

BTI 2008 | Bulgaria Country Report

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

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Key Indicators

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|--------------------------|--------|------|------------------------------|------|----------------------|----|-------|
| Population | mn. | 7.7 | HDI | 0.82 | GDP p.c. | \$ | 8,036 |
| Pop. growth ¹ | % p.a. | -0.5 | HDI rank of 177 | 54 | Gini Index | | 29.2 |
| Life expectancy | years | 73 | UN Education Index | 0.92 | Poverty ³ | % | 6.1 |
| Urban population | % | 70.0 | Gender equality ² | 0.60 | Aid per capita | \$ | - |

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

During the period under review, Bulgaria's political and economic development was dominated by the parliamentary and presidential elections, held on 25 June 2005 and 22 October 2006 respectively, and by its accession to the European Union on 1 January 2007. The parliamentary elections led to the formation of a three-party coalition government headed by Prime Minister Sergey Stanishev from the Bulgarian Socialist Party (BSP). Together with the center-right National Movement Simeon II (NMSII) and the Movement for Rights and Freedom representing the ethnic Turkish minority, the BSP controlled a comfortable majority in parliament and continued the informal three-party government led by NMSII. The elections resulted in a parliament with more parties and more polarization, and a right-wing nationalist party (Ataka) entered parliament for the first time. The presidential elections were won by incumbent President Georgi Parvanov (BSP) in a runoff against Ataka's leader, Volen Siderov. Both elections were characterized by a discursive shift from the conflict between communists and anti-communists to the conflict between pro-European / pro-reformist forces and anti-liberal nationalists. Record-low voter turnouts suggest a growing public disaffection with politics. Bulgaria's governments implemented major policy and institutional reforms to prepare the country for EU membership, particularly in the judicial system and in anti-corruption policy. Since the judiciary was not sufficiently accountable to the legislature and to the public as a whole, the parliament amended the constitution in March 2006 and in February 2007, empowering parliament to dismiss the chief prosecutor and members of the supreme courts. The immunity of judges, prosecutors and investigators was modified to a functional immunity that covers job-related activities only. The constitutional amendments also reduced the scope of immunity for parliamentary deputies, which by February 2007 resulted in investigations launched against 11 deputies suspected of corruption. A special body within the Supreme Judicial Council was created to monitor the operation of judicial

authorities. The minister of justice's rights of intervention into judicial proceedings were restricted and the appointment of judges was subjected to public scrutiny and objective assessment criteria. A new chief prosecutor was appointed, who *inter alia* initiated the dismissal of deputy and regional prosecutors after corruption accusations. In November 2006, a special unit of prosecutors was established to deal with high-profile cases of corruption. A new law enacted in March 2006 regulates the financing of political parties. Economic development in the period under review was characterized by robust growth, driven mainly by growing domestic demand and accompanied by a widening current account deficit. While the institutional framework for a market economy is in place, the regulatory regimes for business and the labor market are still bureaucratic and not sufficiently flexible. General macroeconomic stability, supported by the currency board arrangement and continuing state budget surpluses, is associated with high levels of absolute poverty and increasing income disparities. Bulgaria is still the poorest EU member state and has a long way to go to catch up with the average EU income level. However, the accession seems to have boosted the confidence of foreign companies, which invested more than ever before in Bulgaria in 2006.

History and Characteristics of Transformation

The transformation to democracy and a market economy in Bulgaria was characterized by volatility and, compared to other transition countries, often counterproductive. The communist regime collapsed in November 1989, but the weakness of dissident movements led to a troublesome, long-lasting process of dismantling the communist political monopoly. There were also severe setbacks in political and economic reforms. When the Bulgarian Communist Party (BCP) realized in autumn 1989 that *glasnost* and *perestroika* required changes in their country, the party elite tried to smoothly reform the BCP and modify the political system without any far-reaching reforms. To defuse the gerontocracy's objections, Petar Mladenov became general secretary of the BCP on 17 November 1989 and Todor Zhivkov, Bulgaria's longtime communist ironman and president of the State Council, was finally expelled from the BCP on 18 December 1989. Though the BCP formally abandoned its political monopoly and was renamed as the Bulgarian Socialist Party (BSP) on 1 April 1990, the former communists have maintained their powerful influence. In 1989, political pluralism was introduced rapidly in Bulgaria as new parties and civil movements entered the political scene. On 4 December 1989, the anti-communist Union of Democratic Forces (UDF) emerged as a loose and very heterogeneous grouping of ten civil movements. UDF participants and groups agreed that former communists could not be allowed to retain their power, but they have differed on how to prevent such continuity; their disorganization undermined their effectiveness until the mid-1990s. In contrast, the BSP took advantage of the

BCP's strong personal, administrative, logistic and organizational structures. Led by Andrej Lukanov, the BCP won the first democratic elections in February 1990. Unlike neighboring Balkan states, Bulgaria followed its own path in dealing with the ethnic Turkish minority of the country, which makes up 9.4% of the population. Under BCP rule, the Turkish minority was forced to assimilate, resulting in the out-migration of 310,000 Turks. The Movement for Rights and Freedom (MRF), founded in 1990, represents the interests of the Turkish minority and has held seats in the National Assembly since 1990, with more or less stable (5 to 7%) electoral results. Until June 2001, Bulgaria's political landscape was a dualistic political system, with the BSP on one side and the UDF on the other side, with the MRF making political deals with both of them. Throughout the first half of the 1990s, Bulgaria was shaken by political instability and has shown little progress in economic reforms. Until 1996, 85% of industrial production was under state control without any budgetary restrictions for state-owned enterprises (SOEs). By "nationalizing the losses and privatizing profits," clientelist networks and dubious groups like Orion and Multigroup, among others, successfully capitalized on delayed reforms. The BSP government of Zhan Videnov (1994 – 1997) was unable to carry out rigorous structural reforms and close unprofitable SOEs. In 1996-1997, Bulgaria experienced its deepest crisis: GDP fell by 10.1%, the financial market collapsed and a drop in foreign reserves destroyed confidence in the financial system. A period of hyperinflation followed and the severe economic and political crisis forced an early general election in April 1997. As a result, real political and economic reform finally began in Bulgaria when the UDF government under Prime Minister Ivan Kostov took office from 1997 to 2001. The Currency Board Arrangement (CBA), introduced in July 1997, helped to stabilize the economy and bring inflation under control.

Since 1990, Bulgaria has had ten different governments: two post-communist (Andrej Lukanov 1990; Zhan Videnov 1994 – 1997), two conservative (Filip Dimitrov 1991 – 1992; Ivan Kostov 1994 – 1997), two expert cabinets (Dimitar Popov 1990 – 1991; Ljuben Berov 1992 – 1994), two interim governments (Reneta Indzhova 1994, Stefan Sofijanski 1997), the mid-right-wing government of the National Movement Simeon II (NMSII) led by Simeon Saksoburggotski (2001 – 2005), and now the tripartite coalition government of BSP leader Sergej Stanishev. Prime Minister Saksoburggotski was the first ex-monarch to come to power in post-communist eastern and southeastern Europe. Exiled in 1946 after a referendum abolished the Bulgarian monarchy, Simeon, who never acknowledged the referendum, came back to Sofia from Madrid as a successful businessman and competed in the elections of June 2001. The Bulgarian people, tired of mutual corruption allegations, distrustful of Bulgarian politicians in general and dissatisfied with their standard of living, believed Simeon's promises of a better life within 800 days. Bulgarian citizens, however, were heavily disappointed with the pace of change. In the elections of June 2005, the BSP obtained the largest number of votes but had to struggle to form a government. The stalemate ended with the formation of a trilateral coalition between the BSP, the

NMSII and the MFR in August 2005. The BSP-led coalition controls 169 of 240 seats. BSP leader Sergej Stanishev became prime minister. In the parliamentary elections of 2005, the nationalist party Ataka arrived on the scene and won 22 seats. Ataka leader Volen Siderov forced incumbent Georgi Parvanov (BSP) to a second-round run off in the presidential elections in October 2006. Parvanov is the first post-communist Bulgarian president who has retained his office. Since Ivan Kostov's center-right government started implementing reforms, rapid progress was made towards integration into European structures. Despite several obstacles, including the illegal arms trade via Syria to Iraq, Bulgaria became a member of NATO on 29 March 2004. Bulgaria joined the EU on 1 January 2007. In order to encourage reforms in specific areas like Justice and Home Affairs, Agriculture and Aviation Safety, Bulgaria will continue to be monitored in the post-accession period and Brussels may implement safeguard measures if Bulgaria fails to sufficiently address these concerns.

Transformation Status

I. Democracy

1 | Stateness

The state's monopoly on the use of force is uncontested nationwide.

Monopoly on the
use of force
State identity

All citizens have equal rights. Although the constitution bans the formation of political parties along ethnic or religious lines, the MRF represents de facto the interests of the Turkish minority, even though it is open to non-Turkish actors and members. Bulgaria's Macedonian minority, however, has not been allowed to register its own political party due to the constitutional ban. The Bulgarian government does not recognize Macedonian identity or Macedonian language as distinctive from Bulgarian. In October 2005, the European Court of Human Rights ruled that the Constitutional Court's ban on the ethnic Macedonian political party in Bulgaria, OMO Ilinden Pirin, was unjustified. OMO Ilinden Pirin, founded in 1999 and declared illegal by the Bulgarian Supreme Court that same year, has made a decisive step in 2006 towards its legitimization and official registration with the Bulgarian courts by collecting 5,000 signatures. In February 2007, the highest court, the Bulgarian Supreme Cassation Court, upheld a ruling by Sofia's municipal court that denied the group the right to formally register as a political party. According to the National Police Service, which checked the signatures collected in support of the registrations, many of the signatures were invalid. The police claimed that some signatures belonged to people who were not in Bulgaria, and others to people who are members of other parties.

According to polls from 2005, 78.1% of the population belong to the Orthodox Church, 11.8% are Muslims and 5.4% are atheists or non-religious. For most registered religious groups, there are no restrictions on attendance at religious services or on private religious instruction. Article 13 of the Bulgarian Constitution guarantees freedom of religion and a secular state. Eastern Orthodox Christianity is considered the "traditional religion." The new Bulgarian Law on Religion, known as the Confessions Act, entered into force on 1 January 2003 and reinforces freedom of religion by laying the foundation for the separation of

No interference
of religious
dogmas

church and state. While reaffirming the constitutional provision, the Confessions Act also grants the Bulgarian Orthodox Church a privileged position. Concerns emerged concerning Article 10.1, which allows the state to interfere in the internal affairs of religious communities. In 2006, a considerable public debate took place in Bulgaria about the wearing of religious symbols in Bulgarian schools and universities.

Bulgaria has differentiated administrative structures throughout the country. State resources are extracted and allocated on a broad basis.

Basic
administration

2 | Political Participation

There are no constraints on free and fair elections. During the period of investigation, parliamentary and presidential elections were held on 25 June 2005 and 22 October 2006, respectively. No disturbances were noted.

Free and fair
elections

Democratically elected rulers do have the effective power to govern and no political enclaves exist. There are suspicions that powerful non-parliamentary, and predominantly economic, interest groups and managers may block governmental decisions.

Effective power
to govern

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 association. The founding of political parties on ethnic, racial or religious lines is prohibited, as is the use of violence (Article 11). In 2000, the National Assembly enacted a law on legal persons for non-profit purposes.

Association /
assembly rights

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. Press Freedom Index 2006 ranked Bulgaria at 35 out of 168 countries. In order to increase media pluralism and to transform Bulgarian National Radio (BNR) and Bulgarian National Television (BNT) into public operators, the Bulgarian National Assembly adopted the “Strategy for Developing Radio and Television” in March 2005. The Council of Electronic Media (CEM) came into operation but is frequently criticized for its lack of independence in appointing the directors of BNR and BNT. State-owned BNR, BNT and the Bulgarian News Agency (BTA) are vulnerable to government influence. Internet access is not restricted.

Freedom of
expression

3 | Rule of Law

State power is divided into three branches: legislative, executive and judiciary, with a system of separated powers, checks and balances among the branches. Though the separation of powers is working effectively in Bulgaria, and there is no political interference in the judicial system, the judiciary is still not sufficiently accountable to the legislature and to the public as a whole. Thus, reform of the judiciary is still important in Bulgaria. Several measures have been taken in order to meet EU criteria, but implementation and law enforcement are still insufficient.

Separation of powers

Under the constitution, the judiciary is granted independent and co-equal status with the legislative and executive branches. The judiciary, however, continued to struggle with problems, including a lack of transparent and neutral standards for assigning cases. According to Transparency international's Global Corruption Barometer 2006, corruption has had its strongest impact on the legal system and judiciary in Bulgaria. The EU Commission has repeatedly demanded reform of the Supreme Judicial Council (SJC) with regard to the accountability and efficiency of the judicial process and the limitation of political pressure. There have been concerns about whether the SJC, which is entirely replaced every five years, might be subject to political influence by whatever party is in power at the time. In March 2006, the parliament amended the constitution to limit the independence of the judiciary, giving parliament the power to sack the chief prosecutor and members of the supreme courts. The EU Commission, in its Regular Report of May 2006, raised concerns about the financial interference of the Minister of Justice in the judiciary's budget planning and in the training of judges. The EU is also concerned about the weakened role of the SJC as a non-permanent body with limited capacity to effectively counterbalance the Minister of Justice. Under pressure from the European Commission, the Bulgarian National Assembly again amended the constitution on 2 February 2007. The amendment ruled out full immunity for judges, prosecutors and investigators, granting instead only functional immunity covering job-related activities. A special body within the SJC was created to monitor the operation of judicial authorities. The Minister of Justice lost the power to inspect the organization of case institution, movement and completion. Magistrates are appointed through public decisions, with objective criteria to measure their work. The chief prosecutor and the heads of the Supreme Administrative Court and Supreme Court of Appeal must now report once a year to parliament. Even after EU accession, Bulgaria must report on further reforms in the judiciary and address specific benchmarks.

Independent judiciary

In its Monitoring Report from September 2006, the European Commission called upon Bulgaria to launch "professional, non-partisan investigations into

Prosecution of office abuse

allegations of high-level corruption.” The country has witnessed more than 173 contract killings in the past decade. Bulgarian Chief Prosecutor Nikola Filchev was under fire for the judicial system’s poor performance. Constitutional amendments in March 2006 lifted the immunity of members of parliament, making them liable for all types of crimes. With the amendment of 2 February 2007, the immunity of prosecutors and judges is even more limited. New Prosecutor General Boris Velchev has used this power, and progress had been made in cleaning up the prosecution department and improving cooperation with the police. The immunity of eleven members of parliament has been lifted so far. Bulgaria’s Supreme Judicial Council dismissed deputy and regional prosecutors after corruption accusations and six prosecutors were investigated. In November 2006, Velchev established a special unit of prosecutors to deal with the 25 most high-profile cases of corruption in Bulgaria. In 2006, 18 Sofia police officers were dismissed on charges of corruption. In a very short time, a number of well-documented investigations against high officials made their way to the courts. One of these high officials is the head of the powerful Sofia central heating company, Toplofikatsia.

The government respects the human rights of citizens in general, but problems exist in several areas. The legal framework for the institution of a national ombudsperson went into force on 1 January 2004. The ombudsperson intervenes when citizens’ rights and freedoms have been violated by actions or omissions of the state, the municipal authorities and their administrations, as well as by the persons assigned with the provision of public services. The ombudsperson was elected by the National Assembly in April 2005 to a five-year term. With the third amendment to the Bulgarian Constitution passed by the National Assembly, the ombudsoffice has been entitled to refer directly to the Constitutional Court. Within one year, more than 1100 complaints have been filed. Amnesty International has reported incidents of ill treatment and police abuse of both criminal suspects and minorities. Bulgaria is one of the primary countries of origin for the trafficking of human beings, and Bulgarian women are often victims of internal trafficking. Witness protection measures are not fully implemented yet. According to the Helsinki Committee Report of 2005, the European Court of Human Rights in Strasbourg has delivered 23 judgments, and the court found violations of the freedoms and rights guaranteed by the European Convention on Human Rights in all of them. The Macedonian minority in particular suffered violations of their freedom of association and peaceful assembly.

Civil rights

4 | Stability of Democratic Institutions

After the general elections of 25 June 2005, Bulgaria experienced a political stalemate. A coalition was not formed until 17 August 2005, ending weeks of post-election deadlock. The NMSII grudgingly accepted Stanishev's candidacy, and it took a long time for the three parties to agree on the division of ministerial posts. After two unsuccessful attempts, the National Assembly finally voted on the new cabinet led by socialist Sergey Stanishev. Since then, despite some clear differences between the coalition parties, the government has managed to preserve coherence and the parliament has rushed through laws required for EU accession. National governance has improved and Bulgaria has made strong efforts to bring its administration in line with the EU accession criteria. With pressure mounting on Bulgaria in the run-up to EU membership in 2007, the government has pushed administrative reform as a major priority. The new Ministry for State Administration and Administrative Reform was created in 2005. Although progress has been made in public administration, the effective utilization of EU Structural and Cohesion funds and institutional capacity are still weakly developed. Staff must be trained to cope with institutional gaps on the local level in order to better respond to municipal applications for Cohesion funds. The establishment of an integrated administration and control system in agriculture that can guarantee the proper disbursement of funds is one of the key areas of concern for the European Commission. Further efforts are required to ensure the independence of the judiciary.

Performance of democratic institutions

All relevant political and social players accept democratic institutions. With his aggressive nationalistic program, right-wing Ataka leader Volen Siderov goes beyond the decision of the Constitutional Court as well as of the generally agreed participation of MRF in the democratic institutions of the country. In his first parliamentary speech, Siderov said that Ataka had submitted a draft law to the parliament to ban the MRF, as well as TV programs in Turkish.

Commitment to democratic institutions

5 | Political and Social Integration

Fragmentation and friction within the center-right political spectrum continued and contributed to the electorate's general perception that politicians are performing poorly. Due to unsuccessful attempts to reunite and integrate the parties of the Bulgarian right, rightist political forces were unable to provide a realistic alternative candidate to the socialist candidate in the presidential elections. The two leading right-wing parties in Bulgaria seem incapable of engaging in dialogue, and individual rivalries have sharpened the conflict among right wing parties and increased voter apathy. Low voter turnouts in the parliamentary and presidential elections reflect a deep loss of confidence in the

Party system

political system. During the second round of presidential elections, voter turnout was the lowest in Sofia, reaching only 35.1%. The political discourse shifted from the conflict between communists and anti-communists to the conflict between pro-European / pro-reformist groups and anti-liberal nationalists. Ataka enjoyed growing popularity with Siderov's anti-minority rhetoric and EU criticism. In both the MRF and Ataka, ethnic issues were the dominant factor in voter mobilization. Ethnic mobilization was also high among the Bulgarians living in Turkey, with 52,000 expatriates participating in the second round of the presidential elections. Seven political parties were elected to the National Assembly, reflecting their inability to consolidate their electorate. Only the BSP and MRF could count on stable electoral support. Boiko Borissov, the mayor of Sofia and the informal leader of the newly established political party Citizens for European Development of Bulgaria (GERB), is the new hero on the political stage. The parliamentary elections of 25 June 2005 had, at around 55%, the lowest turnout since the fall of communism, despite a lottery for voters. Seven parties and coalitions entered the parliament, including the extreme nationalist party Ataka headed by Volen Siderov. The leftist Coalition for Bulgaria won 34.17% of the vote and received 82 seats in the 240-seat body, not enough to form a government on their own. The NMSII fell from 42% in 2001 to 20.08%. The UDF gained only 8.33%. The MRF won 14.7% of the vote, relying on its stable and disciplined base in the ethnic Turkish population, some of whom traveled from Turkey thanks to a well-organized effort to get out the vote. While the Bulgarian People's Union (BPU) barely earned parliamentary seats with 5.2%, two new parties, Ataka and former Prime Minister Ivan Kostov's Democrats for a Strong Bulgaria (DBS), succeeded in gaining seats with 8.3% (Ataka) and 7.08% (DBS). Ataka party leader Siderov pandered to public disillusionment and frustration in his electoral campaign, bringing aggressive nationalistic and anti-European rhetoric into the parliament. The electoral results reflect a serious fragmentation of the parliament and the inability of right-wing political parties to consolidate their electoral support. For nearly two months, the Bulgarian people witnessed desperate attempts to form a government. Disagreements over the choice of prime minister caused uncertainty and ambiguity in the formation of the new Bulgarian cabinet. The stalemate ended with the formation of a trilateral coalition between the BSP, NMSII and the MRF on 16 August 2005, which controls 169 of 240 seats. BSP leader Sergej Stanishev became prime minister.

The second key event was the presidential elections of 22 October 2006, in which seven candidates competed for office. The lowest voter turnout since the fall of communism forced incumbent President Georgi Parvanov (BSP) into a runoff against ultranationalist Volen Siderov (Ataka). In the first round, Parvanov received 64% of the votes to Siderov's 21.5%. The former president of the Constitutional Court, Nedelcho Beronov, the candidate of a group of centre-right

parties, received 9.8%. Despite Parvanov's 64% total, the total voter turnout of 42.5% was below the 50% required. Voter apathy was fueled by the parliamentary conflicts after the elections of June 2005, the weak political culture, the poor performance of the political elite, and frustrations with economic and social living conditions. Furthermore, Beronov fell victim to divisions among several center-right parties and personalities. The fragmented anti-communist opposition, the DBS and the UDF, were unable to effectively support their candidate and mobilize their electorate. Finally, the role of the president is mostly ceremonial. Parvanov won 75.3% of the vote in the second-round ballot on 29 October 2006, with Volen Siderov far behind at 24.7%. Parvanov is the first Bulgarian president to remain in office via popular mandate since the changes of 1989. However, voter frustration was still apparent, with a turnout of just 41.2%. Siderov's second-place finish was a big surprise. It changed Bulgaria's political landscape and broke the traditional center-left versus center-right mold of Bulgarian politics. Ataka stirred controversy over ethnic issues by accusing MRF of robbing the state, with Siderov insisting that the MRF should be banned as "non-Bulgarian." It is also worthwhile to note that voter turnout during the second round of the elections was highest in regions populated by different ethnic groups.

According to a Freedom House report published in 2006, interest group participation in politics is not regulated by lobbying restrictions. Business interests participate non-transparently through lobbying channels or clientelistic networks. The two major trade unions, the Confederation of Independent Trade Unions in Bulgaria (CITUB) and the Podkrepa Confederation of Labor, are well organized and actively participate in economic reform discussions. There are concerns about the bargaining behavior of the trade unions, which tend to compromise with the government rather than defend labor rights. On 12 October 2006, the National Assembly adopted the Act for Changes and Amendments of the Law on the Settlement of Collective Labor Disputes. The amendments aim to provide a legal framework for the right to strike in certain sectors.

Democracy is undisputed among the Bulgarian population today, and political protests do not call the constitutional framework into question. Nevertheless, the constantly decreasing trust of Bulgarian citizens in democratic institutions, including parliament, the government and political parties, should be taken seriously. According to a Eurobarometer opinion poll of July 2006, only 22% of the Bulgarian population is satisfied with the way democracy works in their country. Ataka's sudden appearance on the political scene indicates strong antidemocratic sentiments. Opinion polls indicate that people with strong educational backgrounds in a mid- or high-level executive position are the most volatile in their electoral affiliations. Prime Minister Simeon's bad performance in his last months in office, followed by the political stalemate after the elections

Interest groups

Consent to
democratic
norms

in 2005, undermined the legitimacy of the parties in power and powerfully impacted the political culture in Bulgaria. Ordinary people in Bulgaria are upset and harbor a deep mistrust of parties and party leaders.

Civil society and self-organizations are working in various socioeconomic, cultural and political fields. Many of them concentrate on human rights, health care, women's issues, environmental protection, minority issues, journalism, culture and charity. Approximately 15,000 NGOs are registered in Bulgaria. The Law on Legal Persons with Non-profit Purposes regulates NGO activities.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

Though economic growth was robust, the employment rate was still well below the EU-15 average. Unemployment gradually declined, from 14.8% in 2002 to 11.5% in 2005. The unemployment rate of for people aged 15-24 reached almost 20% in 2005. According to 2006 data from the National Employment Agency, female unemployment, which accounts for 57.5% of all unemployment, was considerably higher than male unemployment. According to World Bank figures, poverty is significantly high in Bulgaria, with 4.7% of the population living on less than \$1 a day and 23.7% living on less than \$2 a day (expressed in 1985 prices). Poverty has an ethnic dimension, with the Roma community as the most affected and vulnerable group. Households with several children are also at high risk for poverty. Disparities between the urban and rural populations, where 30% of Bulgarians live and where poverty is highly concentrated, are widening. Bulgaria contains six of the fifteen poorest regions within the EU-27, with less than 30% of the EU-27 GDP average. According to a study by the Institute for Social and Trade Union Surveys in Bulgaria, the subsistence level per capita is €165. Statistics indicate that the average monthly income per capita is €74, which covers a mere 44.5% of subsistence needs. While the growth agenda is expected to have a positive impact on poverty, accompanying initiatives to address regional disparities, increase employment, and improve the living standards of vulnerable groups through targeted poverty interventions will be needed to mitigate the impact of reforms.

Socioeconomic
barriers

| Economic indicators | | 2002 | 2003 | 2004 | 2005 |
|---------------------------|----------|----------|----------|----------|-----------------|
| GDP | \$ mn. | 15,568 | 19,939 | 24,300 | 26,648 |
| Growth of GDP | % | 4.9 | 4.5 | 5.7 | 5.5 |
| Inflation (CPI) | % | 5.8 | 2.2 | 6.3 | 5 |
| Unemployment | % | 17.6 | 13.7 | 12.1 | - |
| Foreign direct investment | % of GDP | 5.8 | 10.5 | 10.9 | 9.8 |
| Export growth | % | 7 | 8 | 13 | 7.2 |
| Import growth | % | 4.9 | 15.3 | 14.1 | 14.6 |
| Current account balance | \$ mn. | -319.0 | -1022.2 | -1451.2 | -3004.3 |
| Public debt | \$ mn. | 7,479.9 | 7,369.2 | 6,732.0 | 4,586.7 |
| External debt | \$ mn. | 11,478.9 | 13,045.1 | 14,959.2 | 16,785.9 |
| External debt service | % of GNI | 8.8 | 5.5 | 9.6 | 21.5 |
| Cash surplus or deficit | % of GDP | -0.5 | 0.2 | 1.6 | 3.5 |
| Tax Revenue | % of GDP | 16.8 | 18.9 | 22.1 | 23.4 |
| Government consumption | % of GDP | 18.0 | 19.0 | 18.6 | 18.6 |
| Public expnd. on edu. | % of GDP | 3.6 | 4.2 | - | - |
| Public expnd. on health | % of GDP | 4.5 | 4.9 | 4.6 | - |
| R&D expenditure | % of GDP | 0.5 | 0.5 | 0.5 | - |
| Military expenditure | % of GDP | 2.7 | 2.6 | 2.4 | 2.4 |

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

Since 2002, the EU Commission has concluded in its regular reports that Bulgaria is a functioning market economy. The Commission for the Protection of Competition, responsible for state-aid control and anti-trust matters, plays an important role in liberalization of Bulgaria's economy. In preparation for EU accession, Bulgaria continued to strengthen its competitive markets. There are plans to facilitate market entry and exit by simplifying company registration and licensing regulations. Most prices are determined by the market. The government

Market-based
competition

regulates electricity, water, natural gas and pharmaceutical prices. Deficiencies are widespread in the form of corruption, inefficient bureaucracy and slow law enforcement. The informal sector accounts for approximately 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 participate in the informal sector.

The current Law on Competition went into force in 1998, and the competition policy framework has been aligned with EU legislation. The Commission for the Protection of Competition has taken effective action against the formation and preservation of monopolies and cartels.

Anti-monopoly
policy

Bulgaria has been a member of the World Trade Organization since 1 December 1996. Foreign trade turnover in 2005 was BGN 47.2 billion and increased in comparison to the previous year by 23.1%. Strong imports of investment goods added to the trade deficit, which reached 14% in the first six months of 2006. Trade liberalization has facilitated the country's integration into the EU single market. Bulgaria is trading with 206 countries, with the highest turnover (52.3%) in the EU-25 in 2005. Bulgaria is a member of the CEFTA and a signatory to the Regional Free Trade Agreement, CEFTA-2006, but has not taken part since its EU entry.

Liberalization of
foreign trade

Since 1997, the banking sector has been fundamentally reformed, and the privatization of the banking sector is virtually complete. There are no restrictions on foreign banks, which own the majority of the assets. More than 87% of the Bulgarian banking sector is owned by foreign investors. The privatized banking sector is well capitalized and profitable, providing better services for businesses. Tight supervision ensures the soundness of the banking sector during periods in which bank lending is frequent. Loan quality standards are enforced and loan provisions are almost 3% of total loans. The non-bank financial sector is rapidly growing. A coherent supervision of banks and non-bank financial institutions (investment firms) is in place. The Bulgarian Stock Exchange in Sofia is functioning as a transparent, organized marketplace for securities trading. The turnover on this stock exchange, where more than 100 companies are actively traded on a daily basis, is increasing. Privatization deals play an important role in attracting the interest of individual small investors in securities. There is a potential for the stock exchange to boost liquidity by following an active policy of encouraging companies to go public and to diversify financial instruments and products.

Banking system

8 | Currency and Price Stability

The macroeconomic framework is centered on the currency board arrangement (CBA), introduced in 1997 with an exchange rate of the national currency, the Bulgarian lev (BGN), which was fixed initially to the German mark and later to the euro. The Bulgarian National Bank (BNB) must fully back all of its monetary assets with euros. The CBA is the cornerstone of macroeconomic stability, providing a stable anchor and discipline to maintain tight fiscal policies. The BNB's purpose is to "contribute to the maintenance of the stability of the national currency." The law explicitly ensures the achievement of that objective, although the currency board leaves the central bank little room to maneuver in monetary policy; the BNB has one policy instrument (reserve requirement) and a limited lender of last resort facility. To support the currency regime, the Ministry of Finance has to maintain tight and transparent fiscal policy. The CBA's exit strategy is participation in the European Monetary Union, which could be achieved by 2009. Inflation was moderate at 5% in 2005, accelerating in 2006 to 7.3%. Large-scale floods affected food pricing in 2005, and increases in the price of energy also had an impact on consumer price inflation. The currency board regime will be in place until Bulgaria joins the euro zone. Moody's Investors Service has changed the outlook on the Bulgarian government's Baa3 long-term foreign and local currency bond ratings from stable to positive.

Anti-inflation /
forex policy

Macroeconomic developments in Bulgaria are generally favorable. Fiscal policy is anchored by the Currency Board Arrangement. Bulgaria was able to strengthen its structural fiscal balances and reach a budgetary surplus, rising from 2.3% in 2005 to 3.5% in 2006, with a 2% surplus of GDP expected in 2007. The government's redistribution of GDP reached 42.9%, which is an indicator of an ineffective public finance governance and tax system. The long-term sustainability of public finances has to be accompanied by raising employment rates and productivity. Public expenditure restructuring has to support measures promoting productivity, innovation and strengthening of human capital. The National Revenue Agency was established to improve revenue collection.

Macrostability

9 | Private Property

Property rights are regulated by law. With the EU accession ahead, Bulgaria adopted a law to amend and supplement the patent law in July 2006. But due to ineffective rule of law, investors do not have much confidence in the ability of the courts to enforce contracts, shareholder rights and intellectual property rights. Intellectual property rights have been an issue of serious concern. Despite enhanced efforts to enforce intellectual property rights and the establishment of a Council for Intellectual Property Protection, Bulgaria is still on the United States

Property rights

Trade Act watch list. Corruption in the judiciary has prevented property rights from being fully enforced or protected.

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 (SOEs). The Privatization Agency is a public authority attached to the Council of Ministers. Large shares of enterprises in key economic sectors have been privatized. There are still state-owned assets in the energy and construction sectors. In the period under review, the private sector was the engine of economic growth.

Private
enterprise

10 | Welfare Regime

The 2007 budget anticipates continued reform incentives, including administrative capacity building and public finance management, and focuses on social welfare. This focus requires a consistent implementation of transparent and socially acceptable models for social safety nets and the appropriate allocation of the required financial resources. As a member of the European Union since January 2007, the cabinet is under attack for not raising low living standards and for failing to provide efficient social and health services. Although it is difficult to strike a balance between economic stability and social policy, the European Union will have to continue pressuring Bulgaria to implement a sound social policy commensurate with the country's financial and economic possibilities. Slow and ineffective social reform deprives people with disabilities of better social services. The World Bank is providing loans for a human resources development program directed at labor market development; this program is scheduled to launch in 2007. The unemployment insurance system offers benefits to the unemployed for four to 12 months. Pension insurance security was reduced by 6% and private pension funds are in place. The pension system is organized on a pay-as-you-go plan. Beginning in July 2007, pensions will increase by 8.5%. Bulgaria's social insurance burden, at 42.7% of earnings in 2005, is considered to be one of the highest in Europe.

Social safety nets

The Eurobarometer on European Social Realities states that only 42% of Bulgarian citizens are satisfied with their quality of life and 32% with their standard of living. Dissatisfaction with their jobs is high, with women even less satisfied than men. Men are higher paid than women. In 2005, average annual wages and salaries for women reached 85.5% of the male average. Over one in five Bulgarians feel left out of society. Being a Roma continues to be a disadvantage, even though Bulgaria has dedicated itself to the Decade of Roma Inclusion initiative (2005 – 2015) and plans to participate in the implementation of the Framework Programme Program for Equal Integration of Roma in Bulgarian Society. In August 2006, the Council for the Integration of Roma into

Equal opportunity

Bulgarian Society was established by representatives of the Ministry of Labor and Roma NGOs. It should act as a consultative body in which issues regarding the social inclusion and integration of the Roma minority are discussed. There is strong discrimination against Roma in the labor market. Many Roma work in the informal sector. In 2006, an Open Society Monitoring Report found that 81% of all Bulgarians between 16 and 19 years are registered in secondary education. Only 12% of Roma of the same age are enrolled, just 7.6% finish their secondary education, and 0.2% Roma have finished tertiary education. On 27 April 2006, the rules of procedure for the Center for Education Integration were adopted. Projects drafted and financed by the Center promote equal access to education, especially for children and pupils from Bulgaria's ethnic minorities.

11 | Economic Performance

Policy measures, structural reforms and EU accession support strong economic growth on a sustainable basis. In 2005 and 2006, the rate of real economic growth in Bulgaria, at 5.5% and 6.3% respectively, is the strongest since the start of their transition. Growth is expected to remain around 6%, driven mainly by domestic demand. One macroeconomic issue that has to be addressed is the widening current account deficit, which is attributable to a higher trade deficit, a lower surplus in the service balance, as well as the acceleration of growth of investment goods imports and oil imports at higher prices. Foreign direct investment (FDI) still covers the current account deficit. Nevertheless, in the years to come, Bulgaria must prioritize the quality of investments and investors in order to improve its competitive position. Contract enforcement, increased administrative efficiency and an effective legal system will be key factors for attracting high quality FDI in the future. Growth is driven by the private sector, which accounts for 75% of the economy. One positive impact is the sustainable increase in export growth. Macroeconomic stability and higher labor force demand have lowered unemployment. Real wage acceleration was moderate and below productivity growth. The lack of qualified labor forces and experts may pose a significant challenge in the future, especially since companies are unwilling to get involved in training and qualification. Lower educated people, including those without skill qualifications, remain unemployed. The newly established Bulgarian Association for Business Initiatives helps Roma entrepreneurs to successfully integrate their businesses. The organization of seminars to train people and to raise awareness within the Roma community is intended to provide assistance for project applications, with funding provided by the association's management. After EU accession in 2007, Bulgaria experienced record-high levels of interest from foreign investors in 2006, including €3.307 billion of FDI in the period from January to November 2006. This influx of investment helped the country cover its worryingly high current account deficit, which stood at -11.3% of GDP in 2005

Output strength

and -14.1% in 2006. The World Bank demanded that unfinished reforms and structural adjustments must be completed, especially in the fields of governance and market regulation. Most importantly, positive assessments by foreign investors, backed by EU accession, will keep FDI above 10% of GDP for the fifth year in the row. One sign of the increasing confidence in the Bulgarian economy is the growing international interest in Bulgarian real estate.

12 | Sustainability

The Environment Protection Act was promulgated in 2002. Legislation on water and waste management is in place and in line with the *acquis communautaire*. Bulgaria has ratified the UN Framework Convention on Climate Change and the Kyoto Protocol, thus demonstrating its commitment to international efforts to reduce greenhouse gas emissions and mitigate climate change. There needs to be greater public awareness of and involvement in the implementation of legislation. An analysis of environmental democracy states that the biggest shortcoming in Bulgaria's information policy and media coverage was the lack of consideration of long-term health and environmental impacts. On 15 February 2007, the Bulgarian government opted not to submit almost half of the suggested Natura 2000 sites for reassessment to the European Commission, due to the substantial economic interest in most of the remaining sites. The government decided to include a total of 109 protected areas where birds live and breed, and 169 zones where the local flora and fauna need to be protected. Bulgaria's economic future in the countryside lies in its preservation. Regarding EU Emission Trading Scheme (ETS) implementation, principle requirements have already been transposed into the Environmental Protection Act, which was amended on 27 September 2005. Further voluntary energy efficiency agreements are aimed at inducing industries to introduce measures with a return on investment longer than two years. These agreements stipulate obligatory thresholds for energy efficiency per production unit and the use of good practices in facilitating energy efficiency.

Environmental
policy

According to the Bulgarian National Statistical Institute, the relative share of the population which has finished higher education increased slightly from 18.4% in 2000 to 21.6% in 2005. In 2005, 50.8% of the population has reached upper secondary education, and 27.6% completed basic lower education. Bulgaria particularly lags behind in the development of an information society; Bulgaria scores at 3.09, below the EU-25 average of 4.58. The state's relative share of expenditure for R&D was 0.51% of GDP in 2004. Investment is primarily funneled to science and technology within the "public, administrative, compulsory social security" sector, but the reform of the education sector has been slowed down.

Education policy
/ R&D

Transformation Management

I. Level of Difficulty

Structural constraints on governance are moderate. Living standards remain low for the majority of the population. Despite strong economic growth and the high educational level of the population, the Bulgarian people are generally very pessimistic regarding their individual and national socioeconomic development. Endemic corruption still hampers the political leadership's governance capacity. It is still difficult to overcome the gap between strong macroeconomic performance and the deterioration of the standard of living for a majority of Bulgarians.

Structural
constraints

Traditions of civil society, interrupted during communist regime, are weak, but civic engagement has developed further, and NGOs continue to play an important role. Although the number of active NGOs has increased, their sustainability is still fragile. Many NGOs in Bulgaria are dependent on aid from international donors and are thus in danger of adopting donor-driven approaches rather than approaches that address the needs of their constituents. According to USAID, the level of volunteer, citizen and business engagement in civic affairs is still relatively low, although it is rising. Popular confidence in public institutions is lower than ever. According to an Alpha Research survey of December 2006, the parliament has earned very little trust, with 78% of the respondents reporting that they have a negative opinion of the National Assembly. Political apathy, combined with growing public disappointment with democratic institutions, has led to a serious decline in voter turnout. Many believe that high-level politicians consider themselves above the law, citing instances ranging from the violation of driving regulations to ignoring prohibitions on construction in certain areas. Such disregard for the law discourages trust not only in political parties, but also in institutions, which leads to reduced electoral participation.

Civil society
traditions

Interethnic relations dominated the political debate in Bulgaria in the parliamentary elections of 2005 and the presidential elections of 2006. The rise of nationalism in Bulgaria is the result of long-ignored problems and disagreement on how to define these problems. The rise of nationalism may

Conflict intensity

signal protest against the lackadaisical engagement of governments and institutions on behalf of the equal treatment of citizens; nationalism does not necessarily spell radicalization in the case of Bulgaria. Nationalistic rhetoric has entered public life, however, and severely challenged Bulgaria's image as a model multicultural society. For instance, the MRF has been an important contributor to Bulgaria's ethnic peace, and it has protected the rights of the Turkish minority. Others have urged the MRF to rethink its politics. The right-wing party of former Prime Minister Ivan Kostov, the Democrats for Strong Bulgaria (DPS), opposes the MRF's policies and their very existence, describing it as an undemocratic ethnic party which solely follows the individual interests of MRF leader Ahmed Dogan and his followers. Hate speech towards minorities has appeared in the media, as well as anti-Semitic sentiments. Ataka leader Volen Siderov has authored xenophobic and anti-Semitic books. During the parliamentary campaign, he published a list of names of 1,500 alleged Bulgarian Jews on the party's website. Many young people have demonstrated negative and aggressive attitudes towards ethnic minorities. Some Bulgarian politicians have found that nationalist posturing can be to their political benefit.

II. Management Performance

14 | Steering Capability

The government of Prime Minister Sergei Stanishev pursued consistent reform goals regarding economic transformation that were stipulated by agreements with the IMF. The political leadership in Bulgaria continued to pursue its first priority: full membership in the European Union in 2007. Core reform measures have been undertaken, but often because of heavy pressure from the European Commission. The Commission guided the reform agenda in the period of review. The two-month governmental limbo after the parliamentary elections threatened to cause a serious setback in the crucial last months of preparation for accession. Bulgaria will be strictly monitored by the Commission and has to prove regular reform reports in areas of concern over the next three years.

Prioritization

During the period under review, numerous laws were hastily adopted to meet EU requirements. Past experience with weak administrative capacity, combined with persistent implementation problems, hint that Bulgaria's public administration will find it difficult to implement these laws. Two examples of laws that will be difficult to implement are the new penal code and the judicial reform

Implementation

amendments to the constitution. The implementation of the new penal procedure code will include new investigation procedures for combating organized crime and the recruitment and training of police officers. The amendment received 183 out of 240 votes, only three more than the minimum required.

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 function properly. Due to the overall weak governance performance of the parliament and the ruling government, policy learning was rather limited.

Policy learning

15 | Resource Efficiency

The Administration Act of 1998 regulates the performance of all executive branch institutions and bodies. The public administration's poor performance in general was a matter of concern in Bulgaria's application to join the European Union in 2007. Administration reform is nevertheless a key challenge for Bulgaria and needs to be carried out in a sustainable manner. In March 2006, the Bulgarian National Assembly amended and supplemented the Law on Administration and Civil Servant Act to provide clear distinctions between the political and administrative levels of administration. The amended legislation also clarifies the roles and responsibilities of public officials in the management of private companies. Since January 2006, the National Revenue Agency, a modern public revenue administration, has collected taxes, but it still performs poorly at the border and does not coordinate well with local government. An integrated administration and control system has been established, but it still needs to optimize its operations. Decentralization continues, and local self-government is in place. Local governments are empowered to resolve problems and make policies at the local level. They are responsible to the local public, and there are mechanisms for monitoring and public control. However, the actual process of decentralization has made slow progress. Until the constitutional amendment of February 2007, municipalities did not have the right to determine local tax rates and fees, and their revenues are dominated by central government subsidies. They do not have the resources they need to serve the public to the full extent of their legally defined mandates. Municipal administrative capacity remains limited. USAID works with local governments to enhance their efficiency, to improve local services and to lobby more effectively for their interests at the national level. The IMF has demanded improvements in public procurement processes and expenditure management, especially in light of project fund increases from the European Union. It will also be important to strengthen internal controls and improve accounting, auditing and reporting of the budget. The Ministry of State Administration and Administrative Reform has

Efficient use of assets

placed strong emphasis on continuing education in IT, foreign languages and professional ethics for state administration officials.

The government frequently fails to coordinate among the governing coalition parties and their representatives in the executive. Since the government is a coalition of three parties with different approaches (conservative, liberal and socialist), there are more conflicting objectives than in the previous government. To achieve a close coordination within government, each of the three parties has delegated deputy ministers to ministries headed by ministers from the other two parties.

Policy coordination

According to the Global Corruption Indicator 2006, 36% of Bulgarian citizens believe their government's fight against corruption is ineffective and 15% share the opinion that it doesn't fight corruption at all. Political institutions, namely the parliament, political parties and the judiciary, are the most vulnerable to bribery. The EU has raised deep concerns about the failure to crack down on organized crime and corruption. In January 2006, the Council of Ministers adopted a national strategy for good governance, prevention and countering corruption, which aims to establish a legal framework of administrative activities and services. There are also provisions to encourage cooperation between governmental institutions and NGOs. The Bulgarian leadership has had some successes in the fight against corruption. In 2001, Bulgaria adopted a policy of subsidizing political parties from the state budget. Although the financing of political parties has been regulated by a new law since March 2006, and the National Audit Office has gained more power, political parties are still not required to publish their financial data. The anti-corruption strategy for 2006 to 2008 includes concrete commitments to ensure transparent funding for political parties. Strong pressure from the European Union served as a reform incentive. Nongovernmental anti-corruption groups have recommended more transparency and a public relations campaign to help fight corruption.

Anti-corruption policy

16 | Consensus-Building

All major actors agree on the importance of building a market-based democracy. However, with the appearance of Ataka, nationalist political actors now wield influence in the political agenda. Their political aims have to be considered by the government if it is to build majorities.

Consensus on goals

Reformers cannot control all veto powers, such as organized crime and clientelistic networks, but they can at least limit the use of their powers.

Anti-democratic veto actors

During the period under review, Bulgaria experienced an increase in cleavage-based conflicts, some of them related to urban-rural differences, with other

Cleavage / conflict management

related to ethnicity or the socialist past. The Stanishev government sustained the interethnic power-sharing arrangement by involving the DPS. However, it demonstrated only a limited capacity to effectively mediate the worsening cleavages. For example, the extreme nationalist party Ataka launched a campaign in 2006 against mosque loudspeakers in Sofia and collected thousands of signatures. Misunderstandings about the Muslim community, suspicion regarding international support from abroad to Muslim Bulgarian politicians, negative media coverage and nationalist propaganda have fueled strong anti-Turkish sentiments and “re-Islamicization” fears within the Bulgarian population. Ataka indulged in strong anti-Semitic rhetoric during the June 2005 parliamentary election campaign, targeting the country’s small Jewish community.

Civil society is important to Bulgaria and has been involved in the fight against corruption through the Agency for Combating Corruption and the NGO Coalition 2000.

Civil society participation

At the beginning of December 2006, parliament passed the long-awaited Law on the Access to the Archives of the former State Security Services after highly controversial parliamentary debates. The opening of these archives has been one of the most often and heatedly discussed problems since the fall of communism. The declassification program applies mainly to historical documents and secret files from before 1991. Files on politicians, state officials, judges, priests and journalists who worked as informers will now be opened. The parliament, however, decided not to keep the files secret whenever national security or the lives of the people concerned might be endangered. The law envisages the establishment of a nine-member special commission for the purpose of declassifying the files.

Reconciliation

17 | International Cooperation

Bulgaria’s political leadership has accepted international assistance, especially during the period before and after EU accession. International organizations, IFIs and NGOs have consistently helped the Bulgarian government to meet the challenges of transition to and alignment with the *acquis communautaire*.

Effective use of support

Bulgaria’s EU entry was greeted with skepticism in the European Union’s public for several reasons. One of the main concerns was whether Europe can absorb the last two waves of accession. EU accession has accelerated the reform process and helped to push the reform agenda. In order to prevent setbacks and keep up the momentum to advance domestic reforms, the EU has introduced post-accession benchmarks and regular monitoring in some areas. Public governance, especially the fight against corruption and organized crime, needs further

Credibility

enhancement in order to improve the country's image and build credibility. Investor confidence in Bulgaria's economy and markets has declined because the promised reforms have been only partially implemented. Efforts for reform in the Bulgarian judicial system are crucial in this context. Anti-European sentiments could take root in Bulgaria, but such developments should be attributed to the government's inability to enact positive social adjustments, not to any public sympathy with Ataka's extreme nationalist political discourse.

Bulgaria's relationship with its neighbors has generally been good. The political leadership actively promotes regional and international integration, and both are crucial for the southeastern European region. Bulgaria is a member of several regional initiatives, such as the Black Sea Economic Cooperation (BSEC) group. Since its EU membership, strict visa regulations are in force, which has made traditionally strong relations with the western Balkans difficult. Bulgaria has proven to be a constructive force in the region and has played an important role in promoting regional security. Having launched the South-East European Cooperation Process (SEECP) in 1996, Bulgaria will hold the SEECP chairmanship from spring 2007 and play a decisive role in phasing out the Stability Pact and in enhancing ownership within the region. Bulgaria currently holds the Central European Initiative (CEI) presidency. After years of delay and political wrangling, the construction of the Danube bridge from Vidin to Kalafat will start in 2007 and end the disastrous transit situation between Bulgaria and Romania. Bilateral relations with Romania are often characterized by mutual distrust and skepticism. Bulgaria's plans to construct a new power plant at the border raised concerns about the environmental impact and competition in the region's electricity market.

Regional cooperation

Strategic Outlook

The fourth amendment of the constitution, passed on 2 February 2007, clearly illustrates that Bulgaria's government needs further pressure from outside to continue implementing its reform agenda. The ruling Stanishev government, which was based on a broad coalition that promoted EU accession, is at risk for losing political focus now that Bulgaria is an EU member state. EU monitoring of judiciary reform will push the parliament to meet expectations for a more effective justice system. Eurobarometer 2006 results indicate that crime, unemployment and the economic situation have become major concerns for Bulgarians. Trust in national institutions, in particular the parliament and the judiciary, has decreased further. Two-thirds of Bulgarians do not trust their government, and 40% expressed positive expectations for the country's EU membership. People rely on the European Union to improve their standard of living and introduce European values and social models. It is of utmost importance that Bulgarian politicians and institutions undertake serious and constant efforts to regain the popular trust and to become a reliable partner within the European community.

Contract killings in Sofia, harsh critiques of Bulgaria's weak judiciary and governmental reluctance to really tackle these problems has prompted the European Union to retain strict monitoring mechanisms after Bulgaria's EU entry. The rise of nationalism, as well as anti-Turkish and anti-Roma sentiments, threatens Bulgaria's reputation as a model of successful ethnic policy. Ethnic peace should not be taken as a given and should be protected. Greater efforts are needed to curb hate speech and to speed up the integration of the Roma people through better access to education, health care and jobs. Populism is on the rise, and anti-Muslim sentiment has already gained ground in Europe. With Bulgaria's EU entry, there are now additional nationalist elements in the European Parliament; as the far right unites in a single political group, they are likely to push for a halt on further EU expansions, especially with regard to Turkey's membership prospects. As Turkey's neighbor and as a country with a considerable ethnic Turkish minority, Bulgaria may either obstruct Turkey's EU membership, or it might share its experience with Turkey in order to contribute to a better understanding of how the European Union might overcome the difficulties of negotiations with Turkey. Bulgaria is a transit country for natural gas and oil from the Caspian Sea. Moldova and the Ukraine currently hold observer status in the Energy Community SEE and the European Union, as the EU seeks to continue and intensify its strategic partnership with Russia. Bulgaria and Russia are dependent on one another in

their energy transit and energy security ambitions. They agreed with Greece on the construction of an oil pipeline from Bourgas to Alexandroupolis. While the Bulgarian government has committed to the closure of reactors one through four of the nuclear power plant Kozloduj, “Kozloduj” became a matter of emotional and heated debates about Bulgarian national identity and dignity. Bulgaria’s demand to reopen the two nuclear facilities is highly problematic, especially since Brussels and Sofia agreed to shut them down for safety reasons. Future efforts must address the importance of nuclear safety and energy efficiency measures for EU member states. The Russian company Atomstroyexport won the bid to construct Bulgaria’s Belene nuclear power plant near the Danube. Though Bulgaria fears losing its position as the leading power exporter in southeastern Europe, economic and environmental concerns regarding the construction of a new nuclear power plant in Belene requires special scrutiny from the international community.

The Black Sea region is gaining in geopolitical importance. Bulgaria could play a key role in improving and implementing the European Neighborhood Policy (ENP) in the Black Sea region. Bulgaria’s way to EU membership was full of internal and external hindrances. The non-votes to the European Constitution in France and the Netherlands in 2005, plus expansion fatigue and discussions about absorption capacity, contributed to serious concerns regarding further EU expansion. Neighboring western Balkan states have only long-term, vague hopes for EU membership, and they will watch Bulgaria’s development carefully. Bulgaria could act as an advocate for its neighbors and support their rapprochement efforts. As an EU member state, Bulgaria could play an important stabilizing role in the decision-making process on Kosovo affairs.