

BTI 2016 | Bulgaria Country Report

Status Index	1-10	7.91	# 16 of 129	
Political Transformation	1-10	8.15	# 17 of 129	➔
Economic Transformation	1-10	7.68	# 18 of 129	➔
Management Index	1-10	6.02	# 30 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	7.2	HDI	0.777	GDP p.c., PPP \$	16323.8
Pop. growth ¹	% p.a.	-0.5	HDI rank of 187	58	Gini Index	36.0
Life expectancy	years	74.5	UN Education Index	0.749	Poverty ³	% 4.7
Urban population	%	73.6	Gender inequality ²	0.207	Aid per capita	\$ -

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

During the period under review and for the first time this century, Bulgaria plunged into political instability. Mass public protests against electricity price increases and socioeconomic stagnation led to the resignation of the Citizens for a European Development of Bulgaria (GERB) minority government in February 2013. This was the first of two governments, during the period under review, to be headed by Prime Minister Boyko Borisov. Subsequent parliamentary elections on 12 May 2013 led to the formation of a minority coalition government between the Bulgarian Socialist Party (BSP) and the Movement for Rights and Freedoms (DPS). The BSP-DPS minority coalition government was headed by Prime Minister Plamen Oresharski. Further public protests followed when the Oresharski government proposed appointing a controversial business tycoon to head the national security service. In June 2014, the EU demanded that Bulgaria stop cooperating in the Russian-led South Stream natural gas pipeline project. The EU suspended its funding for regional development following allegations of corruption. As a result of disagreements between the BSP and DPS over whether to continue with the South Stream project and accept the blame for the suspension of EU funding, the Oresharski government collapsed. Further parliamentary elections were held on 5 October 2014, which led to a minority government between a strengthened GERB party and the Reformers' Bloc alliance. This new coalition government took office in November 2014 and was again led by Prime Minister Boyko Borisov.

This period of political instability was characterized by a lack of consensus reflecting deep societal cleavages. This lack of consensus made it difficult, if not impossible, to pursue long-term goals.

During the period under review, there was an erosion of media freedoms. Furthermore, in 2014, public opinion polls indicated that only 5% of the public trusted parliament and political parties. Various public protests were organized through 2013 and 2014 with demands ranging from reducing poverty to breaking the links between the political and business elites to reforming the electoral system and the constitution.

A number of conflict of interest and corruption cases became public during the review period. These cases involved public procurement of pharmaceuticals as well as the sale of public property and other land transactions. Between them, these cases represent a massive waste of public resources. Yet, the government has consistently failed to adequately change legislation or reform public sector practices to prevent the future abuse of public resources. The lesson from this experience has been that improvement in governance needs leadership to initiate reform, but a culture change within institutions is also required to guarantee sustainability.

The Bulgarian economy moved out of recession in 2009. However, the economy remains stuck in a state of low economic growth and increasing unemployment. It is not clear when the economy will recover its pre-crisis levels of economic growth. Consequently, convergence between the Bulgarian economy and the other economies of the EU has been postponed for the foreseeable future. The second Borisov government has again proposed that Bulgaria should join the European Exchange Rate Mechanism II. This policy proposal had previously been tabled, only to be later dropped. The sovereign debt crisis within the euro zone has increased criticism of the euro. Most importantly, convergence of incomes and quality of life has also been postponed, with a lot of people having left the Bulgarian economy for more developed EU economies.

The bankruptcy of Bulgaria's fourth largest bank exposed weaknesses within the regulatory framework for the banking sector, such as bank oversight. As a result, public trust in the Bulgarian National Bank dramatically fell. Before the bank's collapse, the Bulgarian National Bank had been one of the few public institutions that was not largely distrusted by the public.

The challenges ahead for Bulgaria are significant, with the global economic crisis highlighting substantial weaknesses within the economy. It will be necessary to define new sustainable economic development strategies. In particular, these strategies will need to shift the economy from a model of economic growth based on investment in the construction, trade and financial service sectors to a model of economic growth based on innovation in technology and production processes.

History and Characteristics of Transformation

Bulgaria's democratic and market economy transformation after 1989 has been slow and often muddled. As a consequence, structural economic reforms have been delayed. In 1989, the country's former communist political elites declared plans for gradual reforms and a smooth transition to avoid social cataclysm; yet this also helped the elite maintain their political leverage during the process in order to keep control. The economic elite, which emerged in the early 1990s, involved itself in redistributing or establishing indirect control over state property, often with dubious legality. At the same time, the intertwined political and economic elite showed no genuine interest in establishing a functioning or truly impartial judiciary. This created the basis for a stable symbiosis between the state and private economic interests. As a result, public approval over how

the country's democratic system functions remained low, even though the 1991 constitution established the creation of democratic institutions and a functioning multiparty system. While democracy has always been the preferred form of governance for a large percentage of the population, the prolonged democratic transition has been perceived primarily as loss of stability and order within the state.

From 1996 to 1997, Bulgaria experienced its deepest crisis as GDP fell by 10.1%, the banking system collapsed and a drop in foreign reserves destroyed confidence in the national currency. The currency board arrangement, introduced in July 1997, helped to stabilize the economy and bring inflation under control. However, popular disappointment with "traditional parties" of the left and the right gave way to populism and the emergence of new political actors from 2001 to 2007. Until 2001, Bulgarian politics was deeply polarized between the anti-communist right and ex-communist left. Rightist reformist parties missed the momentum to offer a viable reform agenda that went beyond ideological confrontation or adapt to the novel challenges Bulgaria was facing. Ideology lost its power of mobilization and ceased being a tool for the major political actors. Instead, nationalist populist rhetoric proved a better way of mobilizing support.

In 2001, Bulgarians elected the exiled monarch Simeon Saxe-Coburg-Gotha as prime minister, but his promises for a better life for ordinary Bulgarians proved difficult to deliver. Saxe-Coburg-Gotha's party, the National Movement "Simeon II" (NDSV), lost public support and the general elections of 25 June 2005 yielded one of the most complex outcome in the country's post-communist history. A tripartite coalition government was formed with the Bulgarian Socialist Party (BSP) in partnership with the Movement for Rights and Freedoms (DPS) and the NDSV (later renamed: National Movement for Stability and Progress) with BSP's Sergei Stanishev as prime minister. The Stanishev government managed Bulgaria's accession to the European Union in 2007 and enjoyed high rates of economic growth and improved economic performance, but the value of the country's gross domestic product per capita remained the lowest among EU countries. By the end of 2008 and beginning of 2009, Bulgaria's economy and industrial base suffered unexpected losses from the global financial crisis.

In 2007, a new right-leaning opposition party, Citizens for the European Development of Bulgaria (GERB) emerged. Advocating a law and order agenda, GERB won the 2009 parliamentary elections and formed a minority government. The prime minister is also the president of the GERB party, Boyko Borisov. However, flawed investigations, deep-seated problems with corruption and accountability in the judicial system, and few high-level convictions for corruption have increased public frustration in the Borisov government. The commitment of the Borisov government to fight corruption and organized crime has been a particular source of disappointment.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

There is no challenge to the state's monopoly on the use of force in Bulgaria. The legal order and political institutions are completely secular and are not influenced by religious dogmas. There are no ethnic or other minority groups who question the legitimacy of the nation-state.

Monopoly on the
use of force
10

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

State identity
9

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

Foreigners can obtain Bulgarian citizenship based on Bulgarian descent, having a Bulgarian parent, on grounds of adoption by Bulgarian citizens, "general naturalization" or for "special contributions" to Bulgaria. Based on information the media received from the Bulgarian vice president, Bulgarian citizenship was granted to 7,954 persons in 2013 and to 5,999 persons in 2014. According National Statistical Institute data, 45,201 foreigners lived in Bulgaria in 2013 (less than 1% of the total population).

In 2013, a set of legal amendments was introduced concerning Bulgarian citizenship. These amendments made it easier for wealthy foreign nationals to obtain citizenship.

A foreign national who had invested more than BGN 1 million in a Bulgarian company or obtained a certificate for a class A investment could be granted citizenship. The idea was promoted as part of amendments to the Encouragement of Investments Act. The required changes were introduced to the Bulgarian Citizenship Act despite some opposition against offering citizenship based on a person's financial standing.

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

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

The Bulgarian Orthodox Church holds a relatively weak place in society and speaks out on issues only occasionally. In 2012, it voiced a protest over in vitro fertilization and substitute maternity. However, during the review period, public discourse was focused on scandals involving bishops with luxury cars, and the disclosure by the Dossier Commission of the identities of top church leaders who had been agents for the communist-era state security apparatus.

Bulgaria disposes of all fundamental structures of a civilian state apparatus. State resources are collected and allocated on a broad basis following strict constitutional procedures.

No interference of
religious dogmas
10

Basic
administration
9

2 | Political Participation

During the reviewed period, early parliamentary elections were held twice, on 12 May 2013 and on 5 October 2014. In addition, elections to the European Parliament took place on 25 May 2014. The electoral turnout was 51% in the two national elections and 36% in the European election. International observers found that the elections were competitive and that the freedoms of expression, association and assembly were respected. However, pervasive allegations of vote buying and other irregularities overshadowed the elections. During the electoral campaign in 2013, a scandal erupted around a conversation, which had allegedly been wiretapped, between Prime Minister Borisov, the Minister of Agriculture, Miroslav Naydenov, and the chief prosecutor. Moreover, Naydenov claimed that the Minister of Interior, Tzvetan Tzvetanov, had wiretapped all leading politicians. The former governing party raised three complaints about violations of campaign regulations before the Constitutional Court, but the Constitutional Court ruled that the irregularities did not seriously affect the outcome of the elections.

Free and fair
elections

8

In March 2014, the parliament adopted a new electoral code that, among other things, introduced the right to appeal all election-related decisions, reduced the number of supporting signatures required to register as an independent candidate and enabled the use of electronic voting technologies in polling stations. A preferential voting mechanism was introduced within the existing proportional system for national lists of political parties, coalitions of political parties and independent candidates. Preferential voting actually led to some revisions of the candidate lists. As an almost comical paradox, which demonstrated that many voters did not understand the new preferential system, the candidate ranked 15 on the list of the Bulgarian socialist party (BSP) received a large proportion of the preferential vote and won a seat in the European Parliament. By coincidence, the BSP listed as number 15 on the list of political parties. It is possible that many voters thought that the preferential vote required them to reconfirm their support of their preferred political party. In particular, this may have confused elderly voters and voters with a lower level of educational attainment.

Those running for office, as provided by law, paid for almost all media campaign coverage. Publicly available information indicated that the most recently formed party, Bulgaria without Censorship, spent the largest amount of money on media campaigning. This raised suspicions about the sources of party financing and potential links with corporate interests.

Democratically elected rulers do have the effective power to govern and no political enclaves exist. Civil-military relations are well established in Bulgaria. Some organized crime and business groups appear to have substantial political influence. State capture by criminal, oligarchic and opaque interests is difficult to document, but possible.

Effective power to govern
9

A matter of concern in the last two years has been the capture of media power by narrow oligarchic interests. The media has a very strong political influence. Therefore, both politicians and business people are highly motivated to control the media.

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

Association / assembly rights
10

No severe violations of the right to freedom of assembly in either law or practice can be reported. Further efforts are needed to enhance tolerance to minority groups, in particular for the lesbian/gay/bisexual/transgender (LGBT) community.

In 2013 and 2014, massive public protests took place, which demonstrated an activation exercise of the right of assembly. During these protests, some acts of civil disobedience occurred. For example, the building of the parliament was blockaded, preventing MPs from entering or exiting. The reaction of the police was generally quite balanced without serious physical clashes or casualties, despite the intensity of the situation. Some instances of intimidation of protesters by the police were nevertheless reported in local media and were widely discussed on social media platforms.

In Bulgaria, freedom of expression is by law unrestricted. Media pluralism is in place, confirmed by the large number of media outlets that operate in Bulgaria. However, there are many concerns about the domination of the media market by business interests seeking political influence.

Freedom of expression
7

During the period under review, the Bulgarian media sector continued to suffer with structural problems in relation to ownership transparency. Freedom of expression has thus deteriorated. A report compiled by the Media Democracy Foundation in October 2011 cites that so-called gray businesses that are taking over the management of media outlets have been a source of the worst problems concerning press freedoms.

The political and business connections of media owners or editors are considered to contribute to self-imposed censorship and to a dearth in investigative journalism.

Online media is becoming increasingly important, but its role in expanding freedom of expression should not be overestimated. Many Bulgarian news sites seek to be information outlets rather than produce their own news; an exception is the online versions of print media and news agencies. The explosive growth of the “yellow” press and also the “tabloidization” of Bulgarian media continue and can be explained with Bulgarian society’s increasing devaluation of information.

In recent years, concern about the control of major media by a limited number of oligarchs has increased. The concentration of media power followed the withdrawal from Bulgaria of some foreign investors. The shareholdings of these foreign investors became concentrated, as few people had the resources to buy the foreign investors out.

There were also accusations from journalists and analysts about channeling large amounts of state subsidies through, for example, government advertisements and EU funded programs to pro-government media.

Media freedom deteriorated further in 2013. In the Reporters without Borders’ Press Freedom Index, Bulgaria ranked 80 out of 179 countries in 2011, but ranked 100 out of 180 countries in 2013.

3 | Rule of Law

There is a working system of checks and balances between the executive, legislative and judicial branches of power, although the system is not without its problems. While the government is accountable to the National Assembly, during the period under review, the frequent changes of government have constrained the National Assembly’s capacity to monitor and debate substantive policies. Bulgaria’s directly elected president lacks strong formal powers, but played an important moderating role during the public protests in 2013. Trust in the executive, legislative and judicial institutions of government is very low. Indeed, demands to reform the judiciary and even change the constitution were a central part of the 2013 and 2014 public protests. Power struggles within the Supreme Judicial Council continued in 2013 and 2014. There is widespread public dissatisfaction in the work of the judiciary and concerns about its independence.

Separation of
powers

8

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

Independent
judiciary
8

The Bulgarian justice system has been monitored by the European Commission under a special Cooperation and Verification Mechanism, which was created to track the post-accession progress of Bulgaria and Romania. The mechanism is still in place eight years after Bulgaria joined the EU and the reports concerning the Bulgarian judiciary continue to be critical. In its 2014 and 2015 reports, the European Commission noted persistent doubts about the SJC as “an autonomous and independent authority able to effectively defend the judiciary’s independence vis-à-vis the executive and parliamentary branches of government.”

Public trust in the judiciary continues to be very low, and most political parties and politicians recognize that this is a major problem for Bulgarian politics. In 2014, doubt was again cast over the random assignment of cases in Bulgarian courts. Specialized software was introduced, following repeated recommendations from the European Commission. However, the system of random assignment was found to be easily manipulated and is likely to have been manipulated. The overall impression is that there has been no progress in improving the judiciary since Bulgaria joined the EU.

Effective prosecution of high-level corruption and abuse of office cases has been a problem for a long time. Convictions of high-level public officials have been rare. According to a report published by the European Commission in 2015, “serious barriers exist for the effective investigation and prosecution of corruption, especially involving high-level officials.” The European Commission noted that the Prosecution Office during the first 10 months of 2014 launched investigations against 61 high-level public officials. Of these 61 investigations, 31 cases were referred to court and 11 public officials resigned during investigation process. A corruption evaluation report, by the Centre for the Study of Democracy and released on 11 December 2014, stated that in 2014 corruption deals had reached a 15-year high.

Prosecution of
office abuse
7

In 2014, the fourth largest bank in Bulgaria, Corporate Commercial Bank (CCB), was bankrupted. Many public institutions had deposited large amounts of money in CCB. The majority shareholder of CCB has been accused of fraud. CCB was described, in an article for the Financial Times, as a “politically connected bank.” This suspicion was widely held in Bulgaria and had appeared in Bulgarian media prior to the collapse of the bank. The collapse of the bank cost taxpayers and depositors more than BGN 3 billion. It is unlikely that most of this will ever be recovered.

In December 2014, the French ambassador to Bulgaria publicly alleged that a judge had been working in “partnership” with an assignee to take over the management and assets of business corporations, which were subject to legal proceedings. The ambassador alleged that a French company had been a victim of this practice. The ambassador said that in the Bulgarian judiciary there were some “rotten apples,” which became a popular slogan. The case triggered new activity in the Supreme Judicial Council. The GERB-led government pledged to tackle corruption and organized crime. However, flawed investigations and deep-seated problems with the judiciary meant that there have been few high-profile convictions.

Civil rights are guaranteed by the constitution and respected by all state institutions. Bulgarian citizens are protected by mechanisms and institutions established to prosecute, punish and redress violations of civil rights. The Bulgarian ombudsman intervenes when citizens’ rights and freedoms have been violated by actions or omissions of the state, the municipal authorities and their administrations, as well as by persons assigned with the provision of public services. The number of alleged violations of citizens’ rights and freedoms reported to the Ombudsman doubled from 2011 to 2013, reaching 7,318 complaints in 2013.

Civil rights
8

The 2013 Ombudsman report criticized the lack of an adequate public policy strategy for managing refugees. Tensions within society have increased recently, after an unusually large inflow of asylum seekers from Syria. The Ombudsman has described the context as one of chaos, characterized by “splashes of hatred and even violence.”

The Ombudsman report also stated that psychiatric hospitals and dispensaries, the provision of social services and places of detention require special attention. In January 2015, European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) issued a report that was very critical of Bulgaria’s detention system, especially youth imprisonment and access to medical services in prisons. The report says that recommendations made in 1995, during the very first visit of the CPT to Bulgaria, remain unimplemented by 2015.

In 2014, Human Rights Watch alleged that Bulgarian border police routinely beat asylum seekers before forcing them to return to Turkey, the country from which most asylum seekers try to enter Bulgaria. In 2013 and 2014, the Ministry of the Interior built a 30-kilometer barbed-wire fence along the border between Bulgaria and Turkey. The Ministry of the Interior intends to continue to extend the fence along the border with Turkey.

The marginalization of the Romani minority remains Bulgaria’s most pressing human rights problem. This group’s access to basic human rights, general social inclusion and personal development is hindered by longstanding social stigmatization, poverty and a climate of public hostility. A 2013 report on the progress under the Decade of Roma Inclusion, prepared by independent researchers and NGOs, concluded that

practically no progress has been made in integrating Roma into Bulgarian society. Long delays within the judicial system, discrimination against persons with disabilities and against lesbian/gay/bisexual/transgender (LGBT) people as well as people with HIV/AIDS are additional civil rights issues.

The Commission for Protection against Discrimination has been very active in addressing cases of discrimination. The number of cases has been growing every year, and ethnic discrimination has constituted an important part of the commission's work. The commission has been under constant political attack since its establishment by nationalistic parties and politicians. The main accusation against the commission is that it acts as a political tool in the hands of the political party of Bulgarian Turks. In 2013, the CPD had 454 filed cases – a 35% increase compared to the previous year. Of these 454 cases, 39 were related to ethnic and racial discrimination, while 135 cases related to multiple forms of discrimination.

One of the main deficiencies in the work of the commission and in Bulgarian anti-discrimination policies in general is issues of structural discrimination, which are difficult to address on the basis of separate cases, but that need a broader outlook based on institutional settings and societal mechanisms that generate disadvantage and create performance gaps between different minority groups. In recent years, the Commission for Protection against Discrimination tried to get increasingly involved with such structural issues.

4 | Stability of Democratic Institutions

The performance of democratic institutions, such as the judiciary and state administration, has been moderate and has not improved much. Democratic institutions are free from extensive, counterproductive political friction. However, further democratic reform and a comprehensive approach to implementing change is still much needed in Bulgaria.

During 2013 and 2014, public trust in parliament and the executive was extremely low, leading to civil unrest and a general dissatisfaction among the population.

All relevant political and social players accept democratic institutions.

Despite the emergence of two extremist parties in recent years, with one of parties entering into the governing coalition, interethnic relations do not represent a significant risk to democratic institutions or political stability. Wealthy business tycoons have substantial informal political influence. These business tycoons are not committed to democratic values, but do not openly challenge the legitimacy of democratic institutions.

Performance of
democratic
institutions

7

Commitment to
democratic
institutions

9

While the public often expresses dissatisfaction with the performance of the Bulgarian democratic system, no alternative seems viable and non-democratic movements do not appear to exist. A representative public opinion poll, conducted by Alpha Research in November 2014, indicated that a large portion of society remembers the communist regime nostalgically and has been disappointed by the transition to democracy and market economics. However, no one challenges the fundamentals of the newly established democratic system.

5 | Political and Social Integration

The Bulgarian party system has been fairly stable for a long a time. However, new political parties and politicians have regularly emerged and quickly gained support during each election campaign since 2000. In the turbulent period before and after accession to the European Union, the ability of the established party system to articulate and aggregate societal interests, and mediate between society and the state was frequently tested. Populist politics has gained more traction due to the continued erosion of the traditional political parties' authority, blurring the dividing lines between "left" and "right." At present, the two dominant forces in Bulgarian politics are the center-left Bulgarian Socialist Party (BSP) and the center-right Citizens for the European Development of Bulgaria (GERB). The current coalition government is led by Prime Minister Boyko Borisov, president of GERB. GERB is the only political party that has won a second consecutive mandate. GERB has established itself as the dominant center-right party. After Bulgaria joined the EU, the process of establishing a new party was simplified.

In 2012, Bulgaria's former EU Commissioner, Meglena Kouneva, officially announced the transformation of her civic movement into a political party, the Bulgaria of the Citizens. Half a million people voted for Kouneva in the October 2011 presidential election.

The Bulgarian Socialist Party was significantly weakened by their cooperation with the Movement of Rights and Freedoms, and their support for the widely unpopular government of Plamen Oresharski. This enabled another center-left party, the Alternative for a Bulgarian Rebirth (ABV), which was founded by former president, Georgi Parvanov, to enter parliament in 2014.

Public support for nationalistic ideas increased in 2013 and 2014, and a new influential nationalistic coalition, Patriotic Front, emerged. Meanwhile, a center-right coalition, Reformers' Bloc, formed toward the end of 2013. The coalition brought together political parties rooted in Bulgaria's center-right politics of the 1990s, Bulgaria for Citizens and former members of the Movement for Rights and Freedoms.

Party system

6

The October 2014 parliamentary election was characterized by an increase in political fragmentation and electoral volatility. For the first time, eight political parties and party coalitions were represented in parliament, including two nationalistic groups. This electoral outcome was widely perceived as heralding a period of coalition governments and alliance formation previously unknown to the Bulgarian political culture. It also underscored the volatility of voter preferences with about 5% of voters supporting the newly established political party, Bulgaria Without Censorship. Bulgaria Without Censorship campaigned on an anti-establishment and populist platform.

GERB won 84 seats in the 240-seat parliament. The main opposition to GERB, Left Bulgaria, which is a coalition led by the Bulgarian Socialist Party, won only 39 seats. Meanwhile, the Movement for Rights and Freedoms won 38 seats. The October 2014 represented a major victory for GERB, but also made it very difficult context for GERB to form a governing coalition. Despite this difficulty, however, a coalition government was formed early in November 2014. The party system has been reshaped by recent political instability and the economic crisis. However, future developments are hard to predict.

Societal interests are relatively well-represented in the political system. Bulgaria has established an institutional framework of social dialogue and social partnership at all levels. However, especially at the local level, there is a trend of policy capture by oligarchic actors that benefit from close relations with political parties and leaders. Marginalized groups in society, especially Romani, as well other socially and economically deprived groups in Bulgarian society, still lack the capacity to participate and are not empowered to effectively voice their problems and concerns to influence government decision-making.

Public protests characterized 2013 and 2014. These protests were provoked by environmental, economic and political concerns. The protests were the manifestation an emerging political culture characterized by grassroots activism.

In 2013, a special report by the European Commission on corruption in the EU recommended that Bulgaria should adopt a code of ethics for MPs to counteract widespread lobbyism.

Democracy is undisputed among the Bulgarian population, and political protests do not call the constitutional framework into question. Bulgarian citizens' trust in their national democratic institutions, however, continues to decline and this deficit should be taken seriously. According to a Eurobarometer survey conducted in November 2014, 21% of respondents in Bulgaria were satisfied with the way democracy works in Bulgaria. This figure was the second lowest of any EU country, only respondents in Greece indicated a lower level of satisfaction. A public opinion poll, conducted by the Open Society Institute Sofia in July 2014, indicated that public trust in Bulgaria's

Interest groups

8

Approval of
democracy

7

democratic institutions is at its lowest level since Bulgaria joined the EU. Responses to the public opinion poll indicated that around 4% to 5% of the population trusted political parties or the parliament, while 10% of the population trusted government. An October 2013 Eurobarometer survey found that 71% of Bulgarian respondents believe that the judicial system is worse than in other EU countries. This is the highest percentage in any EU country.

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

A survey, carried out by the Open Society Institute Sofia in August 2014, found that 47% of respondents would accept some limitation of their civil rights and freedoms, if it would guarantee greater income security and economic stability. In addition, 18% of respondents to the same question could not decide. This suggests that there is a latent support for undemocratic policy agendas.

Bulgaria has about 30,000 registered NGOs, but only a small number of them (up to 1,000) are active. According to the 2014 World Giving Index, published by the Charities Aid Foundation (CAF), Bulgaria ranked 126 out of 146 countries. This is an improvement of 11 positions on its 2012 ranking. Bulgaria ranked 101, its highest ranking, for donating money to a charity. Bulgarians are least willing to volunteer their time to a cause. This indicates that solidarity when it exists is mostly anonymous. Despite this, however, there were many inspiring examples of self-organized voluntarism following widespread flooding in 2014. There are several large NGOs, including a local member of the CAF network, which have long been promoting charitable giving in Bulgaria. The efforts of these NGOs need to continue. In general, the index shows that solidarity and donations are not common, and cannot be a replacement for social security provision. Charitable donations and volunteerism has little impact at present, but should be used as a tool to develop greater solidarity.

Transfers between households in Bulgaria declined during the economic crisis, showing that social capital also tends to contract in times of hardship – a phenomenon that was observed in other countries dependent on transfers as well.

Social capital

7

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

In the 2013 Human Development Index (HDI), Bulgaria scored 0.777, a negligible increase from its 0.776 score in 2012. Bulgaria ranked 58 out of 189 countries in 2013, equal to its 2012 ranking, but a fall of three positions from 2011. The score spread for high human development was 0.700 to 0.790. Overall, Bulgaria remains in the high human development group of countries, despite a lack of progress since 2011.

Socioeconomic
barriers
7

According to Eurostat's definition, 21% of the population lived below the poverty line in 2013 (i.e., below 60% of the median income). This is among the highest relative rates of poverty in the European Union, alongside Romania, some Baltic countries and latterly some Mediterranean countries. In 2013, 48% of the Bulgarian population lived in poverty or social exclusion, according to Eurostat. This is the highest rate of poverty or social exclusion in the EU and there is no indication that it will reduce.

In 2013, according to Eurostat data, Bulgaria's Gini coefficient of equalized disposable income after social transfers (net Gini) was 35.4, compared to an EU average of 30.5. The higher the Gini coefficient, the higher the level economic inequality, accounting for all social transfers provided by the state. Initially, the economic crisis reduced the country's Gini score due to a larger percentage fall in higher incomes than in lower incomes. In 2013, the ratio of the average income earned by the richest 20% of the population to the poorest 20% (the so-called S80/S20 quintile ratio) was 6.6. This was the highest ratio in any EU country, equal to Romania and Greece. In general, income inequality in Bulgaria is high by European Union standards, irrespective of which indicator is used. Since Bulgaria joined the EU in January 2007, economic inequality actually increased, before stabilizing at very high levels.

Economic inequality is structurally engrained, especially in the case of the Roma. Existing policies do not contribute to reducing economic inequalities.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	29300.0	48669.1	54479.9	55734.7
GDP growth	%	6.0	0.7	1.1	1.7
Inflation (CPI)	%	5.0	2.4	0.9	-1.4
Unemployment	%	10.1	10.2	12.9	-
Foreign direct investment	% of GDP	14.0	3.8	3.5	3.6
Export growth	%	9.1	17.2	9.2	2.2
Import growth	%	14.3	4.1	4.9	3.8
Current account balance	\$ M	-3347.0	-796.3	963.2	513.0
Public debt	% of GDP	29.0	14.6	17.6	26.9
External debt	\$ M	18507.3	50318.1	52994.7	-
Total debt service	\$ M	4466.6	4214.3	4994.4	-
Cash surplus or deficit	% of GDP	3.2	-3.4	-	-
Tax revenue	% of GDP	21.3	18.8	-	-
Government consumption	% of GDP	17.8	15.8	16.5	17.1
Public expnd. on education	% of GDP	4.2	4.0	-	-
Public expnd. on health	% of GDP	4.5	4.2	4.5	-
R&D expenditure	% of GDP	0.46	0.60	-	-
Military expenditure	% of GDP	2.4	1.8	1.7	1.5

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

Most prices in Bulgaria are determined by the market. Exceptions include pharmaceutical and energy prices. The prices for pharmaceuticals are negotiated by the National Health Insurance Fund, while energy prices are regulated by the State Energy and Water Regulatory Commission (SEWRC).

The SEWRC regulates prices for electricity, heat and natural gas. However, it is also responsible for licensing and setting the rules of operation in electricity generation and natural gas transmission. The SEWRC has been a point of public attention since massive protests over the electricity and heat prices occurred early in 2013, which

Market-based
competition
8

precipitated the fall of the government. At the beginning of 2013, an infringement procedure was launched, and it became clear that the government had failed to comply with the Third Energy Liberalization Package, with draft amendments still to be prepared. As a result, the chairperson of SCEWR resigned. Since then, the regulator has undertaken many management and membership changes. Additional changes to the Energy Act were made in July 2013 to ensure that the relevant EU directives are fully transposed into domestic legislation. As described by the SEWRC to the Agency for Cooperation of the Energy Regulators and the European Commission, changes in the Energy Law were subsequently complemented by amendments to secondary legislation.

Vertical integration within the pharmaceutical market was found to reduce competition. Big producers have their own warehouses, which are used also to trade with other pharmaceuticals. Some producers have also their own pharmacies. The list of pharmaceuticals eligible for public purchase is defined by a special bylaw. In 2014, changes in the rules for administered prices had a substantial effect on the inflation rate. This followed the depreciative effect that administered prices had had on inflation in 2013. Furthermore, after public protests in early 2013, most administered prices were frozen or lowered.

Apart from having one of the lowest tax rates in the European Union, Bulgaria continues to have one of the largest informal sectors (approximately 10% to 30% of GDP). As further tax reduction was impossible during the economic crisis, the government tried other tools to enforce compliance. Measures included tightened controls over retail traders to prevent the concealing of turnover, enforcing the use of cash registers as well as connecting all cash registers in real time to the tax authority. Filling stations, bus transport offices and finally vending machines were among the last to have cash registers connected to the national revenue agency, amid protests from businesses over unbearable costs and the analysis in the business press that additional revenue to the government would be more than offset by the additional costs to business. The Bulgarian example demonstrates however, that tax compliance, the lack of which is the main reason for the existence of undeclared economic transactions, cannot be driven primarily by economic incentives. It has to do more with the rule of law, the functioning of institutions, the informal ethics of doing business and above all, consumer behavior and expectations. However, leading researchers of the informal economy in Bulgaria are more in favor of financial and economic mechanisms to curb it, rather than control and enforcement.

Since Bulgaria joined the European Union in 2007, anti-monopoly policies have been strengthened. At the end of 2008, a new law was adopted which puts special focus on transparency in the work of the Commission for the Protection of Competition (CPC) and to cooperation with the EU Commission and national competition authorities of EU member states.

Anti-monopoly
policy
9

The CPC is empowered to enforce the Law on Protection of Competition, the Public Procurement Act and the Concessions Act. CPC's scope of activity covers all requests on ascertaining infringements on free market competition and the direct enforcement of provisions of the relevant articles in the EU Treaty. In 2013 and 2014, the CPC was also active in the market for reimbursable drugs and retail of pharmaceuticals. These were long-standing and politically sensitive topics generating a large amount of media and public interest.

Natural monopolies regulated by the state continue to garner public attention, especially in the utility sector, where activities are most visible to the average consumer. In 2013 and 2014, the Commission for Protection of Competition imposed sanctions on some utility companies in the electricity and water sectors. The CPC established that the largest company in the electricity distribution market was abusing its market dominance. The company had imposed discriminatory restrictions on other companies that were using its grid system. In May 2014, the CPC imposed a pecuniary sanction on the Sofia water utility company, after it found that the company had abused its dominant market position to take advantage of consumers by calculating interest on some late payments.

Despite suspicions of political dependence, the CPC has broadly performed its functions well and responded to issues of high public concern.

As a member of the European Union, Bulgaria follows the EU customs code and all associated regulations and trading policies. Bulgaria's main trade partners remain EU countries, including Germany, Italy, Romania and Greece. In 2013, Germany accounted for more than BGN 5.3 billion in exports and more than BGN 5.5 billion in import. In 2013, Romania accounted for BGN 3.36 billion in exports and BGN 3.37 billion in imports. Outside of the EU, Bulgaria has strong trade relations with Turkey, the Russian Federation and Ukraine. In 2013, Turkey accounted for BGN 3.9 billion in exports and BGN 3 billion in imports, the Russian Federation accounted for BGN 1.14 billion in exports and BGN 9.35 billion in imports. Meanwhile, Bulgaria's close trade links with Ukraine explain why the conflict in eastern Ukraine and the economic sanctions imposed on Russia have had such a significant impact on the Bulgarian economy. Trade with Russian Federation was the largest contributor to Bulgaria's net foreign trade deficit. The supply of natural gas from Russia to Bulgaria and on which Bulgaria is almost completely dependent is especially vulnerable to the

Liberalization of
foreign trade
10

conflict in eastern Ukraine. This is because the supply of natural gas from Russia to Bulgaria passes through Ukraine.

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

According to the classification of the Bulgarian National Bank (BNB), the banking system consists of three groups. One group includes Bulgaria's five largest banks, a second group includes 16 smaller banks and a third group includes six branches of foreign banks. Banks are well capitalized. The share of tier one capital to risk-weighted assets was 15.6% in June 2013. However, the share of nonperforming loans to total gross loans increased from 11.9% in 2010 to 17.1% in June 2013. In November 2014, the license of Corporate Commercial Bank (KTB) was revoked, leading to the bankruptcy of Bulgaria's fourth largest bank. The guaranteed deposits to the amount of BGN 3.7 billion started to be paid in December 2014. BNB also began to supervise a KTB subsidiary, Corporate Bank Victoria, in 2014.

Before that, regulation of the banking sector was praised and cited as a positive example by American economist Steve Hanke, who is credited as one of the fathers of the Bulgarian Currency Board. According to Hanke, banking regulations were tight during the economic boom and were then relaxed.

In 2014, however, Bulgaria's fourth largest bank was already under conservatorship, following suspicions that the regulator had failed to detect problems within the bank at an earlier stage. Protracted analyses of the situation by the BNB and delays in the payment of deposits guaranteed up to €100,000 led to discontent among depositors and growing public distrust in the banking regulators. Following BNB's decision to take over control of KTB, Bulgaria's third largest bank, First Investment Bank, also became the subject of insolvency rumors. These rumors led to the withdrawal of a large proportion of deposits. Timely support from the government prevented the bank's insolvency.

To implement the Capital Requirements Directive IV of the EU, BNB introduced systemic risk and capital conservation buffers in October 2014, improving the capitalization of banks operating in Bulgaria.

Banking system

8

8 | Currency and Price Stability

The Bulgarian National Bank (BNB) is fully independent, both legally and de facto. The governor and deputy governors of the BNB are appointed by parliament. Bulgaria has had a functioning currency board since 1997. The Currency Board Arrangement (CBA) continues to be the cornerstone of macroeconomic stability, providing a stable anchor and discipline in maintaining tight fiscal policies. The national currency is pegged to the euro, so the BNB can only influence to some extent credit expansion by placing a regulatory ceiling on lending or increasing the reserves required by commercial banks. The BNB must fully back all of its monetary assets with an equal amount in euros. The CBA leaves the BNB little room to maneuver in monetary policy; the BNB has only one policy instrument (reserve requirement) and is a limited lender of last resort. To support the currency regime, the Ministry of Finance has to maintain a tight and transparent fiscal policy.

Anti-inflation /
forex policy

9

Inflation in Bulgaria is not targeted by specific policy instruments, and has a quite different pace from countries in the euro zone. Before the start of the economic crisis, Bulgaria had a higher inflation rate than most other EU countries. Then from 2009, the inflation rate dropped to between 2% and 3% per year. In 2013, the inflation rate had fallen to almost 0%. In 2014, the inflation rate fell below 0%, the first time that Bulgaria had experienced deflation in two decades. Even deflation in specific months was rare before 2014. Due to lower inflation, Bulgaria fulfilled its euro zone convergence inflation criteria, but low inflation and deflation in the case of Bulgaria are evidence of a protracted economic stagnation. Overall, consumer prices are still less than half of those in the euro zone.

The global economic crisis had a positive impact insofar as it rebalanced the current account after years of large deficits.

Macrostability

9

Since the IMF-proposed Currency Board Arrangement (CBA) was introduced in 1997, Bulgaria has enjoyed macroeconomic stability. The financial crisis however led to the rapid withdrawal of portfolio investments from the country and a drop in foreign direct investment. The main indexes on the Bulgarian Stock Exchange marked record losses from the end of August 2008.

In the beginning of March 2012, Bulgaria signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, but has not yet ratified the treaty. Bulgaria will still have to enact an implementation law only after it adopts the euro. In its June 2014 Convergence Report, the European Commission mentioned Bulgaria among the countries which were not ready to adopt the euro. Among the reasons given were the slow development of Bulgaria's business environment and economic imbalances. The new finance minister has reaffirmed Bulgaria's commitment to at least joining the "waiting room" of the euro zone by

joining the ERM-II. The finance minister has stated his intention to make this happen during the current government's mandate, which runs until 2018.

Public debt, as anticipated in the previous BTI, has increased.

In 2009, an excessive deficit procedure was avoided, as the deficit was limited to 4.3% of GDP. However, this came at the cost of severe austerity measures, which dramatically reduced public expenditure as a percentage of GDP.

9 | Private Property

Property rights are regulated by law. The protection of property rights improved after Bulgaria's accession to the European Union. In 2007, Bulgaria was removed from the United States Trade Representative's watch list. However, enforcement of contracts by the courts remains slow, while corruption still is a major issue.

Property rights
9

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

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

Private enterprise
9

Privatization was not always accompanied by de-monopolization, however, and despite efforts to create a truly competitive market some privatizations have led to the creation of private monopolies in sectors such as telecommunications and energy. Privatizations of some previous monopolies have not gone well, and early 2013, growing discontent with the performance of electricity companies escalated into protests in several big cities. Privatization in the water sector was not always a success.

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

10 | Welfare Regime

Social inclusion policies were not top of the government's agenda, even before the economic crisis. For several years before 2009, Bulgaria had a Guaranteed Minimum Income of BGN 55 (about €23) per month. In 2009, the GMI increased to BGN 65, which it remained at until 2015. It is unlikely that the GMI will be changed in the near future. Heating allowances form another pillar of Bulgaria's minimum income protection system. These heating allowances are provided to eligible families during the "heating season" (i.e. between November and March each year). The amount paid is based on the equivalent monthly cost of 385 kWhs. For the November 2014 to March 2015 heating season, the allowance will be about BGN 72 (€37) per month or BGN 361 (€184) for the whole heating season. Pensions are the only social transfer that has an important contribution to reducing poverty. The average pension in 2013 was BGN 294 (€150) per month.

Maternity leave is relatively generous compared to other EU countries. For the first year of the child's life, the mother receives a maternity payment equal to 90% of her gross monthly salary. The mother is allowed to take a second year of maternity leave, receiving each month an amount defined by the government. In 2014, this amount was BGN 340 per month. There is an ongoing public discourse about whether this has encouraged low-income mothers to stay at home, because BGN 340 is at least equivalent to the average monthly income of some social groups and in some regions.

Severe material deprivation has decreased, but the situation continues to be far worse than in any other EU country. Half of the population is classified as living at risk of poverty or social exclusion. While the rate of people living at risk of poverty has decreased in recent years, at 21% it remains very high in comparison to other EU countries. Deep poverty and other forms of social exclusion continue to characterize the experience of some social groups. Vulnerable groups include children, people of retirement age, households with three or more children, and the poor.

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

Another serious social issue is the large number of people who do not have adequate health insurance. These people only have access to healthcare in emergency situations. The Ministry of Health calculates that there are about one million people without adequate health insurance. A large proportion of this group, especially people of Roma ethnicity, fail to pay their health insurance contributions due to poverty.

Social safety nets

7

Under the current restrictive system, many of these people do not qualify for any public support. The new government is planning to make it even more difficult for people without health insurance to access the healthcare system, pay their healthcare arrears and withdraw support for poorest uninsured individuals. If implemented these reforms will further increase health inequality.

Gender equality and gender empowerment are well respected. Bulgaria ranked 36 on the UNDP Gender Inequality Index and has one of the lowest gender pay gaps in the European Union. The gender gap in the size of pensions is relatively high, but will be reduced if policies to increase the retirement age are implemented. The existing anti-discrimination legislation, among other things, defines social status as a possible ground for discrimination. Socioeconomic inequalities are high and structurally engrained, particularly in the case of Roma. These inequalities also restrict opportunities for lower socioeconomic groups to actively participate in society.

Equal opportunity
8

11 | Economic Performance

The Bulgarian economy was seriously affected by the global economic crisis. Economic growth has resumed since 2011, but at a low rate. GDP growth was 1.1% in 2013 and 1.7% in 2014. In 2013, total output was €41,048 million at current prices, while Bulgaria's rate of GDP per capita (€5,600) was the lowest of any EU country.

Output strength
6

For a decade, the Bulgarian economy grew at a steady pace of more than 6% per year, so the current economic situation is perceived by households as a continuing deterioration. The data on household consumption published by the National Statistical Institute show a 4.3% nominal increase in household expenditure in 2011 compared to 2010, taking into account the changes in the consumer price index (4.2%) that consumption has remained constant. Preliminary data for 2012 indicate that there has been a small increase in household expenditure of about 4% to 5% in real terms. The average monthly salary rose in nominal terms in 2010 from BGN 609 to BGN 648, and then further to BGN 707 in 2011. A large part of this increase was due to the release of low-qualified workers, so it is not necessarily a good sign for the economy, although this was related to productivity gains.

In 2012, the total number of employed decreased to 2,935,000 and remained at this level through 2013. The employment rate was 49.3% at the end of 2014. Meanwhile, the unemployment rate reached 13% in 2013. In 2014, the unemployment rate decreased for the first time since 2009, but remained high at 11.6%. A recovery in economic output will likely lead to an increase in labor force participation and employment rates.

In 2013 and 2014, there has also been a modest increase in export and import rates.

12 | Sustainability

The Environment Protection Act was promulgated in 2002 and then amended many times, with amendments in December 2008. Legislation on water and waste management is in place and in line with European Union law. Bulgaria ratified the U.N. Framework Convention on Climate Change and the Kyoto Protocol, thus demonstrating its commitment to international efforts in reducing greenhouse gas emissions and mitigating climate change.

Environmental
policy
7

In April 2011, Bulgaria adopted a new Renewable Energy Act. However, several renewable energy projects were stopped without any official moratorium. Bulgaria is among the lowest-scoring countries in the EU Climate Policy Tracker (CPT), a comprehensive review of policies on greenhouse gas emissions in the European Union. Recent public expenditure on environmental protection as a percentage of GDP in Bulgaria is higher than the EU average. This is mainly due to the contribution of EU funding.

Bulgaria has huge problems with industrial and household energy efficiency. Prefabricated blocks of flats built during the communist era are a particular problem. The new government has announced ambitious plans to invest BGN 1 billion (€500,000) in increasing energy efficiency its mandate period, which will conclude in 2018.

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

As an EU member state, Bulgaria participates in the pan-European network Natura 2000, which includes protected territories inhabited by rare and endangered species. The requirements of the two EU directives regulating Natura 2000 were transposed into Bulgarian law with the introduction of the Biological Diversity Act in 2002. However, the implementation of Natura 2000 was controversial and largely a failure. In Bulgaria, organizations working for the protection of the environment are one of the strongest segments of civil society, with environmental groups actively using institutional tools and organizing street protests.

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

In 2014, public debate about extraction of shale gas in northern Bulgaria was renewed following Russia's cancellation of the planned construction of the South Stream gas pipeline. Several U.S. companies expressed an interest in exploring for and extracting shale gas. However, this interest met strong opposition from civil society

organizations representing ecological interests and residents' concerns. There is widespread concern among experts and environmentalists about the possible dangers of hydraulic fracturing. Following the public debate that led from this expression of interest, the first GERB-led government announced a moratorium on hydraulic fracturing.

The risks of nuclear energy generation formed part of the public debate that proceeded from the first national referendum after the fall of communism. The public debate on nuclear energy generation focused on the proposed construction of a nuclear power station in Belene on the Danube River. In March 2012, after a series of controversial public comments concerning the proposed nuclear power station and negotiations with a Russian investor, the Borisov government abandoned the project. The government cited the lack of a strategic investor and excessive public costs as reasons for abandoning the project. At the end of 2013, a proposal to construct a new reactor in the Kozlodui nuclear power station was resumed. However, negotiations over the Kozlodui reactor were held with an American company, Westinghouse. Westinghouse, as with Rosatom in the Belene case, will supply the reactor, but will not share the investment risk. This risk will be assumed by the government. The project was called the "American Belene" by some media outlets and politicians from the Reformist Block.

Expenditure on education as a proportion of GDP in Bulgaria is the second lowest of any EU country. In 2011, expenditure on education was the equivalent of 3.82% of GDP (Eurostat). In 2012, Bulgarian 15-year-olds have earned below-average results in the OECD Program for International Student Assessment (PISA) survey, especially in science and mathematics. In mathematics, 44% of students received very low achievement scores. In 2014, the World Bank published a report, based on the PISA results, stated that educational inequalities were a main problem in Bulgaria. The report recommended a list of steps to reduce education inequalities.

Despite recommendations from the European Commission, there has been no reform of the school education system. Although the new School and Pre-School Education Act will likely be approved in 2015. This legislation will introduce important changes to teachers' careers, school inspections and curricula. However, the UNICEF argues that the legislation will increase educational inequalities, because it continues to support early-years tracking of students and private education.

In 2012, 55% of young people aged 15 to 24 were in education. This is a low percentage compared to other EU countries. Bulgaria has the highest percentage of young people aged 15 to 24 in the EU who are not in education, employment or training. In 2013, 21.6% of people aged 15 to 24 were not education, employment or training (Eurostat). Implementing the EU's Youth Guarantee initiative, which aims

to ensure that every young person aged 15 to 24 has the opportunity to access work, could address this challenge.

In 2012 and 2013, the share of young people leaving school early increased following more than seven years of fewer and fewer young people leaving school early.

Since 2010, the Ministry of Education has ranked universities annually. The Ministry of Education's ranking contains more than 70 indicators. Some of the indicators are used to allocate performance-based funding to universities and the new government plans to increase the share of this funding.

In 2013, Bulgaria spent 0.65% of GDP on research and development. This is an increase of 0.1 percentage points over the last two years. Bulgaria has little chance of achieving its R&D expenditure target of 1.5% of GDP under the EU 2020 strategy.

Transformation Management

I. Level of Difficulty

Structural constraints on governance are moderate. Infrastructural deficits were reduced but long-standing quality of life issues increased during the economic crisis. Living standards in general are low in comparison to reference countries within the European Union.

Structural
constraints
4

In early 2015, the new government announced an ambitious program for improving road infrastructure. In particular, the program will target roads used for linking conurbations, rather than long-distance haulage. This will reduce commuting times and improve access to public services, such as education and health. Road infrastructure in peripheral areas is in poor quality. Although in the last few years, hundreds of kilometers of highways and first class roads have been built or repaired through EU funding. In 2013, the first highway was completed. The highway connected the capital to the coastal city of Burgas.

The government has also committed to rehabilitating and improving the energy efficiency of communist-era blocks of flats. Most of these prefabricated blocks are in poor condition.

In general, civic engagement is not very strong. However, specific instances of civic activism have proven quite powerful, though short-lived. For example, civic activism, which started at the beginning of 2013, was attributed with causing the downfall of two governments.

Civil society
traditions
4

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

Data from a July 2013 survey conducted by Open Society Institute, in Sofia, found that 51.6% respondents indicated that they trusted civil society. In 2009, 45% of respondents to a similar survey indicated that they trusted NGOs. Meanwhile, 48.4% of respondents in 2013 indicated that they did not trust civil society, while 55% of respondents in 2009 indicated that they did not trust NGOs. NGO activities are still not well recognized by the public. For example, in response to a 2013 survey, titled “Citizens’ attitudes towards the NGOs in Bulgaria,” 35% of respondents stated that they believed NGOs represented their interests.

State support is minimal and there is no mechanism for distributing funds to NGOs at the local level. Access to EU funding proves difficult given competition, including with businesses. During the period under review, there were no significant developments in implementing the Strategy for Supporting the Development of the Civil Organizations in Bulgaria, 2012 to 2015. State subsidies were modest and distributed on a discretionary basis by the government, contradicting the government’s strategy. According to the 2012 USAID’s Civil Society Organization Sustainability Index, staff are typically employed on a temporary, project-by-project basis, which is dependent on the availability of funding.

Unlike other Balkan countries, Bulgaria has maintained a good balance of interethnic relations in its diverse population, which includes a large Turkish minority and a Romani minority. Yet, minorities face huge social and economic challenges. Instances of discrimination and hate speech continue to occur.

Conflict intensity
4

In 2013, protests against high electricity prices failed to acknowledge the effect of these high prices on Roma, despite the disproportionately large number of Roma whose electricity supply is cut due to arrears. Previously, groups representing Roma had opposed utility companies and been involved in confrontations with the police.

As in other EU countries, a popular fear of radical Islam has increased and the government has responded by introducing policies to counter the spread of radical Islam. Only Turkey separates Bulgaria from Syria and Iraq. Consequently, a high proportion of refugees trying to escape the conflicts in the Middle East as well as potential fighters making their way toward the conflicts arrive in Bulgaria. There is also a smaller proportion of refugees from Afghanistan as well as North African countries that arrive in Bulgaria. Large groups of refugees has led to reactions from some local populations, especially in smaller conurbations. Protests against the influx of refugees have been motivated by a fear of the presence of “talibans.” In Sofia, police managed to prevent the escalation of some clashes between refugees and members of radical political parties.

At the end of 2014, police entered a mosque in Pazardjik. Pazardjik is a town 90 kilometers from the capital and has a large Roma population. Many people were arrested and some local imams were accused of preaching radical Islam.

Until now, anti-refugee sentiments had not escalated into such overt reactions. Future developments will be largely influenced by the situation in Syria and Iraq, and to a lesser extent the situation in Afghanistan, as well as the willingness of Western European countries to accept asylum seekers who have entered through Bulgaria.

II. Management Performance

14 | Steering Capability

Question
Score

In 2013 and 2014, Bulgaria had five different governments. Of these five governments, three were formed following regular elections, while the president appointed two interim governments. The first government of Prime Minister Boyko Borisov, leader of the Citizens for the European Development of Bulgaria (GERB), resigned in February 2013. This followed massive protests against high utility bills, which was perceived as a cause of poverty and source of corruption. The fall of the first Borisov government marked the beginning of a period of political instability. GERB was the first incumbent party to win consecutive parliamentary elections. Yet, GERB failed to win enough parliamentary seats to secure a majority and none of the other parties were willing to form a coalition with GERB.

Prioritization
6

As a result, the Bulgarian Socialist Party (BSP) and the Movement for Rights and Freedoms (DPS) were able to form the next government. This coalition government was led by Prime Minister Plamen Oresharski. Its popular support was based on its opposition to the austerity program adopted by the previous Borisov government.

In June 2013, the BSP-DPS government became the target of a new wave of protests. These protests were triggered by the proposal to appoint Delyan Peevski, a controversial media mogul and MP for the MRP, as Chairman of the State Agency for National Security (SANS). Following the protests, the proposal was immediately withdrawn by the Prime Minister. Early in the BSP-DSP government, it was clear that their parliamentary coalition - tacitly supported by the nationalist Ataka party - was unstable. In July 2014, Plamen Oresharski's coalition government collapsed. In November 2014, following new elections, a second Borisov-led government was formed. Borisov's second government was a minority coalition in which GERB was supported by an electoral alliance and one political party.

During this period of instability, there was little continuity between the governments. Consequence governments attempted to dismantle what the previous government had attempted to implement. The only exception was the second Borisov government, which attempted to seek broad consensus. For example, the BSP, the largest opposition party, was invited to join the government, while the position of prime

minister was offered to the leader of a junior coalition partner. Overall, however, this period of political instability undermined the pursuit of long-term, strategic aims. At the end of January 2015, the second Borisov government produced an ambitious mandate. However, the government's critiques argue that this mandate is unworkable, as it combines too many incompatible policy proposals from too many political parties.

During the period under review, Bulgaria lacked international influence, failed to secure funding from a wide range of EU sources and made little progress on any domestic policy agenda.

Through 2013 and 2014, little progress was made and the main policy challenges for the country have remained broadly unchanged. At the beginning of 2015, Bulgaria received the thirteenth report under the Coordination and Verification Mechanism. Results to public opinion polling, published by Eurobarometer in autumn 2014, found that the public perception of judicial reform, and the fight against corruption and organized crime had deteriorated. Meanwhile, despite the government's inability to effectively address structural issues related to corruption and crime, it did manage to increase EU funding for tackling these policy concerns. The new government has reiterated Bulgaria's intention to adopt the euro, which has been a major policy goal for successive governments. However, it remains unclear when this policy goal will be realized. Meanwhile, opposition to the euro has increased due to the deterioration of the situation in Greece and the persistence of problems across the euro zone. Furthermore, Bulgaria's goal of joining the Schengen Area has been repeatedly postponed. Although Bulgaria has met its formal border control requirements, political sympathy within the European Union is limited due to, among other things, failure to reform the judiciary and reduce corruption.

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

Subsequent governments during the period under review demonstrated little policy-learning ability. Continuity across governments in Bulgaria was weak. Typical political discourse includes discarding almost all achievements of the previous government. This is correlated with a pattern of negative voting, when incumbents face massive public dissatisfaction and are ushered out often by brand-new political players with a large margin of voter confidence. This pattern was especially strong during 2013 and 2014, with five governments holding power. Strategic policy-making has been undermined by this discontinuity in governments. For example, the Plamen Oresharski government rejected the previous government's pension reform,

Implementation

6

Policy learning

5

which would have increased the pensionable age. Such reforms are difficult to reintroduce, because they are highly unpopular.

Often voting patterns reflect a preference for new political faces. Like other post-socialist countries, Bulgaria has faced the challenge of almost constant change in the economy and the public sector for two decades. There is a pattern that every new parliamentary election introduces new political players to the parliament, with some of these players promote extremist or populist rhetoric.

Society is used to reforms, both successful and failed. Some public fatigue with the stress of constant change has accumulated over time. Reforms in Bulgaria have been more the product of leadership initiative than an institutionalized search for improvement. This aspect of policy-making was again illustrated by recent pension reforms. The second Borisov government proposed allowing individuals to move their personal pension accounts from private funds to the public system. However, this policy change was introduced without regard for the previous system and without a broad public debate. It is therefore exemplary of the discontinuity of policy-making within Bulgarian politics.

15 | Resource Efficiency

The National Audit Office (NAO) supervises the implementation of the budget, and is independent from the executive and reports directly to parliament. The NAO's president and two vice presidents are elected by parliament. In 2013 and 2014, the NAO was destabilized by a series of management changes caused by political clashes between GERB, BSP and MRF. However, despite this instability, the NAO performed better than many other political institutions.

The NAO has a broadly defined task to control the reliability and truthfulness of financial statements of budget-funded organizations as well as monitor the legality, efficiency, effectiveness and economy of the management of public funds and activities. NAO reports are publicly available and many have become required reading for the media and think tanks and have spurred public discussions.

Even after Bulgaria joined the European Union, state administrative performance remained poor. Administrative reform continues to be a key challenge. Efforts until now were targeted at reducing the number of civil servants, but little has been done to improve performance. Efforts against corruption have not been systemic but relate only to concrete cases. The demonstration of zero tolerance in cases of corruption, which appear in the media from time to time, cannot be a substitute to addressing the root causes of corruption.

Efficient use of
assets

6

Through 2013 and 2014, EU funds were repeatedly misused. Due to political instability, negotiations concerning the new EU operational programs were slow and the introduction of new EU funding programs will be delayed.

In 2014, due to poor bank supervision, Bulgaria's fourth largest bank went bankrupt. The government-backed fund, the Fund for Guaranteeing Deposits, was unable to cover the BGN 3.6 billion worth of guaranteed deposits. It remains unclear what deposits will be recovered by the fund. The bankruptcy of the bank has increased the budget deficit, which may require a new substantial deficit program.

Administratively, the government remains centralized, despite a strategy for decentralization introduced before the global economic crisis. Successive coalition governments, which have characterized Bulgaria's political system in the new century, share some common problems, including poor policy coordination. Coalition governments usually include ministers from different political parties, who have different policy agendas. This increases the complexity of policy coordination and ministerial control. This has been a particular problem for the second Borisov government, which is very diverse. From the beginning, ideological differences were very apparent. These differences will likely undermine the ability of the coalition to implement mutually agreeable policies. The biggest constraint on the quality of governance in Bulgaria is coordination within the government. However, it has not been an easy constraint to address, because the reasons for the poor coordination differed between the different governments. The use of EU funds has had a positive effect on policy coordination. All examples of effectively coordinated policies received some EU funding. Were it not for the EU pressure planning would probably have disappeared completely from Bulgarian policy-making, even as a tool for designing long-term sectoral policies, not to mention multi-sectoral policies requiring strong coordination across agencies.

Policy
coordination
6

The Europe 2020 strategy generated an attempt to make a medium-term strategy for the development of Bulgaria, providing an incentive to use new analytical, coordination and stakeholder consultation tools, a positive process in itself, regardless if targets are met. It is clear that most of the targets will not be met.

A series of mechanisms have been introduced to prevent corruption. However, several of these mechanisms have proven to be ineffective. In particular, an inefficient and corrupt judiciary is undermining political efforts to tackle corruption within public administration. Internal inspectorates are charged with supervising anti-corruption measures in public administration. However, these inspectorates lack the capacity to function effectively. For example, no single institution has sufficient authority or autonomy to coordinate anti-corruption activities across the different inspectorates. In June 2014, the Prosecutor General established a specialized interagency unit to improve investigations of corruption. Yet, in November 2014, the Centre for the Study of Democracy, an NGO that specializes in the study of

Anti-corruption
policy
6

corruption and the informal economy, stated that political corruption had reached a threatening level. Protests were triggered when the Oresharski government attempted to appoint a controversial media tycoon as Chair of the State Agency for National Security. Similarly, the South Stream project also raised suspicions of third party influence in political decision-making.

16 | Consensus-Building

All major political actors agree on the goal of building a market-based democracy. A liberal market economy and the social disparities that result from such a system are generally accepted by the public as a reality of life, rather than a set of principles that should be balanced with values of social solidarity, a view held more often by an older generation with a memory of the communist past. Constructive criticism from the European Union, aimed at fostering reform, is welcomed by the public and political actors, while the government works to take necessary corrective measures, albeit with moderate success. Trust in European institutions continues to be much stronger than trust in national institutions.

Consensus on goals
10

All major political actors agree on the need to consolidate Bulgaria's developing market economy.

Consensus on the benefits from the EU membership is also strong. Although in the last years, there appears to be some fatigue in society, as a result of very high expectations. In 2014, public opinion polls indicated that more than 60% of the electorate support EU membership. However, almost a quarter of the electorate stated that the negative effects of EU membership outweigh the positive effects. Public opinion suggests that the primary advantages of EU membership are economic, including increased employment opportunities and greater ease of travel.

Further reforms are required to overcome anti-democratic veto actors and change the existing equilibrium. These challenges are a cause of widespread public dissatisfaction. Temptations to employ populism and nationalism are not rare in Bulgaria, but populist messages are tempered through the necessities of policy-making (especially when it comes to EU requirements).

Anti-democratic
actors
8

During the period under review, nationalistic movements have become more vocal and examples of hate speech have become more prevalent in the media and public discourse. Even senior public officials have used the rhetoric of hate speech. Such instances highlight the weakness of public institutions in defending human rights and protecting vulnerable groups.

Lobbyists for powerful interest groups have consistently managed to block reform of the judicial system. Among other things, these reforms would have established a truly independent judicial system, which would have strengthened the rule of law and consolidated democracy.

The political leadership is generally able to depolarize conflicts. However, in 2013 and 2014, external threats to national security divided society more than ever. Bulgaria has nationalistic parties, which have developed their rhetoric mainly along anti-Romani and anti-Turkish lines. The leader of the Attaka (Attack) party, represented in the Bulgarian parliament, also occasionally employs anti-Semitic language, which is irrelevant in the Bulgarian context and has little if any impact. In 2013 and 2014, another nationalistic political force, the Patriotic Front coalition, also entered parliament. The Patriotic Front proposes to re-install missiles directed against Turkey and reinstate mandatory military service. The main opponent of nationalistic parties is the Movement for Rights and Freedoms (DPS), whose membership consists predominantly of Bulgarian Turks and Muslims. In 2014, the populist political party, Bulgaria Without Censorship, won two seats in the European Parliament as well as several seats in the national parliament. Bulgaria Without Censorship's campaign platform was based on opposing Prime Minister Boyko Borisov, the GERB party and the broader political establishment. The second Borisov government demonstrated a willingness early on to work proactively and seek consensus.

Cleavage /
conflict
management
7

In 2014, a police operation was launched in the largely Roma neighborhood of Pazardjik. This operation led to the arrest of several people on charges of preaching radical Islam. The operation coincided with a wider public concern that radical Islamists and terrorists are among the increasing number of immigrants arriving from Syria.

Dividing lines within society appear also as a result of increasing social disparities and ineffective social inclusion policies, rather than by ethnically driven conflicts. In 2013, suicidal acts, such as self-incineration, became increasingly widespread. Although the number of these instances has since declined, they may increase again in the future. Public suicides were the most extreme expression of social, economic and political desperation.

The Bulgarian political leadership assigns an important role to civil society actors in deliberating and determining policies. The legal basis for civic participation has long been in place; however, there was no clear way to provide for the opinions or advice of NGOs or other entities in policy-making, as clear criteria and mechanisms for the process of collecting comments was lacking.

Civil society
participation
8

The role of civil society as a change-maker has been restored and NGO activism increased in 2013. In February 2013, massive street protests against high electricity prices led to the resignation of the first Borisov government. In June 2013, a series of controversial appointments by the newly elected government to senior public offices provoked massive protests. These protests evolved into general anti-government rallies, reaching a scale that resembled the first democratic walkouts in 1990.

Increasing mutual distrust between public institutions and some NGOs has undermined dialogue. In 2013, Bulgarian NGOs took part in the consultation process regarding the next EU funding programming for the period 2014 to 2020. However, the real influence of these NGOs remains unclear.

Reconciliation continues to be an issue of evolving political and institutional culture rather than of social relevance. In 2012, Bulgaria celebrated the 100th anniversary since the start of the Balkan War in October 1912, in which Bulgarian troops liberated much of the Bulgarian-populated parts of the southern Balkan peninsula from the rule of the Ottoman Empire. There are concerns regarding the way the authorities have approached the Holocaust, especially the 11,383 victims from Vardar Macedonia, northern Greece and eastern Serbia that were under Bulgarian rule between 1941 and 1944. The Holocaust is usually only mentioned in Bulgaria when stating that Bulgarian Jewish communities were not deported to concentration camps.

Reconciliation seems to be difficult to achieve. In 2011, the first Borisov government decreed that 1 February would be a day of commemoration for the victims of the communist regime. This day was chosen because 150 political leaders were sentenced to death by the People's Court on 1 February 1945. However, the Bulgarian Socialist Party advocates for the recognition of victims of anti-fascist resistance. This is linked to a broader public debate about whether fascism existed in Bulgaria.

Senior clerics are alleged to have collaborated with the communist security apparatus, including Patriarch Neofit, head of Bulgaria's Orthodox Church. These allegations are based on communist state security records, which have since been made public. Although these records also include files stating that Patriarch Neofit was not considered fit for the state security work. The issue, nevertheless, attracted international media attention. The New York Times, for example, published an article entitled "Bulgaria's Unholy Alliances." Similar articles appeared in the Bulgarian press, with Western reactions widely quoted. However, these accusations became public in February 2013, as Bulgaria was entering a period of political crisis. Due to the political instability, stability within the Orthodox Church was desirable and, consequently, there was no significant attempt to remove Patriarch Neofit.

Reconciliation

8

17 | International Cooperation

The political leadership makes use of international assistance in its reform policies.

Effective use of
support
8

For example, a loan from the World Bank has facilitated government reform of local social services for children. The government also cooperates with UNICEF in setting standards for early childhood development. World Bank expertise is also used to develop strategies in other policy areas, such as innovation. However, governments often lack the administrative capacity or political will to implement the recommended reforms. For example, the Cooperation and Verification repeatedly produces similar recommendations, but no real progress has been made in implementing these recommendations. Negotiations for the EU's new 2014 to 2020 programming period have been slow due to the frequent changes of government. This negotiation process has also introduced EU expertise and policy input into national development planning. The negotiation process will be quicker, if another cycle of parliamentary elections can be avoided.

The government is generally considered a credible and reliable partner within the international community. An exception to this, however, was the Oresharski government. Critiques of the Oresharski government argue that, among other things, its support for Russia's South Stream project isolated the government internationally.

Credibility
8

The level of crime and corruption in Bulgaria has delayed the country's accession to the Schengen Area. Concerns over Bulgarian Romani migrating to other EU countries have also contributed to Bulgaria's delayed accession. In 2013 and 2014, the inflow of refugees from conflict areas, such as Syria, generated criticism from international organizations, human rights NGOs and some EU member states.

Regional cooperation is a key foreign policy priority and the government participates in various forms of regional cooperation. The government position is that the integration into the EU and NATO of Bulgaria's neighboring countries is a prerequisite for regional stability and prosperity. The government relies heavily on EU instruments, but is also pursuing greater cooperation with the United States, Black Sea Region countries and international organizations. Bulgaria relies on and makes use of EU financial instruments for regional cooperation. These instruments support the development of cross-border trade and cooperation. Increased transnational cooperation between 2014 and 2020 will be ensured through Bulgaria's participation in three transnational programs, namely ITERACT III, Danube and Balkan-Mediterranean Program.

Regional
cooperation
9

The Oresharski government established a Council for International Cooperation and Development. The council should provide greater consistency in developing national positions and formulating regional policies.

During the period under review, there were several significant challenges to regional security in the Black Sea area and the Balkans. The conflicts in eastern Ukraine and Syria led to a substantial increase in the number of refugees entering Bulgaria. In 2014, the government muted the possibility of enforcing collaboration between the southeastern European countries. The government suggested that enforced collaboration would increase the effectiveness of SEEDEFECO (South Eastern Europe Defense Cooperation). In particular, enforced collaboration would improve defense capabilities and operational compatibility. However, due to economic constraints, Bulgaria's defense budget was reduced to 1.16% of GDP for 2015, a reduction of €30 million. As a result of this reduction, Bulgaria will fail to meet its commitment made at the NATO Summit in Wales in 2014.

Strategic Outlook

Bulgaria has maintained macroeconomic stability during the worst part of the economic crisis. However, this has been achieved at very high social costs. These high social costs contributed to the collapse of the first Borisov government. This triggered a period of political instability, which has changed the political system more than in any Mediterranean EU member state. The severity of the economic recession has meant that economic recovery has been slow and painful. Moreover, the global economic crisis highlighted serious structural weaknesses within the economy, which had been neglected during the previous period of economic growth. A painful economic restructuring, supported by the development of new strategies and markets, is needed. Earlier economic growth had been premised on overinvestment in the construction, trade and financial services sectors, rather than innovation in technology and production processes. Investment in innovation has dwindled. It is not clear what sectors, if any, could attract investment and are worthy of government support.

The main challenges for transformation in Bulgaria, as identified in the previous BTI analysis, concern good governance and social cohesion. Good governance and social cohesion were at the core of the civic protests that characterized Bulgarian politics through 2013 and 2014. At the end of 2014, the second Borisov government came to power supported by a complex coalition, which included a wide range of ideological agendas. In light of the recent period of political instability, the current Borisov government is the most consensus-oriented government in Bulgaria's recent history. Unfortunately, the recent political instability has meant that little progress has been made in addressing the challenges identified in the previous BTI analysis. Meanwhile, further urgent challenges have emerged, which will require a reprioritization.

Poverty, social exclusion and human capital development continue to be under neglected policy areas.

There is a growing demand for electoral reform, including the introduction of mandatory voting. Judicial reform has also emerged as a substantial and difficult issue. Public trust in state institutions, excluding EU institutions, has always been low throughout the twenty-first century and has further declined.

During the period under review, the security situation in the region deteriorated significantly. Bulgaria proved to be ill-prepared to handle the consequences of this change, particularly the increase in asylum seekers fleeing conflicts in, for example, Syria. As stated by NATO, and acknowledged by senior Bulgarian political and military officials, Bulgaria has to do more to address regional security threats.

Bulgaria's strategic challenges include:

An increasing public budget deficit. This is further complicated by an increasing demand for greater healthcare and education services. In addition, the current pension system is unsustainable, while emerging regional security threats have increased the pressure on current national security expenditure. Taxes and/or social security contributions will have to be increased to avoid substantial future increases in public debt.

The European Commission has stated that judicial reform is urgently needed. Despite numerous public protests, pressure from foreign diplomats and a series of public scandals, no reform has yet been achieved.

Public trust in state institutions and the political system is at an all-time low. However, this is not an issue that can be addressed directly by introducing a specific policy or changing the government's PR and communication approach. Public trust will only be restored after deep, structural changes are implemented.

Improving the quality of healthcare provision and making healthcare services equally accessible to everyone. The new Minister of Health is among the most popular politicians in the current government, though even this popularity is low. Yet, some of the proposed policies have the potential to increase disparities in access to healthcare services. The proposed healthcare reforms will likely prove to be inadequate.

Issues of poverty and inequalities in accessing public services remain key socioeconomic challenges. These challenges highlight the continued failure to socially and economically integrate minority groups, such as the Romani. In addition, the increasing number of migrants arriving in Bulgaria will further exacerbate these challenges.

During the period under review, EU funding supported the continued improvement of Bulgaria's transportation infrastructure. The continued utilization of EU funding will be crucial to further physical infrastructure development, as EU funding is the main source of public investment. However, EU funding alone will not be sufficient to restore economic growth.

The GERB party has firmly established itself in the political system. It is the first political party to win consecutive parliamentary elections. However, it remains to be seen if the leadership of Prime Minister Boyko Borisov and parliamentary strength of the GERB party will be enough to restore political stability. The current parliament is the most diverse Bulgaria has ever had.