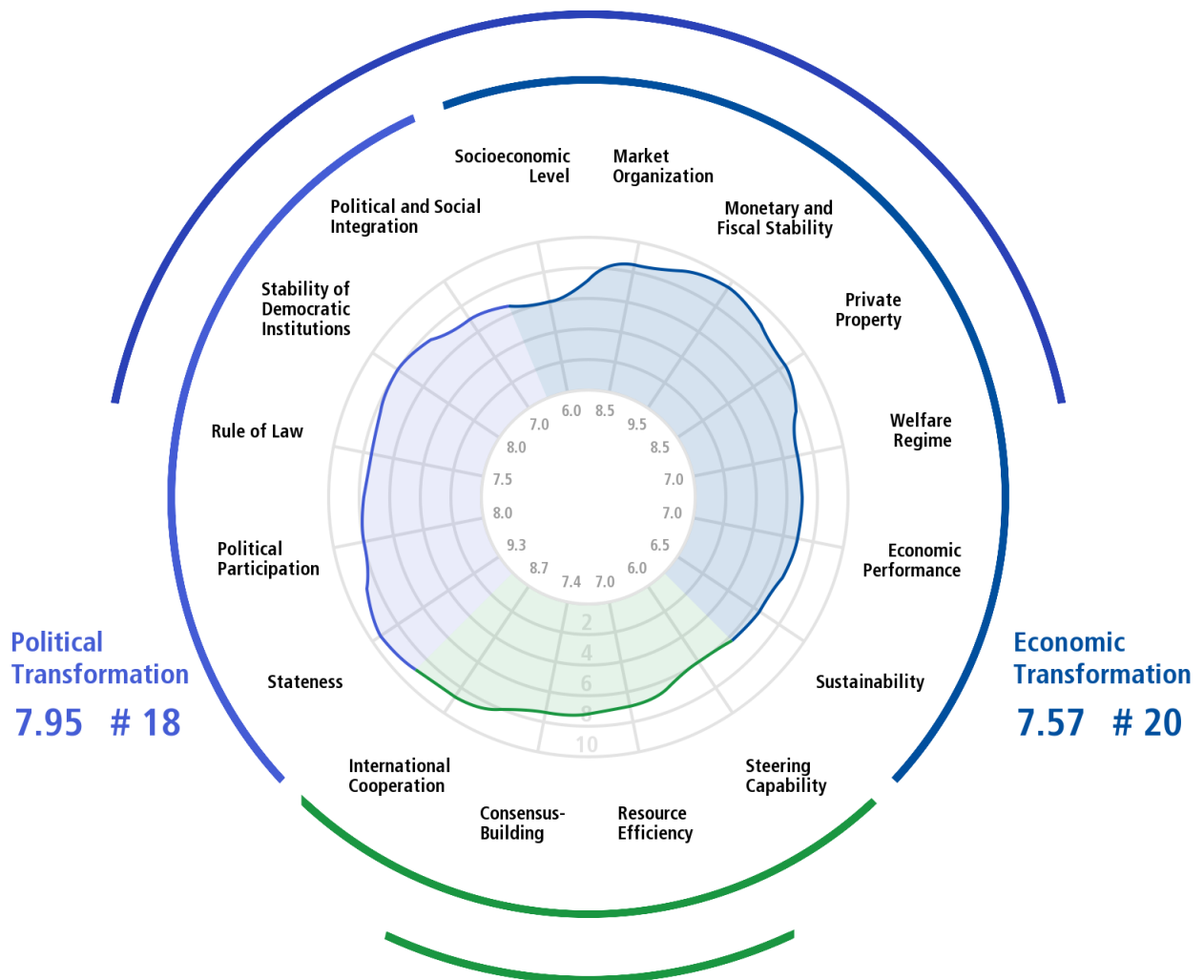


Bulgaria

Status Index

7.76 # 16

on 1-10 scale out of 137



Political Transformation
7.95 # 18

Economic Transformation
7.57 # 20

Governance Index

6.18 # 21

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Robert Schwarz

Phone +49 5241 81 81402
robert.schwarz@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	7.0	HDI	0.816	GDP p.c., PPP \$	21960
Pop. growth ¹	% p.a.	-0.7	HDI rank of 189	52	Gini Index	37.4
Life expectancy	years	74.8	UN Education Index	0.805	Poverty ³	% 3.7
Urban population	%	75.0	Gender inequality ²	0.218	Aid per capita \$	-

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

In 2017 and 2018, the Bulgarian economy performed very well in terms of GDP growth, especially considering the poor results in the eurozone and some of the largest economies in the European Union. Employment also grew rapidly and for the first time Bulgaria closed most of the gap with the average EU employment rate. Unemployment dropped to 5% in the third quarter of 2018.

Despite its GDP growth and the decrease in unemployment in recent years, Bulgaria remains the poorest EU member state. In 2018, the country's per capita GDP (PPP) amounted to less than 50% of the EU average. Inequality grew dramatically during the period under review, making Bulgaria by a wide margin the country with the highest inequality in the European Union.

Corruption and media independence remain significant problems. Bulgaria's media environment has deteriorated significantly in recent years, with an increase in hate speech and violence against journalists. Transparency of media ownership continues to be a serious problem, as are media monopolies, the fusion of media and politics, and the lack of transparency of funding sources.

The country's good economic performance has improved the public sentiment, which has generally been quite pessimistic. A public opinion survey conducted by the Open Society Institute – Sofia in April 2018 showed that the number of people who perceived the country's situation as “unbearable” or “intolerable” had declined slightly compared to previous years, reaching the 2008 level.

Five political parties were represented in the National Assembly after the 2017 elections. The early general election followed the resignation of Prime Minister Boyko Borissov (from the European Development of Bulgaria party, GERB) after the GERB presidential candidate was defeated by the candidate supported by the Bulgarian Socialist Party (BSP), Rumen Radev. The result of the presidential elections signaled the return of BSP as a major challenger to GERB's dominance. GERB won the snap parliamentary elections with 33.4% of the vote but failed to secure an outright majority. In May 2017, it set up a coalition with three nationalist parties from the United Patriots

(the National Front for Salvation of Bulgaria, VMRO and Ataka) with a slim majority in parliament (122 of 240 seats). The opposition included the Bulgarian Socialist Party (BSP, 80 seats), the Movement for Rights and Freedoms (DPS, 26 seats), and Volya (12 seats).

The results from the 2017 parliamentary election confirmed a resilient political status quo in Bulgaria. However, for the first time since the beginning of the democratic transition, a group of parties (United Patriots) who deny some basic principles of democracy and human rights entered a government coalition. Their leaders are notorious for their abusive, racist comments and xenophobic statements. The voting results indicate that in Bulgaria there is an electoral niche for national-populist, Eurosceptic and xenophobic parties.

In 2017 to 2018, the number of refugees and migrants entering Bulgaria declined, but human rights organizations documented numerous allegations of ill-treatment of refugees and asylum-seekers, and substandard conditions in detention facilities.

The marginalization of Roma and widespread discrimination against them persisted. Discriminatory and xenophobic statements were made during the campaign for the parliamentary elections. Hate speech remains widespread in the media. Apart from Roma, the group most affected by hate speech is the LGBTI community. This coincides with intense debates over the failed ratification of the Council of Europe Convention on preventing and combating violence against women and domestic violence (the Istanbul Convention).

In 2018, some long-awaited steps in the fight against corruption among top public officials were undertaken by the establishment of a special body, but it is still too early to expect visible results as important details of the new legislation concerning confiscation were elaborated only in December 2018. Banking supervision was strengthened following a series of stress tests, and changes in the legislation were proposed and consulted with the European Central Bank, which will further strengthen the macroprudential role of the Bulgarian National Bank. These steps are part of the sustained efforts by the Bulgarian government to join ERM-II (the European Exchange Rate Mechanism) and subsequently the eurozone.

Other aspects of governance have not improved much due to the very difficult challenge of managing a diverse coalition with often incompatible values and goals. Coordination has been weak as political scandals and policy failures have abounded. However, despite serious obstacles, Bulgaria pursued some of its goals unexpectedly well during its first EU presidency in the first half of 2018. The most visible aspect of the presidency was the delicate task of bringing together leaders from the Western Balkans to support reconciliation and friendship on their road to EU membership.

History and Characteristics of Transformation

Bulgaria's democratic and market economy transformation after 1989 has been slow and often muddled. As a consequence, structural economic reforms have been delayed. In 1989, the country's former communist political elites declared plans for gradual reforms and a smooth transition to avoid social cataclysm; yet this also helped the elite maintain their political leverage during the process in order to keep control. The economic elite, which emerged in the early 1990s, involved itself in redistributing and establishing indirect control over state property, often with dubious legality. At the same time, the intertwined political and economic elite showed no genuine interest in establishing a functioning or truly impartial judiciary. This created the basis for a stable symbiosis between the state and private economic interests. 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 a loss of stability and order within the state. From 1996 to 1997, Bulgaria experienced its deepest crisis as GDP fell by 10.1%, the banking system collapsed and a drop in foreign reserves destroyed confidence in the national currency. The currency board arrangement, introduced in July 1997, helped to stabilize the economy and bring inflation under control. However, popular disappointment with "traditional parties" of the left and the right gave way to populism and the emergence of new political actors from 2001 to 2007. Until 2001, Bulgarian politics was deeply polarized between the anti-communist right and ex-communist left. Rightist reformist parties missed the momentum to offer a viable reform agenda that went beyond ideological confrontation or adapt to the novel challenges Bulgaria was facing. Ideology lost its power of mobilization and ceased being a tool for the major political actors. Instead, nationalist populist rhetoric proved a better way of mobilizing support. In 2001, Bulgarians elected the exiled monarch Simeon Saxe-Coburg-Gotha as prime minister, but his promises for a better life for ordinary Bulgarians proved difficult to deliver. Saxe-Coburg-Gotha's party, the National Movement "Simeon II" (NDSV), lost public support and the general elections of June 25, 2005, yielded one of the most complex outcomes in the country's post-communist history. A tripartite coalition government was formed with the Bulgarian Socialist Party (BSP) in partnership with the Movement for Rights and Freedoms (DPS) and the NDSV (later renamed the 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 in the European Union. By the end of 2008 and beginning of 2009, Bulgaria's economy and industrial base suffered unexpected losses from the global financial crisis. In 2007, a new right-leaning opposition party, Citizens for the European Development of Bulgaria (GERB) emerged. Advocating a law and order agenda, GERB won the 2009 parliamentary elections and formed a minority government. The prime minister is also the president of the GERB party, Boyko Borisov. The commitment of the Borisov government to fight corruption and organized crime has been a

particular source of disappointment. In February 2013, the GERB government resigned following months of sometimes violent anti-poverty demonstrations. As the next coalition government of Plamen Oresharski failed to institute promised reforms, street protests began anew and instability grew. The collapse of the socialist government came less than 18 months after the resignation of the previous cabinet, after the Movement for Rights and Freedoms (MRF) withdrew its support.

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

In the meantime, Bulgaria faced the implications of being on the main (Western Balkan) refugee migration route. According to the Ministry of Interior, in 2015 the number of illegal migrants totaled nearly 8,500, effectively all of them having attempted to transit Bulgaria to move from Bulgaria's border with Turkey to the Serbian border. Bulgarian society is charged with fears over migrants and refugees and is strongly susceptible to the influence of public messages. Although the GERB government considered itself irreplaceable because it ensured political and economic stability, in November 2016 Prime Minister Boyko Borisov resigned after the Socialist-backed candidate, Rumen Radev, a newcomer to politics, defeated GERB's candidate in the run-off presidential election by a landslide.

Parliamentary parties were unsuccessful in forming a new government and on January 24, 2017, President Radev dissolved the National Assembly, appointed a caretaker government and called early parliamentary elections. Following the elections, the third Borisov government took office in May 2017 in a coalition between GERB and the nationalist alliance of the United Patriots, which includes three nationalist parties – the National Front for the Salvation of Bulgaria (NFSB), VMRO-Bulgarian National Movement and Ataka.

The term of the third Borisov government coincided with Bulgaria's first presidency of the Council of the European Union (January-June 2018). The presidency reaffirmed the policy positions of the government. The opposition's criticism and attempts to topple the ruling coalition over its inability to tackle high-level corruption, as well as ecological and social protests, have been downplayed by the government, who argue that criticism undermines political stability and damages the positive image of the country in Europe. The apparent political stability is reflected in public opinion polls as well. In 2018, about 40% of the people surveyed defined the situation in the country as "bearable," which is the highest rate for last 10 years (data from a national representative survey of the adult population in Bulgaria conducted in April 2018, funded and implemented by the Open Society Institute in Sofia). At the same time, fewer people have declared it as "unbearable."

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

Transformation Status

I. Political Transformation

1 | Stateness

There is no challenge to the state's monopoly on the use of force in Bulgaria. The legal order and political institutions in Bulgaria are fully secular. In Bulgarian society, there are no ethnic or other minority groups that would question the legitimacy of the nation-state.

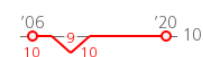
The constitution defines Bulgaria as a nation-state that respects differences in ethnicity, language and religion. The main groups support the official concept of the nation-state. The constitution does not recognize minorities explicitly but guarantees the right to self-determination. In 2011, 8.8% of the population identified as ethnic Turks and 4.9% as Roma. In 2000, when Bulgaria ratified the Framework Convention on National Minorities, the right of self-identification as a national minority was recognized so that minorities could take advantage of their rights deriving from the framework convention.

Bulgarian citizenship can be obtained based on Bulgarian descent, adoption by Bulgarian citizens, naturalization or for "special contributions" to Bulgaria. Interest in citizenship increased significantly after Bulgaria's accession to the European Union, as it granted full EU citizenship and visa-free travel across the bloc. From 2012 to 2018, more than 60,000 people received Bulgarian citizenship, mainly from neighboring non-EU countries and mostly on the grounds of Bulgarian origin. After prolonged speculation, a scandal about fake certificates issued by the State Agency for Bulgarians Abroad arose in October 2018. According to prosecutors, thousands of applicants paid up to €5,000 to obtain fake certificates and avoid waiting for years to obtain citizenship. Charges were brought against the head of the agency who is seen as close to the VMRO party (of the nationalist United Patriots alliance, part of the governing coalition), which allegedly received money from the scheme.

Question
Score

Monopoly on the
use of force

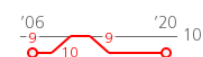
10



1

State identity

9



1

The state is largely defined as secular. The Bulgarian constitution protects freedom of religion and belief, and it stipulates that the state shall assist in the maintenance of tolerance and respect among different denominations, as well as among believers and non-believers. The constitution prohibits religious discrimination but designates Eastern Orthodox Christianity as the “traditional” religion. The 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 and 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 predominantly focuses on liturgy, the Bulgarian Orthodox Church (BOC) is a weak political actor compared with its counterparts elsewhere.

In the 2011 census in Bulgaria, about 60% of the population declared themselves to be Eastern Orthodox Christians. The Bulgarian Orthodox Church is the most trusted institution in Bulgaria (52% trust it according to the Open Society Institute – Sofia survey in 2018). Still, it is notoriously non-transparent and holds a relatively weak place in public life. It speaks out on issues only occasionally, with the exception of its steadily declared opposition to holding Sofia Pride Parade. In 2018, the Bulgarian Orthodox Church became one of the most furious critics of the government’s attempt to ratify the Council of Europe Convention on preventing and combating violence against women and domestic violence (the Istanbul Convention). The church called on the National Assembly not to ratify the convention, even though it had previously expressed support for it. In 2018, the convention became associated with the church, with the introduction of the so-called “third sex” (gender). The church’s attitudes were also reflected in Father Dionysius’s remarks about a “liberal gang” and his suggestion to excommunicate MPs and ministers supporting the convention.

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

Corruption does not affect the delivery of public services as such but has an impact on the quality and effectiveness of the administration. The distribution of budgetary resources and, in particular, the allocation of EU funds is a case in point. As misappropriation and corruption at all levels are common, it is questionable to what degree they translate into better public policy outcomes.

No interference of religious dogmas

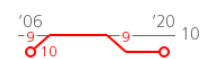
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1

Basic administration

9



1

2 | Political Participation

General elections are held regularly and the legal framework is generally conducive to holding democratic elections. The Central Election Commission administers Bulgarian elections and generally works professionally and impartially. The 2014 Electoral Code has been amended several times, most recently in March 2017. Amendments addressed some previous OSCE and European Commission for Democracy through Law (Venice Commission) recommendations, but others remain unaddressed, including long-standing limitations on the right to vote and stand for election. The parliament passed controversial reforms to the electoral laws in 2016, including the introduction of compulsory voting and new restrictions on voting abroad. The new rules on voting abroad limited the number of polling places and led to protests throughout the diaspora. In February 2017, the constitutional court abolished compulsory voting.

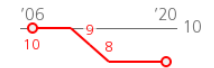
The last parliamentary election was held on March 26, 2017. It had originally been scheduled for 2018, at the end of the National Assembly's four-year term. However, early elections were called following the resignation of Prime Minister Boyko Borisov and the failure to form a new government. The 2017 parliamentary election was deemed credible by international observers. Out of the 12 parties and nine coalitions, five parties won seats in parliament with none able to win an absolute majority. Observers concluded that the electoral campaign was held in an atmosphere of public disillusionment with politics and weariness of elections. Contrary to international standards, the Bulgarian Electoral Code only allows campaigning in the Bulgarian language. In 2017, some parties used inflammatory and xenophobic rhetoric, mainly targeting Roma and Turkish communities, raising concerns about the normalization of xenophobia and discrimination. At the same time, Bulgarian authorities and some political parties claimed that the Turkish authorities interfered with the electoral process. Long-standing issues of vote-buying and "organized" voting were raised as issues of concern. The judiciary and the political parties themselves have not systematically tackled vote-buying and captive votes, which remain challenges.

Democratically elected rulers have the effective power to govern and no political enclaves exist. Civil-military relations are well established in Bulgaria. Some organized criminal groups and questionable businesses appear to be influential in Bulgarian politics. State capture by criminal, oligarchic or at least non-transparent interests is not to be ruled out, although it is difficult to document. The efficiency of the prosecutor's office and the police is low.

In 2018, the findings of Freedom House's Nations in Transit international survey continued defining Bulgaria as a "semi-consolidated democracy." Experts are of the overwhelming opinion that the dependence of the Bulgarian judiciary on powerful political and economic actors is one of the most significant factors behind the stagnation of democratic reforms in the country.

Free and fair elections

8



1

Effective power to govern

8



1

The constitution guarantees the freedom of association and assembly. To protect unity and the integrity of the state, the constitution prohibits political parties with members expressly limited to persons belonging to a particular racial, ethnic or religious group, in accordance with an interpretation by the Constitutional Court. Consequently, this constitutional provision may not be used to prevent any particular groups from organizing themselves as such.

Further efforts are needed to enhance tolerance toward minority groups, in particular the LGBT community. Despite threats and counter-demonstrations organized by far-right groups, Sofia Gay Pride has taken place annually under heavy police presence.

The Nonprofit Legal Entities Act (NPLEA) was amended in January 2018 to streamline nonprofit registration procedures. Nonprofit organizations were previously registered by the courts but will now be registered by the Registration Agency at the Ministry of Justice. While the changes are favorable, the introduction of an elected NGO representation body at the Council of Ministers is questionable as it monitors and evaluates the results of all NGOs, even the private benefit ones. The January 2018 amendments gave all existing nonprofit organizations three years to transfer their registration to the Registry Agency (until the end of 2020). The system of re-registration has not gone smoothly – to submit statutory annual reports, the organizations needed to re-register during first 6 months of the three-year period, which many did not manage to do.

According to Bulgarian law, freedom of expression is unrestricted. Media pluralism is technically in place, confirmed by the large number of media outlets. However, there are persistent and serious concerns about the domination of the media by business interests seeking political influence; severe censorship and self-censorship; the concentration of media ownership; the breaching of basic ethical principles of journalism; and the ineffective media self-regulation. Bulgaria was the lowest ranked EU Member State in Reporters Without Borders' 2018 World Press Freedom Index (111 out of 180) – representing a significant decline in recent years.

The lack of transparency over media ownership is a constant concern. Due to its influence on politics, both politicians and leading businesspeople aim to control the media and reach its large audiences. In October 2018, parliament approved a controversial bill on obligatory disclosure of media ownership, introduced by representatives of Movement for Rights and Freedoms (MRF), among them media mogul Delyan Peevski. Experts have been critical of the changes, fearing that the law would further damage the media environment. The law is considered too selective, putting undue pressure on media outlets that rely on foreign grants and donations to maintain their editorial independence. Critics say the law will not stem Peevski's effective control over the newspaper business.

In the Association of European Journalists' 2017 annual online survey on freedom of speech, 70% of respondents evaluated freedom of speech in Bulgaria as "poor" or

Association /
assembly rights

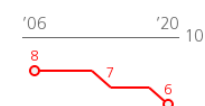
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1

Freedom of
expression

6



1

“very poor” and only 4.5% as “good.” Journalists face threats and occasional violence. In October 2017, Deputy Prime Minister Valeri Simeonov and MP Anton Todorov threatened to fire television journalist Viktor Nikolaev if he continued investigating an aircraft purchase by the government.

3 | Rule of Law

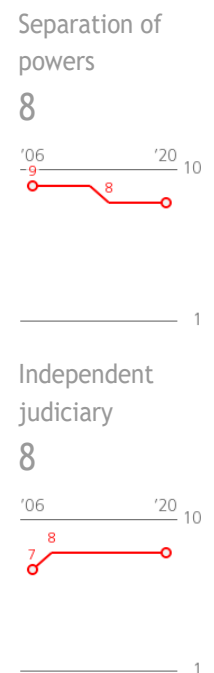
There is a working system of checks and balances between the executive, legislature and judiciary, although the system is not without its problems. Bulgaria and Romania remain under special monitoring by the European Commission to continue to reform the judiciary, a process they started during EU accession negotiations. In Bulgaria, there is a massive dissatisfaction with the work of the judiciary and doubts about its independence from various interests. The legislature has not been able to hold government to account. That is partly due to informal links between the ruling party and some parts of the opposition (e.g. MRF and Volya).

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

The Bulgarian justice system has been monitored by the European Commission under a special Cooperation and Verification Mechanism (CVM), which was created to track post-accession progress. Judicial independence is the first benchmark to be met by Bulgaria under CVM. In the past, appointments to high-level judicial positions have raised concerns due to the lack of transparency and allegations of the undue influence of political or economic interests.

The European Commission noted that the election of the new Supreme Judicial Council under a new improved constitutional and legislative framework was a key development. The SJC is now divided into two colleges – the College of Judges and the College of Prosecutors. The College of Judges consists of the chairs of the Supreme Court of Cassation and the Supreme Administrative Court, six members elected by the judges and six members elected by the National Assembly. The College of Prosecutors is composed of the prosecutor general, four members elected by the prosecutors, one member elected by the investigators and five members elected by the National Assembly. All prosecutors and investigators are subordinate to the chief prosecutor. The prosecutors’ quota in the SJC gives the prosecutor general undue influence over the courts.

A continuing concern remains the weak accountability of the prosecutor general, who is essentially immune from criminal prosecution and irremovable by means of impeachment for other misconduct. In effect, it is a figure with extensive power over



all the three branches of government. The prosecutor general can request that the council automatically suspends judges when they are suspected of committing an intentional indictable offense without having to review the substance of the accusations or having to hear the person affected, and has coercive administrative powers outside of criminal law. The prosecutor general can also both bring up charges against government ministers and MPs (if they are stripped of immunity) and influence judges. For years, the Venice Commission and the Council of Europe have raised concerns about the status of Bulgaria's Prosecutor's Office and have called for reforms.

Effective prosecution of cases of high-level corruption and abuse of office has for a long time been a problem. The persistently low efficiency of law enforcement authorities with regard to the investigation and prosecution of high-level crimes, including corruption and organized crime, is a risk to democratic governance in Bulgaria.

A key issue highlighted in successive CVM reports is the lack of a coherent track record of convictions in high-level corruption cases in Bulgaria. No serving ministers have been prosecuted or are under investigation. This suggests that the prosecutor branch and the special anti-corruption courts have been largely used to pressurize opponents rather than deliver cleaner government.

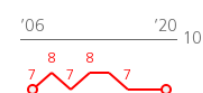
In January 2018, Bulgaria adopted a comprehensive reform of its anti-corruption legislation. The new law puts in place comprehensive changes to the legislative framework to prevent conflicts of interest, illicit enrichment and corruption. It establishes a new unified anti-corruption agency, in charge of verifying conflicts of interest and the private assets of high-level officials, investigating allegations of malpractice among such officials, generally promoting the prevention of corruption, and conducting procedures for seizing and confiscating illicit assets.

The constitution guarantees civil rights and all state institutions respect them. 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 providing public services. The Commission for Protection against Discrimination is an independent specialized agency for preventing and protecting against discrimination and ensuring equal opportunities.

The Bulgarian Helsinki Committee's (BHC) annual report about the status of human rights in 2017 highlights "an overall deterioration of social climate related to human rights, inter-ethnic and religious tolerance." It also says that there are few policies supporting the integration of minorities and refugees and that cooperation between the authorities and non-governmental human rights organizations has deteriorated due to the nationalist United Patriots becoming part of the governing coalition.

Prosecution of office abuse

7



1

Civil rights

7



1

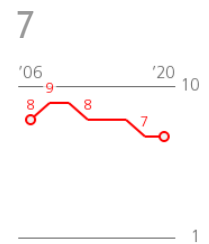
Harsh treatment of migrants and asylum-seekers remained a problem throughout 2017, and members of the Roma community continue to suffer marginalization and discrimination, especially in the areas of housing, education, healthcare and employment. In its concluding observations from November 2018, the Human Rights Committee of the Council of Europe expressed concerns over hate speech and hate crimes against the Roma, religious minorities, LGBTI communities, migrants and asylum-seekers. During the period under review, there was increasing public rhetoric opposing human rights and the work of NGOs. Some political parties, civic movements and media outlets advocated closing certain NGOs because they obtained funding from foreign donors.

4 | Stability of Democratic Institutions

Bulgaria is a parliamentary republic with the Council of Ministers heading the executive and a directly elected president with largely symbolic powers. The system of democratic governance is well-established, although not without frictions. In 2017, a power balance was sought with a prime minister and president from opposing parties clashing regularly on a wide array of issues. The performance of the judiciary remains a concern, and there is strong criticism about the quality of some of the normative acts adopted by the National Assembly. Laws are adopted hastily and very often contradict each other, which, in turn, increases the political influence of the courts.

Bulgaria is considered “semi-consolidated democracy,” performing worst in indicators for corruption and media independence (Freedom House Nations in Transit 2018). Data from the 2018 survey by the Open Society Institute – Sofia shows that, despite the low level of trust in institutions, most Bulgarians are convinced that their fundamental political and civil rights are protected and they can freely exercise these rights. However, they are dissatisfied with the way the country’s democratic institutions function and the way laws are written and enforced. Only 29% of survey respondents thought the laws in the country are just, whereas 58% were of the opposite opinion. Only 8% believed the law treats everyone equally and 60% signaled they do not accept the claim that there is at least one member of parliament who they could trust and who protects the interests of people like them.

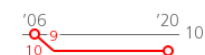
Performance of democratic institutions



Democratic institutions are accepted as legitimate by all relevant actors. Still, the legitimacy of certain policy decisions is often put in question by different interest groups. Throughout 2017 citizens, associations and trade unions remained critical of Bulgaria's governance and the judiciary, and they participated in street protests on various occasions.

Commitment to democratic institutions

9



5 | Political and Social Integration

The Bulgarian party system has been fairly stable for a long a time. Still, in the turbulent period before and after accession to the European Union, its ability to articulate and aggregate societal interests 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-right Citizens for the European Development of Bulgaria (GERB) and the center-left Bulgarian Socialist Party (BSP). The Reformists Bloc, the coalition of traditional center-right parties, began to disintegrate in 2016. GERB is the only political party that has won a third consecutive mandate.

Party system

6

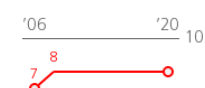


The ethnic Turkish minority is represented by the Movement for Rights and Freedoms (MRF), while Roma are traditionally unrepresented in Bulgarian politics. New political parties and politicians have regularly emerged before each general election since 2000, quite a number of them quickly gaining enough support to enter parliament. The latest examples of newcomers are GERB's far-right coalition partner of, the United Patriots alliance, and the political formation Volya, the vehicle of a businessman from the city of Varna, who made a splash in the presidential election in 2016 with 11% of the votes.

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. Still, certain economic and professional lobbies are better represented in decision-making than others, thanks to the clientelist nature of the political system.

Interest groups

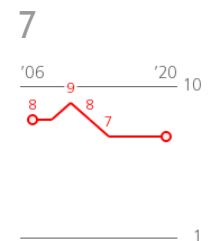
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Marginalized groups, especially Roma but also including other socially and economically deprived groups, still cannot fully participate in society. In particular, they are barely represented in mainstream political parties. However, there are some strong NGOs representing different marginalized groups including the Roma. Overall, civil society has become more vocal and more deeply rooted, but parties turn to it intermittently – it suits their interests.

Representative democracy and equality before the law remain uncompleted projects in the eyes of the majority of Bulgarians. Some social groups feel they are not represented in the elected bodies of the central and local authorities. They are not members of parties or organizations and do not think that the country's law treats everyone equally. According to April 2018 data from Open Society Institute – Sofia, the share of citizens who have confidence in democracy has fallen by 7% over the last three years. The largest percentage of survey respondents (45%) agreed with the statement that democracy is the best form of government in the country, with around one third (34%) not responding to this question and one in five being undecided.

Approval of democracy

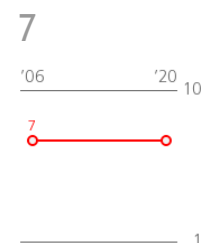


Public trust in judicial authorities and in institutions is very low: in 2018, only 28% of Bulgarian citizens trusted the national courts and just 15% had confidence in the parliament. According Open Society Institute – Sofia data, public trust in many institutions decreased between 2016 and 2018, including the National Assembly (from 22% to 15%), political parties (17% to 10%) and the government (27% to 22%).

A 2018 survey by Alpha Research showed a decline in positive ratings for the president's work – from 54% in June to 52% in September. Approval of the prime minister's performance also dropped from 37% to 33%.

Approximately 15,000 public benefit associations and foundations are registered in Bulgaria. Most of them work in education, culture, sport, healthcare and social services. About 22% of the respondents of the above-mentioned survey expressed confidence in NGOs. Thirty percent of the respondents did not trust NGOs, and the biggest share (48%) were undecided.

Social capital



According to a 2018 public opinion poll by the Open Society Institute – Sofia, organized civic participation in public life is becoming very restricted. Four out of five respondents said they are not members of any public organizations. Five percent of respondents declared their membership of a club, 4% said they were members of a political party, community center or sport association and only 2% were members of a trade union, professional business organization or an NGO. About 5% said they participated in NGO initiatives in the previous 12 months, and less than 9% said they had done voluntary work during that time.

Bulgaria ranked 126th in the world on the 2018 CAF World Giving Index. The overall index of donation has improved with the share of respondents making donations in the month prior to being surveyed increasing from 19% in 2017 to 22% in 2018.

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

II. Economic Transformation

6 | Level of Socioeconomic Development

Deep poverty and other forms of social exclusion continue to affect some groups, especially the Roma. Existing policies – especially the tax system and the guaranteed minimum income - do not contribute to reducing economic inequalities.

In 2017, the relative poverty threshold for a single person household (60% of the median income) was €179.5 per month. In 2017, 23.4% of the population lived on incomes below the official poverty line. In 2018, Bulgaria experienced a sharp increase in inequality. According to Eurostat, the income of the top 20% was 8.2 times that of the bottom 20%, the largest in the European Union by a wide margin. The Gini coefficient experienced a similar trend, reaching 40.2 in 2017.

Although Bulgaria has not been successful in addressing rising inequality, since joining the European Union it has improved in some indicators measuring absolute poverty and deprivation. In the 2018 Human Development Index (HDI), Bulgaria ranked 51st, with a score that has improved slightly since 2010, and the country saw a reduction in material deprivation across various indicators.

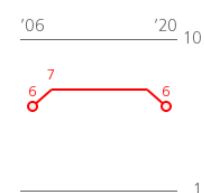
Bulgaria's Gender Development Index score is among the highest in the world, despite a small decrease in 2017 and 2018. Bulgaria has one of the lowest gender pay gaps in the European Union, a moderate gender gap in labor market participation and very low maternal mortality (comparable to the world's most developed countries). The gender gap in the size of pensions is relatively high, but it will be reduced if policies to increase the retirement age are implemented.

Economic indicators		2015	2016	2017	2018
GDP	\$ M	50201.3	53241.0	58221.0	65133.0
GDP growth	%	3.5	3.9	3.8	3.1
Inflation (CPI)	%	-0.1	-0.8	2.1	2.8
Unemployment	%	9.1	7.6	6.2	5.3

Question
Score

Socioeconomic
barriers

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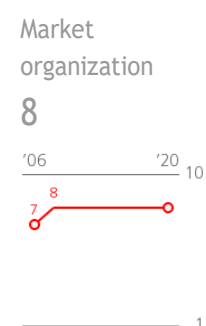


Economic indicators		2015	2016	2017	2018
Foreign direct investment	% of GDP	5.2	2.9	4.9	4.0
Export growth	%	5.7	8.1	5.8	-0.8
Import growth	%	5.4	4.5	7.5	3.7
Current account balance	\$ M	-19.1	1412.7	1847.3	2958.9
Public debt	% of GDP	25.6	27.4	23.3	20.5
External debt	\$ M	40115.3	39656.8	40438.2	39873.9
Total debt service	\$ M	9464.4	8126.1	8720.1	6694.5
Net lending/borrowing	% of GDP	-0.7	0.1	0.9	-
Tax revenue	% of GDP	20.2	20.0	20.1	-
Government consumption	% of GDP	16.1	15.7	15.6	16.5
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	4.2	4.2	-	-
R&D expenditure	% of GDP	1.0	0.8	0.8	-
Military expenditure	% of GDP	1.3	1.4	1.4	1.7

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Market competition has a strong institutional framework and the rules for market competition are mostly uniform and consistent for all market participants. Most prices are determined by the market. Exceptions include pharmaceutical and energy prices. The prices for pharmaceuticals are negotiated by the National Health Insurance Fund, while energy prices are regulated by the Energy and Water Regulatory Commission (EWRC). The EWRC has been a source of public attention since massive protests over the cost of electricity and heating occurred early in 2013, which precipitated the fall of the government. Today there are still issues with the mechanisms for setting energy prices, but energy prices for businesses at the energy exchange have spurred even more discontent and accusations of cartel manipulation due to their volatility. In February 2018, the state-owned stock exchange (BSE-Sofia) acquired 100% of the Independent Bulgarian Energy Exchange (IBEX) in a deal worth €2.6 million, but discontent among businesses over spiking electricity prices has continued. One of the



main problems is that quite a few suppliers are trading on the energy exchange and the government has been looking into appropriate regulatory steps to oblige more of the large producers to sell through the exchange.

In the World Bank's 2019 Doing Business report, Bulgaria ranked 59 out of 190 countries for ease of doing business. The country performed best in protecting minority investors (ranked 24th) and in getting credit (42nd). Getting electricity, paying taxes and starting a business (which requires seven procedures, 23 days and costs of 1.1% of GNI per capita, giving the country an overall ranking of 99th) were named as the most problematic issues when doing business. Despite having one of the lowest tax rates in the European Union, Bulgaria continues to have one of the largest informal sectors. However, some analyses show that in recent years it may have started to shrink. In September 2018, a study conducted by the Confederation of Independent Trade Unions – the biggest trade union association – and employer organizations reported that the share of the grey economy was 30%. Commenting on the data, Bulgaria's minister of labor said that the share of undeclared labor has dropped due to strengthening labor inspections while acknowledging that many challenges remain.

An international conference on energy security risks and the energy security agenda in Southeast Europe was held in November 2018 with the Bulgarian minister of energy and the chairman of the EWRC both participating. The conference concluded that risks to energy security in the region are still present, particularly the lack of diversification of natural gas supplies and widespread energy poverty.

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

Competition laws to prevent monopolistic structures exist, but they are sometimes enforced inconsistently. The public and parliamentary discussion on the existence of an alleged cartel in the fuel sector continued in 2017 and 2018. In 2016, Bulgaria's anti-trust regulator had started a cartel investigation against petrol retailers, which ended inconclusively. Discussions on curbing possible cartel agreements had often been used politically in the past, without producing any visible results. In 2018, there was a series of protests in different parts of Bulgaria against rising fuel prices, to which a lot of consumers and small businesses react quite sensitively. Fuel prices for the end user are in reality among the lowest in the European Union, although this is to a large extent due to low VAT and excise duty, so this fact does not rule out the existence of cartel agreements. In the second half of 2018, the government proposed legal amendments officially described as an effort to improve the control of fuel

Competition policy

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retailers. The voting on the proposals was postponed after small- and medium-sized retailers, who threatened to react with “yellow-vest” like protests, alleged that the changes were meant to support dominating oligopolistic players on the market.

Vertical integration within the pharmaceutical market continues to be an issue, though discussions in 2018 were less intensive than before. Re-exporting drugs fully or partially paid for by the National Health Insurance Fund is another major issue. As a very small market, in Bulgaria it is very difficult to implement any policies that go against the interests of large pharmaceutical companies. Withdrawing certain medications from the Bulgarian market is generally a minor issue for large international corporations, while it often has deep economic and social consequences for the Bulgarian healthcare system. Therefore, the bargaining power is not with the Bulgarian government. At the end of 2016, Bulgaria signed an initial agreement to build a common market for pharmaceuticals with Romania but, after the change of the government there, this issue was not followed-up on, nor were there any important consequences for the Bulgarian drug market.

Foreign trade is widely liberalized, with uniform low tariffs and few non-tariff barriers. The ratio of foreign trade to GDP has been on an upward trend since the beginning of the new millennium though with some ups and downs due to the global economic crisis and other temporary factors. In 2017, foreign trade exceeded 130% of GDP (World Bank). Based on this indicator, Bulgaria is the most globalized economy in Southeast Europe.

Bulgaria joined the discussions on the Transatlantic Trade and Investment Partnership (TTIP) – a controversial topic that was met with strong opposition. In 2016, Bulgaria signed the Comprehensive Economic and Trade Agreement between the European Union and Canada, which had been opposed by many in Bulgaria on similar grounds as to TTIP (although not as strongly). In exchange, Canada agreed to a visa-free regime, established in December 2017.

A comprehensive review of the Bulgarian banking system, initiated after the bankruptcy of the country’s fourth largest bank in 2014 and published in 2016, concluded that the banking system remains well capitalized with a CET1 (tier-1) capital adequacy ratio of 18.9%, well above the 4.5% regulatory minimum.

The review confirmed the banking system’s strong capital position and resilience to potential shocks. Immediately after the bankruptcy, there was a decrease in loans to the non-government sector, but loans reached an annual growth rate of 10% at the end of 2018 (above the typical growth rate in 2010s).

In 2017, the capital-to-asset ratio of Bulgarian banks was 11.39%, the same as in 2008 and down from a 12% peak in 2015 (IMF Global Financial Stability Report).

In November 2018, the register of the Bulgarian National Bank included 25 banks – five big banks, 15 smaller banks and five branches of foreign banks. In the fourth

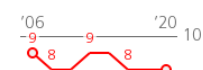
Liberalization of
foreign trade

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Banking system

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quarter of 2017, the share of non-performing loans was relatively high at 10.2%, almost double the EU average. However, there has been a decrease since the bankruptcy of the fourth largest bank in the country (it was 20% in 2014).

In October 2018, the Bulgarian minister for finance requested an opinion from the European Central Bank (ECB) on draft amendments to the law on credit institutions. The amendments envisage an extension of the Bulgarian National Bank's macroprudential mandate. The need to change the legislation came after conclusions made by the European Commission that Bulgarian legislation – in particular, the Law on the National Bank – is not fully compatible with the compliance duty under the Treaty on the Functioning of the European Union (Convergence Report 2018).

8 | Monetary and fiscal stability

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

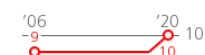
CBA continues to provide a stable anchor and discipline in maintaining tight fiscal policies. The Bulgarian lev (BGN) is fixed at 1.96 to the euro. The BNB must fully back all of its monetary assets with an equal amount in euros. The CBA leaves the BNB little room to maneuver in monetary policy; the 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.

There is no inflation target, and inflation has a different pace to countries in the eurozone. Before the start of the economic crisis, Bulgaria had a higher inflation rate than most other EU countries. After 2009, the annual inflation rate dropped to 2% to 3%, followed by years of very low inflation and deflation.

The European Commission's 2018 Convergence Report concluded that Bulgaria fulfilled its criterion on price stability, with an inflation rate below the reference value of 1.9% in 2017/18 (1.4%). Later developments were less positive as inflation reached 2% in 2017 and exceeded 3% in 2018. The Convergence Report also concluded that the low prices in Bulgaria (about 47% of the eurozone average in 2016) suggests significant potential for price level convergence in the long term.

Monetary stability

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For several years until 2015, the government deficit exceeded the 3% envisaged by the Maastricht criteria that EU member states must follow. However, an excessive deficit procedure was not launched against Bulgaria as the European Commission judged that the situation was due to temporary factors and adjustment would take place in the medium term. Indeed, the deficit was mild compared to other EU member states, and Bulgaria had one of the lowest public debts in the European Union. In 2016 and 2017, the public debt remained one of the lowest in the bloc (24.6% in 2017) and the budgetary surplus increased to 1.1% in 2017 from a small surplus of 0.2% in 2016 (Eurostat in 2017). In all years since 2008 when the Global Recession hit Bulgaria, the government was a net borrower, running deficits with spikes in 2008 (-4.1%) and 2015 (-5.4%). In 2017, the government's consolidated gross debt was well below the EU average and below the Maastricht convergence criteria (25.6% of GDP, compared to more than 85% and 60% respectively). However, private indebtedness remains high and poses risks to the economy.

According to the ECB 2018 Convergence Report, Bulgaria will keep having a budgetary surplus. The pension system continues to exercise pressure on the public budget. The system, originally planned to be funded fully by social insurance, runs into large deficits every year and is compensated by government transfers from general taxation. Stability in the social security system will require decades of systemic implementation of quite unpopular reforms for raising the pensionable age and increasing social security contributions. These reforms have started and initial opposition has diminished, but further unpopular measures may again stir public discontent.

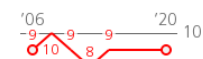
9 | Private Property

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

In 2018, Bulgaria improved its performance in the International Property Rights Index significantly, ranking 63 out of 125 countries globally and 11th on the regional ranking. This is a significant improvement from previous years, when Bulgaria experienced a significant decline in its ranking. Bulgaria got its highest score on the protection of physical property rights due to the relative ease of property registration and access to credit. An improvement was also recorded in intellectual property due to changes in the legislation concerning patents and brands.

Fiscal stability

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Property rights

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Most large enterprises have been privatized, while others have filed for bankruptcy or disappeared. By the time Bulgaria joined the European Union in 2007, privatization was already past its climax and very few privatization deals have been made since. In 2010, the Agency for Privatization and Post-Privatization Control was created by merging two existing agencies. The state continues to own assets in the energy, transport and construction sectors.

Privatization was not always accompanied by de-monopolization and, despite efforts to create a truly competitive market, some privatizations have led to the creation of private monopolies (for example, in telecommunications and energy). The privatization of certain previous monopolies has not gone particularly well either in terms of the deals made and controls for observing commitments. In 2013, growing discontent with the performance of electricity companies escalated into protests in several cities and contributed to the fall of the government. This made Bulgarians very sensitive to the ownership of electricity suppliers for households. As a result, in 2018 a major scandal erupted when the Czech energy company CEZ aimed to sell its assets in Bulgaria to a barely known firm Intercom Group. Suspicions of corruption and fears about its capacity to manage the complex system of electricity supply to households circulated. The deal was stopped by a controversial decision by the body in Bulgaria responsible for regulating competition.

The state railway company continues to receive large subsidies to keep it alive (0.53% of GDP in 2017). The company's passenger transportation unit has generated some of the largest losses due to falling passenger numbers and insufficient investments to improve the service. The government relies on EU funding to upgrade some of the lines, purchase new rolling stock and thereby make the company more attractive for privatization.

In 2016, plans were announced to privatize by 2019 major state-owned producers of arms and munitions who had faced dropping revenues and layoffs, but the idea was dropped later (as the company became highly profitable). In 2017, a decision was taken to practically stop the privatization of remaining publicly owned enterprises as the minister of economy announced that privatization had exhausted its potential.

In 2014, an intervention by the French ambassador over alleged court-supported actions against a French company produced the phrase "rotten apples in the Bulgarian judiciary." The metaphor found its way into academic parlance on state capture. Otherwise, on indicators for safeguarding private property like protecting minority investors and strength of the insolvency framework, Bulgaria is mid-ranking and outperforms some more developed economies in Southern, Central and Eastern Europe (World Bank, Doing Business 2019). However, slow legal procedures and low trust in the judiciary remain important impediments to business and investment.

Private enterprise



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10 | Welfare Regime

Social inclusion was not a government priority even before the economic crisis when Bulgaria experienced fast economic growth and budgetary surpluses. For several years before 2009, the guaranteed minimum income was about €23 per month. It increased to €33 in 2009 and only in 2018 to €38. Heating allowances for eligible households during the “heating season” (November to March each year) form another pillar of the income protection system. Many recipients use wood for heating which is the cheapest but ecologically most harmful fuel for heating.

Pensions are the only social welfare payments that significantly contributes to poverty reduction. However, the state pension fund and private pension funds are unsustainable due to a quickly ageing population and relatively low social security contributions, which makes painful and unpopular measures unavoidable. Bulgaria is implementing a reform for the gradual increase of the pension age, which is expected to improve the sustainability of the state pension system in the long run. The pensionable age for both men and women will continue to increase until both reach a statutory retirement age of 65 years in 2037.

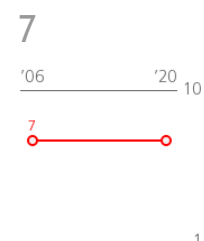
Pensions have been indexed according to inflation and growth of insurable income (with the exception of some years during the economic crisis). In 2017, the minimum pensions saw an additional accelerated increase to reduce poverty. This is likely to reduce poverty and social exclusion among the elderly but was criticized by both trade unions and employer organizations due its discretionary and one-off nature.

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.

The affordability of housing is a major socioeconomic issue. The demand for affordable housing has driven 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 for public housing. Furthermore, there are no special benefits for persons or households in housing need. Some social housing programs supported by EU funds that include Roma among beneficiaries met strong opposition on nationalist and racist grounds.

Bulgaria has one of the highest private costs of healthcare in the European Union and is also facing constant deficits, especially in hospital care. Based on estimates, at least 900,000 people are without health insurance, although in principle the system is meant to include all citizens residing in Bulgaria. Most of the uninsured are poor, cannot afford to pay their health contributions and are not supported by existing social

Social safety nets



security nets. In 2015 and 2016, a set of ambitious healthcare reforms was announced; however, the reforms did not target the large gaps in access to healthcare. They were discontinued after the change in government. At the end of 2018, the health minister proposed changes in the system of financing healthcare, which likely will also not gain enough political support.

Bulgaria's existing anti-discrimination legislation, among other things, defines social status as a possible ground for discrimination. Socioeconomic inequalities are high and structurally ingrained, particularly in the case of the Roma. These inequalities also restrict opportunities for lower socioeconomic groups to actively participate in society. In 2017 and 2018, progress was only made in making education more accessible and equitable, including changes in the funding mechanism to favor smaller schools and schools with vulnerable children. Access to jobs, including in public office, remains restricted for Roma. Attitudes to sexual minorities are also very negative. In a survey by the Open Society Institute – Sofia in 2018, less than 20% of respondents said they would vote for a Roma or LGBT person running for public office, even if they were perfectly suitable and competitive in all other ways. There are very few employers in Bulgaria who have corporate policies for diversity management or equal opportunities and these are mainly subsidiaries or branches of foreign companies.

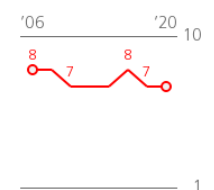
Bulgaria performs well on some gender equality indicators. The gender pay gap exists but is not large compared to developed economies worldwide. In 2017, the average wage of women was 80% of the average wage of men. The gap was smaller in education where the public sector dominates but very large in healthcare where women tend to occupy lower-paid jobs. School enrollment is higher among girls than boys. In 2017 and 2018, 75,000 girls enrolled in upper secondary school compared to 61,000 boys. Female students in tertiary education also outnumbered male students (123,000 female students compared to 106,000 males). Domestic violence, coupled with traditional gender stereotypes and social roles, remains an issue. The public campaign against the ratification of the Istanbul Convention on combating violence against women is a grave concern as well as the Constitutional Court ruling against the treaty on dubious grounds.

Bulgaria has had an anti-discrimination body for more than 10 years. It has gained in strength and outreach, including building a network of regional contact points. The Commission for Protection against Discrimination (CPD) is also the national contact point for hate crimes to the Organization for Security and Cooperation in Europe. However, the equality body avoids dealing with structural discrimination linked to official policies, instead focusing on individual cases.

Hate speech continues to gain ground in the Bulgarian media and political discourse, including in the speeches of nationalistic groups in parliament. Traditionally the main targets of hate speech have been the Roma and sexual minorities. A 2016 survey by the Open Society Institute – Sofia found that hate speech was very widespread in

Equal opportunity

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schools and that most people came across hate speech on the TV and, increasingly, online. In 2018, CPD announced that it had observed rising levels of hate speech, especially during the discussions on the Istanbul Convention.

11 | Economic Performance

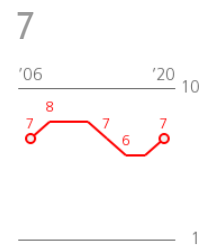
The Bulgarian economy was seriously affected by the global economic crisis and the recovery only started in 2009. In 2013 and 2014, growth resumed slowly but 2015 was the first year with a more reassuring level of growth (3.6%). In recent years, the economy gained further strength. In 2017, GDP growth was 3.8%, but it remained well below pre-crisis levels (5.5-7%). This means that catching up with average EU living standards will take a lot more time.

Inflation reached almost 3% in 2018, following several years of very low inflation and three consecutive years of deflation. During recovery, economic growth outpaced inflation, improving the purchasing power of households. Since Bulgaria joined the European Union, its GDP per capita in PPP rose from 40% of the EU-28 level in 2007 to 49% in 2018.

The employment rate also started to pick up from 2014, reaching a record level of 71.3% in 2017 (according to Eurostat) following a general EU-wide positive trend and closing some of the gap with the EU average. The growth of the employment rate was just enough to sustain the overall available human resource in the Bulgarian economy with its shrinking working-age population. Despite the record employment rate in 2017, the number of employed persons was very close to the figure in 2009 and 2010 (just above 3 million) because the total available labor force had shrunk. Unemployment started to decrease in 2015, reaching 6.2% in 2017 – lower than the EU average. In the third quarter of 2018, the unemployment rate dropped further to 5%.

The biggest problem for Bulgaria is that it does not have the capacity for sustainable long-term growth. Low taxes and deregulation can boost economic growth for a while but cannot compensate for impeding factors such as the slow, ineffective judiciary and large population losses due to emigration.

Output strength



12 | Sustainability

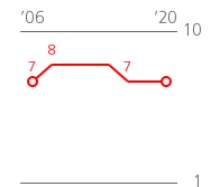
The Environment Protection Act, which was promulgated in 2002, has been amended many times. Legislation on water and waste management is in line with EU law. Bulgaria has ratified the U.N. Framework Convention on Climate Change and the Kyoto Protocol, demonstrating its commitment to international efforts to reduce greenhouse gas emissions and mitigate climate change.

While a new Renewable Energy Act was adopted in 2011, Bulgaria is among the lowest-scoring countries in the EU Climate Policy Tracker, a comprehensive review of policies on greenhouse gas emissions in the European Union. Carbon dioxide emissions are high for the size and level of development of its economy. At €0.30 per kilogram, Bulgaria's resource productivity is several times lower than the EU average while output per capita is almost half the EU average. Industrial and household energy efficiency remains a big problem, particularly in the prefabricated blocks of flats from the communist era. An ambitious and initially popular €0.5 million plan to increase energy efficiency started in 2015 but was downscaled in 2017 and 2018 amidst accusations of corruption and ineffectiveness. The idea of a new nuclear power plant is periodically resuscitated, especially when electricity prices for businesses or households rise. However, it was dismissed in a referendum in 2013. An idea to start shale gas fracturing met strong public opposition and was dropped in 2014. In 2016, French company Total (which obtained a license for offshore deep-water drilling in consortium with Austria's OMV and Spain's Repsol in 2014) announced it had found oil. The amount of oil was not made clear and the announcement had no further follow up.

Bulgaria scores above the EU average on public expenditure (as a percentage of GDP) on environmental protection, mainly due to the contribution of EU funding. Bulgaria participates in the pan-European network Natura 2000, which includes protected territories inhabited by rare and endangered species. Protected areas, including national parks, are a constant target of investor interest. Some of these areas are relatively easy to access and have good transport infrastructure. Early in 2019, the Supreme Administrative Court revoked changes to the management plan for the Pirin National Park. Pirin is the second highest mountain in Bulgaria, famous for a ski resort located at the foot of the mountain, which has developed quickly over the last decade. Adequate accommodation infrastructure can no longer be reliably served by the existing ski slopes and lifts, leading to pressure to enlarge the existing ski infrastructure in the protected areas. The revision of the management plan violated existing legislation and triggered protests from environmental organizations supported by Green members of the European Parliament. Environmental organizations are one of the strongest segments of civil society in Bulgaria, and they both actively use institutional tools and organize street protests.

Environmental
policy

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Education participation and outcome indicators have improved since the 1990s. The U.N. Education Index has increased from 0.632 in 1990 to 0.721 in 2006 – the year before Bulgaria joined the European Union – and 0.805 in 2017.

The main problem in Bulgarian school education is the inequality of access and early tracking of students, leading to extensive social and ethnic segregation. In 2015, a new School Education Act was approved after more than eight years of discussions and many recommendations from the European Commission. The law held a promise for more innovation, more school autonomy, parent participation and new curricula. However, it added a considerable administrative burden on schools and teachers.

The results from the 2015 PISA survey remained below the OECD average and showed no significant improvement. Public expenditure on education is the third lowest in the European Union (3.6% of GDP in 2017, down from 4.2% in 2014, according to Eurostat). In 2017, the percentage of people with a tertiary education was 24.5% (compared to the EU average of 27.8%). While the figure is rising in Bulgaria, the gap has remained stable over the last few years.

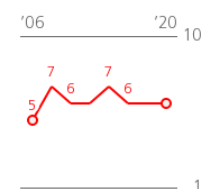
Due to the decreasing number of children finishing secondary education, the number of places in universities is substantially larger than the demand; almost everybody graduating secondary school can enroll and the vast majority actually do. To improve the links between education and the labor market and to support unpopular vocational education, since 2016 the government has introduced dual education (which combines apprenticeships and vocational training), inspired by the systems in German-speaking countries. However, dual education might be held back by the lack of large employers in many parts of the country and few have enrolled in the new scheme.

Bulgaria is still short of its target to reduce the share of early leavers from education and training to 11% by 2020 (signifying the percentage of the population aged 18-24 with, at most, lower secondary education and not in education or training). The share dropped to 12.7% in 2017 after Bulgaria made its commitment to reduce the rate of early school leavers, but it is uncertain whether the improvement will last. In 2017 and 2018, the Bulgarian government initiated a large-scale campaign to identify non-attending children of mandatory school age (up to age 16) and the government reported bringing 24,000 students back to school. However, measures to prevent students dropping out are deficient while many officially not in attendance may be living abroad.

Bulgaria has one of the lowest R&D expenditures in the European Union. Research in particular suffered huge losses in terms of human resources and funding during the transition to a market economy. Access to EU funds opened some new opportunities, which have not been fully utilized. Emerging from the 2008/09 economic crisis, Bulgaria increased its R&D spending, which reached 0.96% of GDP in 2015 but dropped again to 0.75% by 2017. The European Union has set a target of 3% by 2020

Education policy /
R&D

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to become one of the global leaders in research-driven innovation, but Bulgaria is unlikely to achieve this target. Still, according to the international university rankings, Bulgarian researchers have slightly improved their presence in international peer-reviewed journals.

Governance

I. Level of Difficulty

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

Some long-standing quality of life issues remain unaddressed. Living standards in general are low in comparison to other countries in the European Union but are reasonably good by global standards.

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

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

Bulgaria's current situation requires the implementation of long-term policies in several fields: education, healthcare and the pension system, among others. Reforms in education and in the pension system, though sometimes problematic, have started in recent years. In parallel, the economy has to adapt rapidly to an aging labor force. However, in general, structural constraints are not of the kind that can offer the government an excuse for failing to manage the situation. Rather, Bulgaria faces challenges that require strategic thinking and action.

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

Structural
constraints

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'06 '20 10

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Civil society
traditions

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years. Civil society played an important role as a driver of reforms in the EU pre-accession period.

A survey by the Open Society Institute – Sofia in 2018 points out that NGOs have a slightly negative balance of trust (a slight prevalence of distrust over trust). This is better than the trust balance of most state institutions. However, most citizens are unfamiliar with the activities of NGOs and lack an opinion on their trustworthiness.

The non-governmental sector has remained an essential factor in creating positive change and public mobilization for important societal causes, and civil society has been gaining ground now for decades. However, in recent years, the rise of nationalism and anti-liberal sentiments in politics and within society has created unprecedented obstacles to the work of some groups of NGOs. The work of NGOs specialized in the protection of constitutional human rights and upholding the values of liberal democracy has become particularly important but increasingly difficult. Many NGOs working on a liberal agenda (human rights, free movement of people, Roma integration, equal rights for LGBT persons, etc.) have been targeted by anti-liberal and nationalist propaganda. It is yet not clear where all this will end and whether the positive long-term trend will resume or indeed end.

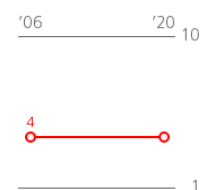
Since the Bulgarian Constitutional Court declared the Istanbul Convention unconstitutional after political pressure and a campaign supported by religious and conservative NGOs, as well as politicians from the left and the conservative and nationalistic right, the work of NGOs promoting gender equality and tolerance to sexual minorities have faced unprecedented opposition, impediments created by authorities and a large wave of hate promoted by various media and spread on social networks.

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

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

In parliament, nationalist political parties have sought a confrontation with parties supported primarily by Turkish voters. Nationalists have used their participation in the government to pass changes to the electoral legislation limiting the number of voting sections in Turkey and introducing other practical barriers to voting for Bulgarian citizens of Turkish origin.

After several years in government, nationalistic parties have lost a lot of their electoral support (Alpha Research, January 2019). In an effort to tighten up the ranks, some nationalistic political leaders have resorted to using hate speech against the Roma. A recent episode triggering hate speech and anti-Roma protests occurred in



January 2019. A street quarrel between an army serviceman who was not on duty and two young Roma led to protests involving military personnel. It ended with a campaign for the demolition of illegal Roma houses in the village of Voivodinovo near Bulgaria's second largest city, Plovdiv, as an act of retaliation using the full power of the state initiated by the minister of defense. The local authorities reported that after the incident children from the demolished houses (whose parents had nothing to do with the incident) stopped attending school.

II. Governance Performance

14 | Steering Capability

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

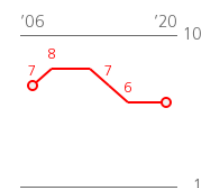
Bulgaria's EU presidency, which was broadly assessed as successful in operational terms, showed that in line ministries there was enough capacity to coordinate a complex agenda with the participation of diverse national and international stakeholders with often incompatible interests, including stakeholders outside of the European Union (countries from the Western Balkans and Turkey).

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

Question
Score

Prioritization

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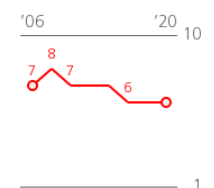
In other fields such as healthcare, ambitious but controversial reforms were unveiled during the period under review that either were not implemented or were rejected after appeals to the Administrative Court. In 2018, the minister of health made a new attempt to propose changes in the funding of healthcare, modelled after the reform of pensions, but the minister's proposals did not find political and public support. The legal system provides probably the clearest example in Bulgaria that complex reforms are difficult to implement in a context of a lack of a broad political consensus and in the presence of political instability.

In 2017 and 2018, little progress was made in addressing some of the main challenges like judicial reform. Obstacles often came from the complex patterns of support necessary to pass legislation in a rather diverse parliament. The fastest reforms in 2017 and 2018 were implemented in education, which was because of the elaboration of a large number of bylaws and a lot of new initiatives stemming from the completely new education law adopted in 2015. Healthcare, which has long been viewed as the main area in need of reform, has still to live up to promises and expectations. The vast number of non-insured persons, the uncontrolled proliferation and oversupply of hospitals in large cities, and the decline of medical care in semi-urban and rural areas are pressing challenges. Some good policy ideas were launched but implementation met formidable obstacles and was often abandoned.

In 2017 and 2018, Bulgaria was ruled by a coalition government headed by the largest center-right political party, GERB, but also including a diverse block of nationalistic organizations – United Patriots – that suffers from internal tensions. The United Patriots have been the root cause of many scandals related to corruption, hate speech and failed policies as a result of which their electoral support dwindled. The ruling coalition has allocated a deputy minister from the United Patriots to each ministry managed by a minister nominated by GERB. This governance design creates parcellation and disrupts the usual lines of communication, subordination and accountability within government agencies. The first Borisov government consistently failed to implement its policy objectives and tended to acquiesce to opposition from vested interests. The second Borisov government better resisted such pressure though not completely. The third Borisov government faced rising populism and nationalism across Europe and in Bulgaria, and often succumbed to pressures deviating from its background and originally declared goals, which is a matter of political survival in the current context. However, some declared long-term policy goals, good or bad, were pursued rather consistently with sufficient administrative capacity.

Implementation

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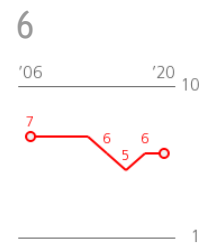


Government continuity has not been strong in the last decade. This is partly because successive governments have relied on support from parties that were either in opposition during the previous government or were absent from the parliament altogether. Boyko Borisov was the only prime minister in recent Bulgarian history to lead three governments. The first two terminated before the end of the parliamentary term following his resignation. The regular changes of government were strongly supported by an anti-incumbent vote caused by massive public dissatisfaction and protest votes for unknown political actors promising fundamental change. Since the economic crisis in 2008/09, the external environment and public sentiment have also been rapidly changing. Most voters have shown pessimism in practically all public opinion surveys in the last two decades. Obviously, under such circumstances, much of the policy learning comes not from learning from achievements but from mistakes. Learning also needs to be adaptive as lessons from the past may lose relevance due to changes in context. Hence, policy learning has been unusually challenging and failures understandable. Despite the growth in Euroscepticism, the experience of other (mostly more developed) EU member states remain an important source of policy learning. Policy reforms, especially controversial ones, are often legitimized when communicating to the public by recourse to examples from the European Union in an effort to make them more acceptable.

Other EU member states have also become a source of policy learning through existing pan-European coordination and policy evaluation mechanisms. The most important of these has in recent years been the European Semester. The extensive report on a wide range of economic and public policies includes recommendations on important challenges and is based on statistical analysis and extensive consultations with national stakeholders. Cooperation within the European Union was also instrumental to the production of large-scale policy analyses such as the Ageing Reports, which rely on the expertise of hundreds of academic and practitioner contributors from national and EU institutions. Such policy analyses would be beyond the reach of small individual countries like Bulgaria.

An emerging positive trend is the increasing use of the expertise of domestic academics and practitioners. However, this comes after years of under-investment in research and a massive brain drain. Therefore, Bulgaria still lags behind most other EU member states in terms of the availability of expertise and the ability to use it.

Policy learning



15 | Resource Efficiency

The National Audit Office (NAO) supervises the implementation of the budget. It is independent from the executive and reports directly to parliament. The NAO's president and two vice presidents are elected by parliament. The NAO has a broadly defined task to control the reliability and truthfulness of financial statements of budget-funded organizations as well as monitor the legality, efficiency, effectiveness and economy of the management of public funds and activities. Legislative amendments passed in 2016 enable the government to introduce centralized compulsory competitions as the first step of the recruitment process for future civil servants.

Bulgaria performs quite well in comparison to most other EU member states in terms of budgetary discipline – annual deficits and the accumulation of public debt. According to Eurostat, in 2017 Bulgaria had the third lowest public debt in the European Union – 25.6% of GDP – and a positive public balance in both 2016 and 2017. However, it did have deficits and face excessive deficit procedures until 2015, when the impact of the global economic crisis was still felt in Bulgaria, although it never exceeded the threshold of 30% of GDP for public debt defined in the Maastricht criteria.

The government has often been criticized by the opposition for planning the revenue part of the budget too conservatively in order to ensure a temporary surplus in the last quarter of the year when it is subject to more discretionary use. This practice is especially visible in election years, in which discretionary spending can be used to “buy” electoral support by inefficient but highly visible public investments or discretionary transfers.

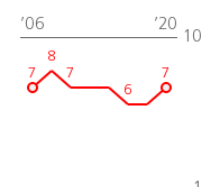
Since joining the European Union in 2007, Bulgaria has been ruled by coalition governments strongly dependent on minority partners. Still, the need to strategize in order to participate in EU-wide tools for policy strategy and monitoring has brought a huge change to Bulgarian policy-making. EU-driven policy-making provided strong incentives to use new analytical, coordination and stakeholder consultation tools. Targets were often not met, but the process in itself had a very positive impact on the administrative capacity of the government.

The current coalition government, which took power in May 2017, includes the center-right GERB and a loose union of three nationalistic parties – the United Patriots. Coordination has been quite weak, as the United Patriots have had a practically unlimited mandate to promote their agenda in the ministries and areas under their control.

The use of EU funds has had an overall positive impact on the technocratic aspects of policy coordination, as operations supported by different funds often need to pursue a common goal or should stick to a common timeframe. But coordination is

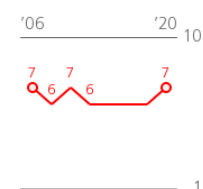
Efficient use of assets

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Policy coordination

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also related to long-term goals and the overall vision of how the government should function. The diversity of governmental actors has made the pursuit of long-term goals very difficult because of incompatible actions. In social policy and healthcare, complex and controversial reforms had to be undertaken, some of which required extensive coordination.

In the first half of 2018, Bulgaria took the presidency of the European Union – a task requiring the concerted effort of many agencies within the government as well as between the executive, the legislature and the president. Bearing in mind that the president was supported by the opposition and has been in constant tension with the government, and also the diversity of the parliamentary majority supporting the government, Bulgaria performed unexpectedly well during the EU presidency.

Many integrity mechanisms are in place, but some have limited effectiveness. Bulgaria continues to rank among the EU countries with the highest perceived level of corruption, and corruption is still considered an important problem by citizens and businesses. However, in November 2018, the European Commission commended Bulgaria for progress in its anti-corruption efforts.

In 2018, a unified anti-corruption agency – the Commission for Fighting Corruption and Confiscation of Illegally Acquired Property – was created with powers to conduct administrative investigations and to check conflicts of interest and the personal property of high-level officials. This happened after several attempts and continuous lack of political consensus behind the efforts. The commission succeeds an agency that focused on the confiscation of property acquired through organized crime, but whose tasks did not include the fight against corruption among officials.

In December 2018, the Bulgarian parliament endorsed further changes to anti-corruption legislation, which initially would have allowed the state to pursue the confiscation of illegally acquired property even in the event of terminated criminal proceedings. After heated discussions and a veto by the president, the government decided to abandon the idea of perpetual checks for unlawfully acquired property. The forfeiture procedures may have been abused to target opposition figures. The number of persons holding public office required to report their assets and potentially be subject to a forfeiture investigation has grown, making it unrealistic for the commission to cover it consistently.

Anti-corruption
policy

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16 | Consensus-Building

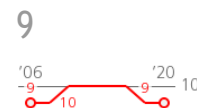
Major political parties agree on democracy but only in a minimal sense. There is no far-reaching consensus with regard to policies aimed at consolidating the rule of law, enhancing media freedom and promoting civic participation. There is also a general sense that the electoral system needs amending in order to reduce fraudulent practices like vote buying and to increase voter turnout, but there is little consensus on what exactly needs to be done and completely incompatible proposals are suggested. Some key figures in smaller coalition partners and even GERB have suggested that a fundamentally undemocratic course of action like limiting voting rights based on education is worthy of consideration.

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

Bulgaria's membership of the European Union and common market continues to attract the largest political consensus. With the exception of eurozone and Schengen membership, this looked like an attained goal, but the benefits of EU membership no longer look guaranteed given the forces of disintegration that are currently active. Participation in shaping the European Union's future and agenda is very important.

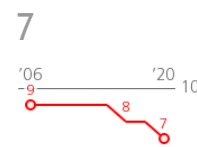
Populist and nationalist parties gained unprecedented political power in the third Boyko Borissov government, using xenophobic rhetoric fueled by the discussion about migration from Syria. In 2017 and 2018, the influx of migrants decreased, not least due to the controversial renewed agreement between European Union and Turkey concerning the containment of migration. That has been ineffective on the Mediterranean route, but the Bulgarian land border with Turkey has been calmer. Hence, Bulgarian nationalists have returned to their traditional anti-gypsyism and homophobia. Hate speech against LGBT persons has been on the rise after heated debate on the Istanbul Convention. Nationalistic and xenophobic parties have lost support during their time in government, but this has been mainly due to corruption, scandals and failed policies, and not so much because of their ideology. The space for anti-democratic agents capitalizing on populism and hate thus seems to be growing in line with rising anti-democratic rhetoric. The left opposition will fill some of the gap, playing with conservative and homophobic sentiments. The rest of the space is open to new or resuscitated anti-systemic players. Even within the centrist ruling party, there are some who are ready to opportunistically support anti-democratic agendas like restricting voting rights based on education – an option originally promoted by nationalists in an effort to limit the voting rights of Roma, but half-heartedly supported by representatives of GERB. The 2019 European elections, which had not yet taken place at the time of writing, were seen as a major test for new populist and anti-democratic messages, disguised as a return to true democracy.

Consensus on goals



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Anti-democratic actors



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Political leadership has generally been able to depolarize conflicts. However, the Bulgarian parliament hosts two nationalist political formations and a political party (the Movement for Rights and Freedoms, MRF) supported primarily by Bulgarian Turks. The traditional conflict between pro-Russian and pro-Western elite groups was revived after the start of the conflict in Ukraine and sanctions imposed on Russia. The influx of refugees and migrants has reignited ethnic tensions, but social divisions based on increasing social disparities remain important.

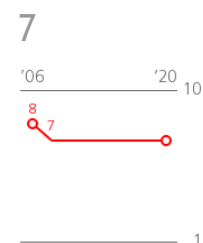
In 2018, Bulgaria witnessed a large-scale campaign against the Istanbul Convention, which led to its non-ratification in parliament, followed by a decision by the Constitutional Court that the convention is against the Bulgarian constitution. The campaign was backed by conservative Christian organizations, including – independently – evangelical denominations, the Orthodox Church, nationalists and the Bulgarian Socialist Party, the largest party in opposition. During the campaign, the Istanbul Convention was framed not as a document against gender-based violence, but as one promoting what its opponents termed a “gender ideology” (i.e., something that in summary can be described as a set of beliefs and values that undermine traditional family relations, promote gay and lesbian lifestyles, and ultimately lead to the legalization of gay marriages and a “third gender”). This misguided campaign led to a heated debate dramatically lost by the defenders of the Istanbul Convention. After initially committing to put a lot of effort into defending the ratification of the Istanbul Convention, the prime minister gave up soon after Bulgaria’s EU presidency was over in view of the formidable opposition.

The non-governmental sector is still an essential factor in promoting positive change and public mobilization for important societal causes. However, most of the registered NGOs (3,500) are sports clubs. Approximately 1,700 have education and culture as core activities. They are followed by organizations active in the fields of healthcare, social services, human rights and the environment, as well as think tanks (Zahariev and Yordanov, “Active nongovernmental organizations in Bulgaria in 2017”).

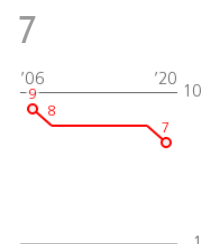
About 20% of Bulgarians trust NGOs according to the Open Society Institute – Sofia. A recent trend of declining confidence in experts and expertise can be observed. Expertise does not seem to be a major factor behind trust in NGOs and academic experts appearing on the media. Only about a fifth of those who trust NGOs do it because of NGO experts. NGOs are mainly trusted by persons with direct contact with NGOs or those exposed to positive media coverage.

Leaders of large NGO networks have reported a significant reduction in the number of active members, which they see as being related to the deteriorating public environment. Examples of NGOs being called national traitors or described as acting as foreign spies are rife amid calls for restricting or banning certain activities. Unexpectedly, such opinions appear not only in nationalist media sources supporting

Cleavage /
conflict
management



Civil society
participation



the small coalition partner but also in the official newspaper of the main opposition party – the Bulgarian Socialist Party.

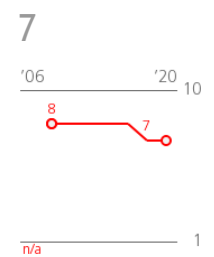
Most NGOs are funded on a project basis. The main source of funding remains EU funds, in addition to some bilateral donors (Norway, Switzerland, the United States). The government has included NGOs as a mandatory partner for applicants from the public sector (e.g., municipalities and schools) under some programs supported by the European Social Fund (i.e., those targeting vulnerable groups).

Bulgaria performs poorly by international standards in giving and volunteering, although volunteering and charity are the most recognizable and uncontroversially accepted activities performed by NGOs. A draft law on volunteering supported by the ombudsman was discussed in 2017 and 2018, but has yet to be adopted.

Reconciliation continues to be an issue of evolving political and institutional culture rather than of social relevance. Bulgarian society is divided based on different interpretations of its history. The assessment of the communist past and whether fascism existed in Bulgaria are the major dividing lines. Commemoration of the victims of communism and fascism remains confined to antagonistic groups. In 2011, the first Borisov government decreed February 1 as a day of commemoration for the victims of the communist regime, chosen because, on that day in 1955, 150 political leaders were sentenced to death by the People’s Court. In 2017, the new Bulgarian president, supported by the socialists, made a restrained statement on February 1 saying that the country has to commemorate all innocent victims. The day has continued to generate sentiments ranging from cold neglect in official politics to abundant hate speech and mutual accusations on social media.

The Bulgarian Socialist Party advocates the recognition of victims of anti-fascist resistance, who were recently depicted as undeserving people in several documentaries focused on events immediately preceding and following the Second World War. Bulgarian nationalists continue to perceive Turkey and Bulgarian Turks as a key threat to Bulgaria, despite these ethnicities’ long history in Bulgaria and their victimization during the 20th century. Perceptions of North Macedonia as a “fake” country that has “stolen” Bulgarian history have plagued relations with North Macedonia since the country’s independence. These perceptions have been continuously fueled and propagated by nationalists, including members of the current government, despite recent improvements in bilateral relations culminating in the final ratification of a Friendship Treaty in January 2018.

Reconciliation



17 | International Cooperation

The use of international assistance has been key to the development of Bulgaria in recent decades. As an EU member state, Bulgaria participates in many EU policies and initiatives that cover almost all aspects of the economy and public policy. The European Union produces numerous reports, analyses and recommendations that go even beyond the numerous EU mandates. This demanding exercise has influenced every aspect of how policies are designed and implemented in Bulgaria. The country has gradually improved its capacity to plan and monitor implementation, which has also increased the absorption rate of EU funds. According to an analysis published by the Ministry of Finance based on a macroeconomic model called Sibilla 2, EU funds have had a sizable effect on Bulgarian growth and other beneficial macroeconomic effects including on consumption, inflation, trade, wages, employment and investment. These effects have materialized despite the fact that performance in the absorption of EU funds in the years up to 2015 was not particularly good, including in terms of management and accountability.

Apart from accessing the EU funds, Bulgaria continued to cooperate with the World Bank in many fields. World Bank support usually comes in the form of loans but is combined with technical assistance and policy review. Loans have decreasing importance for Bulgaria due to its access to EU funds, but the World Bank continues to be present with technical support. World Bank expertise is used to assess policies and develop strategies in various policy areas, such as innovation, energy and water.

The government is generally considered a credible and reliable partner within the international community. Bulgaria is among the countries in the European Union that most strictly adheres to budgetary rules.

Bulgaria failed to ratify the Council of Europe Convention on preventing and combating violence against women and domestic violence (the Istanbul Convention). It was signed by the foreign minister in April 2016, but the government lacked the courage to pass it through parliament due to strong public opposition, although it postponed the final decision until the end of the country's EU presidency. The government's inability to mobilize parliamentary and public support for a key international commitment they had made must have eroded external confidence. The decision of the Constitutional Court that the Istanbul Convention contradicts the constitution also suggests that Bulgaria has a constitution opposed to standards in fighting violence against women that have gained broad international recognition and the support of the European Commission and the European Parliament.

Inclusion of extremist political parties in governing coalitions has raised concerns among external stakeholders but, as this has become increasingly common in Europe, Bulgaria no longer stands out. Bulgaria reliably complies with the decisions of international courts such as the International Arbitration Court. Bulgaria is rather slow in implementing the decisions of the European Court of Human Rights according to reports from the Bulgarian Helsinki Committee.

Effective use of support

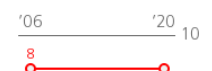
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Credibility

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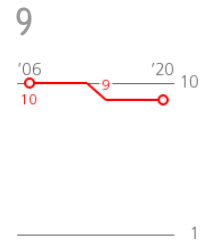
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In the first half of 2018, Bulgaria assumed the presidency of the European Council for the first time. At the beginning of the presidency, the government declared that EU enlargement into the Western Balkans would be one of its main priorities. The EU-Western Balkans Summit held in Sofia on May 17, 2018, became a central event of the presidency. In the summit's final declaration, the European Union reaffirmed its support for the prospective membership of countries in the Western Balkans and pledged enhanced support for the political, economic and social transformation of the region, provided there is visible progress in upholding the principle of the rule of law. The resumption of the prospective membership of countries in that region is regarded as the largest success of Bulgaria's EU presidency.

Most Bulgarian citizens support the accession of the countries in the Western Balkans to the European Union. North Macedonia's membership, in particular, is supported by 83% (Open Society Institute – Sofia, April 2018). In January 2018, the Bulgarian parliament voted unanimously to ratify the treaty with North Macedonia on friendship, good-neighborliness and cooperation. It is considered a historic breakthrough in relations between the two countries. Neither side has backed down from their positions on a dispute over language, however, with negotiators circumventing the issue.

Another priority of Bulgarian regional policy during the period under review was steady relations with Turkey, especially in the context of the EU-Turkey agreement to end irregular migration flows from Turkey to the European Union, including those via Bulgaria. Bulgaria's EU presidency was used by the prime minister to maintain close ties with his Turkish counterpart while EU-Turkey negotiations were in a stalemate. In March 2018, an EU-Turkey leaders' meeting took place in the Bulgarian city of Varna. Even though the summit failed to produce a tangible outcome, Bulgaria's initiative in organizing it was considered a major diplomatic success of the Borissov government.

Regional cooperation



Strategic Outlook

The negative global and local context of shrinking space for civil society, which is under increasing pressure from agents who speak about limiting freedoms for the sake of achieving other goals, as well as the persisting poverty and social inequalities in Bulgaria, increases the risk of erosion of support for civil society and rise of anti-democratic sentiments.

The guarantees and incentives for the development of liberal democracy in which human rights and freedoms are protected and the rule of law is established are uncertain in a weakened European Union dominated by extremist and populist tendencies in its member states, and against a background of undermined commitment of the United States to the protection of democracy and human rights around the world.

Bulgaria maintained macroeconomic stability during the worst part of the 2008/09 economic crisis and has continued to do so since. At the same time, it has also become clear that prospects for sustainable long-term growth are limited by the loss of human capital and inability to carry out structural changes in key sectors such as healthcare.

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

Issues of poverty and inequalities in accessing public services remain key socioeconomic challenges. Attempted healthcare reforms have hitherto failed to reduce the inequality of access and the number of people without health insurance.

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

Bulgaria has to cope with a new wave of extreme nationalism and hate speech. It seems that xenophobia driven by external migration from Syria and Iraq will subside. However, hate speech will remain a big issue, particularly anti-gypsyism and homophobia, which seem to have wide support from very diverse and quite large conservative, anti-liberal, anti-democratic and religious groups.

Processes within the European Union are of utmost importance to Bulgaria. Public investment in Bulgaria crucially depends on EU funding, so any significant reduction of EU funds after 2020 will affect the country. The visible disintegration processes within the EU poses a significant risk for Bulgaria and could cause uncertainty and a sense of losing direction in Bulgarian society, in

addition to the direct economic impact. In particular, Brexit poses serious direct challenges, not least because many Bulgarians study and work in the UK, but the indirect challenge of an economic shock involving the largest EU economies is an even bigger threat.

For almost 10 years, Bulgaria has experienced political instability, with no single government lasting a full term. At the time of writing at the beginning of 2019, political analysts were mooted that the third Boyko Borissov government may fail to complete its mandate like the previous two. The results of the 2019 European elections were said to most likely determine whether there will be early parliamentary elections.

Bulgaria's strategic challenges, like in the previous review period, include the following: 1) improvement of healthcare and education and addressing the demographic challenge of a shrinking and aging population; 2) playing a more active role in the European Union and working to reduce the risk of major disintegration (although this risk is beyond Bulgaria's control to a large extent); and 3) responding to a deteriorating security situation in the region, especially in the Black Sea region.