of improving competitiveness among Bulgarian companies.

At the end of 2010, Bulgaria claimed 30 banking institutions, 24 domestic banks and six foreign bank branches registered in the country. Bulgarian banks have been subject to foreign acquisitions, and now 80% of the Bulgarian banking sector is foreign-owned. The leading banks offering domestic cash management services are those that are at least partially foreign-owned. Additionally some major international banks offering cash management services have a presence in Bulgaria.

Banking system  
9

Credit growth in 2007 and early 2008 was followed by a contraction in 2009 that deepened in 2010. Banks operating in Bulgaria followed a more traditional approach to tackling risk, which proved an advantage during the financial crisis.

Banks did not have significant problems with bad assets, although defaults over business and private credit rose, albeit slowly. This is remarkable as foreign ownership of the banking sector has exposed Bulgaria to external risk, as some 25% of the market is dominated by Greek banks. Banks' credit policy has since become conservative, which has contributed to the contraction of the economy. Co-financing for EU funding has also become more difficult to secure, which is likely to have a negative impact on funds absorption.

The financial crisis severely affected the country's stock market, which initially lost more than 90% of its value; a market recovery is expected to be protracted and slow.

## 8 | Currency and Price Stability

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 Bulgarian National Bank (BNB, the country's central bank) 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. These instruments were used after 2006 when credit expansion rates grew beyond control and threatened the stability of the currency. The BNB is fully independent from the executive, and its governor and deputy governors are appointed by parliament. The CBA's exit strategy is participation in the European Monetary Union, which was declared a main government priority, but now seems postponed indefinitely. The economic crisis solved somewhat naturally Bulgaria's problems with high inflation which accompanied the country's high growth rates. Regardless Bulgaria was not invited to join the European Exchange Rate Mechanism (ERM II), the precursor to joining the eurozone. Pre-crisis inflation rates are viewed as unlikely in 2011, though it appears that food prices, which remained stable in 2010, will rise, driven by a rise in international food prices and gas and fuel prices. This could have adverse social effects, as incomes stagnate and social transfers are frozen.

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, starting from the end of August 2008, and current dynamics

Anti-inflation /  
forex policy

9

Macrostability

8

seem to suggest a recovery will not be swift. By the end of 2009 it was obvious that steady consumption growth rates were over for an indefinite period. Inflation has been robust, reflecting strong external price shocks, as well as adjustments to controlled prices and convergence with price levels in the European Union. At the outset of the economic crisis, Bulgaria claimed one of the lowest public debts in the European Union, at 14% of GDP. For years before the crisis Bulgaria reported general government budget surpluses. This led to the accumulation of large fiscal reserves which helped to buffer falling revenue in 2009 and 2010.

In an effort to fulfill the requirement set out in the Stability and Growth Pact of maintaining no more than a 3% budgetary deficit, the government at the end of 2009 postponed payments to both contractors and program beneficiaries. Early in 2010 it became clear that these efforts were pointless, as the European Union uses budgetary accounting on accrual basis and postponement of cash payments does not affect deficit statistics. Postponed payments simply led to a further deceleration of economic flows and reduction of internal demand.

Foreign direct investment (FDI) contracted severely in 2009 and 2010. According to statistics published by the Bulgarian National Bank, in the third quarter of 2010 the seasonally unadjusted FDI flow was €384.5 million. As a comparison, the total unadjusted net flow in 2009 was almost €3.3 billion.

## 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 amendments to regulation over 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.

Large shares of enterprises in key economic sectors have been privatized. There are still state-owned assets in the energy, transport and construction sectors. In the period under review, the private sector was the country's main engine of economic growth. 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 some sectors such as telecommunications and energy. Some privatizations of previous monopolies, such as the water company in Sofia or some electricity companies, have not functioned particularly

Private enterprise  
9

well due to the nature of the contracts, which did not set out enough public interest protections.

By the end of 2010 the state considered the additional privatization of some 31 companies still owned by the state or where the state was still a shareholder, as a means to generate additional and badly needed revenue. The value of the shares in these companies however did not compare in value to previous larger privatization deals carried out in previous years; the total amount expected from this wave of privatizations is no more than €40 million.

## 10 | Welfare Regime

In 2009 and 2010 reforms to reduce the number of institutionalized children made progress, and more community based services became available. Some progress was made in the integration of children with special educational needs in schools. Community based social services for the homeless are rudimentary at best and services for people with mental disabilities are practically non-existent.

Social safety nets

7

The unemployment insurance system offers benefits to the unemployed for four to 12 months. The last state safety net is a system of social benefits. In 2007 and 2008, the government reduced the time for receiving social benefits initially to 18 months, then to 12 and then finally to six months. These measures were believed to inspire the long-term unemployed or discouraged job seekers to find employment. Instead such measures put many individuals in a more difficult situation, especially the most vulnerable groups such as the Roma. As of January 2011 the cap on the duration of social benefits was removed, following a statement by the Council of Europe that this practice was incompatible with the welfare philosophy in Europe. The case had been referred to the Council of Europe and the European Commission by the Bulgarian Helsinki Committee, which claimed that it constituted a case of discrimination. From January 2008 a new 10% flat tax on personal income was introduced, representing one of the lowest personal income tax rates in the world. The measure was taken to stimulate the economy, but its social consequences have raised some concerns. The flat tax remained during the economic crisis, though several times proposals were made to reintroduce a progressive taxation system, most notably by the minister of labor, and in the president's yearly economic report, which assessed the impacts of the flat tax. A similar analysis was made also by the now-closed Agency for Economic Analyses and Forecasts. In general there is little evidence that the flat tax was a main driving force for investment and economic growth, but it is believed to have contributed to increased luxury consumption and imports and to the rise in relative poverty rates and the country's Gini index.

In the 1990s Bulgaria introduced a three-pillar insurance model, developed and promoted worldwide by the World Bank. Currently the pension system is organized

on a pay-as-you-go basis, with two small capital-accumulating pillars in the form of mandatory and optional additional contributions to private pension funds. Pensions constitute a significant revenue source for households in Bulgaria, and their share in an average household budget increased by 26.2% in 2005–2007. Other social transfers play an insignificant role.

A major issue is the pension funds of some workers' groups, like miners. These funds, operational for 10 years, functioned on the basis of private accounts. Yet it became quickly clear that the funds had not accumulated enough money to pay decent pensions to some workers, especially to those whose employers defaulted on the payment of social security contributions. In some cases, employers had paid simply the minimum social security contribution. Control on behalf of the state has not been efficient. The collapse of the stock exchange in 2008–2009 and the resulting negative returns also contributed to the problems faced by private pension funds. On average these private accounts contain slightly more than the equivalent of €1,000, which would result in a monthly average payment of €25 per person, below the state social pension rates. The government thus announced the controversial step to nationalize the funds, and pay all pensions from the main budget of the National Social Security Institute. Liberal economists have claimed that the main cause of the crisis is the unwillingness of the government to increase the retirement age. But the collapse of the stock market has undoubtedly been the main source of trouble for private pensions.

Bulgaria maintains solid anti-discrimination laws and has established a Commission for Protection against Discrimination, 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, and an increasing number of such cases (42 cases in 2009) have been addressed by the commission.

Despite protections, discrimination against Roma continues as is clearly shown when ethnic group is examined as part of available welfare indicators. Policies for the integration of Roma have never gained momentum, but the financial crisis led to the cancellation of previous major commitments to Roma integration, such as a national program to improve living conditions, combined with the cancellation of much of social assistance. The poverty rate among Roma was more than 70% at the end of 2010, compared to 21% in the general population.

Equal opportunity

7

## 11 | Economic Performance

The Bulgarian economy was seriously affected by the global financial and economic crisis. The economy fell into recession a bit after many other major EU countries did, but it is expected that the Bulgarian recession may last longer, and an exit protracted.

Following significant growth rates of some 6% per year from 2000–2008, signs appeared during the last quarter of 2008 that the crisis had finally reached Bulgaria according to main economic indicators. In 2009, the magnitude of the slowdown surpassed many pessimistic projections. GDP declined at an annualized rate of -4.9% in the second quarter of 2009, -5.4% in the third quarter and -5.9% in the fourth, with an average rate of -5%. The downturn continued into 2010, with an annualized rate of -4% in the first quarter, representing the second largest rate of decline in the European Union after Latvia. Later in 2010 the pace of decline was reduced and the Bulgarian economy ended the year with a growth rate close to zero (Eurostat forecasted a rate of -0.1%).

According to data from the Open Society Institute and the World Bank (Early Warning System 2010), almost 4% of Bulgarian households could claim that employed family members were forced by their employers to go on unpaid leave within a period of 14 months. A sign of the escalation of the crisis can be witnessed in that of those forced into unpaid leave, only 10% took the leave from January-June 2009; yet 46% took leave from June-December 2009, while 44% took leave just within the first two months of 2010.

In some 3% of households employed family members were instead transferred from full-time to part-time work; 12% of working individuals were transferred to part-time work during the first six months of 2009, while 50% were transferred in the second half, and 38% in the first two months of 2010. As a result of reduced working hours or unpaid leave the household budgets of those families involved were reduced drastically. Taking into consideration that 77% of households claimed they have no savings, and that another 10% of households would be able to survive only for one or two months if they relied exclusively on savings, it is clear that many households forced to deal with less working hours (compared to unemployment) amid the crisis faced a loss of income and subsequently a reduced quality of life.

Over the last decade, economic growth and falling unemployment have led to a steady growth in average wages. There were indications during the first half of 2009 however that growth in the private sector was slowing while public sector wage levels fell.

Output strength  
8



## 12 | Sustainability

The Environment Protection Act was promulgated in 2002 and then amended many times, the last amendments enacted 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 to reduce greenhouse gas emissions and mitigate climate change. There needs to be greater public awareness of and involvement in the implementation of legislation.

Environmental  
policy  
8

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 the Bulgarian legislation with the promulgation of the Biological Diversity Act in 2002. But the implementation of Natura 2000 in Bulgaria was very controversial, as ecological organizations and land owners in territories designated for protection under Natura 2000 organized many protests against the directive.

Bulgaria is among the lowest scoring countries in the EU Climate Policy Tracker, a comprehensive review of policies in the European Union which follow greenhouse emissions. The main conclusion of the 2010 report is that Bulgaria still 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, with the introduction of a building certification system emphasized as one good example of progress.

Regarding EU Emission Trading Scheme (ETS) implementation, principal requirements have already been transposed into an Environmental Protection Act. It remains to be seen if the trade quotas will generate enough incentive for the overall reduction of carbon emissions in Bulgaria.

The safety risks of nuclear energy generation continue to be debated - given the plans to construct a second plant at Belene with Rosatom in charge of the contract and the controversial messages coming from the government.

Austerity measures due to the global financial and economic crisis affected education as well, as funding for school education was reduced by 10% in 2009. Public spending on science was among the most affected budgetary items. Total public spending on education in Bulgaria is much lower than the EU average. The last data published by Eurostat is for 2007, when Bulgaria spent 4.13% of GDP on education, while the European Union average was 4.96%.

Education policy /  
R&D  
6

Bulgarian student performance in international surveys such as the Program for International Student Assessment (PISA) confirm state failures in education policy.

School education reform in Bulgaria presents a textbook example of how structural reforms alone can have a negative impact on both quality of and access to education.

## Transformation Management

### I. Level of Difficulty

Structural constraints on governance are moderate in Bulgaria, but increased during the economic crisis as revenue for public spending dwindled. Living standards in general are low for the majority of the population and only worsened during the period under review because of the global economic crisis, restrictive fiscal policies and protracted reforms in key sectors. The strong economic growth of previous years was not used as a window of opportunity to accumulate investments in human resources and restructure the economy. The government during the period under review has invested mainly in large infrastructure projects, such as highways, counting on future spill-over effects such as investment growth and revenues from tourism for growth.

Structural  
constraints  
4

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 non-governmental organizations 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. With the phasing-out of donor support and approaching EU membership, NGOs had to seriously reconsider their strategies in view of answering the needs of potential constituencies, or find new a new focus, including consultancy work. Access to EU funding as part of structural funds proved difficult, as in these programs NGOs compete on equal footing with other applicants, including business applicants. Due to the structural peculiarities of the sector, traditions of genuine civic engagement are not especially strong.

Civil society  
traditions  
4

Although there have been only a few violent incidents based on social, ethnic or religious differences, Bulgarian society has the potential to foment ethnic conflicts, especially regarding the Roma community. Unlike the Turkish minority, Roma are not represented in politics at a national level. Interethnic relations are part of the Bulgarian political debate as far as the political participation of the Movement for Rights and Freedoms and its leader Ahmed Dogan are concerned. Dogan is currently under investigation by the Bulgarian Supreme Administrative Court for

Conflict intensity  
3

alleged conflict of interests. While his party was in power, he received BGN 1.5 million as a consultant for four large-scale, state-funded hydroelectric projects. The nationalist party National Union Attack (Ataka) holds 21 out of 240 seats in parliament. Following the 5 July 2009 elections, Ataka became one of the staunchest, though not esteemed, supporter of the ruling party and its minority government. The only issue where the ruling party and Ataka diverge is on the issue of Turkey's potential accession to the European Union, which is exploited by Ataka for populist purposes. Generally, Ataka has become a more moderate party and as a result, has faced loss of popularity with many followers who aren't comfortable with current government policies.

## II. Management Performance

### 14 | Steering Capability

The European Union, particularly the European Commission, continues to play the role of key reform driver in Bulgaria. The Citizens for the European Development of Bulgaria (GERB) government is determined to take a longer-term perspective over reforms, but due to several constraints has proven unable to formulate major reforms and instead has focused on crisis management and policy-making led by public opinion. 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 media statements of the prime minister in relation to their sphere of competence. As a relatively new political party, participating in general elections for the first time in 2009, GERB relies on a relatively limited pool of trained administrators and senior staff experts, which undermines the capacity of the government to formulate evidence-based strategic reforms. Finally, an overall lack of clarity on policy measures can be observed. Policy measures have been continuously revised, retracted on several occasions and organized according to circumstances, as in the example of the economic crisis measures, inspired by the prime minister's ambition to satisfy diverging interests and preserve his undisputed charisma. On the positive side, the government embarked on a clear prioritization of policies such as the fight against organized crime and corruption, the first such push in Bulgaria in 20 years and a goal supported by the public. However, policy measures are increasingly perceived as extreme. Besides, the supremacy of police actions over the socioeconomic reforms is already producing serious counter effects, and the executive itself is not entirely immune from external pressure by actors who benefit from the status quo. The GERB government has also dedicated itself to

Question  
Score

Prioritization  
8

infrastructure improvements, specifically highway construction. Similarly to the fight against organized crime, infrastructure is another sensitive topic, as Bulgaria is notorious for its terrible road network. It is moreover considered by the prime minister a sort of panacea amid other thorny issues, a quick fix that offers great spill-over potential in attracting foreign investment, generating good social will and securing the prime minister's positive place in Bulgarian political history.

After one and a half years in office, the government has been able to realize just a small part of its declared objectives. The fight against corruption and organized crime is ongoing, but results are mixed in terms of effective prosecutions; the reasons for which are complex. There is a general perception of less corruption in state administration, and the management of EU funds has been significantly improved. However, the economy does not show convincing signs of recovery, and strategic goals such as the adoption of the euro and entering the border-free Schengen area have been postponed. The government has operated in a crisis-management mode and is heavily dependent of the personality of the prime minister to get things done. The government has trouble following up on policy objectives, and is prone to retreat when facing opposition from vested interests.

Implementation  
7

Continuity across governments is weak. Typical political discourse includes discarding almost all achievements of the current government, especially by the immediate predecessor, as strategically wrong, incompetent and corrupt. 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. Often voting patterns reflect a preference for new political faces who may have had some success or a career abroad, and who are therefore supposed to offer technocratic and managerial knowledge from a more cultivated context. The implication is that local knowledge accumulated through the domestic political process is lacking, and needs to be reshuffled if not replaced altogether.

Policy learning  
7

This sort of process is wildly idealistic, and is obviously not conducive to policy learning or informed change.

## 15 | Resource Efficiency

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 was done to curb corruption and improve performance. Analysts and think tanks such as the Center for the Study of Democracy have pointed out that political corruption is spreading, as public procurement processes are used to support companies that support the ruling party, which then help to fund political parties not only during

Efficient use of  
assets  
7

the election season. Some analysts have reasonably called this sort of corrupt practice a “political investment.”

Bulgaria has been implementing for several years a strategy of decentralization, developed in 2006 together with the first program for strategy implementation in 2006–2009. A Council for Decentralization was also established at the Council of Ministers in July 2006, in charge of coordinating the implementation of the decentralization strategy. The strategy aims to accelerate the transfer of powers and resources from state authorities to municipalities to reinforce local self government. The package of measures includes an increase in the municipal revenue base and the increased capacity and responsibility of local bodies in formulating and implementing municipal policies. One of the key issues addressed by the Council for Decentralization is the status of regional government, which found that “sector policies at the district level are not coordinated” and “the functions of regional governors are unclearly formulated and often contradicting.” In the long run Bulgaria will have to consider changing its administrative and territorial structure at a Nomenclature of Units for Territorial Statistics (NUTS III) level and introducing elected authorities for each of its 28 districts. In Bulgaria, no planning powers can be devolved to districts effectively as district authorities are appointed by the central government and not elected; thus their legitimacy comes from the government. Municipal administrative capacity, especially in smaller municipalities, needs further improvement, especially in the context of the absorption of EU funds.

The Citizens for the European Development of Bulgaria (GERB) government came to power in 2010 on a wave of popular disappointment with the previous tripartite government over issues of corruption and a lack of transparency in decision-making. GERB is a young political party that began as a political movement, following a common Bulgarian political pattern of political newcomers quickly gaining public support. The popularity of the prime minister and other government ministers was enough to counterbalance for year and a half inconsistencies in the government’s policy-making. But from the end of 2009 through 2010, opinion polls reflected a loss in popularity of the ruling party.

Policy coordination was strongly influenced by dominating personalities in the government and especially the person of the prime minister. In some reform-ready sectors such as health care, a number of minister changes resulted only in confusion and a lack of progress. One minister resigned after announcing to the media plans for introducing health care co-payments, when it was revealed that according to the prime minister, such plans had never been discussed within the government and or the party.

A series of phone tapping scandals revealed by the media between government ministers and high-ranking public officials has shown the public the deep enmity

Policy  
coordination  
6

between elected officials, which in turn impedes the normal functioning of key government institutions.

Government messaging is often uncoordinated and incoherent. The government however has become more transparent and open to the public, taking into consideration conflicting opinions. Yet government decision-making is still a chaotic process, which leads to widespread confusion within the citizenry. Opinion polls have shown that citizens in many cases do not understand or have little idea as to the direction or content of government decisions even after lengthy government discussions and debates.

The sense that corruption had penetrated every aspect of Bulgarian society was the issue that dogged the tripartite government coalition, and thus fighting corruption became the rallying cry of the Citizens for the European Development of Bulgaria (GERB) party's electoral program. Despite the strong political will of Prime Minister Boyko Borisov and his cabinet to combat corruption, the public at large is uncertain whether current institutional arrangements are sufficient to successfully implement the government's anti-corruption policy. The declaration of political will has proven insufficient, as the perception of the level of corruption is intertwined with the perception of government reform efforts in different public sectors. Much of the reform effort has appeared inconsistent or hard to follow by the public. Bulgaria adopted a National Anti-Corruption Strategy in November 2009 and an action plan for its implementation. The action plan spells out ambitious corruption prevention activities across the public sector with the help of foreign assistance. According to the European Commission's assessment in its latest report under the Cooperation and Verification Mechanism (CVM) of June 2010, however, effective implementation of the new national anti-corruption strategy had not yet started. The European Commission's analysis also showed that effective prosecution of corruption is still weak. Positively, however, one high-level official was imprisoned over corruption involving EU funds and other sentences in two cases regarding fraud with EU funds and money laundering were handed down. The data provided by Bulgaria on the first year of implementation of a law, passed in 2008, over conflict of interest show that few cases of conflict of interest have been identified or sanctioned, and little evidence of corruption has been sent to the prosecution. The implementation of public procurement legislation in Bulgaria is still weak; the prior assessment that legal measures alone can hardly remedy the problem of political and institutional culture in Bulgaria's public administration remains valid.

Anti-corruption  
policy

7

## 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

Consensus on goals

10

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 the European Union, aimed at fostering reform, is welcomed by the public and political actors, while the government works to take necessary corrective measures. On 23 June 2010 the government passed a “Strategy for Judicial Reform in accordance with the Conditions for Full Membership of the European Union.” Representatives from all relevant judicial institutions, prominent legal NGOs and all legal professional associations took part in discussions.

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 culture of impunity that once plagued the country has largely disappeared; however, it has been replaced instead by a culture of questionable surveillance and police action.

Anti-democratic  
actors  
9

The political leadership is generally able to depolarize conflicts. Dividing lines appear mainly as a result of increasing social disparities and ineffective social inclusion policies, rather than by ethnically driven conflicts. A discriminatory potential in society however still exists. One example is that many citizens, especially parents and teachers in preparatory, primary and secondary school, oppose any physical proximity to people in the Roma community. According to data from the Bulgarian Commission for Protection against Discrimination, Muslims and Turks equally reject Roma individuals. To the extent that it does exist, Bulgarian nationalism typically holds anti-Turkish and anti-Roma views, but such an ideology requires a complex reading with a shift of focus on the inefficiency of anti-corruption and social inclusion policies that have created a feeling of social injustice, paradoxically felt by both sides along ethnic lines.

Cleavage /  
conflict  
management  
7

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 comment was lacking. Thus consultation has often been a matter of formality, actions that have given a sense, albeit incorrect, of transparency in administration policy-making. During the period under investigation civil society actors were more active in pursuing policy advocacy and monitoring, and have made progress in building capacities; one example includes civic monitoring over the progress on Bulgaria’s accession to the border-free Schengen area. In 2010 an advocacy campaign was launched to make obligatory administration rules for the conduct of civic consultations in drafting acts and policy strategies. The rules were elaborated by an informal coalition of more than

Civil society  
participation  
8



50 civic organizations and were endorsed by the Council for Administrative Reform in October 2010.

Reconciliation continues to be an issue of evolving political and institutional culture rather than of social relevance. For example, in February 2008 parliament controversially debated communist repression in Bulgaria to approve changes in the law for the Political and Civic Rehabilitation of Persecuted Persons. Efforts to reopen a painful discussion on the so-called revival process against Bulgarian ethnic Turks for political aims are another 2008 example. The long-delayed opening of the archives of the Bulgarian state security services was the most frequently recurring issue over reconciliation in 2007–2008. The lack of political will to open the files has a long history and has severely impeded the consolidation of democracy. Selective leaking of information and blackmailing for political purposes has occurred in previous years. Painful and controversial as it was, the discussion gradually turned into a banality, preparing the ground for voicing gross generalizations and depleting social resources for a reflective dealing with the past. By the end of 2010 the commission investigating the communist-era police announced that nearly 190 Bulgarian ambassadors and consuls had been collaborators and agents of former communist state security. The Bulgarian parliament adopted a declaration to recall the ambassadors, and all parties in parliament except the Bulgarian Socialist Party (BSP) backed the declaration.

Reconciliation  
8

## 17 | International Cooperation

The Bulgarian political leadership makes use of international assistance in its own reform policies. The government has clear democratic and economic development aims, and there is a roadmap specifying steps to reach these aims and defining the inputs required from international partners/donors. Under the EU's Cooperation and Verification Mechanism, 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 government is generally considered a credible and reliable partner within the international community. Following the previous tripartite coalition government's troubles with frozen EU funds, the cabinet of Prime Minister Boyko Borisov took office with a promise to return international confidence in Bulgaria and fight high-level corruption. The new government proved successful in unblocking EU funds and improving relations with the European Commission and the European Anti-Fraud Office (OLAF). The national system of protection against fraud with EU funds was improved.

Credibility  
8

The prime minister also demonstrated the ability to turn failure into success after Foreign Minister Rumiana Jeleva showed poorly as Bulgaria's EU Commissioner-designate during her European Parliament hearing. The parliament had to arrange a new hearing for the new Bulgarian designate, Kristalina Georgieva, which delayed the entering into office of the entire second Barroso Commission by three weeks. Georgieva, whom Borisov had convinced to give up her vice president post at the World Bank, managed to mend political fences for the Citizens for the European Development of Bulgaria (GERB) government and in December 2010 was named "European of the Year." Georgieva became the second Bulgarian EU commissioner after Meglena Kuneva, who was in charge of consumer protection during the first Barroso Commission, to win the award.

Prime Minister Borisov and his government were praised in 2010 by high-ranking United States police and security officials for their efforts to combat international organized crime and to crack down on corruption.

At the end of 2010, however, several events cast a shadow on the political image of the cabinet. Although two consequent governments have worked to meet the technical criteria for accession to the border-free Schengen area, the country's technical compliance with requirements proved insufficient. France and Germany, followed by other EU member states, made clear their opposition to Bulgaria's Schengen accession over concerns of flaws related to security, the fight against corruption and organized crime and the judiciary. Bulgaria assured Brussels that it would take additional action to prove its readiness via an Action Plan for Urgent Measures. The recent revelations of wiretaps, including phone conversations where the prime minister is allegedly heard speaking of the need to "protect" a businessman from customs checks, have raised concerns. The European Commission has since asked Bulgarian authorities for information as to whether the wiretaps were made legally.

In December 2010, it was revealed that almost half of Bulgaria's current heads of diplomatic missions had a record of ties with the former communist state security organs. Prime Minister Borisov called for the diplomats' removals; however, his cabinet would need the signature of President Georgi Parvanov to initiate the recall, which is not guaranteed, as Parvanov has defended the diplomats as contributors to Bulgaria's successful integration in the European Union and NATO.

The political leadership in Bulgaria actively and successfully builds and expands cooperative international relationships and promotes regional and international integration. To maintain its role as an important, albeit not leading, player in the region has been among Bulgaria's main foreign policy priorities. To this end Bulgaria follows a consistent policy in relying mainly on the instruments of the European Union and sustained United States involvement, including cooperation

with Black Sea region countries and participating in international cooperation activities.

The government of Prime Minister Boyko Borisov declared the western Balkans and the Black Sea region a major priority in Bulgaria's foreign policy. Foreign Minister Nikolay Mladenov, who took office in January 2010, has put forth special efforts in pursuing a consistent and focused regional policy by intensifying relations with all neighboring countries, emphasizing that Bulgaria supports the membership of all western Balkan countries in the European Union and wants to have a leading role to assisting them in this process. Bulgaria has been actively developing relations with Kosovo. In April 2010, Bulgaria became the first country to be visited by a delegation of the Kosovo parliament. In late 2010 Bulgaria opened officially its embassy in Pristina. Although the Borisov government confirmed Bulgaria's support for Turkey's EU accession, the issue was kept alive in 2010 as the nationalist party Internal Macedonian Revolutionary Organization (IMRO) claimed to have gathered 330,000 signatures in support of a motion for a referendum on the issue. This was the first ever civic initiative organized under the Act for Direct Citizens' Participation in Local Government. According to the act, members of parliament have to schedule a debate to decide if a referendum will be held. By the end of 2010, the Bulgarian parliament balked at scheduling a referendum, obviously seeking to avoid any trouble for the cabinet that such a motion might produce. The parliament decided that the administrative population census directorate had to first establish the legitimacy of at least 200,000 of the signatures submitted. This negative stance toward Turkey's EU prospects is shared by the nationalist party National Union Attack (Ataka), which, although an informal ally of the ruling party, proved its decisive supporter in parliament following a confidence vote of early January 2011. In 2009 Prime Minister Borisov and his ruling party Citizens for the European Development of Bulgaria (GERB) publicly endorsed Ataka's campaign for a national referendum through a special daily news bulletin in Turkish on the BNT 1 channel. Since the idea met with resistance within the country and abroad, Borisov withdrew his support.

The Black Sea region continues to be a key area of interest for Bulgaria. The country assumed the rotating presidency of the Organization of the Black Sea Economic Cooperation (BSEC) on 1 January 2010, and in May 2010 the presidency was formally passed to Greece. The Bulgarian government has been working very actively on the EU Strategy for the Danube Region. Bulgaria has declared several main priorities, the most important being transport connections. The other main priority is tourism and social and cultural dialogue.

Energy resources continued to be a central issue in regional policy. When the Borisov government replaced the previous Socialist-led cabinet, the new prime minister said he needed time to reassess the country's large energy projects. The government challenged previous energy agreements with Russia and suggested a possible

withdrawal from projects due to their high costs (such as the Belene nuclear power plant) or the risks the projects posed to the environment (the Burgas-Alexandroupoli oil pipeline). The Belene deal was expected to be signed by Bulgaria and Russia on 13 November 2010 during a visit of Russian President Vladimir Putin to Bulgaria, but the Bulgarian government was not satisfied with the price offered. Subsequently, Bulgaria invited Serbia, Croatia and Macedonia to join the project, but development in this area is still forthcoming.

## Strategic Outlook

The protracted economic crisis has exposed deficiencies in the Bulgarian model of development. This includes the state's policy of economic growth regardless of the social costs, as well as the state's slashing of expenditures that support the education, research, social and labor market sectors.

The difficulties Bulgaria faced within its first two years of EU membership, accompanied by the global financial crisis, increased the significance of politics and policy formulation in response to the vulnerability of the Bulgarian economy, the country's fragile social security system and the deficiencies in the implementation of the rule of law and of good financial management principles. Although the European Union exerts tremendous influence on Bulgaria's reform process even after accession, a successful democratic consolidation and a socially responsible market economy cannot be achieved without the political will of the national leadership.

The new Bulgarian government, which came to power in mid-2009, managed to restore confidence within the European Union, especially by producing visible results in the fight against corruption and organized crime. Yet successes shouldn't come at the expense of an encroachment on civil rights.

The legitimacy crisis of the previous political leadership was resolved in the parliamentary elections in 2009 and in the ensuing change of government. Political consensus even among the parties that initially supported the Citizens for the European Development of Bulgaria (GERB) however quickly dissipated. Trust in the new government despite the prime minister's popularity has started to fall. The GERB government has managed to partly restore European Union trust in Bulgaria, although the government's stated targets of adopting the euro and entering the Schengen area are still in the works.

Bulgaria has to continue its program of economic restructuring, improve the basis for social inclusion and development of human capital and make its economy more resistant to external shocks. Bulgaria's main transformation problems lie in the realm of good governance and social consolidation. The continuing transformation process should focus on the following key elements:

- Strengthening the rule of law and law enforcement. Civil rights should not be sacrificed in a push to fight crime and corruption.
- Building a knowledge-based society. Education and R&D were severely affected by austerity measures introduced in response to the global financial and economic crisis. Public spending on education and R&D should be restored to pre-crisis levels and then increased in parallel with

measures to renovate curricula and design a true long-term policy for human resource improvement and innovation.

- Increasing solidarity in Bulgarian society. Bulgaria needs to focus on equitable access to benefits of economic growth and EU membership for all societal groups. The country also needs to strengthen its social safety net and invest more to secure equity in education and the provision of health care.