

Bulgaria

Status Index (Democracy: 8.45 / Market economy: 7.50) 7.98		Management Index 6.53	
HDI	0.808	Population	7.8 mn
GDP per capita (\$, PPP)	7.731	Population growth¹	-0.4 %
Unemployment rate	N/A	Women in Parliament	26.3
UN Education Index	0.91	Poverty	N/A
		Gini Index	31.9 (2001)
Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹ Annual growth between 1975 and 2003.			

A. Executive summary

Bulgaria's state monopoly on the use of force is uncontested nationwide. The Bulgarian government has the power to govern in principle, but recent developments related to the privatization of Bulgartabak and the Bulgarian Telecommunication Company indicate the deep influence of non-parliamentary interest groups on governmental decisions. However, the weakness of the judicial system in Bulgaria makes law enforcement difficult on all levels. Judicial reform is one of the major challenges for Bulgaria's entry into the European Union. The highly criticized immunity of judges is now transformed to a "functional immunity," under which magistrates will bear no punitive and civil liability for deeds committed in their capacity of representatives of the judiciary. Bulgaria's party system is still far from being established. With the exception of the left-wing, where the Bulgarian Socialist Party (BSP) is a steady force with no dangerous internal disputes, the center and right-wing spectrum is experiencing severe fragmentation and splits.

Bulgaria's capacity to prosecute organized crime and corruption, including high-level corruption, is still insufficient. The constantly decreasing trust of Bulgarian citizens in democratic institutions, be it parliament, government or political parties, should be considered seriously.

Despite a considerable growth of GDP per capita in purchasing power parity (PPP) up to \$7,600 in 2003, Bulgaria's GDP per capita, calculated by exchange rate, reached only 30% of the average of the 25 EU member states. Liberalization of Bulgaria's economy continued, prices and trade were liberalized, the banking sector was fundamentally reformed and the privatization of the banking sector virtually completed. The Bulgarian economy displayed strong, steady growth in

real terms with GDP growth rates between four and five percent annually between 2001 and 2005. This pace of growth makes Bulgaria one of the fastest growing economies in Europe. The higher than expected budget revenues and the lower current account deficit have led to a budget surplus in 2004.

The government is committed to democracy and a market economy, but has shown only limited success in implementing its announced reforms. Economic and social reforms are still far from being transformed into visible improvements in the daily lives of the majority of the population. With the arrival of democracy, Bulgarians anticipated a rapid improvement of their socioeconomic situation and are frustrated by the slow progress of reforms.

B. History and characteristics of transformation

Compared to other transition countries, the transformation to democracy and a market economy in Bulgaria has been volatile and often counter-productive. The communist regime collapsed in November 1989, but the absence of dissident movements have led to a troublesome, long-drawn process of dismantling the communist political monopoly and severe setbacks in political and economic reforms. When the Bulgarian Communist Party (BCP) realized in autumn 1989 that “glasnost and perestroika” require changes in their country, the party elite tried to smoothly reform BCP and to modify the political system without any major changes in the system in general. To meet at least gerontocratic objections, Petar Mladenov became general secretary of BCP on November 17, 1989 and Todor Zhivkov, Bulgaria’s longtime communist iron man and president of the State Council, was ditched and finally expelled from BCP on December 18, 1989. Though the BCP formally abandoned its political monopoly and was renamed the Bulgarian Socialist Party (BSP) on April 1, 1990, former communists have kept their powerful influence.

The commencement of political pluralism in Bulgaria came rapidly in 1989, with new parties and civil movements suddenly entering the political scene. On December 4, 1989 the anti-communist counterpart, the Union of Democratic Forces (UDF), emerged as a loose and very heterogeneous umbrella formation of initially 10 civil movements. What united UDF groups was the opposition to post-communists retaining positions of power, but from the very beginning there were differences between the groups on how to reach this goal. A lack of organization and coordination prevented them from emerging as a powerful force until the mid-1990s. In contrast, the BSP took the advantage of the BCP legacy of strong personal, administrative, logistic and organizational structures. Led by Andrej Lukanov, the BCP won the first democratic elections in February 1990. Unlike the neighboring Balkan states, Bulgaria followed a different path in dealing with its ethnic Turkish minority (9.4% of the population). Whereas under BCP rule in

1989, the Turkish minority was forced into a policy of assimilation, as a result of which 310,000 Turks left the country, the political party Movement for Rights and Freedom (MRF) founded in 1990 in fact attends to the interests of the Turkish minority and managed to join the National Assembly since 1990 with a more or less stable 5-7% electoral result. Until June 2001, Bulgaria's political landscape was characterized by a bipolar political system, with the BSP on one side and the UDF on the other, while MRF played a comfortable role of occasionally bargaining with both of them.

Throughout the first half of the 1990s, Bulgaria was shaken by political instability. The country has since shown only minor progress in economic reforms. Until 1996, up to 85% of industrial production was under state control without any budgetary restrictions for state-owned companies. By "nationalizing the losses and privatizing profits," clientelist networks and dubious groups like Orion and Multigroup successfully capitalized on delayed reforms. The BSP-government of Zhan Videnov (1994-1997) was unable to carry out rigorous structural reforms required by the international community and to close down unprofitable state-owned businesses. In 1996-1997, Bulgaria experienced the deepest crisis and was close to ruin: GDP fell by 10.1%, the financial market collapsed and insufficient foreign exchange reserves did not allow the Videnov government to defend the Bulgarian currency. A period of hyperinflation followed and the severe economic crisis forced an early general election in April 1997. Real political and economic reform began in Bulgaria with a delay after this fiasco, when the elected UDF government with Prime Minister Ivan Kostov held office from 1997 to 2001. The currency board introduced in 1997 helped to stabilize the economy and to bring inflation under control.

Since 1990, Bulgaria has had nine governments: two post-communist (Andrej Lukanov 1990; Zhan Videnov 1994-1997), two conservative (Filip Dimitrov 1991-1992; Ivan Kostov 1997-2001), two expert cabinets (Dimitar Popov 1990-1991; Ljuben Berov 1992-1994), two interim governments (Reneta Indzhova 1994, Stefan Sofijanski 1997) and since June 2001, the center-right-wing government of the National Movement Simeon II (NMSII) and its junior partner MRF. Prime Minister Simeon Sakskoburggotski is the first ex-monarch coming to power in post-communist Eastern and Southeastern Europe. Exiled in 1946, after a referendum abolishing monarchy in Bulgaria, Simeon, who never acknowledged the referendum, came back to Sofia from Madrid as a successful businessman and competed in the elections in June 2001. Factors such as the rising share of the shadow economy in GDP between 20% and 35%, total unemployment of 19.8% in 2001 and widespread poverty added to the overwhelming electoral results in favor of NMSII, which rose out of nowhere and received 42.7% of the votes, though failed to win an absolute majority. Tired of mutual corruption allegations and of Bulgarian politicians in power in general, and dissatisfied with their standard of living, Bulgarians placed hope in Simeon's promises of a better life

within 800 days. A coalition agreement was signed between NMSII and MRF. The appearance of the National Movement disrupted the heated bipolar system between the BSP and UDF and filled the vacancy in the centrist political landscape. Surprisingly, BSP candidate Georgi Parvanov won the presidential elections in November 2001.

Since the center-right wing government of Ivan Kostov started with reforms, rapid progress was made toward integration into Euro-Atlantic structures. Despite several obstacles such as the illegal arms trade via Syria to Iraq, Bulgaria became a member of NATO on March 29, 2004. The European Union and Bulgaria formally concluded negotiations on June 14, 2004 and the country is expected to join the European Union on January 1, 2007.

C. Assessment

1. Democracy

1.1. Stateness

The state's monopoly on the use of force is uncontested nationwide. However, the weakness of the juridical system in Bulgaria makes law enforcement difficult on all levels (especially on regional and local levels) and leaves space for corruption, illegal business and organized crime.

All citizens have equal rights. Although the constitution bans the formation of political parties along ethnic or religious lines, the Movement for Rights and Freedom (MRF), a party founded in 1990, de facto represents the interests of the Turkish minority, even though it is open for non-Turkish members. A similar right to assembly is still denied to the Macedonian minority of the country. No Macedonian political party has been registered at a national level yet. Bulgarian governments have not formally recognized Macedonian identity, nor has the Macedonian language been given distinctive status. Despite Prime Minister Simeon Saksoburgotski's statement in April 2003, that Bulgaria acknowledges the minorities in the country, Macedonian people in Bulgaria are still considered to actually be Bulgarians and continuously face discrimination and intimidation when asserting their ethnic Macedonian identity.

The Bulgarian Constitution guarantees freedom of religion and a secular state (Article 13). Eastern Orthodox Christianity is considered the "traditional religion." The new Bulgarian Law on religion, known as Confessions Act 2002, entered into force on January 1, 2003 and reinforces freedom of religion and lays the foundation for the separation of church and state. Reaffirming the constitutional provision, the Confessions Act grants the Bulgarian Orthodox Church a privileged

position. Concerns emerged concerning Article 10.1, which allows the state to interfere in internal affairs of religious communities. The article indirectly refers to the quarrel between the two synods of the Orthodox Church. Consequently, some 25 orthodox churches were closed and orthodox Christian priests were evicted by police forces in July 2004. The priests established an unofficial branch and did not accept the mainstream orthodox church and its patriarch. In the aftermath of September 11, the traditional peaceful coexistence of Christian and Islamic communities in Bulgaria was disturbed by increased suspicions, allegations in the media and by the fear of domestic radical Islamism.

Bulgaria has differentiated administrative structures throughout the country. The Administrative Act (1998) regulates the competencies of all institutions and bodies of the executive power. The weak performance of public administration in general is a matter of concern for the country's wish to join the European Union in 2007. Reform of administration is a key challenge for Bulgaria. In its 2004 annual report, the EU Commission stated that much effort is needed to improve the management structures of the Bulgarian administration.

1.2. Political participation

The key event of the review period was the local municipal elections in October 2003 with a voter turnout of 47% in the first and 50% in the second round. One hundred forty-six parties were registered for the 2003 local elections, which were the first since the collapse of communism without international observers. Additionally, it was the first electoral contest for the ruling coalition since June 2001. The elections were characterized by a huge number of "independent" candidates for mayor and many "parallel candidates," which reflected the internal party rivalries especially within the right-wing political environment and within the ruling NMSII. A lack of unity in the left-wing political spectrum led to parallel nominations for mayors. The BSP and its coalitions won the most votes and received 34.23%. Followed by the UDF and its coalition partners with 18.33% and the MRF with 10.54%, the ruling NMSII was defeated by 7.66%. What matters is that many of the newly elected mayors or municipal councilors lack linkages to political forces in parliament. In many cases, they are local businessmen pursuing their individual business interests rather than local political interests. A UNDP report on the elections warned that it could become a danger for the future, if elections will be decided by the amount of money invested.

The Bulgarian government has the power to govern in principle, but recent developments related to the privatization of Bulgartabak and the Bulgarian Telecommunication Company indicate the deep influence of non-parliamentary interest groups on governmental decisions. Several competing circles of business groups within the ruling NMSII parliament led to splits and to a severe political

crisis in January 2005, when junior governmental coalition partner MRF withdrew its support to the Bulgartabak privatization deal with British American Tobacco. Although the sixth non-confidence motion against the ruling government, which was tabled by all opposition parties failed, Prime Minister Sakskoburggotski's government survived, though with a heavily tarnished reputation.

According to the Bulgarian Constitution, all Bulgarian citizens are free to organize themselves in non-governmental organizations (NGOs), political parties, trade unions or other forms of associations. It is prohibited to found political parties on ethnic, racial or religious lines and adhering to violence (Article 11). In 2000, the National Assembly enacted the law on legal persons with non-profit purposes.

Print media are independent from state control and interference, but economic and political interests are still channeled through direct or indirect influence on the media. The print media sector is pluralized and dynamic, with 13 national dailies, 10 weeklies and 3 magazines. The biggest owner is the German WAZ-Group, which owns the two dailies ("Trud" and "24 chasa") with the largest circulation. The Reporters Without Borders annual report 2004 expressed concerns about the links between politicians and the media in Bulgaria. Bulgarian News Agency chief Stojan Chesmedzhiev had to resign in March 2003 following strikes, six weeks of demonstrations and protests against Chesmedzhiev's politically motivated nomination.

Freedom House downgraded Bulgaria in its annual ranking 2004 and criticized the increased political control over electronic state broadcasters, manipulations through advertising – especially on a regional and local level, and self-censorship mechanisms. Investigative journalism was rare, especially on corruption and organized crime activities, and in cases where this happened, journalists were arrested and charged for corruption. The electronic media landscape inherits a paradox, as the state preserves its state monopoly on the national TV and radio on the one side and a liberal environment characterizes regional and local broadcasting on the other.

Troubles with the Bulgarian National Television BNT, which had frequent changes of directors in 2004, are ongoing. The Council of Electronic Media (CEM) came into operation with two contracts for advertisements in BNT, which the then BNT chief Kiril Gotsev signed without the consent of the board. One contract assured a Russian company exclusive advertising on BNT, the second contract was signed with the Bulgarian Media Agency Pierot 97, and thus indirectly with one of the major figures in Bulgaria's advertising industry. Investigations against Gotsev followed in March 2004 on the suspicion that the contracts were disadvantageous for the BNT. CEM dismissed Gotsev and appointed Emil Vladkov, who had to leave the post after strong protests of the

BNT staff. By the end of September 2004, CEM elected Uljana Prumova as the new director of BNT, but since Bulgaria's Supreme Administrative Court revoked the CEM decision and reinstated Gotsev, BNT had two parallel offices by the end of 2004. These recent experiences underline the necessity to transform BNT and BNR into public service media and reform their finances, because large-scale and repeated misuse of public assets can be stopped only by profound changes in the entire sector. It is noteworthy that encouraging steps have been taken at the end of November 2004, with media representatives throughout Bulgaria signing a new ethical code, committing themselves to providing unbiased and accurate information.

1.3. Rule of law

The separation of powers is working effectively in Bulgaria, without political interference in the judicial system. Because of constitutional deficiencies concerning transparency and responsibility of members of the judiciary, the Bulgarian Constitution was amended in September 2003 in order to improve checks and balances.

Judicial reform is one of the major challenges facing Bulgaria prior to its entry into the European Union. All parliamentary parties supported the amendment to the constitution concerning the reform of judiciary in September 2003. Some experts state, however, that structural problems remain and will need to be solved. The judicial system is composed of judges, prosecutors and investigators. The amendment foresees clear restrictions in granting impunity of the magistrates. The highly criticized immunity of judges, which guaranteed impunity from criminal prosecution except for commissions of severe crimes with punishment exceeding five years in prison, is now transformed to a "functional immunity," under which magistrates will bear no punitive and civil liability for deeds committed in their capacity as representatives of the judiciary.

The Supreme Judicial Council (SJC) oversees the judiciary, whose 25 members are judges, prosecutors, investigators and political appointees. The SJC appoints the judges. It is nevertheless a matter of concern that the chief prosecutor still maintains considerable authority over the prosecutorial and investigative functions concerning judges' immunity, as concluded by an American Bar analysis on judicial reform in Bulgaria.

The Bulgaria Judicial Index 2004 (JRI) reveals that Bulgaria has made significant and important progress during the period of review. The delays and often even the absence of the subsequent execution of judgments have contributed to the widespread public distrust and disrespect for the judicial system. Corruption in the judicial system is perceived to be endemic. Results of an Alpha Research survey

of December 2004 demonstrate the deep public distrust in the judiciary. Seventy four percent assessed the work of the courts, 67% the penal actions and 73% the performance of the prosecutors negatively.

High-level corruption and mutual allegations of corruption are part of Bulgaria's daily political life. The Commission Coordinating the Fight against Corruption (CCFC), a body established in 2002 with the Council of Ministers, reported of more than 180 corruption cases in September 2004. Over 1,000 cases of alleged corruption were checked by the commission, but only 100 have been referred to the judicial authorities. Ten cases of corruption have been detected in regional and municipal administrations, and another 100 have been traced within the Interior Ministry system. Bulgaria's capacity to prosecute organized crime and corruption, including high-level corruption, is still insufficient.

International organizations, Bulgarian politicians and NGOs intensively criticized the Chief Prosecutor's office for its incapability or unwillingness to vigorously prosecute a large number of serious criminal cases. Bulgaria's Chief Prosecutor Nikola Filchev was under fire of criticism concerning the poor performance of the juridical system. In December 2004, 40 members of parliament from the National Assembly launched a motion to remove Filchev from office. According to the Transparency International Global Corruption Barometer 2004, Bulgaria's political parties and the legal system as such are highly corrupt with a rating of 4.3 (on a scale where 5 is the worst), followed by the parliament with a rating of 4.2. Corrupt officeholders are prosecuted. However, they can slip through political, legal or procedural loopholes.

In the last two years, Bulgaria experienced a long succession of assassinations linked to the underworld, killings that were not followed by arrests and convictions. One of the victims, Ilija Pavlov, a Bulgarian billionaire was shot to death in the capital on March 7, 2003, a day after he testified in the murder trial of five men charged in the 1996 assassination of former Prime Minister Andrej Lukanov. The implementation in practice of human rights and fundamental freedoms are a matter of concern. Bulgarian Helsinki watch and Amnesty International report on cases of ill treatment of detainees and people with mental disabilities. Although the Protection From Discrimination Act was adopted in September 2003, the Protection From Discrimination Commission envisaged in the law has still not been established. Bulgaria also did not yet ratify the Protocol No. 12 to the European Convention on Human Rights. The country still has to cope with human trafficking. The number of Bulgarian women forced into illegal prostitution abroad is estimated up to 10,000. The parliament has passed amendments to the Criminal Code, penalizing human trafficking. However, the weak judicial system and cumbersome criminal procedure code still hamper an effective implementation of the new legislations.

The legal framework for the institution of a national ombudsman went into force on January 1, 2004. The ombudsman shall intervene by the means envisaged in this law, when citizens' rights and freedoms have been violated by actions or omissions of the state and municipal authorities and their administrations, as well as by persons assigned with the provision of public services. The ombudsman is elected by the National Assembly for a term of five years. It is a matter of concern that the Bulgarian National Assembly twice failed to elect the national ombudsman, in May and October 2004.

1.4. Stability of democratic institutions

The prospect of EU membership has worked as an incentive to induce real reforms and domestic changes in the judiciary and administration. A new Administrative Procedure Code is currently in preparation. The code envisages the improvement in the relations between citizens and administration and will open the way for further decentralization of power through the establishment of administrative district courts. Due to the ongoing splits and fragmentations within the parliamentary factions of the ruling NMSII, several key positions in state bodies are still vacant. The lack of a parliamentary majority left the appointments for the head of the Insurance Supervisory Committee, the National Social Security Institute, the National Accounting Office and the Communications Regulations Commission, and the position of a National Ombudsman open. Individual institutions of the democratic state are not accepted by all relevant players.

1.5. Political and social integration

Bulgaria's party system is still far from being fully established. With the exception of the left-wing, where the Bulgarian Socialist Party (BSP) is a steady force with no dangerous internal disputes, the center and right-wing spectrum is experiencing severe fragmentations and splits. The National Movement Simeon II (NMSII), which was established in April 2001 and which overwhelmingly gained electoral support in the general elections in June 2001, has proved to be a very heterogeneous conglomeration of inexperienced but ambitious politicians. A full-fledged party since June 2002, the NMSII lacked ideological identity and coherence from the very beginning of its harum-scarum formation in Spring 2001. Subsequently individual interests and contradictions between inner-circle party wings caused serious tensions and splits. One of the NMSII defectors, Member of Parliament Emil Koshlukov, founded the party New Times (NT) in July 2004 and played a crucial role during the political crisis in January 2005. From February until the general elections in June 2005, NT was the second junior partner of

ruling NMSII.

Serious tensions occurred within the center right-wing “Union of Democratic Forces” (UDF), as well. Following mutual accusations and allegations after UDF’s defeat in the parliamentary elections of 2001, former Prime Minister Ivan Kostov founded his own party, the “Democrats for Strong Bulgaria” (DSB). Together with the other UDF defector and 2003 re-elected mayor of Sofia, Stefan Sofjianski, who leads the “Union of Free Democrats,” the UDF has lost two political heavyweights. The ongoing fragmentation of the conservatives will further minimize realistic chances for the UDF to regain power in the elections in 2005. Despite several attempts, the center and right-wing political environment is still disunited. The MRF’s electorate is stable and the party’s position within the party system consolidated. MRF holds the position of a balancing factor in the Bulgarian National Assembly.

Changes in the Law on Political Parties and in the registration procedure in particular are under discussion since 2002. According to a survey of Transparency International, the funding of political parties worsened during the period of October to December 2004. As a result, Bulgaria was set in the index at 2.25 on a scale of zero (highly non-transparent) to 10.

The present legal framework of political parties indeed contains several gaps, of which one is the inadequate set of rules on the funding of political parties. Twenty-two political parties and groups and 6,666 candidates participated in the general elections in June 2005, all of whom fulfilled the criterion of minimum 500 members to allow registration. The amendments of the Law, which were passed by the National Assembly in December 2004, include that political parties not yet represented in the National Assembly shall apply again for registration, submitting to the court lists with personal data and signatures of at least 5,000 members and certificates that their party names are unique. President Georgi Parvanov vetoed the amendment, which in fact favors recently established parties like the New Times and Democrats for a Strong Bulgaria (DSB) – splinter groups from NMSII and the center-right UDF respectively. Consequently, trust in political parties among the Bulgarian citizens is very low. According to Eurostat only 6% of the Bulgarian respondents confided in political parties.

According to a Freedom House report of 2004, the participation of interest groups in politics remained largely unregulated. Business interests are thus non-transparently transformed through lobbying channels or via clientelistic networks into politics. The two trade unions, Confederation of Independent Trade Union in Bulgaria (CITUB) and the Podkrepa Confederation of Labor, are well organized and they actively participate in economic reform discussions.

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

Minister Saksoburgotski is frequently named as “Zar” or “Simeon II” and he himself might still dream of the establishment of a constitutional monarchy, the democratic system is not questioned in general. Nevertheless, the public’s persistent decrease of trust in democratic institutions, whether parliament, government or political parties, should be taken seriously. A representative opinion poll published in the daily “24 Chasa” in October 2004 shows a high degree of political disappointment and frustration among Bulgarians. Due to the volatility of the party system in Bulgaria, 40% would opt for any new political party and even 18% of these respondents would then prefer an authoritarian leader of the country.

Civil society and self-organizations are working on various socioeconomic, cultural and political fields. Many of them concentrate on human rights, social and health care, women’s issues, environmental protection, minority issues, journalism, culture and charity. Approximately 15,000 NGOs are registered in Bulgaria throughout the country. The Law on Legal Persons with Non-profit Purposes enacted in 2000 regulates NGO activities. Eurobarometer survey results of Spring 2004 show limited trust in voluntary organizations among the Bulgarian population, as only 30% of the respondents assessed them positively.

2. Market economy

2.1. Level of socioeconomic development

With a real GDP growth of 5.2% in 2004 and a decline of unemployment to 12.7% in 2004 macroeconomic developments were rather favorable. The EU Commission (Directorate General for Economics and Financial Affairs, 2004) critically stated that in Bulgaria, youth and long-term unemployment rates (35.5% respectively, 11.9% in 2002) were significantly high. Hidden unemployment with an estimated number of 240,000 in November 2004 is a matter of concern. Despite a considerable growth of GDP per capita in PPP up to \$7,600 in 2003, Bulgaria’s GDP per capita calculated by exchange rate reached only 30% of the EU-25 average.

According to the World Development Indicator Basis of the World Bank, the GNI per capita in 2003 was \$2,130. The average monthly income in 2003 amounted to €146. The minimum wage of €61 in 2004 was notably very low compared to EU member states and other EU accession countries, even when the effect of price level differences by applying PPP is removed (€186). Negotiations between the Ministry of Finance and the International Monetary Fund (IMF) to increase the minimum salary started in January 2005. Again, Bulgarians had to cope with an increase of various consumer prices in July 2003, when prices for electricity soared by 15%, district heating by 10% and local phone calls by 14%. Subsistence

economy is a widespread additional income strategy. Poverty measured by the World Bank in 2001 is significantly high in Bulgaria as 4.7% of the population had to live with less than \$1 and 23.7% with less than \$2 a day. In addition, poverty has an ethnic dimension, with the Roma community as the most affected and vulnerable group. Although the “Framework Program for Equal Integration of Roma into Bulgarian Society” was adopted in 1999, the unemployment rate among the Roma community is still very high and reaches up to 90% in certain districts.

2.2 Organization of the market and competition

In 2002, the EU Commission concluded in its regular report that Bulgaria has a functioning market economy. Liberalization of Bulgaria’s economy continued, and the Commission for the Protection of Competition, responsible for state aid control and anti-trust matters, played an important role. The 2005 Index of Economic Freedom ranks Bulgaria 52nd of 161 countries investigated and evaluated Bulgaria’s economy as mostly free. The share of the shadow economy accounts approximately for 25% of GDP. According to an Institute for Market Economics (IME) analysis, tax evasion is considered as one of the major incentives for economic agents to move into the shadow economy.

The Law on the Protection of Competition went into force in 1998 and a Commission for the Protection of Competition (CPC) was also established at this point. The EU Commission noted in its Regular Report in 2004 that Bulgarian competition policy is “broadly in line” with the regulations of the European Union. While the related chapter was closed provisionally in December 2004, law enforcement and the enhancement of the administrative capacity are still on the very same agenda. The new State Aid act which went into force in 2002 and was amended in 2004, with the CPC monitoring the state aid especially to steel and coal industries.

The transition process in Bulgaria is characterized by a gradual liberalization of the trade regime. Membership in WTO (1996) and the approaching EU accession were the driving forces for major reforms in Bulgaria’s trade policy. Trade liberalization was predominantly carried out at regional and bilateral levels. Bulgaria has a preferential free trade agreement with the European Union, based on the European Agreement, and free trade agreements with the European Free Trade Area (EFTA) as well as with its Central European neighbors, with Croatia, Romania, Estonia, Lithuania, Latvia, and with Israel and Turkey. Free trade agreements with Albania, Bosnia and Herzegovina, Macedonia, the Republic of Moldova, and Serbia and Montenegro were recently signed. Food, agriculture and manufacturing are the major components of Bulgaria’s foreign trade. Trade in

industrial goods is free and agricultural trade selectively liberalized. Since July 2004, the quotas for trade in agricultural products with the EU have been enlarged.

The currency board regime was introduced in 1997. Since 1997, the banking sector has been fundamentally reformed and the privatization of the banking sector virtually completed. By the end of 2003 around 97% of the total assets of the banking sector were in private ownership. There are no restrictions on foreign banks, which own the majority of the assets.

2.3. Currency and price stability

Inflation dropped in 2003 to the level of 2.3% but accelerated in 2004 up to 6.3%. IMF World Economic Data forecast an inflation rate of 3.6% in 2005. According to the United Nations Economic Commission for Europe (UNECE), the acceleration of inflation from 2003 to 2004 ascribes stronger consumer demand supported by a rapid expansion of bank lending and increasing real wages. Under the currency board regime, Bulgaria fixed its exchange rate to the euro. Bulgaria seeks to join the EMMU and aims at introducing the euro in 2009.

Bulgaria successfully maintained its currency board regime, which provides fiscal discipline – the single lever for the government to assume economic control. Continued fiscal discipline and government measures to slow down crediting growth aimed to limit future current account deficits. The high external current account deficit with 8.3% of the GDP in 2003 forced the government to adopt a series of measures to curb domestic demand. However, a significant inflow of foreign investment is needed to reduce the current account deficit and sustain an adequate level of reserves.

By the end of 2003, external debt was reduced to less than 60% of GDP. An IMF country report in August 2004 acknowledges the Bulgarian government's endeavors to reduce external debt, while continuing to lower the public debt to GDP ratio. The IMF, however, states that public debt still constitutes 70% of the external debt. The higher than expected budget revenues and the lower current account deficit have led to a budget surplus of leva (BGN) 429.7 million in 2004. The debate between the government and the opposition on the allocation of the surplus ended up with the government's decision to use it for infrastructure, education and health care. However, the IMF already warned that Bulgaria should consider preparing for additional budgetary costs incurred by the approaching EU membership.

2.4. Private property

The acquisition and disposition of property rights are protected by law. In 2004, however, Bulgaria was again put on the watch list for violations of global intellectual property rights. According to the 2004 U.S. Report on Intellectual Property Protection, poor enforcement, including ineffective prosecutions, minimal judicial sentences, shortcomings in current and draft legislation, and lax border measures have contributed to this resurgence. Further amendments to close loopholes are still needed. Thus, the adoption of the Law against illegally gained property is crucial for Bulgaria's EU membership aspirations. Long-disputed constraints on foreigners' freedom to buy land in Bulgaria are close to being lifted. In mid-February 2005, the National Assembly passed the related law amendment. From 2014 onward, foreign natural and legal persons can buy Bulgarian real estate.

In 2002, the Privatization and Post-Privatization Control Act (PPCA) went into force and the Privatization Agency was established, which administers the privatization of all state-owned companies. The current Law on Competition went into force in 1998. Loopholes in the legislation have created problems, making it very difficult and sometimes practically impossible for the state to terminate an unsuccessful privatization deal and to look out for a new buyer. Amendments to the PPCA aiming at prohibiting appeals to the courts concerning governmental decisions on privatization were vetoed by President Georgi Parvanov. The president and the opposition parties submitted the bill to the Constitutional Court, which in April 2003 declared two provisions as unconstitutional: a provision on parliament's approval of preferred buyers and an amendment exempting privatization deals of legal control. In Spring 2004, the Ministry of Economy launched a new amendment of PPCA, whereby the Council of Ministers shall bear political responsibility for privatization and the Privatization Agency is proposed to be turned into a state-held trade company.

According to the Privatization Agency, shares of 1376 companies were sold in 2004. Although approximately 57% of all state assets have been privatized, the long-delayed and still incomplete privatization of major state monopolies remains problematic. In 2004, two key privatization deals – the Bulgarian Telecommunication Company (BTC) and seven energy distribution companies – were successfully completed.

In January 2003, the parliamentary majority voted on what came to be known as the "Bulgartabak" amendments, precluding judicial control over 15 state companies due to their "strategic importance to national security", one of them being Bulgartabak. On April 17, 2003, the Constitutional Court overruled the amendments, claiming they were unconstitutional. After more than ten years of

unsuccessful attempts for selling Bulgartabak, British American Tobacco was the sole bidder for local manufactures in Sofia and Plovdiv. The tobacco sale failed at the end of January 2005, when British American Tobacco withdrew its offer after the then government's junior coalition partner, the MRF, opposed the draft deal. The government's loss of face after this fourth failure to privatize was tremendous. The apparently never-ending story of the privatization of state-owned Bulgartabak entered into a new chapter in mid-February 2005, when the National Assembly decided to re-launch the privatization deal. Surprisingly, the Bulgarian government launched a new project for the establishment of a state company called Public Investment Projects in December 2004. The state-owned company, with four deputy ministers on the board, is a clear setback and counteracts demonopolization and efforts to withdraw state control on the economy.

2.5. Welfare regime

The development and maintenance of an effective social safety net is still a major challenge for Bulgaria. The country's health care system is characterized by over-capacity in some areas and on the other hand by low efficiency. Progress is slow and implementation delayed. Public health expenditures amounted to 5% of GDP in 2003. The pension system in Bulgaria relies on the collection of revenues through tax collection agencies. Bulgaria established a complex system covering retirement, health and unemployment risks and obligations. An IMF analysis acknowledges Bulgaria's efforts to create a new National Revenue Agency (NRA) in order to improve administrative capacity and the collection of social and health contributions. Poverty is widespread among the population, with the Roma community particularly disadvantaged.

National programs for social assistance and employment strategies intend to re-integrate the unemployed into the labor force. According to the National Employment Agency, the National Program "From social care to employment" successfully re-integrated more than 56,000 unemployed into administration, regional governmental structures, private firms, and NGOs by the end of January 2005. Several special programs to reduce unemployment of young people and to open access to public services exist and have already borne fruit. The rate of young unemployed significantly decreased and amounted to 16.4% in 2004 (compared to 35.5% in 2002). According to Eurostat, the female unemployment rate stood at 13.2% in 2003 and ranged from 10.0% in the central-southern region to 20.6% in the northeastern region.

Since November 2002, the Social Security Code provides for fixing minimum insurance thresholds every year upon the passage of the social security budget. In 2004, new provisions in the Social Security Code opened the way for new regulations of the pension insurance system. Insured persons can now change their

participation and move their individual accounts to another voluntary pension insurance fund. So far, the state holds a monopoly on health insurance with the National Health Insurance Fund. Competing private insurance funds will not operate before 2006. Due to a change of the health system from a tax-oriented to an insurance-based system, people in Bulgaria who were not able to pay their insurance in the last four years will have no more access to health care. The organization *Medecins sans frontieres* warned that up to 2 million people – many of them of Roma origin – might be excluded from health services as of January 2005.

2.6. Economic performance

The Bulgarian economy has displayed strong, steady growth in real terms with GDP growth rates between 4 and 5% annually during the last five years. This pace of growth makes Bulgaria one of the fastest growing economies in Europe. According to the IMF, Bulgaria's budget received 8.81% of its total revenues from state-owned companies and ownership of property in 2003. In 2003, the number of employed reached 69.2% of the 1989 level. The rate of unemployment fell from 17.4% in 2002 to 12.7% in 2004. Registered unemployment has declined due to fewer lay-offs and to the government's job creation programs. According to data from the National Statistical Institute, the number of employees working in Bulgaria on a legal contract basis increased in 2004 by 20,000 (total: 2,109,478). The Minister of Finance announced that Bulgaria's government and government-guaranteed debt (national debt) stood at €7.95 billion at the end of December 2004, whereby 82.8% of this were foreign credits. The national debt ratio was 40.9% of GDP at the end of 2004 compared with 80% in 2000.

2.7. Sustainability

A national energy strategy was adopted in July 2002. In order for Bulgarian environmental legislations to comply with the *acquis communautaire*, the Environmental Protection Act, which determines the general principles of energy policy, went into force in September 2002. The Energy Law of 2003 replaced the Energy and Energy Efficiency Act of 1999. Bulgaria is a signatory state of the Kyoto protocol and committed itself to reduce greenhouse gas emissions by 5.2% until 2012. Huge investments are needed in the Bulgarian mining industry to comply with EU standards. Ecological recycling processes started in July 2004. The case of the projected construction of a second nuclear power plant in Belene indicates that environmental concerns end where national interests come to the fore. Environmental awareness is still low among the population. In addition to environmental concerns, the Belene NPP project needs to be seriously scrutinized from the economic point of view.

Bulgaria has to cope with an essential brain drain. Estimates assume that 50,000 Bulgarian citizens leave the country annually. Bulgarian students are amongst the largest groups of Southeast European students at many European universities. While highly skilled people emigrate, public expenditure on education is very low. Bulgaria spent only 3.66% of GDP on education in 2001. One composite indicator of capacity competitiveness is human capital: UNECE notes that in 2004, despite existing capacity, competitiveness has slightly improved from -0.94 in 1993 to -0.34 in 2001 Bulgaria continues to fall behind (Croatia reached -0.27 and Slovenia 0.82 in 2001).

3. Management

3.1 Level of difficulty

Structural constraints on governance are moderate. The standard of living remains low among the majority of the population. Despite strong economic growth and the high educational level of the population, Bulgarians are in general very pessimistic regarding their individual and the country's future socioeconomic development. Endemic corruption hampers the political leadership's governance capacity.

Traditions of civil society are weak, but civic engagement has developed and NGOs have proved to play an important role. Confidence in public institutions amongst the population is lower than ever, but Bulgarian society remains tolerant. According to an Alpha Research survey of December 2004, the parliament gained the least amount of trust, when 81% of the respondents considered the work of the National Assembly negatively. Political apathy and public disappointment with democratic institutions has increased and voter turnouts have declined. Opinion polls show that the severe political crisis in February 2005 did not result in public demands for elections and governmental changes (Alpha Research). Sixty-seven percent of the respondents shared the opinion that the ruling government should regularly end its term with the general elections in June 2005.

Conflicts are principally not carried out along ethnic, religious and social lines. All major political forces have refrained from stigmatizing Bulgaria's Islamic community.

Profile of the Political System

	Regime type: <i>Democracy</i> System of government: <i>Parliamentary</i>
	1. Head of State: <i>Georgi Parvanov</i> Head of Government: <i>Ivan Kostov</i> Type of government: <i>coalition majority</i>
	2. Head of Government: <i>Simeon Saksoburggotski</i> Type of government: <i>coalition majority</i>
Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints to executive authority; c_i is the share of parliamentary mandates controlled by party i . Effective number of parties denotes the number of parties represented in parliament.	

3.2. Steering capability

The political leadership pursues long-term aims. Since Bulgaria joined NATO as a full member on March 29, 2004, EU accession has been a top and undisputed priority. The leadership seeks to foster democracy and Prime Minister Simeon Saksoburggotski confirmed in October 2004 that the resurrection of monarchy in Bulgaria is “not among the cabinet priorities.” Both Saksoburggotski’s inability to speak colloquial Bulgarian, and his conviction that policy-making is an option only for an exclusive elite circle, have contributed to serious communication gaps within the NMSII itself and between the government and the population. His monarchical attitude and authoritarian policy gave rise to massive criticism. The intensification of internal party contradictions has led to severe splits within the parliamentary faction of NMSII. Consequently, the ruling NMSII was preoccupied with internal disputes and fragmentation, which nearly completely absorbed attention and blocked important reforms and key privatization objectives.

Policy-making by the ruling NMSII in many cases was ascertained by the interests of internal clans and lobby groups and thus reforms were postponed in favor of short-term political and individual benefits. Economic and social reforms are still far from being transformed into visible improvements in the daily lives of the majority of the population. Subsequently, the expiry of the “800 days” – the timeframe in which Simeon Saksoburggotski promised fundamental improvements of the socioeconomic situation for all Bulgarian citizens in his pre-election campaign – have led to massive frustration among the population on the one side and to intensified criticism by the opposition, media and experts. Judicial reform and its consequent implementation are still crucial for Bulgaria’s EU membership aspiration. Finally, due to external pressure on the Bulgarian government by the ex-EU Commissioner Verheugen, all parliamentary political

forces supported the amendments to the constitution concerning the introduction of functional immunity for justices, prosecutors and investigators in September 2003. Interestingly, despite the continuous decline of popular confidence in the NMSII, as evidenced by two non-confidence votes (May 2003/ February 2005) and two cabinet reshuffles (June 2003/ February 2005) during the period under review, the ruling NMSII seems to be "condemned" to serve its term of office, as none of the opposition parties showed the capacity and willingness to call for early elections.

The lack of internal party dialogue within the NMSII as well as an active leadership resulted in a number of inefficient actions and poor performance records of the ruling NMSII/ MRF coalition. The government is committed to democracy and market economy, but has only limited success in implementing its announced reforms. The still outstanding privatization of Bulgartabak illustrates the government's incapability to follow its own reform agenda. The MRF, junior coalition partner of NMSII, played a crucial role and gained more and more power within the government. MRF leader, Ahmed Dogan, has scuppered the Bulgartabak privatization deal twice and blocked the nomination of the new head of the National Bank (June 2003). In fact, MRF acted as an opposition party.

On January 25, 2005, MRF officially declared that the party objects to the sale of Bulgartabak and repeated the claim that the sole bidder, the British American Tobacco, sought to monopolize the cigarette market in Bulgaria. According to analysts, the government was held hostage by lobbyist interests influencing the country's policies. The MRF has always been extremely cautious on Bulgartabak, because much of Bulgaria's Turkish population works in the tobacco industry. On February 1, 2005, Deputy Prime Minister Ljdia Shuleva announced in parliament the end of the Bulgartabak deal and the parliamentarian majority obstructed any debate in the National Assembly on the failed privatization. That clear obstruction of democratic control on governmental decisions marked a severe setback in democratization efforts in Bulgaria and caused a deep parliamentary crisis. After a joint motion of all parliamentary opposition parties, the parliament voted 119 to 114 on February 4, 2005 to dismiss Speaker of Parliament Ognjan Gerdzhikov. The sixth non-confidence vote against the cabinet of Sakskoburggotski has been the first moved jointly by the entire opposition in parliament and the cabinet reshuffle in February 2005 did not bring fundamental changes, except bringing the New Times party into the government.

In contrast to previous constellations of the mid-1990s, when President Zhelju Zhelev (UDF) and ruling BSP government Zhan Videnov fought intense struggles and continuously blocked decision-making processes, the incumbent President Georgi Parvanov (BSP) played an important integrative role and helped to bring forth constructive interaction between government departments and state institutions. The Constitutional Court continued to perform its corrective mandate.

Due to the overall weak performance of the parliament in terms of governance and the ruling government policy, learning on behalf of the leadership was rather limited.

3.3. Resource efficiency

The ruling cabinet lacks coordination to balance interests between various ministries and is influenced by group interests and clientelist networks. Although amendments to the Civil Service Law went into force in January 2004, administrative capacity needs to be further strengthened. Over the review period, the overall number of staff with status as civil servants has continued to grow and reached 25,959 by the end of 2003, corresponding to an increase of around 10.2% compared to the previous year. The proportion of civil servants is around 32% of all employees in the public administration. A priority part of the reform program is training, and as of 2003 up to 0.8% of the budget for civil servants' salaries has been made available for training purposes. The Institute for Public Administration and European Integration provided training for approximately 15,000 people in 2002. A system of job descriptions and performance appraisals for public employees was introduced in January 2003.

During the period under review, the Sakskoburggotski government had to coordinate the interests of very heterogeneous groups within the NMSII and the junior coalition partner MRF. Mutual accusations within the cabinet about the lack of efficiency and accountability of their work illustrate the deep frictions and incoherence within the political leadership. Internal intrigues and power struggles were major hindrances for strong governance and caused friction and splits within the NMSII parliamentary group. Consequently, the ruling government lost its majority and hardly survived the sixth non-confidence vote on February 11, 2005.

The National Anti-Corruption Strategy and the Governmental Action Plan for its Implementation was adopted in February 2002. Bulgaria has been a signatory state of the United Nations Convention against Corruption since December 10, 2003 and has created special units, like a commission for coordinating anti-corruption activities, to cope with this issue. Success has been rather limited until now, and links between politicians, officials and magistrates and members of business elites and organized criminals obstruct effective governance in Bulgaria. An EU monitoring report on the implementation of Bulgaria's commitments under the Justice and Home Affairs Chapter dated May 2004 critically states that high-level corruption, a lack of legal instruments and nepotism undermine the development of efficient structures to fight corruption and organized crime. According to the National Service for Combating Organized Crime, about 110 organized criminal groups operated in Bulgaria in 2003. According to Vitosha Research, the number of corruption cases increased by 80,000 from March to

November 2004, with doctors considered the most corrupt professionals, followed by the police, lawyers and custom services.

Bribery and corruption of Bulgarian officials gained worldwide attention with the case of Bulgarian IOC official Ivan Slavkov. Still, organized crime in Bulgaria has resources to influence and undermine governmental decisions by using corrupt methods. Mutual allegations of corruption are part of daily political life in Bulgaria. As a result, investors are discouraged and several very important privatization projects were blocked. Bojko Borissov, chief secretary of the Ministry of the Interior and one of the most popular public figures in Bulgaria, tendered his resignation on April 25, 2003, after he made public comments about alleged ties between politicians and organized crime. Two hundred sixty-six judges sent a letter of protest to Prime Minister Saksoburggotski blaming the leadership of the Ministry of the Interior for manipulating public opinion and intentionally undermining the prestige of the judiciary. Borissov withdrew his resignation and is now expected to run for parliamentary elections in June 2005 on a NMSII ticket.

Political party reform for the strengthening of democracy and the rule of law is of crucial importance. Bulgaria's financing of political parties is a source of illegal and non-transparent actions. The Transparency International – Bulgaria Index for Transparency of Party Financing in Bulgaria 2004 is 2.25 (with value ranking between 0 = lack of transparency and 10 = maximum transparency). According to the official information of the Audit Office up to October 2004, 267 parties of a total 333 registered parties have not submitted financial accounts about their activities throughout the review period. At the end of 2004, the parliament passed a new law at the second reading on political parties prohibiting anonymous donations and introducing stricter rules for the establishment of political parties. It is a worrying sign that the Bulgarian people seem to have resigned themselves to the existence of corruption and showed corruption fatigue and pragmatism.

3.4. Consensus-building

All major actors agree on building a market-based democracy.

Reformers cannot control all veto powers, i.e. mafia groups and clientelistic networks, but can at least limit the use of their powers.

The interests of the Turkish minority are represented through the MRF, although its party statutes define that the MRF is open for all Bulgarians, regardless of their religious or ethnic affiliations. The existence of the MRF throughout the country and at all levels of the government contributed to a peaceful coexistence with the

Bulgarian ethnic majority. The recent MRF blocking of the Bulgartabak privatization deal however, considerably raised ethnically based discussions and accusations in the Bulgarian public. Although efforts to improve the integration of the Roma population have been put forward by the EU Commission, they show only limited success. Roma are purely represented in government structures. A Draft Law for the Creation of Fund for Minority Children Educational Integration, introduced to the parliament on October 7, 2004, failed to reach the necessary support. The refusal was accompanied by open nationalistic arguments, Balkan Human Rights Watch, critically mentioned.

Social coherence and mutual assistance are necessary strategies to cope with poor living standards for average Bulgarian citizens, but only limitedly translate into inter-personal solidarity and civic engagement. While civic engagement forced the BSP government of Zhan Videnov to resign in 1997 and former Zar Simeon was overwhelmingly welcomed by the population, the Bulgarian people returned to their private spheres and turned their back on politics in general. The decline of the voter turnout in the municipal elections in October 2003 and the increase of the number of the non-voting electorate reflect the growing mistrust in politics. Networks are perceived to work successfully through old nomenclatural structures or newly established economic circles. The dispute over the legitimacy of Prime Minister Saksoburggotski's claim for the restitution of former family properties in Bulgaria, which, according to media estimates, are worth between \$170 million and \$250 million, had an additional negative impact on civic engagement.

An estimated 90% of the NGOs are funded by foreign sources, mostly by PHARE and ISPA programs. Criticism arose concerning grey zones between some NGOs and their affiliations to political parties. All NGOs are listed in a central register. In 2001, the Parliamentary Committee on the Problems of Civil Society was established, which provides the opportunity for NGOs to present their issues before parliamentary institutions. To increase their legitimacy the NGOs created their own body, called Public Council, to advise the Committee. As an important aspect of Bulgarian society, civil society has grown more active in the fight against corruption with the Agency for Combating Corruption and the NGO Coalition 2000. Despite the broad spectrum of activities and a remarkable involvement of NGOs in decision-making processes, an increasing number of Bulgarian people have lost interest in solving their problems via the state or civil society.

Dealing with the country's communist past is still a controversial issue. On April 24, 2003, the National Assembly passed the New Law For the Protection of Classified Information, regulating the secret services but also dealing with the access to former files of the Secret Service in communist times. The commission for the investigation of the work of the Communist Secret Service established during Prime Minister Ivan Kostov's era, which has published a list of active

politicians who were part of the communist secret service in the past, was dissolved one month earlier. Though following basic requirements for NATO-membership, the new law was highly criticized by the UDF opposition party, as under its provision, lustration was halted and the files of former officials remain out of reach of the society. The 60th anniversary of September 9, 1944 when the Communists took over in Bulgaria illustrates the huge difficulties the BSP has in dealing with the communist legacy, when members of parliament from all factions of the Bulgarian Parliament – except the BSP-members – have jointly signed a declaration condemning the past and honoring the memory of its victims.

3.5. International cooperation

Bulgaria's government has worked closely with international financial institutions such as the IMF and the World Bank, and effectively used EU assistance programs to improve its domestic reform policies.

Under the currency board regime since 1997, Bulgaria tried to act as a credible and reliable partner, in particular through its stability-oriented economic policy. Driven by its ambition to join NATO, Bulgaria joined the Vilnius group list of countries that have aligned themselves with the Bush administration on Iraq. Bulgaria claims a debt of \$1.7 billion from Iraq. A full member of NATO since March 2004, Bulgaria currently has 450 troops in Iraq and President Parvanov urged the parliament and the government to decide whether to keep Bulgaria's troops in Iraq any longer.

Bulgaria's relationship with its neighbors has generally been good. Bulgaria has proven to be a constructive force in the region and has played an important role in promoting regional security. Bulgaria assumed the chair of the 55-nation OSCE in 2004 and intensively worked during its chairmanship to promote mutual understanding and tolerance and to fight against racism. Free trade agreements were concluded with all neighboring countries. Bulgaria is a member of various regional cooperation initiatives and was Non-Permanent Member of the UN Security Council for the period January 2002 - December 2003.

4. Trend of development

4.1. Democratic development

Since January 2001, stateness, political participation and the rule of law have improved in some segments. Parliamentary, presidential and local elections were held without violations of democratic principles. In 2003 – 2004 Bulgaria had to face severe problems of fragmentation of the parliamentary majority, as well as in the judicial reform process.

The level of consolidation of democracy has not changed significantly. With the arrival of democracy, Bulgarians expected a rapid improvement of their socioeconomic situation and are frustrated by the slow progress of reforms. When former Zar Simeon entered the political stage with his National Movement and participated in the parliamentary elections in June 2001, the public welcomed Sakskoburggotski like a messiah. People believed in his populist promises of a better life for all citizens within 800 days of entering office, and NMSII won a convincing victory at the elections. Since coming to power, the NMSII has suffered a steady decline in public confidence and lost nearly two-thirds of its popular support. Although the appearance of NMSII penetrated the bipolar political party system in Bulgaria and the party took over the liberal center, most of the new elected NMSII members of parliament have proved to be either politically inexperienced or driven by their own individual interests. Consequently, a series of frictions and splits within the parliamentary faction occurred. Since coming to power in June 2001, the ruling NMSII had to survive six non-confidence votes. In July 2004, a group of NMSII defectors founded a new party, the New Times, which succeeded in gaining political significance and power. After an unexpected deal with the MRF, the New Times entered the coalition cabinet in February 2005 and the NMSII can now rely on 131 votes in the 240-seat Bulgarian National Assembly until the end of its term in June 2005.

The political landscape in Bulgaria remains volatile, with the Bulgarian Socialist Party (BSP) as the most consolidated party concerning its electorate and party structure. President Parvanov (BSP) acted as a responsible, non-partisan representative of the entire nation and he is a stabilizing factor in Bulgaria's troubled internal policy. According to opinion polls, the BSP is expected to win the June 2005 elections, but will need a partner to form a post-election union, which most likely will be the MRF.

On the conservative side of the political spectrum the rivalry between center and right-wing political forces continued. Until November 2004, when 11 right-wing members of parliament approved a common declaration to cooperate in the next parliament, intentions of cooperation were rather vague and no agreement regarding a pre-election coalition was reached. Several attempts to unite the center-right-wing political forces have failed. After splitting from the right-wing, UDF headed by Nadezhda Mihajlova, former Prime Minister and UDF leader Ivan Kostov formed a separate parliamentary group of 28 members of parliament and established his own political party, the Democrats for a Strong Bulgaria

(DSB), in May 2004. Finally, the growth of anti-party sentiments among the Bulgarian electorate and clear and visible signs of reform fatigue among the population are alarming trends. The lack of confidence in political parties might threaten the stability of Bulgaria's democratic system.

4.2. Market economy development

The country's level of development has improved slightly in the past five years. GDP per capita smoothly increased since 2001, the low average income, however, remains the main problem, especially compared to the levels of the new EU member states from Central Europe. Opinion polls show that most Bulgarian people have a pessimistic view on future economic developments.

The institutional framework for market-based action has sharply improved the economic order. Prices and trade were largely liberalized and the country is progressing toward a long-term macroeconomic stability. The country's structural reforms resulted in a private sector share of 64% of the GDP in 2004. The banking system is fully privatized and the agriculture, energy and financial sectors have been restructured. The currency board provided fiscal discipline. Bulgaria posted a fiscal surplus of 1% in 2004, and it has decreased its debt as a percentage of GDP from 80% in 2000 to an expected 30% for 2005.

Overall, economic development has improved both quantitatively and qualitatively, with a sustained economic growth averaging about 4-5% a year, a continuous decline of inflation, a reduction of foreign debt and an increasing inflow of foreign direct investment.

Table: Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004
Growth of GDP in %	5.4	4.1	4.9	4.3	5.2
Export growth in %	16.6	10.0	7.0	8.0	30.0e

Import growth in %	18.6	14.8	4.9	14.4	26.0e
Inflation in % (CPI)	10.3	7.4	5.8	2.3	6.2
Investment in % of GDP	18.3	20.7	19.8	21.7	
Tax Revenue in % of GDP	32.5	30.9	29.7	32.3	33.4e
Unemployment in %	16.4	19.2	16.8	12.7	
Budget deficit (surplus) in % of GDP	-0.6	-0.6	-0.6	0	1.7e
Current account balance in billion \$	-0.704	-0.984	-0.825	-1.666	-2.071

Sources: Data on GDP growth, export growth, gross fixed capital formation (investment) and unemployment ratio are from the National Statistics Institute's website www.nsi.bg; data on annual average inflation are IPI calculations based on NSI data; data on current account balance are from the Bulgarian National Bank www.bnb.bg

D. Strategic perspective

Since 1997, integration into the European Union proved to be a strong incentive and driving force for all governments in power to conduct economic and democratic political reforms. Although Bulgaria successfully concluded negotiations with the European Union in June 2004, much work remains to be done. The fragmentation of the party system, mutual corruption allegations and the public decline of confidence in political parties might endanger the democratic system and lead to the rise of populist, authoritarian political figures. The weak performance of the government of Prime Minister Saksoburggotski seems to have further contributed to delays in reforms and privatization of state-owned companies. Reform of the judiciary is crucial and the new Penal Procedure Code is a cornerstone of this process. Greater efforts are needed to fight organized crime, corruption and to speed up the integration of Roma people through better access to education, health care and jobs. Raising fundamental fears against Bulgarian's Islamic community and increasing public anti-Semitic sentiments should be carefully addressed by all political forces.

The envisaged annual monitoring of Bulgaria's implementation and fulfillment of commitments made in the EU negotiations, as well as the safeguard clauses, which could delay Bulgaria's accession by one year, if economic and administrative reforms were to stall, are effective sticks for the Bulgarian political institutions to reach consensus on central areas of reform prerequisites. EU

monitoring on judiciary reform will urge the parliament to work under time pressure in order to meet expectations for a more effective justice system and should be continued.

Although popular support for EU membership stands at 71%, people are skeptical of the envisaged EU entrance in 2007. Forty-six percent doubt that Bulgaria will be ready for EU membership in 2007. While the Bulgarian government is committed to closing reactors 1 to 4 of nuclear power plant (NPP), Kozloduj became a matter of emotional and heated debates on Bulgaria's national identity and dignity, as Europe and the European Union in particular were viewed as placing a disproportionate burden and conditions on Bulgaria. Future efforts are needed to address the sensitive issue of the importance of high-level nuclear safety for EU member states and to enhance energy efficiency measures. Economic and environmental concerns regarding the construction of a new NPP in Belene require special attention by the international community.

Considerable and profound economic growth and macroeconomic stability have yet to translate into a higher income and standard of living standard for the greater population. The Bulgarian public already illustrates reform fatigue and pessimism toward future developments.

The European Union and international financial institutions should continue to provide financial and professional assistance, while underlying the necessity of a transparent and correct absorption of funds. The envisaged referendum on EU integration in Bulgaria could be a good tool to improve awareness among the public on what EU membership means. However, holding a referendum among an ill-prepared population involves great risk.