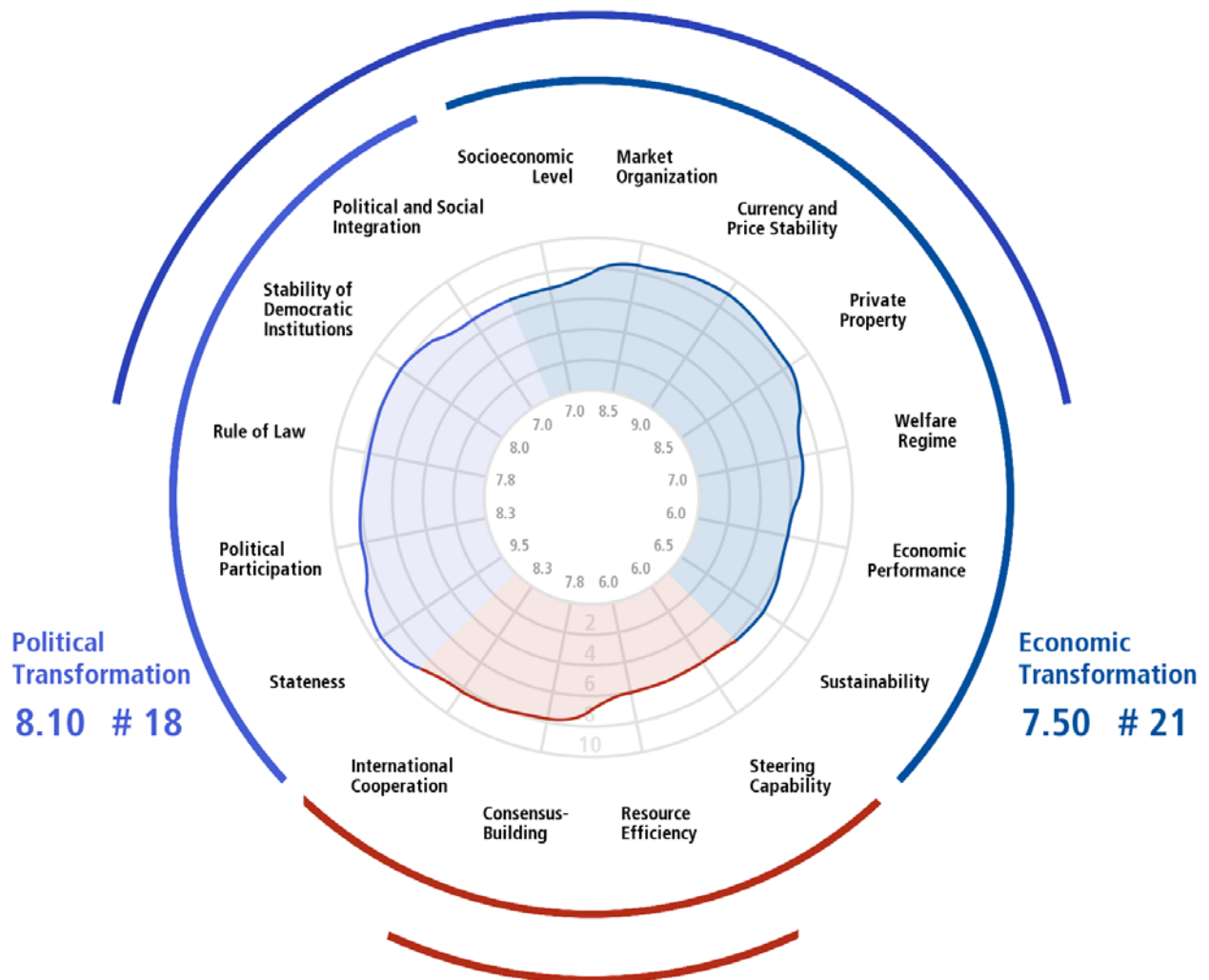


# Bulgaria

## Status Index

**7.80 # 17**

on 1-10 scale out of 129



**Political Transformation**  
**8.10 # 18**

**Economic Transformation**  
**7.50 # 21**

## Governance Index

**5.98 # 27**

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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## Key Indicators

Population	M	7.1	HDI	0.794	GDP p.c., PPP \$	19199
Pop. growth <sup>1</sup>	% p.a.	-0.7	HDI rank of 188	56	Gini Index	37.4
Life expectancy	years	74.5	UN Education Index	0.801	Poverty <sup>3</sup>	% 3.8
Urban population	%	74.3	Gender inequality <sup>2</sup>	0.223	Aid per capita	\$ -

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

Despite significant GDP growth and a decrease in unemployment in 2015 to 2016, Bulgaria remains the poorest EU member state, with GDP per capita in PPS below half the EU average and approximately one-third the per capita GDP in some of the leading EU Member States such as Ireland.

Political instability continued during 2015 and 2016. The second government of Boyko Borisov came to office in November 2014 and resigned in November 2016 following presidential elections resulting in a devastating loss to General Rumen Radev, who was supported by the main opposition party and became president in January 2017. Boyko Borisov's second government was supported by a rather diverse group of political actors from the political right, the left and the radical nationalists. This pattern of support required many concessions, including tolerating overt hate speech.

A referendum initiated by a popular TV host in November 2016 found strong popular support for introducing a majoritarian electoral system with compulsory voting and a reduction of public party funding. The turnout fell 13,000 votes short of the threshold to make the referendum binding, but the next parliament will have to decide how to respond to the referendum vote.

The state of democracy remains a concern. Media freedom is at alarmingly low levels and Bulgaria continues to be ranked at the bottom of the list of EU countries by independent democracy watchdog organizations. There is a slight growth in Euroscepticism, but approval of the EU in Bulgaria remains one of the highest across the EU. Support for the introduction of the euro however continued to decrease and, in 2016 for the first time, Bulgaria joined the countries in which skepticism toward the euro dominated.

In 2015, Bulgaria was criticized by various international organizations for its failure to adequately investigate and prosecute hate crimes and tackle prejudice against asylum seekers, migrants, Muslims, Roma and LGBT people.

The challenges ahead for Bulgaria are significant. Bulgaria still has no strategy to respond to the shrinking and aging population. It will be necessary to find new drivers of economic growth.

Bulgaria will also need to adapt to the unstable security situation in the region and the eventual changes in the ways the EU is functioning.

## History and Characteristics of Transformation

Bulgaria's democratic and market economy transformation after 1989 has been slow and often muddled. As a consequence, structural economic reforms have been delayed. In 1989, the country's former communist political elites declared plans for gradual reforms and a smooth transition to avoid social cataclysm; yet this also helped the elite maintain their political leverage during the process in order to keep control. The economic elite, which emerged in the early 1990s, involved itself in redistributing or establishing indirect control over state property, often with dubious legality. At the same time, the intertwined political and economic elite showed no genuine interest in establishing a functioning or truly impartial judiciary. This created the basis for a stable symbiosis between the state and private economic interests. As a result, public approval over how the country's democratic system functions remained low, even though the 1991 constitution established the creation of democratic institutions and a functioning multiparty system. While democracy has always been the preferred form of governance for a large percentage of the population, the prolonged democratic transition has been perceived primarily as loss of stability and order within the state. From 1996 to 1997, Bulgaria experienced its deepest crisis as GDP fell by 10.1%, the banking system collapsed and a drop in foreign reserves destroyed confidence in the national currency. The currency board arrangement, introduced in July 1997, helped to stabilize the economy and bring inflation under control. However, popular disappointment with "traditional parties" of the left and the right gave way to populism and the emergence of new political actors from 2001 to 2007. Until 2001, Bulgarian politics was deeply polarized between the anti-communist right and ex-communist left. Rightist reformist parties missed the momentum to offer a viable reform agenda that went beyond ideological confrontation or adapt to the novel challenges Bulgaria was facing. Ideology lost its power of mobilization and ceased being a tool for the major political actors. Instead, nationalist populist rhetoric proved a better way of mobilizing support. In 2001, Bulgarians elected the exiled monarch Simeon Saxe-Coburg-Gotha as prime minister, but his promises for a better life for ordinary Bulgarians proved difficult to deliver. Saxe-Coburg-Gotha's party, the National Movement "Simeon II" (NDSV), lost public support and the general elections of June 25, 2005, yielded one of the most complex outcome in the country's post-communist history. A tripartite coalition government was formed with the Bulgarian Socialist Party (BSP) in partnership with the Movement for Rights and Freedoms (DPS) and the NDSV (later renamed: National Movement for Stability and Progress) with BSP's Sergei

Stanishev as prime minister. The Stanishev government managed Bulgaria's accession to the European Union in 2007 and enjoyed high rates of economic growth and improved economic performance, but the value of the country's gross domestic product per capita remained the lowest among EU countries. By the end of 2008 and beginning of 2009, Bulgaria's economy and industrial base suffered unexpected losses from the global financial crisis. In 2007, a new right-leaning opposition party, Citizens for the European Development of Bulgaria (GERB) emerged. Advocating a law and order agenda, GERB won the 2009 parliamentary elections and formed a minority government. The prime minister is also the president of the GERB party, Boyko Borisov. The commitment of the Borisov government to fight corruption and organized crime has been a particular source of disappointment. In February 2013, the GERB government resigned following months of anti-poverty demonstrations, at times violent. As the next coalition government of Plamen Oresharki failed to institute promised reforms, street protests began anew and instability grew. The collapse of the socialist government came less than 18 months after the resignation of the previous cabinet, after the Movement for Rights and Freedom (MRF) party withdrew its support.

After a turbulent two-year period with two rounds of early elections in 2013 and 2014, Bulgarian politics returned to stability in 2015. Following the 2014 early parliamentary elections, eight political parties entered parliament. The center-right GERB party, led by Prime Minister Boyko Borisov, formed a coalition government with the Reformist Bloc and the Alternative for Bulgarian Revival. The government was supported by the Patriotic Front. The Bulgarian Socialist Party (BSP), the Movement for Rights and Freedoms (DPS), Bulgarian Democratic Centre and the far-right Ataka constituted the opposition. Grand reform pledges were not fulfilled, partly due to the short operational period of the second Borisov government.

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

## Transformation Status

### I. Political Transformation

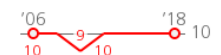
#### 1 | Stateness

There is no challenge to the state's monopoly on the use of force in Bulgaria. The legal order and political institutions in Bulgaria are fully secular without any influence from religious dogmas. There are no ethnic or other minority groups in Bulgarian society which would question the legitimacy of the nation-state.

Question  
Score

Monopoly on the  
use of force

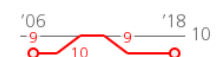
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The country's constitution defines Bulgaria as a nation-state, respecting the differences existing among Bulgarian citizens with regard to their ethnicity, native language and religion. Major groups in society accept and support the official concept of the nation-state. Bulgarian law does not define the term "national minority." The Bulgarian constitution does not recognize minorities but guarantees the right to ethnic self-determination. In the 2011 census, 8.8% of the population identified themselves as ethnic Turks, and 4.9% declared themselves Roma. The share of ethnic Bulgarians was 84.8%.

State identity

9



In 2000, when Bulgaria ratified the Framework Convention on National Minorities, the decision was made to recognize the right of self-identification of persons belonging to national minorities so that they would be able to take advantage of their rights, set in the Framework Convention for the Protection of National Minorities.

Foreigners can obtain Bulgarian citizenship based on Bulgarian descent, having a Bulgarian parent, on grounds of adoption by Bulgarian citizens, "general naturalization" or for "special contributions" to Bulgaria. Granting and reinstatement, as well as exemption or deprivation of Bulgarian citizenship, is one of the few powers granted to the Bulgarian vice-president. In 2015, Bulgarian citizenship was granted to 9,854 people and to 12,880 people in 2016. 2016 saw the continuing trend of steady

increases in people from Macedonia (FYROM) obtaining Bulgarian citizenship: 1,874 in 2014, 4,315 in 2015 and 6,196 in 2016. 42 people from Syria obtained Bulgarian citizenship in 2015 and 72 in 2016. According to data from the president's administration, most people obtaining Bulgarian citizenship actually do not stay in the country. Between 2010 and June 2014, only 10% to 23% of new citizens have settled in Bulgaria.

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

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

According to the 2011 census in Bulgaria, about 60% of the population declared themselves to be Eastern Orthodox Christians. The Bulgarian Orthodox Church holds a relatively weak place in society and speaks out on issues only occasionally. Its consistent opposition to the Sofia Pride parade is relatively visible. In 2016, the Bulgarian Patriarch Neofit issued a statement vehemently condemning the parade, and by the end of 2016 he sent a letter of support for an initiative that insists on a uniform definition of marriage and family in the European Union, directed against same-sex marriage. In the letter, Patriarch Neofit says that the Orthodox Church "is the guardian of traditional marriage," it is good to support the "Mom, Dad and Kids" initiative, and the church gives its blessing and support to protect the right of each EU member state to define its own policies on marriage and family.

Bulgaria disposes of all fundamental structures of a civilian state apparatus. State resources are collected and allocated on a broad basis following strict constitutional procedures. According to the World Bank, 86% of the population had access to improved sanitation facilities, while 99% of the population had access to improved water sources in 2015.

No interference of religious dogmas

10



1

Basic administration

9



1

## 2 | Political Participation

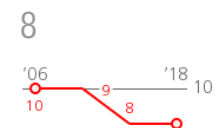
During the period under review, local elections took place on October 25 and November 1, 2015, and presidential elections were held on November 6 and 13, 2016. Turnout in the local elections was 54% and 41% in the first and second rounds, whereas turnout in the presidential elections was 57% and 52% in the two successive rounds. There were no reports about major irregularities. However, a report prepared by Transparency International noted that vote-buying, a long-standing well-known practice in Bulgaria, continued to be used, especially in poorer communities.

Following an initiative by then-President Rosen Plevneliev, a national referendum on the introduction of electronic voting and voting from abroad was held alongside the local elections. While a majority of the referendum participants supported this reform, the turnout was too low for the referendum to become binding. The ruling coalition nevertheless amended the electoral law to introduce electronic voting and other controversial provisions. The amendments were passed by the parliament and later vetoed by the president. The parliament however overruled the veto, and on 26 May 2016 the amendments came into force. The amendments include the introduction of compulsory voting, transfer of most election related responsibilities from the Council of Ministers to the Central Election Commission and new rules for establishing polling stations abroad. The amendment to Bulgaria's electoral system has resulted in increased voting restrictions for Bulgarians living abroad, who can now only cast their ballots in diplomatic missions.

In 2016, a national referendum was initiated by the moderator of the popular TV show "Slavi's Show" and was held at the time of the presidential elections on 6 November 2016. The three questions asked if people supported (1) introducing a majority electoral system for the election of members of parliament, (2) introducing mandatory voting for elections and referendums, and (3) setting the annual state subsidies for political parties and coalitions at BGN 1 (€0.51) per valid vote received at the last general elections. In the context of a lacking informed debate, support for all three proposals was strong, with the shares of positive answers being 71.95%, 61.89% and 72.16% respectively. Although impressive, the low turnout for the referendum only obliges the assembly to examine the referendum questions.

Democratically elected rulers do have the effective power to govern and no political enclaves exist. Civil-military relations are well established in Bulgaria. Some organized criminal and questionable business groups appear to be influential actors in Bulgarian politics. State capture by criminal, oligarchic, or at least nontransparent, interests is not to be ruled out although difficult to document. Cases of state capture include the 2014 bankruptcy of Corporate Commercial Bank, Bulgaria's fourth biggest bank, that was at the center of an informal network between business and political elites.

Free and fair elections



1

Effective power to govern



1



A matter of concern, also in the period under review, has been the media's lack of transparency regarding ownership. Media in Bulgaria has a very strong influence on politics and therefore both politicians and strong business people are highly motivated to control the media with large audiences. Most of the press is considered to act in support of whatever the leading political party is. Bulgaria was the lowest ranked EU country in the World Press Freedom Index of Reporters Without Borders. In 2015, its position dropped to 106 and in 2016 to 113 out of 180 countries in the ranking compared to 100 in 2014.

The expert community is of the consistent overwhelming opinion that the dependence of the judiciary on powerful political and economic actors is the most significant factor behind the stagnation of democratic reforms in the country.

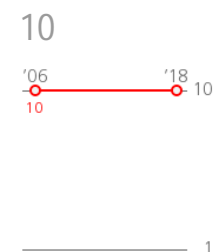
According to the European Commission, in spite of important improvements in the years following EU accession, criminal procedures in Bulgaria continue to present serious problems for the effective prosecution of complex cases, which include those related to high-level corruption and serious organized crime.

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

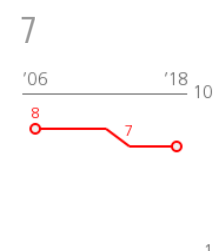
No severe violations of the right to freedom of assembly in either law or practice can be reported, except regarding the issue of freedom of association of the Macedonians in Bulgaria, which, according to the Bulgarian Helsinki Committee, continued to be violated in 2015, despite many past judgments by the European Court of Human Rights. Further efforts are needed to enhance tolerance for minority groups, in particular for the lesbian/gay/bisexual/transgender (LGBT) community.

In Bulgaria, freedom of expression is by law unrestricted. Media pluralism is in place, confirmed by the large number of media outlets that operate in Bulgaria. However, there are persistent serious concerns about the domination of the media market by business interests seeking political influence, severe censorship and self-censorship, media concentration, breaching of the basic ethical principles of journalism and the ineffective media self-regulation. During the period under review, Bulgaria continues to be the country with the least free media in the EU. Its position in the Reporters Without Borders Freedom of Expression Index dropped to 106 in 2015, and to 113 out of 180 countries in 2016, compared to 100 in 2014. In comparison, in 2006 the

Association /  
assembly rights



Freedom of  
expression



country ranked 35. Making a distinction between editorial and sponsored content, including electoral promotion, is often impossible. According to a study of the Association of European Journalists Bulgaria (AEJ-Bulgaria) in 2015, municipal level three or five-year information services contracts, some of which include a requirement “to preserve the good image” of the administrative authorities, are a widely used method of influencing media content of regional media. At the end of 2016, when the amendments to the Public Procurement Act were put to vote, the members of parliament left a text allowing the institutions to directly place “orders for the purchase of programming time or ensure broadcasts that are assigned to media service providers.”

During the period under review the growing influx of asylum seekers and migrants to Bulgaria triggered a wave of xenophobic announcements in the media. In the period 2013 to 2016, the spread of hate speech in the country grew significantly. In early 2016, vigilante groups were formed to hunt down migrants along the country’s southern border. The Prosecutor’s Office brought criminal charges against the leader of one of the vigilante groups but the media had repeatedly presented their actions as “patriotic” and supporting border policing by the official authorities.

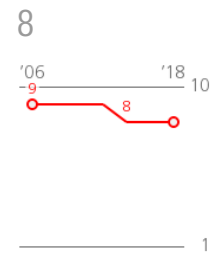
### 3 | Rule of Law

There is a working system of checks and balances between the executive, legislative and judicial branches of power, although the system is not without its problems.

While the government is accountable to the National Assembly, the frequent changes of government during the review period have not strengthened the legislature. The political fragmentation and two elections have constrained its capacity to monitor and debate substantive policies. Bulgaria’s directly elected president lacks strong formal powers but played an important moderating role during protests in 2013. Trust in institutions of all three branches is very low and requests to carry out judicial reform, and even change the constitution, were part of civic protests that continued throughout 2013 and most of 2014. Power games in the Supreme Judicial Council continued in 2015 to 2016. In 2015, the Supreme Judicial Council continued to fail in its tasks to ensure the independence of the judiciary and to increase the system’s efficiency and hence public trust in it. In Bulgaria there is a massive dissatisfaction of the judiciary’s work and doubts about its independence from various interests.

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

Separation of powers



Independent judiciary

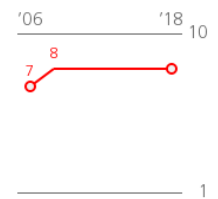
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The Bulgarian justice system has been monitored by the European Commission under a special Cooperation and Verification Mechanism (CVM), which was created to track Bulgaria's (and Romania's) post-accession progress. CVM monitoring is still ongoing, and will remain in place during Bulgaria's Presidency of the Council of the EU in the first half of 2018. Reform of the prosecution is closely related to judicial independence. According to the 2015 human rights report of the Bulgarian Helsinki Committee, in its current unreformed, totalitarian state, the prosecution exercises influence over the court in way that significantly limits its independence. The so-called Worms scandal that unfolded in 2015 revealed a complex system of dependencies in the judiciary. Corrupt deals made possible by the lack of judicial independence in the Supreme Judicial Council's appointment of court managers, as well as irregularities in the case distribution system, had rendered the Sofia City Court leadership politically dependent.

In early 2015, the Bulgarian parliament adopted the Updated Strategy for the Continuation of the Judiciary Reform elaborated by the Ministry of Justice. The strategy was praised in the European Commission's report on progress in Bulgaria under the CVM. Steps toward constitutional amendments were initiated following a series of discussions with the involvement of all sections of government, whose opinions varied from total denial about the necessity of such amendments to appeals to form a Great National Assembly. The initial draft act to amend and supplement the constitution regarding the judiciary incorporated two major changes. The first was the division of the Supreme Judicial Council into two colleges: one of the judges and one of the prosecutors and investigators. The second change mandated such constitution and election procedure for the colleges that would guarantee the independence of the judiciary. The draft did not receive sufficient parliamentary support resulting in the so-called historic compromise: a draft act that proposed fewer changes. The amendments to the constitution were adopted by the National Assembly on December 16, 2015. Contrary to the text of the historic compromise, changes were adopted aimed at increasing the influence of the political quota in the judges' instead of in the prosecutors' college. In reality, parliament refused to create an accountability mechanism for the prosecutor general.

In July 2016, the parliament amended the Judicial System Act to enable individual judges and prosecutors to participate in the governance of their institutions.

Effective prosecution of high-level corruption and abuse of office cases has for a long time been a problem. Convictions of high-level political officials have been rare, and, according to a report published by the European Commission in 2015, "serious barriers exist for the effective investigation and prosecution of corruption, especially involving high-level officials." The GERB-led government pledged to tackle corruption and organized crime. However, flawed investigations and deep-seated problems with the judiciary meant that few high-profile cases resulted in convictions. Trust in the democratic institutions and the judiciary remains low due to allegations



Prosecution of  
office abuse  
7

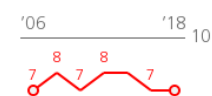
of high-level corruption and organized crime. The country is considered among the EU states most affected by corruption. The setbacks in the anti-corruption strategy were also noted in the 2015 and 2016 progress report under the CVM. The parliament rejected a draft law on a new unified anti-corruption body, which added to the challenges for law-enforcement and the judiciary.

Civil rights are guaranteed by the constitution and respected by all state institutions. Bulgarian citizens are protected by mechanisms and institutions established to prosecute, punish and redress violations of civil rights. The Bulgarian ombudsman intervenes when citizens' rights and freedoms have been violated by actions or omissions of the state, the municipal authorities and their administrations, as well as by persons assigned with the provision of public services. According to the Council of Europe, progress on human rights protection remains slow in Bulgaria and greater attention should be paid in particular to the persons placed in institutions and the human rights of migrants, the latter being an important challenge for Bulgaria in 2015 coinciding with the refugee crisis in Europe. The number of asylum seekers in Bulgaria almost doubled in 2015 (20,391 compared to 11,081 in 2014). Only minor progress was made in developing integration services. Such services were mainly provided by informal citizens groups and large humanitarian NGOs. Along with the incoming migrants, another challenge to human rights protection for the period under review was the forced Roma evictions in two towns in Bulgaria (Varna and Garmen) without providing alternative accommodation to their inhabitants, including many children and young mothers. The controversial issue attracted the attention of international institutions such as the UN, the European Parliament and OSCE.

At the end of July 2016, parliament approved the first reading of a new counter-terrorism law that "allows the government to curb civil rights during an emergency," signaling growing concern over the threat of Islamist militants.

Statistical information provided by Bulgaria's Prosecutor's Office indicates that the special statutes in the criminal code are sparsely used, which include hate crimes, including on religious grounds, and crimes against the religious denominations. In 2012-2015, a total of 41 pre-trial proceedings concerning crimes against denominations were initiated. At the same time, only two of these cases, or less than 5%, have ended with an indictment. The LGBTI community in Bulgaria face social and legal challenges and discrimination.

On the positive side, in 2015 the Bill Amending and Supplementing the Access to Public Information Act was amended to improve both the regime for provision of public information and the procedures for the so-called reuse of information from the public sector. A positive development is also the introduction of amendments to the Social Assistance Act in late 2015-early 2016 regarding the procedure for placement in social institutions of persons with mental disorders under guardianship. Under the new procedure, a judicial review has been introduced.



Civil rights

8



#### 4 | Stability of Democratic Institutions

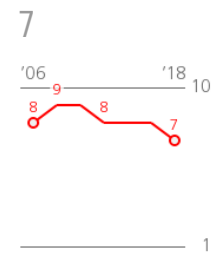
The performance of democratic institutions, such as the judiciary and state administration, was moderate and did not improve much. In 2015 and 2016, the Supreme Judicial Council continued to be a source of public scandals and internal controversies. The Supreme Judicial Council, which was substantially reshaped after Bulgaria joined the EU, is the body intended to manage the legal power and guarantee its autonomy.

Trust in nearly all state institutions is very low, with parliament and the courts being among the least trusted institutions. At the end of 2016 when president Plevneliev's mandate was ending, trust in the presidency was at its all-time low.

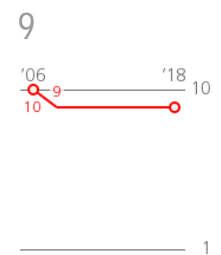
All relevant political and social players accept democratic institutions.

Despite the emergence of two extremist parties in recent years, with one of parties entering into the governing coalition, interethnic relations do not represent a significant risk to democratic institutions or political stability.

Performance of democratic institutions



Commitment to democratic institutions



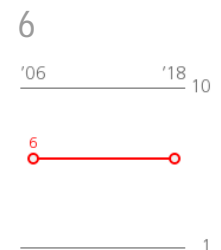
#### 5 | Political and Social Integration

The Bulgarian party system has been fairly stable for a long time. However, new political parties and politicians have regularly emerged and quickly gained support during each election campaign since 2000. In the turbulent period before and after accession to the European Union, the ability of the established party system to articulate and aggregate societal interests, and mediate between society and the state was frequently tested. Populist politics has gained more traction due to the continued erosion of the traditional political parties' authority, blurring the dividing lines

between “left” and “right.” At present, the two dominant forces in Bulgarian politics are the center-left Bulgarian Socialist Party (BSP) and the center-right Citizens for the European Development of Bulgaria (GERB). The current coalition government is led by Prime Minister Boyko Borisov, president of GERB. GERB is the only political party that has won a second consecutive mandate. GERB has established itself as the dominant center-right party. After Bulgaria joined the EU, the process of establishing a new party was simplified.

Public support for nationalistic ideas increased in 2013 and 2014, and a new influential nationalistic coalition, Patriotic Front, emerged. In 2015 and 2016, the

Party system



Patriotic Front was part of the ruling coalition government. During the presidential elections, held in October 2016, the Patriotic Front in coalition with another nationalist party Ataka had the third best results. The coalition called United Patriots nominated Krassimir Karakachanov for president.

Meanwhile, a center-right coalition Reformers' Bloc formed toward the end of 2013. The coalition brought together political parties rooted in Bulgaria's center-right politics of the 1990s, Bulgaria for Citizens and former members of the Movement for Rights and Freedoms. The Reformers' Block participated in the coalition government although they had only 23 seats in the 240-seat parliament. In the 2014 parliamentary elections the Reformist Block got almost 9% of the popular vote, while in the 2016 presidential elections they got less than 6% of the popular vote.

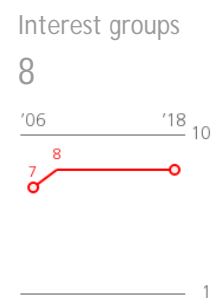
In April 2016, Democrats for Accountability, Freedom and Tolerance (DOST), a new party aimed at representing the interests of ethnic Turks in Bulgaria, was established by a dissenting politician of the Movement of Rights and Freedoms (DPS). The new party was actively supported by the AKP party of Turkey's president, but failed to replace DPS as the main advocate of Bulgaria's ethnic Turks.

Following the 2016 presidential elections the government resigned after the nominee of the ruling party, Chairwoman of the Bulgarian National Assembly Tsetska Tsacheva was defeated at the second round of the presidential elections by General Rumen Radev.

Societal interests are relatively well-represented in the political system. Bulgaria has established an institutional framework of social dialog and social partnership at all levels.

Marginalized groups in society, especially Romani, as well other socially and economically deprived groups in Bulgarian society, still cannot fully participate in society. In particular, they are barely represented in mainstream political parties. However, there are some strong NGOs representing different marginalized groups including the Roma.

In 2014 to 2016, the Bulgarian political landscape was very fragmented with a lot of different political parties in a very diverse parliament, and a ruling government coalition of political parties that held some incompatible ideas and interests. However various sociological surveys carried out between 2014 and January 2017 showed that between 44% and 57% of Bulgarians did not feel politically represented.



Democracy is undisputed among the Bulgarian population, and political protests do not call the constitutional framework into question.

There is however a group of almost one-third of the population prepared to have some of their democratic rights and freedoms suspended at least for some time if this could contribute to stability. Overall trust in institutions is very low.

A public opinion poll, conducted by the Open Society Institute Sofia in May 2016, indicated that public trust in Bulgaria's democratic institutions is at its lowest level since Bulgaria joined the EU.

Responses to the public opinion poll indicated that around 4% to 5% of the population trusted political parties or the parliament, while 10% of the population trusted government.

An October 2013 Eurobarometer survey found that 71% of Bulgarian respondents believe that the judicial system is worse than in other EU countries. This is the highest percentage in any EU country.

There is a widespread nostalgia for the communist regime among older generations.

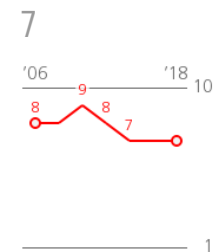
However, this should not be interpreted as desire to return to the undemocratic regime, but rather as a dissatisfaction with the current transition to a market economy, which has created large inequalities and a widespread sense of injustice.

A survey, carried out by the Open Society Institute Sofia in May 2016, found that 33% of respondents would accept some limitation of their civil rights and freedoms, if it would guarantee greater income security and economic stability. This suggests that there is latent support for an undemocratic policy agenda. Dissatisfaction with the way democracy is functioning in Bulgaria materialized in November 2016 referendum vote. A sweeping majority at the referendum voted for a fundamental change to the election system from proportional representation to a majority election.

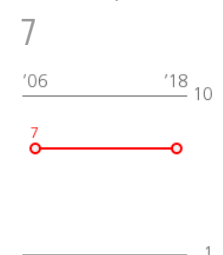
While the public often expresses dissatisfaction with the performance of the Bulgarian democratic system, no alternative seems viable and non-democratic movements do not appear to exist. There is some increase in Euroscepticism and a wave of anti-liberal sentiments.

Bulgaria has about 30,000 registered NGOs, but only a small number of them (up to 1,000) are active. According to the 2016 World Giving Index, published by the Charities Aid Foundation (CAF), Bulgaria ranked 129 out of 140 countries – down three ranks compared to 2014. This result is not unusual bearing in mind that many of the ex-socialist countries appear in positions beginning in the 100th. Bulgaria was ranked 106 in helping a stranger, 119 in donating money and 134 in volunteering time. This is rather unfortunate since many Bulgarian NGOs receive a relatively large amount of money from private donors and through EU funded programs. The

Approval of democracy



Social capital



Bulgarian system of social transfers is not very generous, leaving a lot of room for volunteerism and other charitable behavior. In the context of modern Europe, charitable donations and volunteerism should be regarded as a sign of the overall level of solidarity in society rather than as a replacement for a well-functioning social security.

According to a cross-national representative survey commissioned by the European Bank of Reconstruction and Development in 2016, 23% of the Bulgarians declared that most people can be trusted. This level of interpersonal trust is the third lowest in Southeast Europe, trailed only by Albania and Romania. Bulgaria also had one of the lowest shares of voluntary organization membership found by the survey in East-Central and Southeast Europe.

According to a 2015 public opinion poll of OSI-Sofia, 80% of the population does not participate in any form of social or political organization; less than 8% of all citizens are members of political parties, only 7% are members of NGOs. This limits considerably both the social basis and the area of operation of civil society actors – they are mostly active in Sofia and several other big towns.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

In the 2014 Human Development Index (HDI), Bulgaria scored 0.782, a small increase from its 0.777 score in 2013. Bulgaria ranked 59 out of 189 countries in 2014, one place lower compared to its 2013 ranking and a fall of four positions from 2011. The score spread for high human development was 0.700 to 0.790. Overall, Bulgaria remains

in the high human development group of countries, despite a lack of progress since 2011. According to Eurostat's definition, 22% of the population lived below the poverty line in 2015 (i.e., below 60% of the median income). This is among the highest rates of relative poverty in the European Union. The at-risk-of-poverty rate for the whole EU in 2015 was 17.3%. Mediterranean countries (Spain and Greece) and Baltic countries had comparable at-risk-of-poverty rates while Bulgaria's neighbor Romania had the highest at-risk-of-poverty rate (25.4%). In 2015, 41.3% of the Bulgarian population lived in poverty or social exclusion, according to Eurostat. This was the highest rate of poverty or social exclusion in the EU, similar to that in Serbia.

Question  
Score

Socioeconomic  
barriers

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In 2015, according to Eurostat data, Bulgaria's Gini coefficient of equalized disposable income after social transfers (net Gini) was 37, compared to an EU

average of 31. The higher the Gini coefficient, the higher the level economic inequality, accounting for all social transfers provided by the state. The economic crisis reduced the country's Gini score due to a larger percentage fall in higher incomes than in lower incomes, but since 2012 the Gini is on the rise. In 2015, the ratio of the average income earned by the richest 20% of the population to the poorest 20% (the so-called S80/S20 quintile ratio) reached 7.1, up from 6.8 in 2014. This was the third highest ratio in the EU after Romania and Lithuania. In general, income inequality in Bulgaria is high by European Union standards, irrespective of which indicator is used. Economic inequality has remained an issue for Bulgaria ever since the country joined the EU in 2007.

Bulgaria's Gender Inequality Index was 0.223 in 2015, placing it at 13 out of 17 East-Central and Southeast European countries with respect to the extent of gender equality in reproductive health, empowerment, education and labor market. Although Bulgaria dropped 10 ranks down compared to the previous ranking it continues to have one of the lowest gender pay gaps in the European Union a moderate gender gap in labor market participation and very low maternal mortality comparable to the most developed countries. The gender gap in the size of pensions is relatively high, but will be reduced if policies to increase the retirement age are implemented.

Furthermore, economic inequality remains structurally engrained, especially regarding the Roma. Existing policies do not contribute to reducing economic inequalities.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	55758.7	56732.0	50199.1	<b>52395.2</b>
GDP growth	%	0.9	1.3	3.6	<b>3.4</b>
Inflation (CPI)	%	0.9	-1.4	-0.1	<b>-0.8</b>
Unemployment	%	12.9	11.4	9.1	<b>8.0</b>
Foreign direct investment	% of GDP	3.6	3.6	5.5	<b>2.4</b>
Export growth	%	9.6	3.1	5.7	<b>5.7</b>
Import growth	%	4.3	5.2	5.4	<b>2.8</b>
Current account balance	\$ M	678.6	100.4	-69.1	<b>2237.9</b>

Economic indicators		2013	2014	2015	2016
Public debt	% of GDP	17.2	26.4	25.6	<b>27.8</b>
External debt	\$ M	51473.3	48083.2	40115.3	<b>39656.8</b>
Total debt service	\$ M	6203.7	5326.8	9464.4	<b>8129.7</b>
Net lending/borrowing	% of GDP	-0.8	-5.6	-0.7	-
Tax revenue	% of GDP	19.8	19.6	20.2	-
Government consumption	% of GDP	17.0	16.9	16.1	<b>15.8</b>
Public education spending	% of GDP	4.1	-	-	-
Public health spending	% of GDP	4.1	4.6	-	-
R&D expenditure	% of GDP	0.6	0.8	1.0	-
Military expenditure	% of GDP	1.6	1.5	1.3	<b>1.4</b>

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

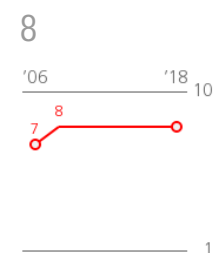
## 7 | Organization of the Market and Competition

Market competition has a strong institutional framework and the rules for market competition are mostly uniform and consistent for all market participants. Most prices in Bulgaria are determined by the market. Exceptions include pharmaceutical and energy prices. The prices for pharmaceuticals are negotiated by the National Health Insurance Fund, while energy prices are regulated by the Energy and Water Regulatory Commission (EWRC). The EWRC has been a point of public attention since massive protests over the electricity and heat prices occurred early in 2013, which precipitated the fall of the government.

According to the World Bank Doing Business 2017 report, Bulgaria ranked 39 out of 190 countries in the ease of doing business. Despite having one of the lowest tax rates in the European Union, Bulgaria continues to have one of the largest informal sectors. However, some analyses show that in recent years the informal sector may have started to shrink.

In 2015 to 2016, the Hidden Economy Index of the Center for the Study of Democracy showed that hidden employment receded according to both business representatives and the public at large. At the same time VAT fraud remains one of the main challenges for the Bulgarian tax authorities as it is the most important source of public revenue.

Market-based competition



The supply of natural gas is one of the main risks to Bulgarian energy security. The presence of only one supplier, the lack of reversible connections with neighboring countries and the lack of significant domestic production were still identified as the main problems in the field of natural gas by the Chairman of EWRC in an address from March 2016. Later in November 2016, a Bulgaria-Romania gas interconnector was launched, which is a step to reducing the dependency from a single supplier.

The Bulgarian example demonstrates however, that tax compliance, the lack of which is the main reason for the existence of undeclared economic transactions, cannot be driven primarily by economic incentives. It has to do more with the rule of law, the functioning of institutions, the informal ethics of doing business and above all, consumer behavior and expectations. However, leading researchers of the informal economy in Bulgaria are more in favor of financial and economic mechanisms to curb it, rather than control and enforcement.

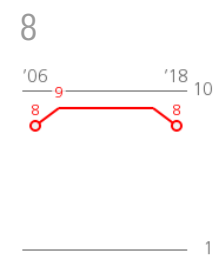
Competition laws to prevent monopolistic structures exist, but are sometimes enforced inconsistently. There was a renewed discussion during 2015 and 2016 on the existence of a cartel in the fuel sector. Early in 2016, the anti-trust regulator started a cartel investigation against petrol retailers. They were accused of secretly arranging prices based on statistical observations of price dynamics over a period of several years. The petrol refinery owned by the Russian private company Lukoil was also accused of manipulating prices because it was found out that their export prices were lower than the prices they charged for the internal market. Discussions on curbing possible cartel agreements were often used politically in the past without producing any visible results.

Vertical integration within the pharmaceutical market was found by the Ministry of Health.

As a very small market, it is very difficult to implement any policies that go against the interest of large pharmaceutical companies. Withdrawing certain medications from the Bulgarian market is generally a minor issue for large international corporations while for the Bulgarian health care system it often has deep economic and social consequences. Therefore, the bargaining power is not with the Bulgarian government. At the end of 2016 initial steps were undertaken to build a common market for pharmaceuticals with Romania, but due to the fall of the government, it is not clear whether and when this idea will be realized.

Foreign trade is widely liberalized with uniform low tariffs and few non-tariff barriers. In 2015, foreign trade was 128% of GDP (World Bank data), rendering Bulgaria the most globalized economy in Southeast Europe. The Comprehensive Economic and Trade Agreement between the EU and Canada, signed in October 2016, was also opposed in Bulgaria on similar grounds – though not as strongly as the TTIP. Apart from the obvious reason that this agreement is not expected to have any significant impact on Bulgarian foreign trade it was also crucial that Bulgaria and

Anti-monopoly  
policy



Liberalization of  
foreign trade

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Romania got a positive reply to their demand for visa-free regime. The promise from Canada was to put an end to the visa regime from December 1, 2017.

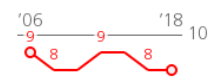
Bulgaria joined the discussions on the Transatlantic Trade and Investment Partnership. The proposed free trade agreement has been a controversial topic for public debate and met strong opposition. Furthermore, the negotiation procedure has been perceived publicly as opaque. In particular, the negotiation texts were only made public in early 2015, though information on the ongoing negotiations had been leaking for months before that. The proposed creation of the Investor State Dispute Settlements has been most widely condemned, as in other EU member states and the US.

According to the classification of the Bulgarian National Bank (BNB) as of end of November 2016, the banking system consists of three groups. One group includes Bulgaria's five largest banks in terms of their assets: UniCredit Bulbank, DSK Bank, First Investment Bank, United Bulgarian Bank and Eurobank Bulgaria. A second group includes 17 smaller banks and a third group includes five branches of foreign banks. Banks are well capitalized. At the end of 2016 the total assets in the banking system were BGN 91.451 billion, of which 18 billion were cash balances at the central bank. Total equity was 12.3 billion. The share of banks with mainly Bulgarian equity was 23.3% at the end of June 2016. According to the World Bank, the share of non-performing loans in total loans was 16.7% and the capital to assets ratio was 11.6% in 2014.

The 2014 bankruptcy of Corporate Commercial Bank (KTB) – the fourth largest bank in Bulgaria – came as a shock without any warning from auditors or the banking supervision, leading to a payment of guaranteed deposits to the amount of BGN 3.7 billion and large losses including among public institutions which kept their money with the KTB. In 2015 and 2016, the third largest bank also experienced difficulties. Insolvency rumors led to the withdrawal of a large proportion of deposits. Timely support from the government prevented the bank's insolvency. Before that, regulation of the banking sector was praised and cited as a positive example by American economist Steve Hanke, who is credited as one of the fathers of the Bulgarian Currency Board. After the bankruptcy a comprehensive independent asset quality review (AQR) and stress test (ST) of the Bulgarian banking system was initiated. Results were published in August 2016. The main conclusion from the AQR was that the banking system remains well capitalized with a CET1 capital ratio of 18.9%, well above the 4.5% regulatory minimum. The ST confirmed the strong capital position and resilience of the banking system to potential shocks.



Banking system



## 8 | Currency and Price Stability

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 Bulgarian lev (BGN) is fixed to the euro at an exchange rate of BGN 1.95583 per EUR.

The Bulgarian National Bank (BNB) is fully independent, both legally and de facto. The governor and deputy governors of the BNB are appointed by parliament.

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

Inflation in Bulgaria is not targeted by specific policy instruments, and has a quite different pace from countries in the euro zone. Before the start of the economic crisis, Bulgaria had a higher inflation rate than most other EU countries. Then from 2009, the inflation rate dropped to between 2% and 3% per year. Since 2013 there were periods of inflation around 0% and deflation. The same pattern continued in 2015 and 2016 despite the signs of labor market recovery and renewed economic growth. Low inflation and deflation in the case of Bulgaria are evidence of a protracted economic stagnation. Overall, consumer prices are still less than half of those in the euro zone.

The Convergence Report 2016 of the European Central Bank concluded that the Bulgarian general government deficit and debt complied with the Maastricht criteria in 2015.

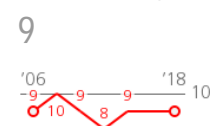
For several years in a row, the Bulgarian government deficit exceeded the 3% envisaged by the Maastricht criteria that must be followed by EU member states. However, an excessive deficit procedure was not launched against Bulgaria as the European Commission judged that the situation was due to temporary factors and adjustment would take place over the mid-run. Indeed, the deficit was mild compared to other EU member states and Bulgaria had one of the lowest public debts in the EU. In the second quarter of 2016, despite some increase in public debt, it still was below 30% of GDP – the third lowest in the EU after Estonia.

Anti-inflation /  
forex policy



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Macrostability



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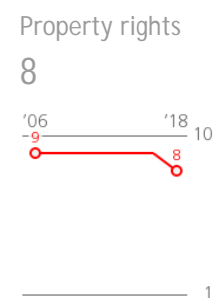
According to the ECD 2016 Convergence Report Bulgaria faces medium risks to fiscal sustainability in the long run, partly as a result of the expected increase in aggregated expenditure on health care and long-term care. The report recommends further reforms in these areas. However, we believe that the demographic trends and the need to reduce the current very high private expenditure in health care will require certain compromises with strict macroeconomic rules. We have to also consider the pressure coming from the pension system which runs large deficits every year. Stability in the social security system will require systemic implementation for decades of quite unpopular reforms for raising the pensionable age, and very likely increasing social security contributions.

After the beginning of 2013, Bulgaria entered a period of political instability without any full government mandate. This situation did not seem to have direct effect on macroeconomic stability but it made it difficult to pursue long-term policies. For example, successive Bulgarian governments confirmed the target of joining the ERM-II. The last finance minister had stated his intention to make this happen during the government's mandate, which should have run until 2018, but ended quite unexpectedly at the end of 2016 after the ruling party lost the presidential elections. Meanwhile the popular support for the adoption of the euro dwindled following the problems with excessive public debt in neighboring Greece and other countries across the Eurozone.

## 9 | Private Property

Property rights are regulated by law. There are no legal restrictions against majority foreign-owned companies acquiring real estate if these companies are locally registered. In May 2014, Bulgaria's parliament approved a requirement for five-year residency to purchase agricultural land. Enforcement of contracts by the courts remains slow, while corruption still is a major issue. According to the 2016 Doing Business Ranking, Bulgaria ranked 63 out of 189 countries with regard to the ease of registering new property.

At the end of 2014, a new debate on the state of the judiciary started. The debate was fueled by cases that related to private property protection. The French ambassador publicly accused a Bulgarian judge of participating in a scheme designed to take over the management of companies by putting them under the control of an assignee. At the end of 2012, parliament enacted a law on the confiscation or temporary seizure of property acquired through criminal activity.



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

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

Privatizations of some previous monopolies have not gone well, and early 2013, growing discontent with the performance of electricity companies escalated into protests in several big cities. Privatization in the water sector was not always a success.

The global economic crisis put a halt to privatization plans for some large state-owned enterprises. In 2014, the main issue was the operation of state-owned companies in the rail transportation sector. The 2015 public budget proposed reducing the budget for passenger rail transport. As a result, more than 30 railway lines were closed. This triggered a series of public protests, which forced the government to revise its budgetary decision. In 2016 the state railway company receive a state subsidy of BGN 175 million (about EUR 90 million).

The Bulgarian government relies on EU funding to upgrade some of the lines, purchase new trains and railcars and thus make the company more attractive for privatization.

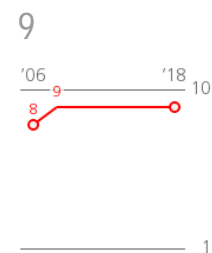
In 2016, the government made plans to privatize by 2019 two major state-owned producers of arms and munitions who faced dropping revenues and layoffs.

## 10 | Welfare Regime

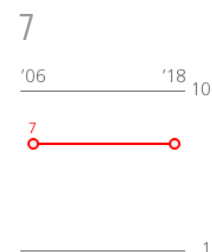
Social inclusion policies were not top of the government's agenda, even before the economic crisis. For several years before 2009, Bulgaria had a guaranteed minimum income (GMI) of BGN 55 (about €23) per month. The GMI increased to BGN 65 in 2009 and remained unchanged until 2015. Heating allowances form another pillar of Bulgaria's minimum income protection system. These heating allowances are provided to eligible families during the "heating season" (i.e. between November and March each year). The amount paid is based on the equivalent monthly cost of 385 kWhs. For the 2016 to 2017 heating season, the allowance will be about BGN 72 (€37) per month or BGN 361 (€184) for the whole heating season. This allowance is not enough to heat a standard home. Many recipients of the heating allowance are using wood for heating which remains the cheapest, but ecologically most harmful, type of heating.

Pensions are the only social transfer that has an important contribution to reducing poverty. The average pension in 2015 was BGN 320 (€164) per month. It grew to

Private enterprise



Social safety nets



BGN 340 (€74) in the middle of 2016. In the next decades the government has planned substantial increase in the pensionable age. Due to fast aging of the population and relatively low social security contributions the state pension fund and the private pension funds are quite unsustainable, which makes painful and unpopular measures unavoidable.

Maternity leave is relatively generous compared to other EU countries. For the first year of the child's life, the mother receives a maternity payment equal to 90% of her gross monthly salary. The mother is allowed to take a second year of maternity leave, receiving each month an amount defined by the government. In 2016, this amount was BGN 340 (€74) per month.

In 2015 about 41% of the population was living at-risk-of-poverty or social exclusion. This was the highest rate in the EU. Romania followed closely. This is an indicator used by Eurostat which means that those persons were either living with incomes below the poverty line or experienced material deprivation on a number of dimensions. In 2014 and 2015, monetary poverty started to increase again and reached 22%, which is quite high in comparison to other EU countries. Deep poverty and other forms of social exclusion continue to characterize the experience of some social groups. In 2015, the highest increase in poverty occurred among person in retirement age – persons above 60 and especially persons above 65.

Affordability of housing is a major socioeconomic issue. The demand for affordable housing has driven a growth in the construction of illegal and substandard housing in poor neighborhoods. It has also led to socially vulnerable groups migrating from the economic periphery to big cities. Bulgaria has no effective social housing policy, with less than 3% of the total housing stock being public (mainly municipal) housing. Furthermore, there are no special benefits for persons or households in housing need.

In 2015 and 2016, a set of ambitious health care reforms were undertaken, which however did not target the large gaps in access to health care that exist in Bulgaria. Based on different estimates, there are at least 900,000 people without health insurance though in principle the system is meant to include all citizens residing in Bulgaria. Plans to reduce non-participation in the health care system were based on the assumptions that most of the uninsured were not paying their contributions as part of an attempt to free ride or to avoid contributing in a solidary way. In reality the majority of uninsured are poor people who do not have the means to pay their health contributions and were not supported by the existing social safety nets.

The existing anti-discrimination legislation, among other things, defines social status as a possible ground for discrimination. Socioeconomic inequalities are high and structurally engrained, particularly in the case of Roma. These inequalities also restrict opportunities for lower socioeconomic groups to actively participate in society.

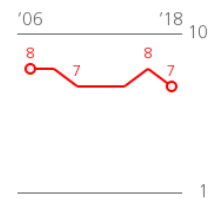
Equal opportunity

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Bulgaria had its anti-discrimination body for more than 10 years. In these years, it gained in strength and outreach, including building a network of regional contact points. The Commission for Protection Against Discrimination is also the national contact point for hate crimes to the Organization for Security and Cooperation in Europe.

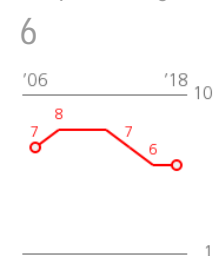
In 2015 and 2016, hate speech has become quite prevalent in Bulgarian media and the political discourse. Incidents related to hate speech were reported very often. Hate speech made its way to the parliament through the speeches of several nationalistic political formations. Traditionally the main targets of hate speech in Bulgaria were the Roma, followed by sexual minorities. Since the start of the refugee crisis, persons coming mainly from Syria, Iraq, Afghanistan and some other countries in the Middle East and North Africa became the new targets of intensive hate speech and sometimes of violent actions as well. Self-organized groups acting along the border with Turkey were involved in “civil arrests” of migrants crossing the border illegally. These “arrests” were often accompanied by the use of violence and remained largely unpunished as noted by the Bulgarian Helsinki Committee. The people involved became heroes to the broad public and seemingly enjoyed the tacit support of institutions. The Media Democracy Foundation identified about 80 risk-generating events, which triggered waves of hate speech. A survey carried out in 2016 by the Open Society Institute-Sofia found that hate speech was very widespread in schools and that most people came across hate speech on the TV. As well, the internet is quickly increasing its negative impact in proliferating hate speech. On the other hand, two-thirds of the general public support strong measures against hate speech like cutting public subsidies for political parties whose representatives use hate speech or imposing severe sanctions on media for failing to be tolerant and hate-free.



## 11 | Economic Performance

The Bulgarian economy was seriously affected by the global economic crisis. Recovery was slow. In 2010 and 2011 it looked like the crisis was over. The GDP growth in 2011 was 1.9% but in 2012 the economy plummeted again displaying zero growth. After that in 2013 and 2014 growth resumed slowly, and 2015 was the first year after the start of the global economic crisis with a more impressive growth of 3.6%. The GDP in 2015 was 45,286.5 million euro. But in this year growth was good in many other EU member states including in some of the most developed countries. In 2015 and 2016, the Bulgarian economy gained strength. Economic growth in 2015 was 3.6%. Preliminary data for 2016 indicate a growth rate of about 3.4%.

Output strength



Despite these reassuring data it seems that the Bulgarian economy will hardly reach any time soon its growth rate preceding the global economic crisis, which was in the range from 5.5% to 7%, significantly outpacing the growth of leading economies in

the EU. This means that Bulgarians have to accept the idea that the process of catching up with the average living standard in the EU will take a lot more time.

In terms of volume indexes per capita, in 2015 Bulgaria was at 53% of the average volume per capita produced in EU-28 – the lowest in the EU, at the level of Montenegro. The price level in 2015 was 42%.

The gross fixed capital formation in 2015 was €9,596 million or 21.2% of GDP. This level has remained almost constant since 2011 but is much lower than in previous years. At the peak of the economic boom in 2008, gross fixed capital formation reached 37% of GDP.

The employment rate in 2015 was 62.9%-65.9% for males and 59.8% for females – almost three percentage points lower than in the EU-28. This employment rate is not enough to sustain an economy with a shrinking population.

The biggest problem for Bulgaria is that it did not actually have a long-term capacity for sustainable growth. Low taxes and deregulation can boost economic growth for a while but cannot compensate for impeding factors such as slow and ineffective judiciary and the large losses of human resources due to emigration. After the end of global economic crisis, Bulgaria did not have any strong economic drivers.

## 12 | Sustainability

The Environment Protection Act was promulgated in 2002 and then amended many times, with amendments in December 2008. Legislation on water and waste management is in place and in line with European Union law. Bulgaria ratified the

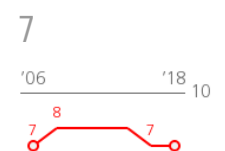
U.N. Framework Convention on Climate Change and the Kyoto Protocol, thus demonstrating its commitment to international efforts in reducing greenhouse gas emissions and mitigating climate change.

In April 2011, Bulgaria adopted a new Renewable Energy Act. Bulgaria is among the lowest-scoring countries in the EU Climate Policy Tracker (CPT), a comprehensive review of policies on greenhouse gas emissions in the European Union. Recent public expenditure on environmental protection as a percentage of GDP in Bulgaria is higher than the EU average. This is mainly due to the contribution of EU funding.

Bulgaria has huge problems with industrial and household energy efficiency. Prefabricated blocks of flats built during the communist era are a particular problem.

The implementation of ambitious plans to invest BGN 1 billion (€500,000) in increasing energy efficiency started in 2015 and continued in 2016. In March 2017, Bulgaria will have early parliamentary elections and a new government. Despite

Environmental  
policy



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political instability, the energy efficiency program has good chances to continue as it became quite popular despite various criticisms.

Resource productivity is also very low by EU standards. It is about €0.30 per kilogram – seven times lower than the EU average while Bulgaria's output per capita is almost half the EU average. It means that the Bulgarian economy has even more to catch up in reducing wastefulness than in overall productivity.

Bulgaria has quite high carbon dioxide emissions for the size and level of development of its economy. In 2014, per capita carbon dioxide emissions were 5,961 kg. The average per capita emissions for the EU-28 was a little less (in 2014 5,732) but Bulgaria is the EU economy with the smallest per capita output. Bulgaria still has also large emissions of sulfur oxides, but since Bulgaria joined the EU in 2007 the reduction of total sulfur oxide emissions is more than fourfold. The reduction in greenhouse gas emissions since Bulgaria joined the EU was also quite substantial – from 67,798 thousand tons in 2007 to 57,714 thousand tons in 2014.

The share of protected terrestrial area in Bulgaria is relatively high by EU standards, 34% in 2013 (Eurostat). Although, ecological organizations in Bulgaria estimate the proportion of protected land to be between 20% and 25%.

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 into Bulgarian law with the introduction of the Biological Diversity Act in 2002. However, the implementation of Natura 2000 was controversial and largely a failure.

In Bulgaria, organizations working for the protection of the environment are one of the strongest segments of civil society, with environmental groups actively using institutional tools and organizing street protests.

Protected areas, including national parks, are a constant target of investor interest. Some of these areas are relatively easy to access and have a good transport infrastructure.

After the idea of shale gas fracturing met strong public opposition and was dropped in 2014 in 2016, the French company Total (which had obtained in 2014 in consortium with Austria's OMV and Spain's Repsol a license for offshore deepwater drilling) announced they had found oil. The amount of oil was not made clear and the announcement had no further follow up in 2016.

After a referendum in 2013, Bulgaria dropped the idea of building a second nuclear power plant in Belene. Following a decision of the International Court of Arbitration in Geneva in 2016 Bulgaria had to pay 620 million euro to the Russian company Rosatom for two nuclear units already ordered and produced by the time Bulgaria canceled the construction of the nuclear power plant. The exceptionally cold winter

of 2016 put pressure on Bulgaria's electricity supply system and supporters of the nuclear power plant again raised the issue of potential energy deficits in the future. Meanwhile the government was trying to find out what to do with the two nuclear reactors. Attempts to find a potential buyer were not successful.

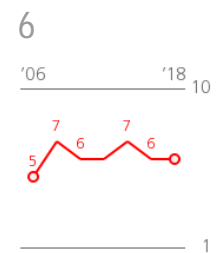
In 2015, a new School Education Act was finally approved after more than eight years of discussions and many recommendations to Bulgaria issued by the European Commission. The law held a promise for more innovation, more school autonomy, parent participation and new curricula. However, the new legislation came with a lot of administrative burden for the schools and produced hundreds of pages of by-laws which put additional administrative burden on teachers. However, some of the legislative changes may increase educational inequalities, like the increased opportunities for early-years tracking of students.

Expenditure on education as a proportion of GDP in Bulgaria is the second lowest of any EU country. In 2013, public expenditure on education was 4.27% of GDP. Although there was an increase in comparison to previous years, Bulgaria's expenditure on education remained one of the lowest in the EU. In this sense Bulgaria followed a common pattern with other countries in Central and Eastern Europe which tend to spend a lower proportion of their GDP on education than the economically more developed European countries.

Bulgaria slightly lags behind the EU average in terms of the share of the population with tertiary education but is catching up. Due to the decreasing cohorts of secondary education graduates the supply of places at universities is substantially larger than demand so in practice almost everyone who graduates from secondary school has the chance to enroll in the tertiary education and the vast majority actually do. In 2010 there were 32,400 graduates from mainstream secondary schools while in 2015 their number dropped to 27,000. Secondary vocational education is also losing students and reducing its share in the overall enrollment in secondary education despite the introduction of the so-called dual education. In 2010, there were 30,600 graduates from secondary vocational schools, while in 2015 there were 23,300. The dual education was popular in the last decades mostly in German speaking countries in the EU. It put emphasis on job experience as part of the vocational training but is criticized for being unsuitable for service-based economies like the Bulgarian one and for acquiring too many employer-specific skills at the expense of fundamental knowledge. This makes students less adaptable to changing economic structure and opportunities.

The results from the new 2015 wave of the international student assessment PISA published in 2016 showed that Bulgaria had no significant improvement and remained below OECD average results in mathematics, reading and science. Overall since it first participated in PISA in 2006 Bulgaria had no improvement in science and reading and a small improvement in mathematics. In terms of equity in education Bulgaria's performance is also below the OECD average. Though Bulgaria made

Education policy /  
R&D



some improvement since 2006 a major issue remained the impact of the family background on student performance. The share of the so-called resilient students – those who perform well, despite coming from disadvantaged backgrounds – also has increased though not decisively.

In 2014, based on previous PISA results, the World Bank stated that educational inequalities were a main problem in Bulgaria. The report recommended a list of steps to reduce education inequalities. Despite recommendations from the European Commission, there has been no reform of the school education system.

Bulgaria is drifting away from the target to reduce the share of early leavers from education and training to 11%. Early leavers from education and training are defined as the percentage of the population aged 18-24 with at most lower secondary education and who were not in further education and training in the month preceding the survey. This is a major headline indicator for the whole EU, which registers the outcome of school dropout rates. The percentage of early leavers from education and training increased from 12.9% in 2014 to 13.4% in 2015.

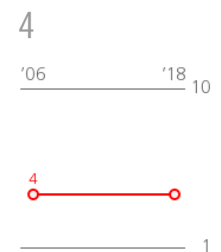
According to preliminary data of Eurostat in 2015, Bulgaria increased its expenditure on research and development (R&D) 0.96% of GDP (from 0.79% in 2014). If confirmed, this would be a substantial increase, yet still not enough for Bulgaria to reach its R&D expenditure target of 1.5% of GDP by 2020. The EU as a whole has set a target of 3% of GDP by 2020 with the aim of securing a place among the global leaders in research-driven innovation. Bulgaria apparently will not be among the driving forces for achieving this target.

## Governance

### I. Level of Difficulty

Structural constraints on governance are small to moderate. Infrastructural deficits were reduced with the exception of railroad transport which is in a very poor condition, but long-standing quality of life issues remain unaddressed.

Structural constraints



Living standards in general are low in comparison to reference countries within the European Union but are reasonably good in global comparison.

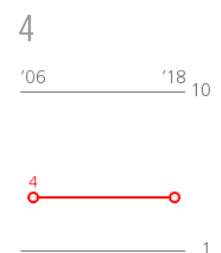
The largest constraint for Bulgaria is the loss of human resource due to low birth rates and emigration. This process is happening in connection with a rapidly aging population which puts further tension on the pension system and health care.

Bulgaria in general has a geographically peripheral position within the EU economy but looking from a broader regional perspective the position is quite advantageous. Bulgaria is en route for many potential flows of goods, people and energy.

Bulgaria's current situation requires the implementation of long-term policies in several fields: education, health care and the pension system as a minimum. In parallel, the economy has to adapt rapidly to an aging labor force. But in general, structural constraints are not of the kind that can excuse a government for failing to manage the situation. Rather Bulgaria faces challenges which require strategic thinking and action.

Traditions of civil society are fairly strong. Bulgaria has a traditionally strong NGO sector, which played an important role as a driver of reform in the pre-accession period. Think tanks have operated entirely by means of foreign donor support (predominantly from the United States) and have attracted the intellectual capacity of many high-profile policy and economic analysts and experts. However, since traditional NGOs in Bulgaria have emerged as a result of top-to-bottom development, adapting to the agenda of foreign donors, their legitimacy has been put to test in recent years. Civil society in Bulgaria played an important role as a driver of reforms in the EU pre-accession period.

Civil society traditions



Throughout the review period, the non-governmental sector remained an essential factor of positive change and public mobilization for important societal causes. Civil

society organizations (CSO), informal groups and volunteers were at the helm of providing aid to refugees and asylum seekers. Bulgarian NGOs and active citizens played the main role for their relief by launching charity campaigns, raising donations and providing them with food, water and basic supplies. At the same time, the work of NGOs specialized in protection of constitutional human rights and upholding the values of liberal democracy has become particularly important but increasingly difficult. NGOs were subject of increased media pressure and accused of being a vehicle of foreign (Western) influence.

Despite the positive signs for civic participation, it has to be noted that major parts of society remain ghettoized and thus excluded from any form of political and civic participation due to poverty, low education status or discrimination.

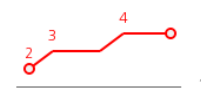
Radical political actors have limited success in mobilizing along existing cleavages. Society and the political elite, however, are divided along social, ethnic or religious lines.

In November 2016, a riot broke out in one of the refugee camps in southern Bulgaria. Refugees in the camp were enraged when the camp was under quarantine for fear of an epidemic. Later no dangerous infectious diseases were found in the camp, but the tension escalated into violent clash with the riot police. Most of the refugees in the camp were from Afghanistan. Even before the riot, protests were staged in many Bulgarian towns demanding the closure of all camps and the returning all inhabitants to their home countries.

In parliament, nationalist political parties sought a confrontation with parties supported primarily by Turkish voters. Special changes in the electoral legislation were passed which limited the number of voting sections in Turkey with the aim of reducing the influence of the Movement for Rights and Freedoms and the new political party DOST (friend in Turkish) founded by the ex-chairman of the MRF who was expelled from the party for expressing openly his anti-Russian position after the Russian plane was shot down by Turkey near the Turkish-Syrian border. DOST is expected to have strong support from the Bulgarian expats in Turkey.

Conflict intensity

4  
 '06 \_\_\_\_\_ '18 10



## II. Governance Performance

### 14 | Steering Capability

The government sets strategic priorities, but sometimes postpones them in favor of short-term political benefits. It shows deficits in prioritizing and organizing its policy measures accordingly. Strategic planning capacities within government are limited and mostly based at the Ministry of Finance. However, the government relies on more than 70 advisory councils to involve external stakeholders and experts in the consultation of sectoral strategies. The impact assessment of new legislation and regulation, at least with respect to the budget, has improved slightly with the creation of an independent fiscal council and with some changes in lawmaking rules.

Although since the last quarter of 2009 Bulgaria had three caretaker governments and three regular governments elected by the parliament, one political party – the centrist right Citizens for the European Development of Bulgaria (GERB) and its leader Boyko Borisov – had the chance to rule the country in two governments in five years. Despite the need to operate in a complex political environment with unstable coalitions, they were able to implement some of their political priorities – but most of their ideas and plans are contested by the opposition. One area where priorities were pursued consistently is investment in infrastructure, especially in building new highways and improve the roads. Education is another example where completely new legislation in school education requires long-standing efforts, which already involved two regular and two caretaker governments and will have to be continued by the next governments.

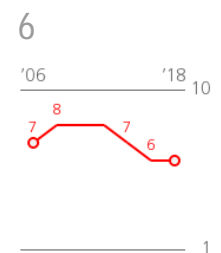
In other fields, like health care, ambitious but controversial reforms were undertaken which will likely be reversed by future governments. The legal system provides probably the clearest example in Bulgaria that complex reforms are difficult to implement in a context of a lack of a broad political consensus and in the presence of political instability.

In 2015 and 2016, little progress was made in addressing some of the main challenges like judicial reform. Obstacles often came from complex patterns of support necessary to pass legislation in a rather diverse parliament.

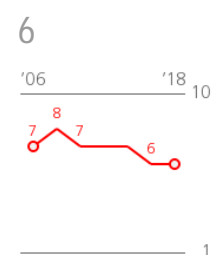
Since 2007, Bulgaria, together with Romania, is monitored by the European Commission in the framework of the so-called Coordination and Verification Mechanism. At the beginning of 2017, progress was still unsatisfactory despite the fact that some changes were made to the constitution in 2015. At the end of 2015, the justice minister resigned after his ambitious reform proposals did not pass

Question  
Score

Prioritization



Implementation





parliament. The justice minister participated in the government on behalf of the Reformist Block – a junior coalition member. After his resignation, a process of disintegration started within the reformist block and the ruling coalition in general.

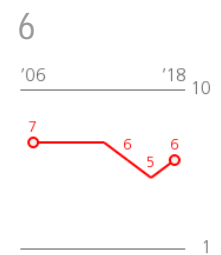
Coordination within a coalition government seemed to go smoother until the deputy prime minister and minister of labor resigned in May 2016. He was the only representative within the government of the smallest group in the parliament supporting the government – the center-left party ABV.

The first Borisov government consistently failed to implement its policy objectives and tended to acquiesce to opposition from vested interests. The second Borisov government has demonstrated a greater ability to resist such pressure, though it has not fully overcome it.

The government demonstrates limited willingness or ability in policy learning. Continuity among governments in Bulgaria over the last decade was not strong. One reason for this is that each successive government had the roots of its support in political parties and groups that were either in opposition during the previous government or were not in the parliament altogether. Boyko Borisov, whose government resigned in November 2016, was the only prime minister in the new Bulgarian history to lead two governments. But the two governments were divided by a period in 2013 and 2014 during which time the country was ruled by another antagonistic government, coming to power with a promise of full revision of Borisov's legacy. Neither of Borisov's two governments had a full mandate. The regular shift of power in Bulgaria is strongly supported by a pattern of negative voting when incumbents face massive public dissatisfaction while unknown political actors are granted voter confidence in the pursuit of a fundamental change. Obviously in such a situation a lot of the policy learning comes in the shape of learning not so much from achievements but from mistakes. A government that wants a second mandate must claim that the country is moving in the right direction at a reasonable pace. However, such claims come in sharp dissonance with the voice of the majority of Bulgarian voters who share deep pessimism in practically all social surveys carried out in Bulgaria over the last two decades.

Despite the growth in Euroscepticism in the period 2014 to 2016, the experience of other EU member states, especially the most developed ones, remains one indisputable source of policy learning in Bulgaria. Policy reforms, especially controversial ones, are often legitimized before the public by recourse to examples from the EU in an effort to make them more acceptable.

#### Policy learning



## 15 | Resource Efficiency

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

The NAO has a broadly defined task to control the reliability and truthfulness of financial statements of budget-funded organizations as well as monitor the legality, efficiency, effectiveness and economy of the management of public funds and activities.

In 2016 Bulgaria remained one of the countries in the EU with the lowest public debt as a share of GDP – below 30%. The budget deficit also seems under control. Bulgaria avoided excessive deficit procedure despite exceeding the 3% threshold defined in the Maastricht criteria. However, in 2016, the NAO warned that municipal debt in Bulgaria kept increasing. The Bulgarian Public Finance Act requires municipalities to keep debt payments below 15% of their own revenue during the year. However, the NAO found that 35 municipalities have debt payments exceeding 30% of their own revenue.

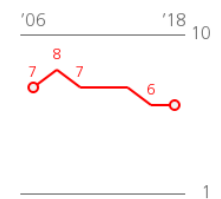
Legislative amendments in 2016 enable the government to introduce centralized compulsory competitions as the first step of the recruitment process for future civil servants. Efforts against corruption have not been systemic but relate only to concrete cases. In 2016 new legislation targeting high-level corruption did not pass through the parliament.

Administratively, the government remains centralized, despite a strategy for decentralization introduced before the global economic crisis. Successive coalition governments, which have characterized Bulgaria's political system in the new century, share some common problems, including poor policy coordination.

The last coalition government, which fell in November 2016, included members of three different political parties – two of them from the political right and one from the political left. In addition, the government relied on the support of one more partner - a political coalition of nationalist parties. Coordination was reasonably good taking into account the complexity of the situation. Both in the field of social policy and in the field of health care, complex and controversial reforms were undertaken, some of which needed to be coordinated. The Minister of Labor came from the political center-left, while the Minister of Health belonged to the conservative right. Despite this, they managed within the government to achieve some reasonable level of coordination, as in the case of the reform of disability pensions. Despite such temporary successes, ideological differences finally proved overwhelming for the government as a whole and led to its collapse.

Efficient use of assets

6



Policy coordination

6



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

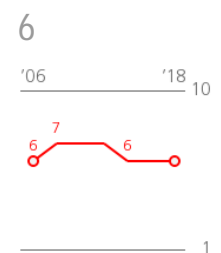
The use of EU funds had an overall positive impact on the technocratic aspects of policy coordination as operations supported by different funds often need to pursue a common goal or should stick to a common time frame. But coordination has also other aspects related to long-term goals and the overall vision of how the government should function. The Bulgarian experience from the last 10 years was that participation in the government of diverse actors makes the pursuit of long-term goals very difficult precisely because they undertake incompatible actions.

The government is often successful in containing corruption. Most integrity mechanisms are in place, but some are functioning only with limited effectiveness. Bulgaria continues to rank among the EU countries with the highest perceived level of corruption, and corruption is still considered as an important problem by citizens and business. Surveys have shown that the judiciary, parliament and the tax system are the three most corrupt sectors in Bulgaria. There is an abundance of anti-corruption bodies, with partly overlapping powers, but no political will to tackle high-level graft.

According to the 2016 Global Economic Crime Survey, four in ten organizations report that they have been the victim of fraud in the past two years, with 38% reporting losses in excess of \$100,000. This is significantly higher than the global average and also higher than Bulgaria's own results from 2014. Hence, economic crime appears to be on the rise, both in frequency and in loss value.

According to the European Commission, legislative and institutional measures to address corruption have not brought about the necessary step-change in the fight against corruption. A State Agency for National Security is entitled, among others, to carry out financial investigations. High-level public officials are required to declare their assets and potential conflicts of interests are investigated by a specialized commission. The government made a further effort in 2015 and 2016 centered on putting in place a unified anti-corruption agency with powers to conduct administrative investigations and to check conflicts of interest and personal property of high-level officials. But the anti-corruption law designed to put this body in place has failed to reach agreement in parliament, illustrating a general lack of political consensus behind the efforts.

Anti-corruption  
policy



## 16 | Consensus-Building

Major political parties agree on democracy but only in a minimal sense. There is no far-reaching consensus with regard to policies aimed at consolidating the rule of law, enhancing media freedom and promoting civic participation.

All major political actors agree on the goal of building a market-based democracy. The tenets of market economy are challenged by some examples of unsuccessful privatization and the presence of cartels in some sectors of the economy.

One of the aspects of market economy that is most challenged is the free trade. The incoming presidency of Donald Trump with his new agenda, including revision of major trade agreements, gave additional arguments for a more protectionist and closed economy. At the end of 2016, this trend is still rudimentary but started to appear in the statements of some public figures. We should note that the support for a closed economy and for protectionism as matter of principle is different from the protests against the Transatlantic Trade and Investment Partnership based on its lack of transparency and the excessive empowerment of big transnational corporations.

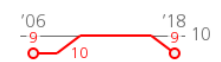
The growing influx of asylum seekers and migrants to Bulgaria triggered a wave of xenophobic announcements in the media. In the period 2013 to 2016, the spread of hate speech in the country significantly grew. Populist and nationalist parties also gained greater political power. After the parliamentary elections in 2015, three parties defining themselves as “patriotic” won seats in the National Assembly. They did not enter the cabinet but supported its formation. In early 2016, vigilante groups were formed to hunt down migrants along the country’s southern border. The Prosecutor’s Office brought criminal charges against the leader of one of the vigilante groups, but the media had repeatedly presented their actions as “patriotic” and supporting border policing by the official authorities.

The political leadership is generally able to depolarize conflicts. The Bulgarian parliament hosts at the same time two nationalist political formations – a party and a coalition – and a political party (MRF) supported primarily by Bulgarian Turks.

One traditional cleavage in Bulgarian society which is richly documented in history is the conflict between pro-Russian and pro-Western groups in politics and among the social and intellectual elite. This antagonism was revived after the start of the conflict in Ukraine and the sanctions imposed on Russia. Further impetus was given by the conflict in Syria. In the Bulgarian parliament at least one of the nationalist parties is strongly pro-Russian. Paradoxically the MRF supported by Bulgarian Turks also took a pro-Russian position and expelled, on this ground, its previous leader who founded a new political party. The new Bulgarian President General

Consensus on goals

9



1

Anti-democratic actors

8



1

Cleavage / conflict management

7



1

Rumen Radev supported by the Bulgarian Socialist Party is also accused of being pro-Russian mainly because of speaking out for lifting the sanctions against Russia.

The influx of asylum seekers, refugees and economic migrants also fostered further ethnic tension. Dividing lines within society appear also as a result of increasing social disparities and ineffective social inclusion policies, rather than by ethnically driven conflicts.

In the rare cases when the Bulgarian state has supported civil society organizations through central and local authorities, the state has not provided resources for the development and building of their capacity, learning through sharing, setting strategic goals and creating a vision of the organization.

The project finance principle is widespread and the viability and operation of organizations depend on it.

Often civil society organizations are not well recognized as an important partner of the public administration at central and local level in decision-making, planning and implementing policies. The shortage of capacity is often the reason for not making good use of the opportunities for joint initiatives and interaction between the organizations in the sector and the institutions and representatives of other sectors.

The non-governmental sector remained an essential factor of positive change and public mobilization for important societal causes.

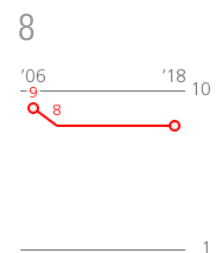
The Strategy for the Support of the Civil Society Organizations 2012-2015, developed and accepted by the previous government of the same prime minister and same ruling party in late 2012, was not enforced. The only development was the one toward drafting changes in the NGO law. However, the amendments were so minor, that they did not make a visible change.

The decrease in the local giving (individual and companies one) became a stable trend going down further with 22% in 2014 and 25% in 2015, thus seriously minimizing the available funds for NGOs.

VAT taxation on in-kind donations, discriminatory tax incentives, which favor two state bodies (the reproductive procedures and the Sick Children Treatment Fund), and government official fundraising for state activities continue to hamper local giving.

The Draft Law on Volunteering, developed in 2012, was amended, but still is not adopted by parliament.

Civil society participation



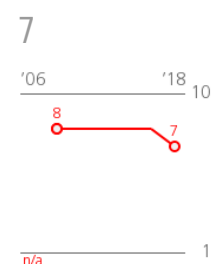
Reconciliation continues to be an issue of evolving political and institutional culture rather than of social relevance.

The Bulgarian society is divided in the interpretation of its own history. Major dividing lines include the assessment of the communist past and the discussion whether fascism existed in Bulgaria. Commemoration of the victims of communism and fascism remains confined within different antagonistic groups. In 2011, the first Borisov government decreed that February 1 would be a day of commemoration for the victims of the communist regime. This day was chosen because 150 political leaders were sentenced to death by the People's Court on February 1, 1945. On that day in 2017 the new Bulgarian president supported by the socialists made a restrained statement on February 1 saying that we have to commemorate all innocent victims.

The Bulgarian Socialist Party advocates for the recognition of victims of anti-fascist resistance who were recently depicted as undeserving people in several documentaries focused on events immediately preceding and following the Second World War.

The refugees and asylum seekers drama has elucidated widespread Islamophobia in society. It shapes attitudes to local Muslim groups as well. Bulgarian nationalists continue to perceive Turkey and Bulgarian Turks as a key threat to Bulgaria. In parliament, nationalists spent a lot of effort to force their coalition partners to change the electoral legislation in a way that restricts the opportunity of Bulgarian Turks living in Turkey.

#### Reconciliation



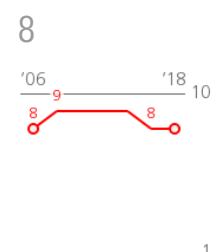
## 17 | International Cooperation

The use of international assistance in reform policies continued.

In 2016, Bulgaria requested and received 160 million euro in financial support from the EU to strengthen the protection of EU's external border with Turkey.

As an EU member states Bulgaria has to participate in all policies and initiatives at EU level. This is a very demanding exercise which has influenced every aspect of how policies are designed and implemented in Bulgaria. It is not easy to make a short assessment to what extent Bulgaria has used the potential of its EU membership but it can be concluded that some opportunities have been missed. This would also be the assessment of the majority of Bulgarians who according to the last Eurobarometer continue to have a very positive attitude of the EU while at the same time less than 10% of Bulgarians see the situation of their economy as good. The vast majority of Bulgarians share distrust in their own institutions.

#### Effective use of support



Apart from accessing the EU funds, Bulgaria continued to cooperate with the World Bank in many fields. World Bank support usually comes in the form of loans but combined with technical assistance and policy review. One of the largest

interventions supported by the World Bank with more than \$40 million was the Social Inclusion Project, which supported the development of services for early childhood development in Bulgaria. After the project finished at the end of 2015, the World Bank assessed both their own performance and the performance of the government as moderately satisfactory. World Bank expertise is also used to develop strategies in other policy areas, such as innovation, energy, water, etc.

The Bulgarian government is generally considered a credible and reliable partner within the international community, although the increased fragility of governments since 2013 and the inclusion of extremist political parties in governing coalitions has raised concerns among external political stakeholders. Bulgaria complied with an International Arbitration Court ruling by compensating Russia for a canceled nuclear power station project.

Bulgaria is rather slow in implementing the decisions of European Court of Human Rights. The last report of the Bulgarian Helsinki Committee on the state of human rights in Bulgaria which appeared in 2015 concluded that despite some reduction Bulgaria remained the country with most pending decisions of the European Court of Human Rights per capita.

In general, the situation in the region is tense. Many countries are experiencing economic and political instability. The wars in Syria and Ukraine served as additional destabilizing factors.

While Bulgarian political actors have advocated a lifting of EU sanctions against Russia, Bulgaria has complied with EU decisions to renew the sanctions.

Energy cooperation came to the fore in 2015 and 2016. In 2016, a gas connection with Romania was finally put into operation. The pipeline has a maximum transport capacity of 1.5 billion cubic meters of gas per year from Bulgaria to Romania, and an initial capacity of 500 million cubic meters per year from Romania to Bulgaria. After the completion of the compressor station Romania will also be able to deliver 1.5 billion cubic meters of gas per year to Bulgaria.

It seems that finally Southern Europe will have an alternative gas supply originating in the Caspian Sea coming from Azerbaijan to Turkey, Greece, Italy and Albania. On May 17, 2016, the start of the construction of the Trans-Adriatic Part of the pipeline was officially marked by a ceremony in Thessaloniki, Greece. Problems with electricity supply during the very cold winter of 2016 demonstrated that regional cooperation does not work well when all countries are affected. An emergency request to buy electricity from Romania was rejected because at the same time Romania was experiencing similar shortages.

Cooperation with Turkey is crucial for controlling the inflow of refugees from Syria. The agreement between the EU and Turkey for readmission of illegal migrants was welcomed by the Bulgarian government. In 2016, Bulgaria also deployed troops on

#### Credibility



1

#### Regional cooperation



1

the border with Turkey to assist border police in patrolling. In 2016, Bulgaria returned to Turkey, without trial, seven suspected participants in the military coup who were caught on the border with Romania. The operation was criticized by the Ombudsman and by organizations protecting civil rights.

The unstable economic situation in Greece incurred direct losses to Bulgarian businesses. Despite negotiations between the two governments a massive Greek farmer blockade of the border between Greece and Bulgaria in 2016 could not be prevented. The same situation was about to repeat early in 2017.



## Strategic Outlook

Bulgaria has maintained macroeconomic stability during the worst part of the economic crisis and after. At the same time it became clear that Bulgaria does not have sustainable drivers of long-term growth. Human resources emerged as a main factor impeding investment and economic development.

This factor was largely underestimated in previous periods.

A shrinking and aging population represent a major threat to long-term economic growth and budget stability. Bulgaria has addressed some of the other strategic issues but does not seem to have any viable strategy how to handle the demographic challenge.

Issues of poverty and inequalities in accessing public services remain key socioeconomic challenges. The controversial reform carried out in health care will very likely be challenged by the next incoming government. It will not bring more equity in access to health care and will not reduce the number of people who do not have health insurance.

Judicial reform and the fight against corruption will likely remain on the policy agenda for years to come. Even if the Junker Commission lives up to the promise of discontinuing the Cooperation and Verification Mechanism by the end of their mandate it is unlikely that the issues addressed in it will be resolved by that time. Trust in all public institutions remains very low – especially trust in parliament and the political parties.

The unstable economic situation in Greece poses potential threat to the growth of Bulgarian economy, offering also some opportunities. The unstable political situation in Turkey in combination with conflicts generating a migration wave seem to be the most direct risk for Bulgaria.

The influx of migrants could only be controlled due to the cooperation with Turkey based on the agreement between Turkey and the EU on readmission of illegal migrants. Good relations with Turkey already required some compromise with human rights and the rule of law. It may require further compromise in the future. Bulgaria in general is not prepared to accommodate large numbers of migrants because of dysfunctional social system and an education system and society which are still not well adapted to diversity.

Bulgaria has to cope with a new wave of extreme nationalism and hate speech. It was fueled by the migration from Syria and Iraq and the failure to make progress with the social and economic integration of the Roma.

Processes within the EU are of utmost importance to Bulgaria. Public investment in Bulgaria crucially depends on EU funding so any significant reduction of EU funds after 2020 will affect

Bulgaria. Potential disintegration processes within the EU will also cause fear, uncertainty and a sense of losing direction in Bulgarian society.

For almost 10 years, Bulgaria has been in a situation of political instability without a single full government mandate. Early in 2017, it does not look like instability will end any time soon. Together with the presidential elections in November 2016 a referendum was carried out initiated by a popular TV host. The referendum failed by a small margin to reach a turnout which would have made its decisions mandatory. Strong support was given at the referendum for a more than tenfold reduction of party subsidies and a majority electoral system. Despite this, the new parliament in 2017 will very likely have to consider at least partial implementation of these decisions under threat of popular protests. This will be no less than a fundamental change in the political system, the consequences of which are hard to predict. It is a huge challenge and a major source of uncertainty.

Bulgaria's strategic challenges include the following: 1) Improve health care and education and addressing the demographic challenge of a shrinking and aging population; 2) Prepare to respond to a deteriorating security situation in the region; 3) Improve the efficiency of the judiciary and address corruption in a way that will restore the sense of justice in society and increase trust in institutions; 4) Play a more active role in the EU and work to reduce the risk of major disintegration (although this risk is beyond Bulgaria's control to a large extent).