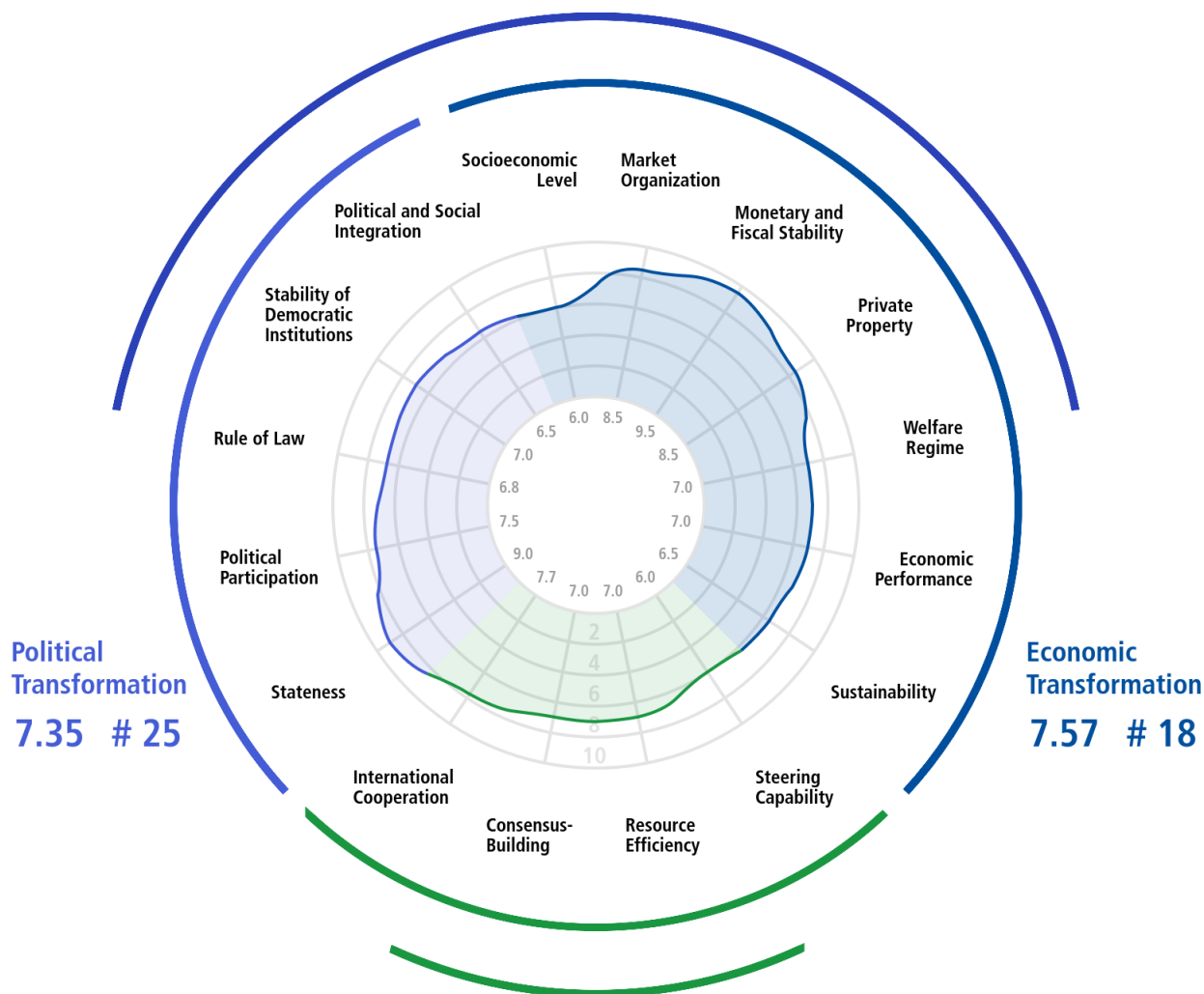


# Bulgaria

## Status Index

**7.46 # 17**

on 1-10 scale out of 137



**Political Transformation**  
**7.35 # 25**

**Economic Transformation**  
**7.57 # 18**

## Governance Index

**5.87 # 27**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2022 Country Report – Bulgaria. Gütersloh: Bertelsmann Stiftung, 2022.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

## **Contact**

Bertelsmann Stiftung  
Carl-Bertelsmann-Strasse 256  
33111 Gütersloh  
Germany

### **Sabine Donner**

Phone +49 5241 81 81501  
[sabine.donner@bertelsmann-stiftung.de](mailto:sabine.donner@bertelsmann-stiftung.de)

### **Hauke Hartmann**

Phone +49 5241 81 81389  
[hauke.hartmann@bertelsmann-stiftung.de](mailto:hauke.hartmann@bertelsmann-stiftung.de)

### **Claudia Härterich**

Phone +49 5241 81 81263  
[claudia.haerterich@bertelsmann-stiftung.de](mailto:claudia.haerterich@bertelsmann-stiftung.de)

### **Sabine Steinkamp**

Phone +49 5241 81 81507  
[sabine.steinkamp@bertelsmann-stiftung.de](mailto:sabine.steinkamp@bertelsmann-stiftung.de)

**Key Indicators**

Population	M	<b>6.9</b>	HDI	<b>0.816</b>	GDP p.c., PPP \$	<b>24367</b>
Pop. growth <sup>1</sup>	% p.a.	<b>-0.7</b>	HDI rank of 189	<b>56</b>	Gini Index	<b>41.3</b>
Life expectancy	years	<b>74.9</b>	UN Education Index	<b>0.779</b>	Poverty <sup>3</sup>	% <b>2.2</b>
Urban population	%	<b>75.7</b>	Gender inequality <sup>2</sup>	<b>0.206</b>	Aid per capita \$	<b>-</b>

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. 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

After suffering the protracted impact of a global recession, Bulgaria's economy steadily recovered in the years following 2015. In 2019, the economy recorded a healthy growth rate of (3.4%), similarly to 2018 and 2017. However, this trend was reversed by the COVID-19 pandemic, which has led to a recession.

In July 2020, Bulgaria joined the European Union's Exchange Rate Mechanism (ERM-II) and Banking Union, achieving one of its long-term goals. Joining the euro area is expected to guarantee monetary stability and boost foreign investment. EU membership and support from EU funds brought undeniable economic benefits, and support for EU membership remains high. However, it has not solved problems with upholding the rule of law. The Cooperation and Verification Mechanism established by the European Commission to sustain reforms in areas including justice and corruption in Bulgaria after its accession has failed to deliver results. It is one contention that European money may have fueled corruption in Bulgaria – simply because corruption thrives precisely where there is money to redistribute.

In November 2019 a new prosecutor general was elected without any alternative nominee. 2020 saw one of the longest and largest civil protests since Bulgaria joined the EU in 2007, supported by many Bulgarian communities abroad. Protesters demanded the resignation of Prime Minister Boyko Borissov and Prosecutor General Ivan Geshev on the grounds of suspected corruption and selective justice. In response to the protests the European Parliament adopted a resolution pointing out interconnections between criminal groups and public authorities in Bulgaria and concluding that media freedom in Bulgaria has been deteriorating. Bulgaria fell back to 111 in the 2020 World Press Freedom Index and is depicted as the “black sheep of the EU” in terms of media freedom.

Shortcomings in the functioning of institutions are a significant obstacle to the economic and social potential of the country. The capability of the government to operate and implement

policies is impeded by a further erosion of trust, which has never been particularly high in Bulgaria.

Poverty and inequality in Bulgaria remain high by EU standards on a range of key indicators. Despite significant improvement since 2015, in 2019 Bulgaria was still the EU member state with the highest share of population at-risk-of-poverty or social exclusion – 32.5% compared to the average of 21.1%. Monetary poverty was extremely high throughout the past decade, never falling below 20%.

In March 2020, Bulgaria introduced an emergency law in response to the COVID-19 pandemic. This law has subsequently been extended several times. COVID-19 infection rates remained low during spring and summer 2020, but in October and November there was a surge of infections, which compelled the government to close schools and kindergartens and introduce stricter measures. In 2020, the Bulgarian economy and labor market appeared to have escaped any significant impact from the pandemic, but whether this will remain the case is unclear.

In 2020, Bulgaria vetoed the start of negotiations for EU membership between the EU and North Macedonia. This decision discredited to a large extent previous efforts of Bulgaria to mediate the complicated Balkan politics and support the integration of the Western Balkans into the EU. Bulgaria's position, which proved completely incomprehensible to the international community, is motivated by nationalism and a reaction to popular sentiment in the context of forthcoming elections.

## 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 and 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. 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 had been 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. His party, the National Movement "Simeon II" (NDSV), lost public support and the general elections in 2005 yielded one of the most complex outcomes 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 with BSP's Sergei Stanishev as prime minister. The Stanishev government managed Bulgaria's accession to the EU in 2007 and enjoyed high rates of economic growth and improved economic performance, but the country remained the poorest in the EU. The EU's famed transformative power worked unevenly to promote democracy and rule of law. By the end of 2008 and beginning of 2009, Bulgaria's economy and industrial base suffered unexpected losses from the global financial crisis. A new right-leaning party, Citizens for the European Development of Bulgaria (GERB), advocating a law-and-order agenda, won the 2009 parliamentary elections and formed a minority government under party leader Boyko Borissov. The commitment of the Borissov government to fight corruption and organized crime has been a particular source of disappointment. In 2013, the GERB government resigned following months of sometimes violent anti-poverty demonstrations. As the next coalition government of Plamen Oresharski failed to institute promised reforms, street protests began anew, and instability grew. After DPS withdrew its support, the socialist-led government collapsed after less than 18 months in office.

After a turbulent period with two early elections in 2013 and 2014, Bulgarian politics returned to stability in 2015. In 2014, eight political parties entered the parliament. The center-right GERB party, led by Prime Minister Boyko Borissov, formed a coalition government with the Reformist Bloc and the Alternative for Bulgarian Revival, supported by the Patriotic Front. Grand reform pledges were not fulfilled.

In the meantime, Bulgaria faced the implications of being on the main (Western Balkan) refugee migration route and the society has been charged with fears over migrants and refugees and strongly susceptible to the influence of public messages. Although GERB considered itself irreplaceable because it ensured political and economic stability, in November 2016 Borissov resigned after Rumen Radev, a Socialist-backed newcomer to politics, defeated GERB's candidate in the presidential election by a landslide.

Parliamentary parties failed to form a government and in January 2017, President Radev dissolved the National Assembly, appointed a caretaker government, and called early parliamentary elections. Following the elections, the third Borissov government took office in May 2017 in a coalition between GERB and the nationalist alliance of the United Patriots, which includes three nationalist parties (the National Front for the Salvation of Bulgaria, VMRO-Bulgarian National Movement and Ataka). Borissov's third coalition government was a mixed success. In 2020, amidst the Covid-19 pandemic, Bulgaria finally succeeded entering the eurozone's antechamber, the Exchange Rate Mechanism (ERM-II). Still, limited progress in reforming the judiciary and combating high-level corruption and organized crime has prevented Bulgaria from continuing its journey to Schengen area. Mass protests in 2020 which mobilized also Bulgarian communities abroad showed a strong feeling that corruption and kleptocracy have taken deep roots in Bulgarian politics and a dissatisfaction with the work of the prosecution, which is suspected of lack of impartiality, relation with shadowy circles and conspicuously selective justice driven by a populist agenda rather than adherence to the law. Bulgaria continues to maintain macroeconomic stability even at the beginning of 2021 after almost a year in the grip of the pandemic. But prospects for successfully addressing the long-term challenge of a shrinking and aging population combined with shortages of human capital remain unclear.

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.

Question  
Score

Monopoly on the  
use of force

10



The constitution defines Bulgaria as a nation-state that respects differences in ethnicity, language, and religion. The main groups support the official concept of the nation-state. The constitution does not recognize minorities explicitly but guarantees the right to self-determination. In 2011, 8.8% of the population identified as ethnic Turks and 4.9% as Roma.

State identity

10



Citizenship can be obtained based on Bulgarian descent, adoption by Bulgarian citizens, naturalization, or for “special contributions” to the country. Interest in Bulgarian citizenship increased significantly after its accession to the EU in 2007, as it granted full EU citizenship and visa-free travel across the bloc. Ensuing migration policies aimed at supporting economic development by attracting persons of Bulgarian origin from countries with traditional Bulgarian communities (Northern Macedonia, Serbia, Ukraine, and Moldova). For the last 10 years, some 77,800 citizens of North Macedonia have applied for Bulgarian citizenship on the grounds of descent, an overwhelming majority of which were approved.

The proof of descent is subject to a complex administrative procedure and prone to corruption. In 2018, a scandal erupted over fake certificates issued by the State Agency for Bulgarians Abroad. Charges were brought against the head of the agency, who was seen as close to the VMRO party (part of the governing coalition), which allegedly received money from the scheme.

The state is predominantly secular. The Bulgarian constitution protects freedom of religion and belief, and it stipulates that the state shall assist in the maintenance of tolerance and respect among different denominations, as well as among believers and non-believers. The constitution prohibits religious discrimination but designates Eastern Orthodox Christianity as the “traditional” religion.

The Bulgarian Orthodox Church (BOC) is a public body and subject to state control. Still, the government did not undertake any action when, during the COVID-19 pandemic the BOC, unlike other denominations, violated lockdown measures. Conversations between the government and the Holy Synod led to an agreement on how to conduct Passion Week and Easter service. However, the safety measures were relatively lax, in stark contrast with the coercive closure of secular public spaces.

The church may not meddle in state affairs, but during the review period it became increasingly engaged in policy debates and its objections to key policies has influenced the government. In 2019, the BOC intervened against the adoption of the National Child Strategy (2019 – 2030), a framework policy document proposed by the government. The church disagreed with several provisions, including a total ban on corporal punishment (already in force) and the introduction of a system for the prevention of domestic violence and for child protection in the event of domestic violence. Following public pressure, the strategy was withdrawn. In 2019, the Church intervened over the new Social Services Act, which introduced an entirely new approach involving changes to the legal framework for social services delivery. The law has been criticized by conservative circles for threatening traditional family values and benefiting foreign-funded service-providing CSOs. The new law entered force only after fierce debates and after a long delay.

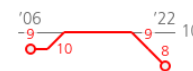
Bulgaria maintains all fundamental structures of a state apparatus. State resources are collected and allocated on a broad basis following strict constitutional procedures. Bulgaria has a three-tier administration comprising: (1) the central government with line ministries, agencies, and commissions; (2) the district administration in 28 districts, appointed by the central government; and (3) 262 elected local jurisdictions (municipalities).

Corruption does not affect the delivery of public services as such but affects the quality and effectiveness of the administration. Basic infrastructure and services such as social housing, quality transport infrastructure, access to health services, garbage collection, and permanent water supply are nonexistent or poorly maintained in some remote areas and, most notably, in Roma neighborhoods.

The COVID-19 pandemic did not disrupt essential services but exacerbated existing inequalities in terms of access to health care, especially outpatient care that often requires expensive pharmaceuticals. Extraordinary lockdown measures were imposed on some Roma settlements (e.g., Kyustndil). Amnesty International expressed concerns that the authorities had failed to ensure adequate access to water, sanitation, food, hygiene products, and health care.

No interference of religious dogmas

8



1

Basic administration

8



1



Water supply is a problem: in 2019, 100,000 residents of Pernik faced severe water shortages. Journalists used satellite images to show that the level of Studena Lake had started to decrease much earlier than thought, but the authorities failed to take measures to prevent a disaster.

## 2 | Political Participation

Bulgaria is a parliamentary republic with a National Assembly elected every four years.

The current framework for the financing of political parties is unfavorable to political pluralism and creates the risk of certain private interests dominating the political process. In July 2019 party subsidies were cut in a populist move by the ruling majority and the ceiling on donations from individuals, businesses, and other organizations was lifted. Four months later, the parliament reinstated state subsidies, but donation limits were not re-introduced despite being the subject of extensive criticism.

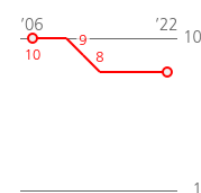
Reform of the electoral system is a recurrent theme in Bulgarian politics. Counter to international standards, the practice of changing electoral legislation shortly before regular elections continues. When amending the Electoral Code, decision-makers have ignored the recommendations of the Venice Commission and the OSCE Office for Democratic Institutions and Human Rights (ODIHR) to allow linguistic diversity in campaigns and grant voting rights to Bulgarian citizens living abroad. The long-standing problem of voter lists based on outdated population data from 2011 is yet to be resolved.

The European Parliament elections in May 2019 and the local elections in October 2019, in which Citizens for European Development of Bulgaria (GERB) reaffirmed its dominant position in Bulgarian politics, were considered free and fair. Nevertheless, persisting weaknesses in the election process, such as poor administration at a local level, vote-buying, corporate voting, and campaign irregularities, were documented by observers. The media also violated election rules, by failing to publish their contracts with candidates.

In January 2021, the president announced that regular elections would not be postponed, despite the pandemic, and would therefore take place as scheduled in April 2021. After a controversial decision by the parliament in fall 2020, paper ballots will still be used, in parallel with electronic machines. This is expected to undermine the potential positive effects of electronic voting. Confidence in the election process is very low – 19.2% of Bulgarians expect the 2021 elections to be fair, while 52.6% do not (Gallup, October 2020).

Free and fair elections

8



1

As of January 2021, Bulgarian politics remains dominated by the center-right party Citizens for European Development of Bulgaria (GERB). The party has – with brief interruptions – governed the country for the last ten years under the leadership of three-time Prime Minister Boyko Borissov. In 2020, Borissov faced a series of serious corruption allegations. International organizations and the European Parliament have pointed to links between criminal groups and public authorities in Bulgaria. Between July and November 2020 thousands of Bulgarians took to the streets, accusing the political elite of abusing the rule of law and weakening state institutions for their own benefit. They called for the immediate resignation of Borissov and Chief Prosecutor Ivan Geshev. President Rumen Radev appeared to take the protesters’ side and spoke out about the “mafia” in the executive branch and the prosecutors’ office, which it uses “in the most ruthless way as its shield and for political repression.”

Allegations that large-scale private interests are deeply embedded in Bulgarian politics are not new. The web of deeply intertwined political and business interests has remained intact through the years of political and economic transition, surviving the change of some political players under a publicly acceptable façade of democracy. This is how the Bulgarian model differs from openly authoritarian styles elsewhere in Central Europe. It is alleged that within this model, entire market segments, media included, are appropriated by certain interest groups, with the blessing of the executive and under the protection of the judiciary.

The Bulgarian constitution guarantees the freedom of association and assembly. Apart from the measures in response to the COVID-19 pandemic (e.g., general rules requiring physical distancing of one and a half meters and mandatory use of face masks in public places), no other specific restrictions in relation to the right of association and demonstration were imposed. Public demonstrations were not restricted and took place regularly, including anti-government protests.

Despite several ECHR judgments, Bulgarian courts continuously block the registration of organizations that are considered to threaten national unity on formal administrative grounds. A case in point is “UMO Ilinden” whose self-declared aims are the protection of the human rights, language and identity of the Macedonian minority. The case was mentioned in a European Parliament resolution on the rule of law in Bulgaria. This provoked violent reactions from Bulgarian parties from across the political spectrum, who saw it as “damaging” and “dangerous” for Bulgaria. These reactions are illustrative not only of taboos, such as the existence of the “Macedonian minority,” but also of strong opposition to the European liberal consensus and a deeply embedded mistrust in democratic values and their protection by the law.

In September 2019, the Bulgarian National Movement (VMRO), a partner of the ruling coalition, requested that the prosecutor general withdraw the Bulgarian Helsinki Committee’s (BHC) legal status. Thousands of local and international CSOs, including Human Rights Watch, expressed their support for BHC.

Effective power to govern

8



1

Association / assembly rights

8



1

In July 2020, a group of nationalist MPs proposed a new legal framework for declaring and controlling the foreign funding of NGOs. The vast majority of active civic organizations rejected the changes as discriminatory, repressive, and anti-European. The legislation was also condemned by the European Parliament.

According to Bulgarian law, freedom of expression is unrestricted. Technically there is media pluralism, confirmed by the large number of media outlets. However, there are persistent and serious concerns about the domination of the media by business interests seeking political influence. Politicians are not explicitly forbidden from owning media outlets and there are established links between the two. Censorship and self-censorship persist, and the current system of media self-regulation is ineffective.

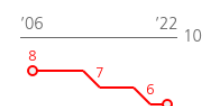
During the review period, media freedom in Bulgaria deteriorated – it ranks as the worst country in the EU and is 111 globally, for a third consecutive year in the Reporters Without Borders 2020 World Press Freedom Index. In 2019, judicial interference was noted as a new issue serving to undermine media independence. The practice of influencing the media through the preferential allocation of EU funds to government-friendly media outlets continues, according to the European Parliament. There were several cases of journalists being attacked and dismissed by new leadership of both private and public broadcasters.

When the state of emergency was declared in response to the pandemic, the parliament discussed stringent measures to criminalize disinformation regarding COVID-19, including prison sentences for spreading “fake news” of up to three years or a fine of up to €5,000. These were later vetoed by the president.

Attempts to limit the freedom of expression have intensified through the instigation of unwarranted investigations under the terms of the Penalty Code. In April 2020, the chair of the Bulgarian Pharmaceutical Union, Asena Stoimenova, was accused by the prosecutor’s office of instilling fear in the public through her warnings over the risk of a shortage of certain drugs due to a crisis in supply. After protests from the EU Pharmaceutical Group, the Sofia City Court returned her bail and Stoimenova was fully acquitted.

Freedom of  
expression

6



1

### 3 | Rule of Law

In Bulgaria, the separation of powers remains a challenge. During the review period, the legislative process was dominated by the ruling majority. The Bulgarian parliament failed to ensure effective accountability of the executive. Amidst the COVID-19 pandemic, in April 2020 the parliament twice failed to convene a parliamentary session that met its quorum in order to question Prime Minister Borissov over the measures introduced during the state of emergency. According to the Bulgarian Socialist Party (BSP), this was an attempt to shut the mouth of the opposition and violate the constitutional order in the country.

Legislation has been amended and passed frequently and hastily. The process of public consultation with stakeholders and that of impact assessment is assessed as informal and not evidence-based. Legislation is considered of inferior quality. The scope for media scrutiny of the work of the legislature is limited, as direct access for journalists to MPs is no longer possible after the National Assembly moved into the renovated building of the former Communist Party house in September 2020.

Suddenly and surprisingly, amidst persistent civic protests for an early election, in fall 2020 the ruling majority presented a draft for a new constitution aiming to “restart” the system. The document was assessed by respected law professionals as untenable and of poor quality and failed to solve existing problems of inconsistent application of the principle of separation of powers, which for the period under review, was evident in the powerful figure of Chief Prosecutor Ivan Geshev, who declared that he does not believe in the separation of powers.

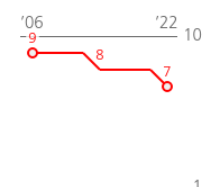
The principle of judicial independence is enshrined in the constitution. Unlike in most European countries, the judiciary comprises three groups of magistrates: judges, prosecutors, and investigators. The Supreme Judicial Council (SJC) is an independent elected body charged with overseeing the governance of the judiciary, thus ensuring that the principle of judicial independence is observed.

Appointments are often heavily politicized. According to the constitution, the president appoints the prosecutor general following a proposal from the SJC and cannot refuse to appoint or dismiss them when a repeat proposal is made. The prosecutor general can repeal every prosecutor’s act. It can also instruct and give mandatory orders to prosecutors and plays a decisive role in the promotion of prosecutors and disciplinary proceedings.

The European Commission monitors Bulgaria’s progress in judicial reform and its fight against corruption under the Cooperation and Verification Mechanism (CVM). The latest report from October 2019 notes that Bulgaria’s progress meets the commitments made upon accession to the EU. Pending reforms to implement specific recommendations regarding the structure of the SJC and the status of the

Separation of powers

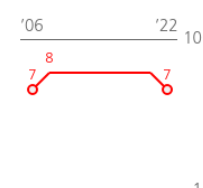
7



1

Independent judiciary

7



1

prosecutor general will continue to be monitored by the EU's new mechanism on Democracy, the Rule of Law, and Fundamental Rights. This body's first report (in September 2020) highlighted the lack of accountability of the prosecutor general. Only 37% of the public and 45% of companies consider judicial independence to be "fairly or very good," (2020 EU Justice Scoreboard). In the period 2019 – 2010, several constitutional changes and amendments to legislation were being considered by the government so that Bulgaria met international standards and domestic expectations.

A new prosecutor general was elected in 2019 in a public but uncompetitive and highly controversial procedure. The election procedure sparked public discontent and street protests over the professional qualities and integrity of the nominee. Shortly after the appointment, the president announced a public consultation on proposed constitutional amendments, leading the chief prosecutor to publicly accuse President Rumen Radev of abuse of office. This was seen as a political attack against Radev during a severe confrontation with Prime Minister Borissov. The chief prosecutor himself denied any inequality and selectivity in his investigations of high-ranking government officials, dismissing the allegations as an attempt to interfere in the independence of the prosecutor's office.

Effective prosecution of cases of high-level corruption and abuse of office is a long-standing problem in Bulgaria. The persistently low efficacy of law enforcement authorities with regard to the investigation and prosecution of high-level corruption and organized crime remains a risk to democratic governance.

Conflicts of interest are legally regulated, yet concerns remain over the lack of regulation on lobbying. Discrepancies between the decisions of lower and upper instance courts also contribute to the lack of final and effective convictions.

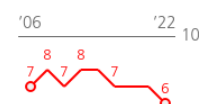
During the review period, no serving ministers were prosecuted or were under investigation for office abuse. In 2020 Neno Dimov, the minister of environment and water, was charged with deliberate mismanagement of a water crisis and became the first serving minister ever to be arrested in Bulgaria. The prosecution proclaimed it a remarkable success even though Dimov was not prosecuted for office abuse but for specific violations of the law.

In October 2020, the European Parliament stressed the "necessity of conducting serious, independent and active investigations and achieving results in the areas of anti-corruption, organized crime and money-laundering, and of thoroughly looking into the allegations of high-level corruption."

One of the allegations (not mentioned in the resolution) relates to the prosecution's failure to properly investigate the failure of Vassil Bozhkov, the owner of a large private lottery, to pay approximately BGN 60 million in taxes using a scheme that appeared to be known to the Ministry of Finance. Bozhkov argued that he was

Prosecution of  
office abuse

6



1

permitted to run the scheme in exchange for purchasing advertising in government-supporting media. Considering the critically low public confidence in the prosecutor's office, even if it did act in good faith, the suspicion is always that the power of the law was selectively applied.

Civil rights are guaranteed by the constitution and protected by mechanisms and institutions established to prosecute, punish and redress violations. The ombudsman intervenes when citizens' rights and freedoms have been violated by state or municipal authorities or public service providers. The Commission for Protection against Discrimination is an independent agency specializing in preventing discrimination and ensuring equal opportunities.

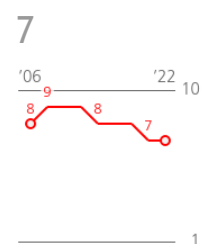
In July 2019, the personal information of all working adults was leaked after the hacking of the National Revenue Service's database, and Bulgarian citizens were exposed to the misuse of their personal data.

Despite Bulgaria's obligations under international and regional human rights standards to combat all forms of discrimination, the domestic framework is ineffective in tackling homophobic and transphobic hate crimes. Members of government, particularly from the Bulgarian National Movement (VMRO), make discriminatory and xenophobic statements and regularly use derogatory language about the Roma and call for a "final solution to the Gypsy question." Stigmatization and negative attitudes have been exacerbated by the COVID-19 pandemic, while persisting issues plaguing the Roma community, such as poverty and discrimination, were further entrenched.

Domestic violence remains a large-scale problem. In 2019, the Penal Code was amended to strengthen the legal basis for punishing perpetrators. In 2020, a national program to prevent and protect women and children against domestic violence was adopted. According to the Bulgarian Ombudsperson, in 2019, at least two women lost their lives to domestic violence every month, and over 30,000 contacted the national hotline. In 2020 CSOs registered an increase in violence against women and children during the COVID-19 pandemic and the number of calls to hotlines noticeably increased. The capacity of shelters remains small and CSOs providing support and working on domestic violence and gender issues face stigmatization, budget cuts, and hate speech.

Bulgaria failed to join the Istanbul Convention on combating violence against women after a ruling of the Constitutional Court. In January 2021, the Ministry of Justice proposed changes in the legislation against domestic violence, but the proposed new legislation excludes LGBTIQ+ couples. The proposed legislation is unlikely to compensate for the lack of an overarching policy framework against domestic violence, as provided by the Istanbul convention. The legal framework targeting hate speech and hate crimes does not provide any protection against acts based on sexual orientation, gender identity, or gender expression. In September

Civil rights



2020, groups of teenagers attacked other young people based on their suspected homosexuality in Plovdiv. Media reports and victims suggested the assaults were coordinated by a radicalized group intent on “cleansing” the city center of LGBTIQ people.

According to Amnesty International, in 2019 the conditions – including food provision – at reception and accommodation centers, for migrants and asylum-seekers was inadequate, despite the significantly lower number of people entering Bulgaria.

#### 4 | Stability of Democratic Institutions

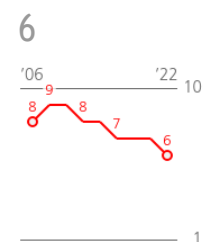
In the reporting period, the legislature was dominated by the ruling majority and largely failed to hold the executive to account. Institutional clashes between the chief prosecutor and the president, as well as frictions between the prime minister and the president, further undermined the smooth functioning of democratic institutions. The performance of the judiciary remains a concern, and the quality of some acts adopted by the National Assembly have been strongly criticized.

Trust in the state’s ability to fulfill its basic functions is low. In June 2020, more than 37% of Bulgarians believed that citizens and their associations should help solve various problems, as the state alone cannot cope.

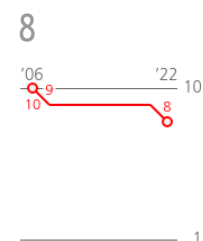
Studies find a deepening erosion of trust in the institutions, the prime minister, and the government (Alpha Research, September 2020). Parliament’s approval fell to a critical low of 7.6%. The only institutions that enjoy more trust than distrust are the president (64%), the EU (47%), and, narrowly, the local authorities (44%) (AFIS research agency, January 2020). Large-scale anti-government protests erupted between July and November 2020, highlighting the country’s political crisis and the conflicts between the key figures on the political scene.

Political actors are generally committed to democratic institutions. Still, there have been severe conflicts between the executive and the presidency. In 2020, President Rumen Radev publicly withdrew his support from the government and declared the parliament, dominated by the ruling coalition, illegitimate. The legitimacy of the prosecutor general has been continuously questioned by several political actors and civil society activists, as his actions are considered arbitrary and in favor of the executive. Public mistrust in the rule of law became endemic during the period under review and undermines the consensus on the proper functioning of the democratic institutions.

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. Still, in the turbulent period before and after EU accession, its ability to articulate and aggregate societal interests was frequently tested. Populism has gained more traction because of the continued erosion of the authority of the traditional political parties, blurring the lines between “left” and “right.” At present, the two dominant forces in Bulgarian politics are the center-right Citizens for the European Development of Bulgaria (GERB) and the center-left Bulgarian Socialist Party (BSP). The Reformist Bloc, a coalition of traditional center-right parties, began to disintegrate in 2016. The Turkish minority is represented by the Movement for Rights and Freedoms (MRF), while the Roma are politically unrepresented. New political parties and politicians have regularly emerged in the periods before elections ever since 2000, some of them quickly gaining sufficient support to enter parliament. GERB’s far-right coalition partner, the United Patriots alliance, which won 9% of the vote in 2018, is the most recent example.

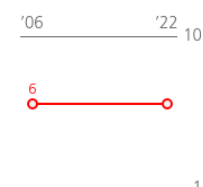
After several consecutive electoral successes, GERB is facing a challenge to complete its full-term mandate. Corruption allegations, a series of scandals, infighting, unprecedented civic protests, and the COVID-19 pandemic, have all posed major challenges for Prime Minister Borissov. The government ignored the protests, exposing itself to harsh critique at home and abroad. Despite its clear demands for snap elections and a change to the status quo, the protest movement is very diverse, uniting people with different preferences, social backgrounds, and various political experiences. BSP’s popularity has not improved from civic discontent because of internal party struggles and a vague ideological course.

New formations have entered the scene for the upcoming elections in April 2021. These include the “There’s a Nation” party of media showman Slavi Trifonov, which has steadily gained support, albeit without attracting people from the protest movement. Stand Up.bg of the former ombudsman, Maya Manolova, has joined forces with the protest group, The Poisonous Trio. A poll from January 2021 by Alpha Research put the ruling GERB party first with 24.3% of the votes, BPS second at 21.9%, and “There’s a Nation” third at 10.2%.

The “Democratic Bulgaria” alliance was founded in 2018 and has enjoyed success in the 2019 European and local elections. Its leader, Hristo Ivanov, played a decisive role in sparking the protests in 2020, but will need to compete with these newcomers to the political scene. If successful, Ivanov will have to solve the more difficult problem of securing like-minded allies in what is likely to be a very fragmented parliament.

Party system

6





Societal interests are well-represented in the political system. Bulgaria has established an institutional framework of social dialogue and social partnership at all levels. Still, certain economic and professional lobbies are better represented in decision-making than others, thanks to the clientelist nature of the political system. 2020 saw one of the longest and largest civil protests since Bulgaria joined the EU in 2007, which were supported by many Bulgarian communities around Europe and the world. Protesters demanded the resignation of the prime minister and the prosecutor general on the grounds of suspected corruption and selective justice.

In recent years interest groups have consolidated around issues of values and identity and have become more confrontational. This includes a stronger push to deny or limit representation of certain groups in societal debate and decision-making by disempowering them in various ways.

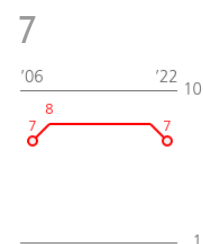
During the review period, pro-European CSOs have increasingly come under attack for promoting values “alien to Bulgarian society.” Systematic attacks have targeted CSOs working on human rights, including child rights, early sexual education, gender, and minority rights – for which CSOs rely on foreign funding. According to the Bulgarian Helsinki Committee, in 2019 the cooperation of the Bulgarian institutions with local human rights organizations deteriorated significantly. Nationalist parties included in the government coalition and pro-governmental media continue to refer to pro-European CSOs as “Sorosoids,” that is, organizations that receive funds from philanthropist George Soros and therefore serve him. Accusing these organizations of being mouthpieces for “gender ideology” and hostile to Bulgaria, these parties express positive views of organizations sympathetic to official Russian politics.

Marginalized groups, especially the Roma and other socially and economically deprived groups, still cannot fully participate in society. They are barely represented in mainstream political parties. Overall, civil society has become more vocal and more deeply rooted, but parties turn to it intermittently when it suits their interests.

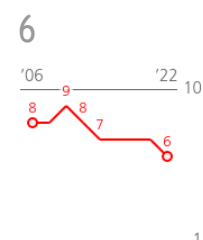
Bulgarians are among the most dissatisfied in East-Central and Southeast Europe (Globsec Policy Institute 2020). Only 35% support a system of liberal democracy, while 45% prefer a strong leader who does not have to bother with elections or parliaments. Various conspiracy theories have also taken hold: 55% think that the EU has always schemed to destroy Bulgaria’s nuclear energy industry and half of the respondents believe NATO is an American scheme to keep Europe subordinated (source: Trust in Democracy Fragile in Central Europe, Balkans).

Bulgarian democracy remains fragile 30 years after the democratic transition. According to a report by the Center for the Study of Democracy, 77% of Bulgarians believed that oligarchs and financial groups exert strong control over the government, while 59% believe that nothing will change no matter who is in power.

#### Interest groups



#### Approval of democracy



More than 15,000 public benefit associations and foundations are registered in Bulgaria. CSOs provide a diverse range of services in areas from education and social services to support to migrants, young people, and minorities. According to the Civil Society Organization Sustainability Index, the sector's organizational capacity declined in 2019, primarily due to anti-CSO campaigns and the growing polarization in society, in which informal groups, conservative organizations, and even the Orthodox Church questioned the legitimacy of CSOs campaigning for the rights of children, minorities, and others. In 2020, the COVID-19 pandemic led to an increase in solidarity and volunteering, with CSOs frequently at the frontline. On the other hand, these organizations were seriously affected by the crisis and experienced difficulties in adapting to new conditions. According to data from the Bulgarian Donors' Forum, more than €7 million were donated to the fight against the pandemic, with the majority used to provide medical equipment for the health care workers and to help children from vulnerable groups.

Bulgaria ranked 120 in the world and ranks last among Eastern European countries in the 2019 CAF World Giving Index. The share of people in Bulgaria who help a stranger is relatively high (36%), while only 5% volunteer.

The 2016 European Quality of Life Survey found that the overall level of trust in people in Bulgaria is one of the lowest in the EU, but similar to some other Southeast European countries (North Macedonia, Greece and Albania).

## II. Economic Transformation

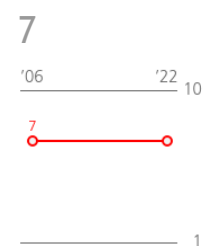
### 6 | Level of Socioeconomic Development

The number of people living at risk of poverty or social exclusion in Bulgaria declined by over 1.14 million persons between 2008 and 2019. However, the country still has the highest at-risk-of-poverty-or-social-exclusion rate in the EU (32.5%, Eurostat). Social exclusion rates decreased sharply in 2018 as Bulgaria recovered from the global recession and implemented some policies which bolstered incomes.

Monetary poverty remained very high throughout the 2010s, never falling below 20%. In 2019 the monetary poverty rate (at-risk-of-poverty-rate) was the third-highest in the EU (22.6%), after Romania and Latvia, with a significant gap between men (20.9%) and women (24.3%). The percentage of children at risk of living in poverty was 28%, while the elderly were at the highest risk (39.5% of those aged 65 years or over).

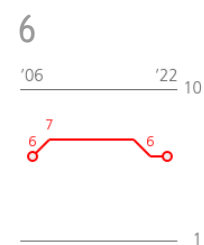
Measures of inequality place Bulgaria among the most unequal societies in the EU. In 2019 Bulgaria's Gini index was 40.8 (compared with an average of 30.2 among the EU-27, Eurostat).

#### Social capital



#### Question Score

#### Socioeconomic barriers



In 2019, Bulgaria's HDI was 816, up from 813 points in 2018. Bulgaria had a particularly high score on the Gender Development Index, which measures disparities between men and women on the main HDI index. Women fare well compared to men in all three components of the HDI – education, longevity, and income per capita. Gender inequality in Bulgaria, however, remains high, and it is ranked 48 in the world) due to reproductive health and empowerment indicators.

Economic indicators		2017	2018	2019	2020
GDP	\$ M	58971.5	66230.2	68558.8	<b>69105.1</b>
GDP growth	%	3.5	3.1	3.7	<b>-4.2</b>
Inflation (CPI)	%	2.1	2.8	3.1	<b>1.7</b>
Unemployment	%	6.2	5.2	4.2	<b>5.7</b>
Foreign direct investment	% of GDP	3.4	2.7	3.0	-
Export growth	%	5.8	1.7	3.9	<b>-11.3</b>
Import growth	%	7.4	5.7	5.2	<b>-6.6</b>
Current account balance	\$ M	1987.3	559.4	1233.6	<b>-537.7</b>
Public debt	% of GDP	23.0	20.1	18.4	<b>23.6</b>
External debt	\$ M	40989.1	40103.5	40501.4	<b>43347.4</b>
Total debt service	\$ M	8738.9	6799.5	5749.0	<b>5083.0</b>
Net lending/borrowing	% of GDP	0.9	1.8	-	-
Tax revenue	% of GDP	20.1	20.2	20.3	-
Government consumption	% of GDP	15.6	16.4	16.8	<b>19.4</b>
Public education spending	% of GDP	4.1	-	-	-
Public health spending	% of GDP	4.1	4.2	-	-
R&D expenditure	% of GDP	0.7	0.8	-	-
Military expenditure	% of GDP	1.2	1.5	3.1	<b>1.8</b>

Sources (as of December 2021): 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 benefits from rules that are mostly uniform and consistent for all market participants. The majority of prices are determined by the market. Exceptions include prices for energy, water supply and pharmaceuticals. The prices for pharmaceuticals are negotiated by the National Health Insurance Fund, while energy prices are regulated by the Energy and Water Regulatory Commission. Costs for electricity and heating represent a significant proportion of household budgets and are therefore of critical importance and are politically sensitive.

Natural monopolies and sectors of high public interest are also subject to special regulation, including the setting of administrative prices. Bulgaria has a well-functioning commodity exchange and state-owned stock exchange, which also acquired the Independent Bulgarian Energy Exchange.

In the World Bank’s 2019 Doing Business report, Bulgaria ranked 61 (two positions down from its previous ranking) out of 190 countries for ease of doing business. The country performed best in international trade (21) and protecting minority investors (25). Bulgaria continued to perform poorly in access to electricity (which takes 262 days and costs 387% of per capita income), starting a business (requires 23 days) and paying taxes.

The World Bank recently praised Bulgaria for strengthening enforcement and monitoring of the labor market to improve registration of contracts and payment of social security contributions. Despite this progress and having one of the lowest tax rates in the EU, the estimated size of Bulgaria’s shadow economy was the third largest among all European countries included in the analysis. It accounted for more than 35% of GDP. However, the IMF calculates that Bulgaria’s shadow economy is no longer increasing in size.

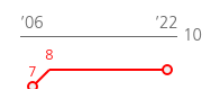
Bulgaria has special legislation ensuring fair competition. The main provisions include the Protection of Competition Act, which ensures “protection and conditions for expansion of competition and free enterprise in business activities.” The law is designed to prevent a broad range of cartel agreements (“concerted practices”) and various forms of exploiting a dominant market position.

Bulgaria also has a special body – the Independent Commission for Protection of Competition – to ensure that the relevant European Community law is implemented, and the rules of fair competition are not violated.

Despite the existence of competition laws, suspicions remain that they are sometimes enforced inconsistently. Public and parliamentary discussion over an alleged cartel in the fuel sector continued for years and almost each year the

Market  
organization

8



10

1

Competition policy

8



10

1

regulatory body announces an investigation into potential concerted practices in the field of fuels which always ends inconclusively. The latest example was a raid initiated by the prosecution in May 2020 at the offices of the Bulgarian Petroleum and Gas Association – an NGO representing the interests of liquid fuel and gas suppliers. The declared aim was to find documentary evidence of price manipulation or any other illicit agreements.

There are issues with competition in other markets as well. The operation of natural monopolies is regulated by another independent body – the Energy and Water Regulatory Commission, which regulates prices of electricity and renewable energy, water, heating and natural gas.

Vertical integration within the pharmaceutical market continues to be an issue. Re-exporting pharmaceuticals fully or partially paid for by the National Health Insurance Fund (NHIF) is a further problem. The NHIF tries to keep prices low by using reference pricing from other countries. However, this sometimes leads to shortages and even withdrawal of some pharmaceuticals from the Bulgarian market. Being a small market deprives Bulgarian regulators of bargaining powers.

Foreign trade is largely liberalized, with uniform low tariffs and few non-tariff barriers. The ratio of foreign trade to GDP has increased since the new millennium with some fluctuations due to the global economic crisis and other temporary factors. According to the World Bank foreign trade exceeded 130% of GDP at the beginning of 2020. Within the EU, Germany, Italy and Romania are the main export and import partners. Outside the EU, Turkey is the most important trade partner both as an exporter and importer, while Russia is a large net importer to Bulgaria due to its supply of natural gas.

The COVID-19 pandemic affected foreign trade negatively and is expected to continue to suppress it in 2021. According to preliminary data, both exports and imports with the EU and third countries sharply contracted in 2020.

At the end of 2020, there were 18 banks registered in Bulgaria and seven branches of foreign banks operating. The branches of foreign banks have much lower levels of assets: BGN 130 million. The two largest banks registered in Bulgaria are foreign-owned (Austria and Hungary) and have assets exceeding BGN 20 billion each. Three other banks have assets of approximately BGN 10 billion each, two of which are foreign-owned (Greece and Austria).

At the end of November 2020, the banking system had approximately BGN 80 billion of loans and advances and BGN 102 billion of deposits. The end of November 2020 liquidity coverage ratio increased to 296%, from 284% in the previous month.

In general, at the end of 2020, Bulgaria's banking system looked in good health with a strong capital position and resilience to potential shocks. However, the

Liberalization of  
foreign trade

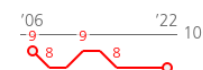
10



1

Banking system

8



1

Convergence Report of the European Central Bank from June 2020 maintains that legislation still fails to comply with the Eurozone accession requirements for central bank independence, monetary financing prohibition, and legal integration into the euro system.

The non-performing loans ratio for commercial banks has decreased since 2015 when it exceeded 16%. In 2019 and 2020, it rarely exceeded 6%. Nevertheless, the IMF argued in November 2020 that non-performing loans remain a challenge, as they were above the EU average before the start of the economic downturn triggered by the pandemic. The share of non-performing loans is expected to rise further after the end of the loan moratoria that was granted during the COVID-19 pandemic.

## 8 | Monetary and fiscal stability

Since the IMF-proposed Currency Board Arrangement (CBA) was introduced in 1997, Bulgaria has enjoyed macroeconomic stability. The Bulgarian National Bank (BNB) is fully independent, both legally and in practice. Parliament appoints the governor and deputy governors of the BNB.

CBA continues to provide a stable anchor and discipline in maintaining tight fiscal policies. The Bulgarian lev (BGN) is fixed at 1.96 to the euro. The BNB must fully back all 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.

Bulgaria became a member of ERM-II on July 10, 2020, thus achieving a long-term goal set by the government. If Bulgaria manages to strictly observe convergence criteria, the country is expected to adopt the euro in the summer of 2024.

Before the Great Recession, Bulgaria experienced a higher inflation rate than most other EU countries but has since seen very low inflation. The inflation rate was below the reference value for the EU in 2020 (2.6% for the last 12 months) but Bulgaria exceeded the reference value for the Harmonized Index of Consumer Prices (HICP) inflation rate (1.8%). This meant Bulgaria no longer fulfilled its criterion on price stability (ECB Convergence Report 2020). In addition, there is uncertainty over how inflation will develop during the course of the COVID-19 pandemic under different scenarios. The effect of the pandemic on price stability is hard to predict, and it is possible that it could exert deflationary pressure.

Monetary stability

10



1

For several years up to 2015, the government deficit exceeded the EU's 3% Maastricht criterion. However, an excessive deficit procedure was not initiated, as the European Commission judged the situation temporary and expected a medium-term adjustment. Indeed, the deficit was mild compared to other EU member states, and Bulgaria had one of the lowest public debts in the European Union. Between 2015 and the start of the COVID-19 pandemic in 2020, Bulgaria maintained budgetary surpluses (2% of GDP in 2019). In 2020, the pandemic forced the government to channel additional public expenditure into containment and recovery measures and a budget deficit was incurred. The EC forecast predicts that Bulgaria will incur a budgetary deficit of 3% in 2021 and 1.5% in 2022.

In 2020, the government introduced some measures which might have a lasting budgetary impact, including a public sector pay increase and pension supplements. The pension system continues to be a source of concern in the long run as contrary to the original plan it runs into large deficits every year and is compensated by government transfers from general taxation. The performance of the private pension funds is also a matter of concern. Ensuring adequate pensions over the next decades may require further unpopular reforms.

Due to budgetary surpluses, Bulgaria's public debt has been one of the lowest in the EU from 2016 to 2019 (it declined from 29.3% to 20.2%). In 2020 the government incurred additional debt in response to the COVID-19 pandemic and the consolidated gross debt was projected to increase by 5 percentage points to reach 26.5% of GDP in 2021. Even then, government debt would remain far below the EU average, and below the Maastricht convergence criterion (60% of GDP).

## 9 | Private Property

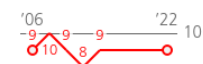
Property rights are regulated by law and there are no legal restrictions against majority foreign-owned companies acquiring real estate if these companies are locally registered. Enforcement of contracts by the courts remains slow, while corruption is still a major issue (concerns have been raised about the independence and efficiency of the Asset Forfeiture Commission created in 2012).

In 2020, Bulgaria further improved its performance in the International Property Rights Index after a significant increase in 2018, ranking 50 (up from 63) globally and 10 (one place up) in the regional ranking. Over the last few years, Bulgaria has followed a path of stable improvement in the protection of property rights after a period of significant decline. Bulgaria received its highest scores on patent protection and the ease of registering property but scored very low on judicial independence, rule of law, control of corruption and copyright piracy.

However, activists and the media have drawn public attention to further cases of business raiding. A prominent case "The Eight Dwarfs" – named after a bistro

### Fiscal stability

9



1

### Property rights

8



1

where prosecutors allegedly organized meetings to offer illicit involvement in legal cases concerning business ownership – was revealed in a piece of investigative journalism, which exposed corruption in the judiciary.

The majority of large enterprises have been privatized, while others have filed for bankruptcy or are no longer operating. By the time Bulgaria joined the EU in 2007, privatization was already past its climax and very few privatization deals have been made since. The state continues to own assets in the energy, transport and construction sectors and some enterprises in the arms industry. Among the remaining large companies still in state ownership is the state railway company. It continues to receive large subsidies and support so that it can repay publicly guaranteed loans, which the company is unable to service. In some years, the company's allocation in the national budget accounts for up to 0.5% of GDP, meaning the subsidy exceeds three times its sales revenue.

Privatization was not always accompanied by the breaking of monopolies, and, despite efforts to create a competitive market, some private monopolies have been created in telecommunications, energy, and water supply. The privatization of certain previous monopolies suffered from unfavorable terms of deals and insufficient controls for observing commitments. In several cases, large investors with experience in corresponding sectors withdrew from Bulgaria, selling their assets to less capable successors. In October 2020 the anti-monopoly body, after a prolonged and heated public discussion and a series of scandals, approved the purchase of daughter companies of the CEZ Group by a Bulgarian company with little experience in the management of power infrastructure and services of critical importance. The need to nationalize and consolidate water management is under discussion due to recurring water shortages and concerns about the sustainability of water supply for irrigation.

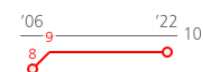
## 10 | Welfare Regime

Addressing social inclusion is not a government priority even in times of rapid economic growth. In 2018 approximately €120 million were spent on funding the social inclusion function in the overall budget. Social protection, including pensions and payments for health care and sickness, exceeded €9.2 billion.

The official poverty line for 2021 is BGN 369, corresponding to 60% of the median income. This definition was adopted by the government in 2019 and has been used since then to provide an official estimate of poverty and to calculate some benefits. The guaranteed minimum income (the social minimum provided by the state), which in 2020 was BGN 75 (€38) per month continues to be determined each year by government discretion and is not linked to the official poverty line.

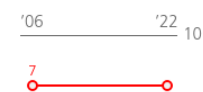
Pensions are the only social welfare payments that contribute significantly to poverty reduction. In the period 2017 – 2020, the government undertook an

Private enterprise  
9



1

Social safety nets  
7



1



accelerated increase of the minimum pension compared to the usual rate of pension increase. The pensionable age is increasing gradually to improve the sustainability of the state pension system in the long run: the target is to reach a statutory retirement age of 65 years for both men and women in 2037.

Maternity leave is relatively generous compared to other EU countries. However, jobless mothers who did not pay social and health contributions are entitled to considerably less cash support.

The affordability of housing is a major socioeconomic issue. Bulgaria has no effective social housing policy and no housing benefits for poor households. This is among the reasons why people in deep poverty often inhabit informal dilapidated housing.

Bulgaria has one of the highest private costs of health care in the European Union - representing almost half of current health expenditure in 2017. Between 500,000 and 600,000 people were not covered by health insurance in 2020.

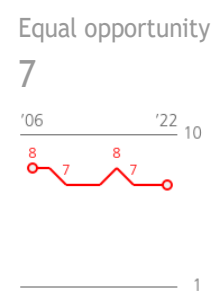
During the COVID-19 pandemic the government introduced several measures to address rising unemployment and support businesses which were affected by imposed restrictions or suffered economic losses. Other measures included direct payments to employees, pension supplements, credit moratoria and special interest-free credit lines subsidized by the government. The overall response package however is small in macroeconomic terms compared to other EU member states.

Bulgaria's anti-discrimination legislation defines social status as possible grounds for discrimination. Socioeconomic inequalities are high and structurally ingrained, particularly in the case of the Roma. These inequalities also restrict opportunities for lower socioeconomic groups to actively participate in society.

The employment rate for women is some 10-12% lower than for men. In 2019 – the last year unaffected by COVID-19 – the female employment rate was 47% (vs a 59% male employment rate) corresponding to about 1.5 million employed women. Labor market participation of women is significantly lower due to maternity and traditional roles in the household.

Attitudes to LGBTIQ persons are relatively negative. Access to jobs, including in public office, remains restricted for Roma. There are very few employers in Bulgaria who have corporate policies for diversity management or equal opportunities, and these are mainly subsidiaries or branches of foreign companies. Data from Eurobarometer 2019 show that 30% of respondents would feel uncomfortable if their child had a relationship with a Roma. Almost half of the respondents would feel uncomfortable if they had a colleague who is LGBTI.

Bulgaria performs well on some gender equality indicators. In 2018, the gender pay gap was 12.5%. In some sectors of the economy, which employ a highly qualified



workforce such as professional, scientific, and technical activities, the difference between wages of men and women is less than 5%. The gap is also smaller in the public sector, but very large in care services where women tend to occupy lower-paid jobs. School and university enrollment is higher among girls than boys.

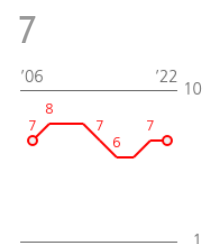
## 11 | Economic Performance

Before the economic shock caused by the COVID-19 pandemic, Bulgaria experienced half a decade of stable economic growth and low unemployment. GDP grew by 3.1% in 2018 and by 3.7% in 2019. A budget surplus has been recorded since 2016 and it was particularly high in 2018 (2%) and 2019 (1.9%). In the first quarter of 2020 Bulgaria retained the second lowest gross government debt in the EU (20.3%). Data for 2020 published by Eurostat show that the government gross debt grew to 25% of GDP, which remains very low in comparison to other EU member states, although the full economic impact of the COVID-19 pandemic is too early to predict. The early signs are that Bulgaria may be moderately affected compared to other European economies, but this depends greatly on how the epidemic evolves in 2021. In 2020 GDP contracted by 4.2% compared to 6.2% in the EU-27. The Bulgarian economy is open and tightly interconnected with international supply chains involving imports and exports: the situation in the global economy and the main EU economies has a strong impact on Bulgarian markets and output prospects.

Foreign direct investment (FDI) increased between 2015 and 2019 by approximately €0.5 billion per year and total stocks exceeded €25.34 billion in 2019. There are still no official data published for 2020, but FDI is expected to have fallen. Labor productivity increased at a low pace, after increasing by 10.6% between 2015 and 2019. Despite increased participation in the labor force, the total number of employed persons has remained stable for many years (just above three million) because the total available labor force had decreased. In the third quarter of 2019, the unemployment rate reached its lowest point for many years at 3.7%. It increased to 5.9% in the second quarter of 2020 before falling back slightly. More than 40,000 new unemployed persons were registered in the second quarter of 2020, when the effects of the pandemic were first felt, and restrictions were imposed. In the third quarter seasonal factors and government support helped prevent unemployment from increasing.

The biggest problem for Bulgaria is its lack of capacity for sustainable long-term growth. Low taxes and deregulation can boost growth temporarily but cannot compensate for impeding factors such as the slow, ineffective judiciary and a reduced population due to emigration.

Output strength



## 12 | Sustainability

Bulgaria scores above the EU average on public expenditure (as a percentage of GDP) on environmental protection, mainly due to the contribution of EU funding. Bulgaria participates in the pan-European network Natura 2000, which includes protected territories inhabited by rare and endangered species. Total expenditure on restoration and protection of the environment has been increasing consistently since the country joined the EU – from BGN 1.27 billion in 2010 to BGN 2.31 billion in 2019 (NSI). Still, Bulgaria has been subject to more than 50 infringement procedures for failure to adopt or enforce environmental legislation required under EU law.

Bulgaria has higher revenue than the EU average from various forms of green taxation, especially energy taxes. This, together with other incentives, has led to very fast growth in the use of energy from renewable sources in the 2010s, overshooting set targets and commitments. Despite this progress, in 2020 Bulgaria asked for help from the EU in phasing out coal, arguing that without help the country could not commit to a reduction by 2030 of more than 40% compared to 1990 (the common EU target is set at 55%). Taxation on petrol and diesel is at the minimum EU level, but at the end of 2018 Bulgaria introduced a higher vehicle tax rate for more polluting vehicles.

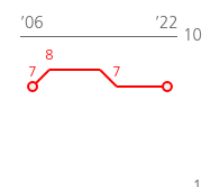
GMOs were banned in Bulgaria in 2010 after strong support for this measure from civil society organizations.

Air quality and its monitoring are a significant concern. Some of the largest cities have among the highest levels of particle pollution in Europe and globally. In 2017, the European Court of Justice ruled against Bulgaria over its failure to stop systemic violation of air quality standards. The capital Sofia, because of its location in a valley, and the nearby industrial town of Pernik, face particularly high levels of particulate pollution, primarily caused by pollution from cars and solid-fuel heating in wintertime, combined with poor city planning and overbuilding. Bulgaria's vulnerability to flash floods and droughts, probably related to global climate change, became very clear in 2019 – 2020. Many larger cities and smaller settlements experienced water shortages. These events have invigorated the ongoing discussion on the need to design a new water-management strategy that seeks a long-term solution to secure the water supply for domestic and agricultural use.

Civic activity is among the primary reasons that environmental issues remain firmly on the policy agenda. Civic activity also helps counter business interests supported by corrupt practices from exploiting protected territories.

Environmental  
policy

7



Despite significant progress over the past decades, both the average adult years of schooling and participation in education remain low, reflected by Bulgaria's score in the UN Education Index (0.779 in 2029), which is one of the lowest in the EU. The overall expenditure on education also lags the average for the EU. In 2017 Bulgaria spent 4.1% of its GDP on education compared to 4.64% in the EU-27. In the election campaign of 2021, the ruling GERB party made a manifesto commitment to spend 5% of GDP on education.

In 2020, the age of compulsory preschool education was reduced from five to four, to be implemented fully by 2023. In 2020, 90% of children aged between five and six and slightly fewer than 80% of four-year-olds were enrolled in preschool education. Decreasing the age of compulsory preschool is part of an effort to improve the chances of children from disadvantaged groups for equal participation in education. Additional investments will be made to increase the number of kindergarten places, which are currently in short supply, especially in the largest cities and in some rural areas.

In recent years, the government has run a large-scale campaign to identify non-attending children of mandatory school age (up to age 16). Despite these efforts, Bulgaria had the fourth highest rate of early leavers from education and training in the EU in 2019, some three percentage points short of the 2020 target (11%).

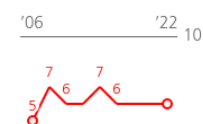
The inequality of access, variable quality across locations and education tracks, and early tracking of students that leads to extensive social and ethnic segregation are the primary problems in Bulgarian education. PISA 2018 tests showed that Bulgarian students continued to lag significantly (by a margin of 60 - 70 points) behind the OECD average in all three domains of assessment – reading, mathematics, and natural sciences. The impact of students' socioeconomic status on their performance was greater than the OECD average.

Bulgaria has a functioning university ranking system which has contributed to the realignment of higher education to the labor market. However, participation in higher education still lags most EU member states. In particular, Bulgaria lags about two percentage points behind its own target of tertiary education attainment of 36% among persons aged 30-34. The EU as a whole has set the more ambitious target of 40%. Higher education suffers from the outflow of some of the most talented school graduates, who choose to continue their studies abroad – representing approximately one fifth of each cohort enrolling in higher education.

Despite some moderate growth, expenditure on R&D remains relatively low: 0.84% in 2019, far below the EU target of 3%. Such low expenditure is replicated in many other countries from the region. Over several decades, Bulgaria suffered substantial losses of research potential due to brain drain. Access to EU funds created some new opportunities, which have not been fully utilized, not least because of inadequate co-funding, shortage of research staff, and inadequate infrastructure.

Education policy /  
R&D

6



1

Citation and collaboration data show that some Bulgarian scientists abroad may have remained networked with their colleagues in Bulgaria, remaining an asset for the Bulgarian R&D sector. According to international university rankings, Bulgarian researchers' presence in international peer-reviewed journals has increased, though slowly.

## Governance

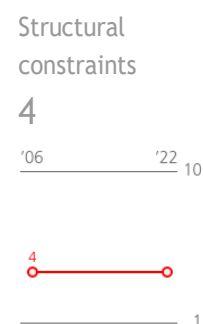
### I. Level of Difficulty

Structural constraints on governance are moderate. Infrastructural deficits have been reduced with the help of EU funds to build highways and repair the existing primary road infrastructure. In many places, secondary and municipal roads remain in poor condition. Railway transport managed by a state-owned company continues to be running at a deficit and is rather non-competitive compared to alternatives that have emerged due to decades of underinvestment.

Access to health care came to the forefront as a very serious constraint during the COVID-19 pandemic: the main challenges are the uneven distribution of health care resources, inadequate emergency care, severe shortage of nurses, and large out-of-pocket costs for health care.

The largest constraint for Bulgaria is the contraction of human resources due to low birth rates and emigration. This process is happening in tandem with a rapidly aging population, which puts further tension on the pension system and health care system. Bulgaria currently has no effective policy to address the development and consequences of this trend other than the expectation that net emigration will be reversed as Bulgaria continues to close the GDP-per-capita gap with the EU. Bulgaria has no immigration policy other than incentives for returnees from abroad or for those members of Bulgarian minority communities abroad to return.

The government's reaction to the pandemic was rather erratic, reflecting a governance style of leadership decisions which bypass institutional decision-making mechanisms and expertise. Bulgaria was among the least affected countries in the EU until late October 2020 when the pandemic gained momentum and brought the hospital system to the verge of collapse in December. As a result of the surge in cases, Bulgaria recorded one of the highest excess mortality rates in the EU for 2020.



Bulgaria has low levels of social trust in international comparisons. Trust in people, especially strangers, is relatively low. According to data from Eurostat, on a scale of 0 (No trust in others) to 10 (Most people can be trusted), Bulgaria scores 4.2 on average – the lowest in the EU, but comparable to other Balkan countries (e.g., Serbia).

Traditions of civil society are fairly strong. Bulgaria has a strong NGO sector, which plays an important role as a driver of reform and a critical voice. Many of those organizations emerged after the fall of communism. The full spectrum includes diverse organizations such as service providers, watchdogs, think tanks, sports clubs, professional organizations, and traditional community centers (chitalishta). Initially think tanks relied entirely on foreign donors' support and attracted many high-profile policy and economic experts. Civil society also includes many public figures from academic, cultural, and other professional circles that actively participate in public debate and public life.

Informal groups and online communities have started to play an increasing role in civic mobilization. Such groups and communities are not always easy to distinguish from registered associations: sometimes movements which begin spontaneously and informally can become established organizations or even become the foundation for new political parties.

In recent years, CSOs that rely on foreign funding and uphold liberal democratic positions in public debate have come under intense pressure because of the participation of conservative nationalist parties in government.

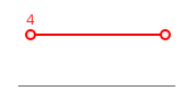
Hate speech has been on the rise in recent years against political opponents, ethnic minorities – especially the Roma – and LGBTIQ people. Hate speech is predominantly confined to social media, where some key political figures are also very active (e.g., a member of the European Parliament from the nationalist party IMRO). Hate speech has found its way into parliamentary speeches and even into a draft document on the Roma submitted for consideration to the Council of Ministers by the head of IMRO and Minister of Defense Krasimir Karakachanov. Sometimes hate speech against the Roma erupts into violent local clashes, which usually end up with the Roma being chased out of their homes and settlements by angry crowds. In more than one such incident, crowd action was explicitly or implicitly approved by government figures.

Confrontation increased over proposed policies on child protection and the fight against family violence, with the pro-life and pro-family movements supported by some religious denominations. In 2020, the pro-family movement, supported by members of the ruling coalition, managed to cancel the National Strategy for Children, which was intended to extend important child protection reforms until 2030.

#### Civil society traditions

4

'06 \_\_\_\_\_ '22 10



\_\_\_\_\_ 1

#### Conflict intensity

4

'06 \_\_\_\_\_ '22 10



\_\_\_\_\_ 1

Long-standing GERB party leader and Prime Minister Boyko Borissov, has become an increasingly divisive and confrontational figure, due to his personal background and leadership style, marked by a mix of autocratic decisiveness and populist pliability. This culminated in mass protests which erupted in 2020 targeting Borissov directly, as well as the recently elected Prosecutor General Ivan Geshev.

## II. Governance Performance

### 14 | Steering Capability

The government successfully pursued several long-term priorities in 2019 and 2020, including maintaining fiscal stability, which was consistently pursued by several successive governments and led in 2020 to the accession of Bulgaria to ERM-II. Joining the eurozone is a long-term priority of Bulgaria.

Other strategic priorities which were set and consistently pursued include the upgrading of road infrastructure, diversification of gas supplies, and education. Whether addressing the demographic challenges, population challenges and the brain drain are priorities is unclear. The government has failed to set effective priorities in health care and long-term care. Pension reform also remains inconclusive, with many outstanding challenges.

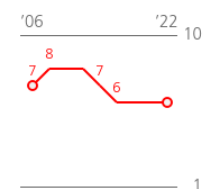
The legal system is the clearest example of how complex reforms are difficult to prioritize, given the lack of political consensus and low trust in institutions. 2020 offered a grotesque example of the government trying to initiate a difficult and controversial constitutional reform with no prior consensus and public consultation. Borissov's government undertook this initiative in August 2020 to placate street protesters and address popular discontent with the government and the state of the judiciary. The initiative was quietly canceled later in the year and will be remembered as a harmful attempt at failing to set or sacrificing consistent long-term priorities for the sake of immediate political gains.

The COVID-19 pandemic led to a significant change in the priorities of the government and societal agenda, especially in health, education, and the labor market. In health care, funding arrangements were redesigned to cover the significant added costs of the pandemic. The salaries of a large number of health care staff were raised to cover their work with COVID-19 patients. Distance education brought to the fore the existing inequalities in access to digital technology among students and required a redesign of teaching and examination practices. In the labor market, new, costly programs were created, while some existing programs were redesigned and allocated significant additional resources.

Question  
Score

Prioritization

6





During the pandemic, health care, long viewed as an area in need of major reform, mirrored deeply ingrained inequities in society. Over the years, a succession of governments failed to implement any significant reform in this sector despite declared intentions and the drafting of some reform blueprints.

The performance of the government in 2019 and 2020 was a mixture of success, abject failures, and setbacks. The government was successful in preserving macroeconomic stability and continuing the construction of large-scale infrastructure including roads and pipelines. Failures occurred in areas of intensive ideological confrontation where value-driven decisions significantly outweighed any technocratic or pragmatic considerations. The government failed to implement many of its reforms, especially in the areas of social policy, gender violence, and child protection. Roma inclusion policies, except for reforms in education, suffered a setback. Gender violence increased, partly due to the pandemic, despite legal changes that introduced more severe sanctions. In the last quarter of 2020 in the midst of large-scale protests, the government announced and initiated a constitutional reform which was a nonstarter and became a complete fiasco. The government response to the pandemic also leaves an impression of incoherence combined with complacency: it boasted of a unique ‘Bulgarian response’ to the pandemic. In early 2021, Bulgaria was among the worst-performing countries in the EU in terms of the pace of vaccinating its population, not least because of decisions made by the government early in the process of ordering vaccines.

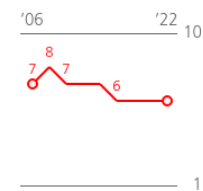
Government continuity was weak in the past decade. This is partly because successive governments have relied on support from parties that were either in opposition during the previous government or absent from the parliament altogether. Boyko Borissov has been the only prime minister in recent Bulgarian history to lead three governments.

Despite some positive examples, methodologically sound impact evaluation has not become the norm in Bulgarian policymaking. The autocratic leadership of Prime Minister Borissov combines declared respect for science and expertise with a propensity for taking unexpected decisions based on a personal hunch, overruling institutional procedures. However, Borissov governments have been rather flexible in revising or dropping failed policies or attempts at reforms that do not stand a good chance of success or were broadly unpopular.

Other EU member states have become a source of policy learning through existing pan-European coordination and policy evaluation mechanisms. The most important of these has in recent years been the European Semester. Cooperation of the government with other international organizations such as the World Bank brought Bulgaria into contact with practices and examples from an even wider set of countries.

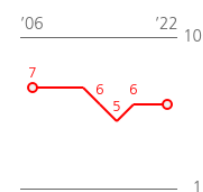
#### Implementation

6



#### Policy learning

6



## 15 | Resource Efficiency

Bulgaria has developed an institutional framework for controlling the efficient use of public resources. The National Audit Office (NAO) supervises the implementation of the budget. It is independent from the executive and reports directly to parliament. The NAO has a broadly defined task to ensure the reliability and truthfulness of financial statements of publicly-funded organizations, as well as monitor the legality, efficiency, effectiveness and economy of the management of public funds and activities. NAO reports indicate an overall adherence to rules.

Recruitment of staff for the public administration is regulated by strict legal provisions and follows competitive procedures. The public administration and public office in general offer some highly qualified jobs, which are relatively attractive to talented young people. Administrative organization has been improving, especially through the reduction of red tape and the shift to e-government, a process that was moving at a slower pace than desired but was significantly accelerated by the pandemic.

Regarding funds received from the European Union, there are additional reporting and control mechanisms. The Ministry of the Interior has a specialized directorate for the protection of the EU's financial interests, which is the contact point of the European Anti-Fraud Office (OLAF).

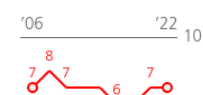
The measures taken by the government during the pandemic necessitated the rapid reorientation of budget funds to new programs and to existing ones. Rapid decision-making outside the usual procedures created concerns about transparency, accountability, and excessive spending discretion in the hands of public officials with insufficient parliamentary and public oversight. The parliament established a special committee to control the spending of money on measures related to the coronavirus pandemic but until the end of 2020, it did not manage to produce any report summarizing its work and findings.

It has been revealed that the Bulgarian Development Bank (BDB) had extended large credit lines to a few large companies totaling almost BGN 1 billion, contradicting the mission of the bank to promote economic growth by supporting SMEs: BDB is a member of the Network of European Financial Institutions for Small and Medium Sized Enterprises. In addition, some of the companies involved that benefited from low interest loans, have been revealed by the media to have close ties with Prime Minister Borissov and his party. The period in which each credit was extended was not revealed in the statements made by the Ministry of the Economy, but it is known that the BDB had a policy of expansion of direct credits in the period 2017 – 2020.

Many companies benefit from winning large public contracts without tenders, using various alternative procedures. The main scheme involves the creation of a public

Efficient use of assets

7



1

company which is directly commissioned by the government to implement projects (e.g., large public works) but lacks capacity to implement the public contract alone - it then subcontracts private companies, circumventing the strict procedures required for public tenders.

Policy coordination between different sectors in Bulgaria is implemented by government bodies such as councils or agencies other than the ministries. Some of which are directly under the Council of Ministers while others are separate. Such permanent bodies exist only for policies that are identified as cross-cutting, of special importance or priority, or which do not fit explicitly under the mandate of any ministry. Policy coordination by agencies or councils often suffers from the lack of specific resources and powers allocated to those bodies.

Another form of coordination occurs through ad hoc consultative structures, which often take the shape of interministerial working groups. Sometimes such working groups may also involve external expertise from the NGO sector or academia.

EU membership gave a boost to policy coordination as it required Bulgaria to elaborate various long-term strategies, participate in policymaking at the EU level and address much more intensively transversal issues such as ecological problems, poverty, and Roma inclusion. Specifically, the use of EU funds, which are organized in much wider policy areas than traditional ministries, compelled the government to enhance cooperation across sectors: this required putting in place new analytical, coordination, and stakeholder consultation tools. Seeking synergies across various funds and operational programs broadened the set of coordinating bodies even further. Even if targets of such concerted efforts were often unmet, the process had a very positive impact on the administrative capacity of the government. Coordination in combination with public consultation reduces the risk of corruption by widening the circle of informed and active stakeholders.

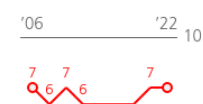
Despite these advancements, however, most policy implementation still takes place at the ministerial level and is not subject to any form of coordination other than obtaining formal feedback on some documents of clearly cross-sectoral nature or through the meetings of the Council of Ministers.

In 2018, Bulgaria adopted a comprehensive reform of its anti-corruption legislation in an attempt to prevent conflicts of interest, illicit enrichment, and corruption. Legal changes however do not appear to have strengthened the fight against corruption. According to a special Eurobarometer survey from June 2020, 80% of Bulgarians considered corruption to be widespread in Bulgaria and 51% considered that corruption had increased in the previous three years.

Bulgaria has a very active National Audit Office, which publishes a large number of audit reports, both regular and topical. Public procurement is regulated by a special law and overseen by a government body, the Public Procurement Agency. A digital

#### Policy coordination

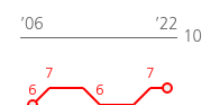
7



1

#### Anti-corruption policy

7



1

public procurement register is functional. However, the legislation allows some very large tenders (e.g., for road construction or military equipment supplies) to be awarded without tender to public enterprises which then conduct non-transparent subcontracting: critics of the government claim that these large public contracts are awarded to companies related to those with political power.

Provisions in the anti-corruption legislation from 2018 require people holding high public office to submit annual asset declarations. These declarations are public and provoke significant media interest each year. Most of the key figures in government do not appear to hold exceptionally high assets.

Public access to information is regulated by a special law. Organizations and citizens can request access to public data from any government body and must be either granted access or receive a reasoned refusal (e.g., in cases in which the requested information is classified or violates some provisions of the data protection law). The government also maintains an open data gateway, which as of March 2020 provides free unlimited access to some ten thousand datasets produced by central and local authorities. There have been cases where requested information was not provided to a human rights organization by the Prosecutor General's Office, even after a court ruling.

The funding of political parties is transparent: political parties have to declare their assets and receipts from state subsidies, membership fees, donations, and other sources. By far the most important source of funding for political parties is state subsidy, which was amended several times in recent years under populist pressure: it was first reduced to BGN 1 per vote received at parliamentary elections and then restored to BGN 8 per vote. The reduction was accompanied by legislative changes allowing companies to make unlimited contributions to political parties, raising concerns about excessive corporate influence in politics and legislation.

The fulfillment of Bulgaria's commitments under the Cooperation and Verification Mechanism was confirmed in an EC report from 2020. It points out that results have been achieved in the fight against high-level corruption but stresses the need to continue to improve the anti-corruption framework and to involve stakeholders in implementing the anti-corruption strategy and setting future priorities. More generally, it is noted that "anti-corruption institutions need to build public trust and gain a reputation as institutions operating with independence and professionalism." The lack of results in the fight against corruption is one of the key aspects raised throughout the summer 2020 mass protests.

In 2020 Bulgaria acceded to the European Prosecutor's Office – which in principle should provide additional guarantees for the transparent and efficient spending of EU funds and the fight against corruption in Bulgaria in general. However, since the European Prosecutor will be able to do little without cooperation from the national judiciary, it remains to be seen how this new institution will operate in practice.

## 16 | Consensus-Building

Major political parties agree on democracy as a strategic, long-term goal of transformation but demonstrate limited success in pursuing this goal. During the period under review the electoral and party system continued to be a topic of controversy and an arena for divergent, sometimes overtly populist or anti-democratic proposals, such as limiting voting rights based on voter education. Changes in electoral legislation were made shortly before elections, which leaves the impression that they are undertaken to provide additional electoral advantage to the ruling parties. There is no consensus regarding policies aimed at consolidating the rule of law, enhancing media freedom, and promoting civic participation beyond a declared understanding that something needs to be changed, which is partially driven by pressure from the EU and other international actors.

All major political actors agree on the goal of maintaining a market-based economy but with very diverging positions on the state's role. Bulgaria's membership of the European Union and common market continues to attract the largest political consensus. By joining the ERM-II in 2020 Bulgaria came one step closer to its aim of joining the eurozone. There is an enduring consensus around basic democratic values, the principles of the market economy, and EU membership which came to embody both. However, this fundamental consensus appears to be at present insufficient to hold society together, as many Bulgarians appear to expect and demand more.

Populist and nationalist parties have recently gained unprecedented political leverage, employing hate speech and xenophobic rhetoric in important discussions about migration, Roma inclusion, gender equality, and the protection of human rights. In 2020, the nationalistic rhetoric influenced the decision of Bulgaria to block the Republic of North Macedonia on its path to EU membership. The GERB party, which has since 2009 led three governments with some brief interruptions, garnered prominence and electoral support based on a reformist pro-European agenda. Except during the first Borissov government, GERB had to form a coalition with other parties, including anti-liberal and nationalistic parties, who were able to use their considerable leverage on decision-making in the third Borissov government that took office in May 2017. These coalitions had little impact on GERB's macroeconomic and budgetary agenda and on large infrastructural investments but left a strong trace in other areas such as foreign policy, social policy, and gender equality.

The space for anti-democratic agents capitalizing on populism and hate seems to be increasing in line with rising anti-democratic rhetoric. The left opposition will fill some gaps, playing with conservative and homophobic sentiments. The rest of the space is open to new or resuscitated anti-systemic players. Even within the centrist

Consensus on goals

9



1

Anti-democratic actors

7



1

ruling party, there are some who opportunistically support anti-democratic agendas like restricting voting rights based on education – an option originally promoted by nationalists in an effort to limit the voting rights of Roma, and half-heartedly supported by GERB.

Political leadership has generally been able to depolarize conflicts but at the expense of a lack of consistency in actions. Prime Minister Boyko Borissov is known for skillfully maneuvering between different political and economic interests, narratives, and values that look otherwise irreconcilable. This is one of the main reasons for his political longevity and the electoral success of his political party for over a decade. Mediation of conflicts critically depends on the leadership of the prime minister, who has been losing public confidence for quite some time and who kept a low profile during several confrontational occasions. Several examples are worth mentioning.

In 2018, Bulgaria witnessed a large-scale campaign against the Istanbul Convention, which led to its non-ratification in parliament, followed by a decision by the Constitutional Court that the convention was against the Bulgarian constitution. Another example is the tense relationship with Russia and specifically the economically most salient area – Bulgarian participation in the complex Russian projects of new gas pipelines through the Balkans. Bulgaria has been indulging in political discussions about the diversification of energy supplies while balancing between various geopolitical agendas and interests. In this game, the boundary between the advancement of Bulgaria's economic interests and unprincipled international politics remains very blurred. Relations with Turkey are another example in which Bulgaria must strike a balance between standing up for human rights and striking a deal to 'protect the external borders of the EU.' In the sensitive clash between pro-human rights and anti-migrant agendas, Bulgaria's position remained unclear throughout the pan-European debate. In addition, modern Turkey and ethnic Turks play an important symbolic role in Bulgarian society and politics: being on friendly terms with President Erdogan can play well in Bulgarian elections considering the large Turkish minority who are active voters. This friendly attitude to Turkey is comfortably combined with support for changes to the electoral legislation which make it more difficult for Bulgarian citizens living in Turkey to exercise their voting rights and participation in a coalition government with political parties which often resort to hate speech against ethnic minorities.

Relations with North Macedonia also serve as an illuminating example as the issues of Macedonian language and identity combine the complexities of history with contemporary populism. In 2020, under pressure from his small coalition partner and with the active participation of some prominent figures in his own party, Borissov watched passively as a populist campaign to veto the opening of EU accession negotiations with North Macedonia grew, drawing on decades of propaganda and popular sentiment.

Cleavage /  
conflict  
management

6

'06 \_\_\_\_\_ '22 10



1

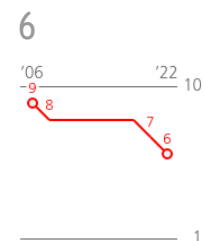
The non-governmental sector is an essential factor in promoting positive change and public mobilization for important societal causes in Bulgaria. The political leadership permits civil society participation. Nearly 16,000 CSOs were registered at the end of 2019 but this number covers a mixed range of organizations working in a variety of areas and representing different and sometimes conflicting views. Active, authentic and financially viable CSOs are considerably smaller in number, and the state cannot be described as supportive to civic activities; scarce public funding is not distributed transparently and CSOs mainly rely on foreign funding to perform watchdog and advocacy activities.

During the period under review, pro-European CSOs came increasingly under attack amid accusations of installing values that are foreign to Bulgarian society. There were attempts to limit the space for such activities (e.g., the 2020 proposal of the small coalition partner “United Patriots” to change the law to restrict foreign funded CSOs). According to the Bulgarian Helsinki Committee, in 2019 the cooperation of the Bulgarian institutions with local human rights organizations deteriorated significantly. Nationalist parties, part of the government coalition, and pro-government media have continued to label as “Sorosoid” pro-European NGOs that serve forces hostile to Bulgaria while expressing positive views of organizations that sympathize with official statements issued by Russian leaders.

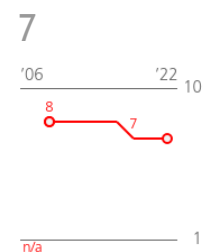
The main persistent lines of division are related to historic events, real or perceived, and the interpretations of periods of recent and more distant Bulgaria history. Historic conflicts and narratives around them can disguise contemporary cleavages which fall along political, social, and ethnic lines. There are no signs of genuine reconciliation especially concerning Bulgaria’s communist past and the period from the First World War to the end of the Second World War. Victims of the anti-fascist movement and of communism are commemorated separately and evoke conflicting narratives, despite occasional subdued attempts by key political figures to show symbolic recognition for both. Discussion about the existence of fascism in Bulgaria in the period before and during WWII has a strong bearing on relations with North Macedonia, where the anti-fascist movement is perceived to be a key component of national formation, while Bulgarian forces during WWII are remembered as occupiers.

Another historic period spanning into the distant past, which has an all too real impact on today’s society and politics, is the Ottoman rule in Bulgaria. Bulgarian nationalists continue to perceive contemporary Turkey and, most importantly, Bulgarian Turks, as a key threat despite their long history in Bulgaria and victimization during the 20th century. This underlying historical narrative finds its way into key messages in political platforms and election campaigns and appears as a key argument for adopting legislation.

#### Civil society participation



#### Reconciliation



## 17 | International Cooperation

According to the government report accompanying the 2021 budget, EU funds are expected to play an important role during the pandemic and over the three-year period discussed by the report. Since Bulgaria's accession to the EU, EU funding has had a significant macroeconomic impact and has pressured Bulgaria to improve transparency and accountability; it has contributed directly and indirectly to far-reaching changes in administrative practices, such as changing the rules of public procurement and the digitalization of public services. EU funds are the main source of public investment in innovative practices in various policy areas, most notably in employment, education, and social policy.

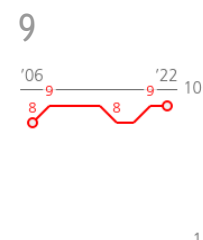
EU funding and smaller targeted funding from other international donors have had a significant impact on the development of Bulgaria's civil society and some critical policy areas such as Roma inclusion. World Bank support, especially technical assistance and policy reviews, have played a role in important developments across different sectors.

Bulgaria reliably complies with the decisions of international courts such as the International Arbitration Court. Bulgaria is however often criticized for being slow in implementing the decisions of the European Court of Human Rights, according to reports from the Bulgarian Helsinki Committee. Within the EU, Bulgaria is often subject to formal procedures related to cases of infringement and/or non-communication. The latest list of active infringements against Bulgaria includes 125 cases in a variety of fields such as environment, mobility and transport, justice, fundamental rights and citizenship.

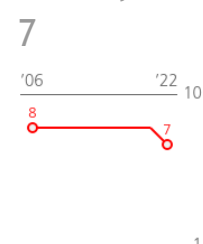
In 2020, Bulgaria was finally admitted to ERM-II after a long campaign. This was in recognition of the very prudent fiscal policy followed by Bulgaria. Admission to ERM-II was followed in October 2020 by the upgrading of the country's rating by Moody's. In the accompanying report the decision to upgrade was directly linked to the country "[entering] a critical phase of euro area accession," and to its low debt risk and large currency reserves, which are expected to persist through the pandemic.

For a long time, EU leaders saw Bulgarian Prime Minister Borissov as a comfortable and predictable pro-European partner. But in 2020 anti-corruption protests broke out in Bulgaria and among many Bulgarian communities abroad, with demands for the resignation of the government and the prosecutor general. This was a signal for many politicians in Europe to distance themselves from Borissov. Even some members of the European People's Party Group (EPP), of which Borissov's GERB party is a member, uttered harsh words about the situation in Bulgaria. The protests were partially fueled by photos of Borissov's bedroom, showing a gun next to gold bars and a large sum of money in euro banknotes. In an

Effective use of support



Credibility





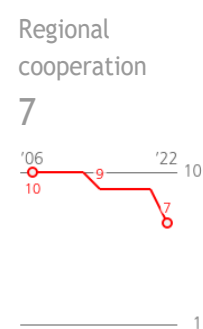
interview with *Frankfurter Allgemeine Zeitung*, Borissov explained the photos as an attack from oligarchs who realized that Bulgaria's admission to the euro area waiting room made it impossible for them to bypass banking regulations again.

Bulgaria's veto on the opening of negotiations for EU membership with North Macedonia discredited to a large extent previous efforts of Bulgaria to mediate complicated Balkan politics and its professed support for the integration of the Western Balkans into the EU. The decision to exercise the veto was strongly influenced by domestic populist concerns. Amid a wave of popular protests, the survival of the government in the last quarter of 2020 depended crucially on the nationalist parties in the coalition, which gave these parties very strong leverage over the decision to block the opening of North Macedonia's EU membership talks.

2020 saw Bulgaria decisively retreat from its previous position on regional cooperation. North Macedonia and Albania had a genuine chance to begin EU membership negotiations, but Bulgaria vetoed them because of unsettled disputes with North Macedonia on issues related to their common history and other controversial topics. Bulgaria's position proved completely incomprehensible to the international community and largely stemmed from nationalist motives, outdated understandings of history, and how national identities are constructed. Surveys showed that Bulgaria's position enjoyed broad public support in the country and was supported by eminent public figures, except for a small stratum of liberal intellectuals. Bulgaria raised demands, disguised conveniently as indignation against anti-Bulgarian propaganda and hate speech, that would in practice require a renunciation of the national identity and language of North Macedonia. The veto also effectively blocked negotiations with Albania, which had nothing to do with the dispute between the two other countries.

In general, Bulgaria has had little leverage over EU policies, even when attempting to act in concert with other countries. A typical recent example is the failed attempt to block the adoption of the European Commission Mobility Package regulating commercial transport. Bulgaria rarely plays any significant role in shaping the EU's uneasy relations with its neighbors from the Black Sea region. The only exception is possibly the role of mediator, which Bulgaria has sometimes assumed in the complicated negotiations with Turkey concerning migration flows from the Middle East.

Bulgaria has worked in partnership with other neighbors on strategic energy projects, such as linking its gas network with Serbia for the import of Russian gas via the TurkStream pipeline. The construction of another gas interconnection is scheduled to begin in 2021, which will bring Azeri gas to Serbia and will transport gas supplies from the liquefied natural gas terminals in Greece.



## Strategic Outlook

In the forthcoming years Bulgaria will face new strategic challenges without having addressed existing ones.

The health and socioeconomic effects of the COVID-19 pandemic represent the most formidable immediate challenge to health and well-being. In January 2021, the spread of the virus was (at least temporarily) under control and Bulgaria had one of the lowest infection rates in the EU. In November 2020, however, there had been a surge of infections that overwhelmed hospitals. This had compelled the government to impose strict lockdown measures, including closing all schools. In 2020, the pandemic had a mild impact on the economy and the labor market, but concerns remain whether the worst is over and how long the recovery will take.

Political instability has been the watermark of Bulgarian politics since the Global Recession. The previous two governments of Boyko Borissov (GERB) did not finish their full mandates: Bulgaria grew used to snap elections and caretaker governments. In between there were periods of relative stability. In April 2021, Bulgaria will hold regular parliamentary elections, the outcome of which is difficult to predict. Polls indicate that the next parliament will be very fragmented with seven or more political parties and coalitions, at least two of which will be newly registered. This promises more spells of political instability.

Problems with the rule of law and institutional integrity are likely to continue to have a negative impact on long-term growth and development prospects in Bulgaria. Low predictability of the business environment curtails investment prospects, while an overall sense of injustice and lack of equality before the law is not conducive to human development.

In recent years, space for civil society has narrowed in Bulgaria, Europe and globally. A more diverse and fragmented Bulgarian parliament and government may reduce the influence of nationalistic, pro-family and alt-right groups, and alleviate pressure on a liberal democracy that has suffered important setbacks in recent years. This could paradoxically grant more space to civil society, especially in combination with the impact on world politics of a new president in the United States.

The mass protests of 2020, which also mobilized the Bulgarian diaspora, demonstrated a strong feeling that corruption and kleptocracy have taken deep roots in Bulgarian politics. They also displayed dissatisfaction with the work of the public prosecutor, who is suspected of a lack of impartiality, relations with shadowy circles and enacting a conspicuously selective justice driven by a populist agenda rather than adherence to the law.

Bulgaria continues to maintain macroeconomic stability even at the beginning of 2021 after almost a year in the grip of the pandemic. But prospects for successfully addressing the long-term challenge of a shrinking and aging population, combined with shortages of human capital, remain unclear. The pandemic lay bare deep structural problems in Bulgaria's health care

system, which were known for years but remained unaddressed, including the unbalanced distribution of resources, shortages of key medical staff and uneven access. There are as yet no signs whether this realization will lead to strategic changes beyond the temporary measures taken in immediate response to the pandemic.

Strategic challenges mentioned in the previous BTI index remain, but in terms of priority new ones have come to the forefront: 1) ensure a smooth recovery of the economy from the crisis created by the COVID-19 pandemic, with a special focus on poverty and inequality, which the pandemic is likely to exacerbate; 2) improve health care and education, which remain persistent challenges, but during the pandemic the need to reshape the health care system and invest more in education became even clearer; 3) invest further in digitizing the economy and public services and address the existing digital divide; and 4) restore a sense of justice in society by addressing corruption and the functioning of the judiciary, especially the prosecution.