

# Bulgaria 2016



**Total: 63.03**

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## Quick facts

Population:	7.154 million
Unemployment rate:	9.2 %
GDP:	45.869 billion EMU
GDP growth rate:	3.0 %
GDP per capita:	6 410 EMU

## Political Freedom

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### Free and Fair Elections : 8.93

The government remained stable throughout the observed period, aside from some oscillations in coalition relations, e.g. when the most dominant Citizens for European Development of Bulgaria (GERB) party looked for the parliamentary majority for certain law proposals among the opposition parties. GERB confirmed its current domination, with Boyko Borisov as prime minister, at local elections in October 2015, by getting seats and Mayors in almost all local governments. Elections were relatively free and fair, but vote buying, controlled voting and other violations marred the process, questioning its fairness. The President of Bulgaria, Rosen Plevneliev, submitted once again a motion on a change of electoral system at a referendum. This time the parliament approved the referendum, but cut out from his proposal everything else except the introduction of electronic vote. The referendum wasn't successful due to insufficient turnout, which remained under the 20% threshold. Electoral law still prohibits campaigning in other languages than Bulgarian, limiting electoral participation by the minority groups, which mostly serve as sources of electoral fraud and vote buying practices. The regular changes in the legal framework for conduct of elections undermine the credibility of the electoral process and has been largely criticized by domestic and international observers.

### Absence of Unconstitutional Veto Players : 6.67

There are no traditional unconstitutional veto players in Bulgaria which can interfere into government decision making process. However, high criminal rate and strong link between ruling

political elite and wealthy oligarchs with their business interests are seen as a threat to democratic procedures in the country. Law proposal for fighting high level corruption entered into parliament in September, but some coalition partners voted against it and law didn't pass. This could have a negative effect onto government efforts to tackle this burning issue, by showing that there is no unity between political actors on how to do it.

## **Freedom of Press : 6**

Freedom of the press is granted by the constitution in Bulgaria, but in practice this freedom declines rapidly. Huge political and editorial pressure on journalist reporting, high polarization of media and concentration of non-transparent ownership made the damage to the image of the press in the country. The Financial Supervision Commission was accused by many outlets to censor media freedom by imposing the large fines. It is the last of all European Union countries on the Reporters without Borders 2016 World Press Freedom Index, capturing a very low 113th place out of 180 countries. Bulgaria has wide range of traditional and online media outlets which are expressing diverse opinions. However, informing from various media sources is recommended for having a complete picture on a topic. In this grayness, a joint declaration by major political parties that they will not to use online sphere for "dirty" campaign activities can be seen as the only positive act.

## **Rule of Law**

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### **Independence of the Judiciary : 3**

Judiciary in Bulgaria is still implementing the most basic EU standards. In Global Corruption Barometer 2013 it was perceived as the most corrupt part of public life. Since then, there were some small improvements. But political influences are still multiple, rather in high than in local judiciary. Backlog of cases and their allocation, itself suspected to be politically motivated, are also often a matter of dispute. There is a public mistrust in ombudsman bodies. Situation in prisons is bad. Long-debated judicial reform was partially implemented in December 2015. New constitutional amendments divided the Supreme Judicial Council to two entities, overseeing judges and prosecutors. But, the additional package of judicial reform, expected to reduce political influence on courts, was rejected by the Parliament, amid sharp disputes within the ruling coalition.

### **Corruption : 4.1**

Since 2007, Bulgaria regressed in fighting corruption, at least in relative terms. According to Transparency International's Corruption Perception Index 2015, it stagnated as compared to 2014, with the score 41, placing her as 69 (of 168). During the past nine years, in spite of EU-compatible laws, the state remained captured by the alliance of political and corporate oligarchy, organized crime, partially reformed secret services and biased traditional media. As a participant in corruption, foreign authoritarian regimes are also present, through special intelligence operations or facade companies. A glimpse of hope might be found in local politics. The integrity of local authorities in Bulgaria is perceived as higher than of those at the national level. Transparency

International-Bulgaria conducted a research into integrity in local governance and created the LISI index. Overall, the mark (1-5, between worst and best), that citizens gave to segments of local government or administration, varied as follows: municipal administration (3.81), local councils (3.69), Mayors (3.57), local courts (3.17), CSOs (3.04), police (2.85), media (2.69), political parties (2.68) and businesses (2.44). Geographically, the highest trust in the integrity of local authorities is in Sofia and Burgas (3.59 each), while the lowest is in Haskovo (2.75) and Varna (2.83).

## **Protection of Human Rights : 6.6**

Treatment of ethno-linguistic minorities is dubious – even though they generally enjoy their rights in education and media, use of minority languages is limited in some areas of public life, such as politics. Hate speech against minorities – Turks, Romany, Jews, Slavic Muslims, or “new” ones such as refugees – is present in broad public as well as in media according to Amnesty International with certain politicians using highly nationalistic and xenophobic rhetoric. Vigilantism against illegal border crossing and torturing the captured migrants by the self-proclaimed “defenders of citizens” was even praised on some local TVs, although police has subsequently arrested and processed the perpetrators. The building of a wall along the southern border with Turkey has been largely criticized by human rights organisations. Discrimination affects Romany (in employment, education, health care and housing), women (in political institutions, regarding equal pay and in protection against domestic violence) and LGBTs (whereby they are somewhat protected as individuals from the widespread homophobic bias, but their partnerships still lack any recognition) according to Freedom House. Trafficking of women and children for forced labor, or prostitution, or begging, is a huge problem, with Romany as the most vulnerable group due to their extremely low income basis and education. Positive side includes academic freedom, huge operational space for NGOs, and freedoms of speech, assembly and movement.

## **Economic Freedom**

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### **Security of Property Rights : 4.73**

Private property rights are not firmly protected in Bulgaria. As in other countries of the region, main problems arise from the weakness of the judicial system – strong out-of-court vested interest groups can strongly influence legal proceedings. Judiciary is one of the least trusted institutions in society. Constitutional amendments enacted in December 2015, aiming at promotion of judicial independence and transparency in selection process, are yet to be implemented and give results. Inefficient legal processes result in a significant backlog of cases, limiting the right to a legal proceeding in a reasonable timeframe. Enforcement of contracts is slow and inefficient, and comes at high costs. Resolving insolvency is even more so, with a very low recovery rate. Property registration is burdened with many unnecessary procedures and high notary fees. There are no prevalent restrictions on foreign ownership, apart from certain ones regarding companies registered in offshore jurisdictions, in 28 areas and industries. Even this law is lax, because it does not apply to offshore companies whose owners are Bulgarian citizens or whose parent company is publicly traded. Private property can be expropriated by the Cabinet of Ministers or local governors, but at a market price, and court litigation against these acts is possible.

## **Size of Government: Expenditures, Taxes, and Enterprises : 7.58**

Government expenditures in Bulgaria are much smaller in comparison to other European countries, reaching only 38.7% of GDP in 2015. Although economic growth has picked up and unemployment is falling, Bulgaria still remains one of the poorest countries in the EU, with slow income convergence. Fiscal stance has recently been improved - the deficit was reduced to 2.9% of GDP in 2015. It is expected to decrease further due to accelerated growth and stronger tax performance. Public debt is low by European standards, reaching 26.3% of GDP in 2015, although still well above the pre-crisis level. However, weak performance of the banking sector as well as malfunctioning of major state-owned enterprises still poses a fiscal threat. Furthermore, indirect government subsidies to inefficient SOEs remain high. Apart from public utilities, SOEs are present in various industries, but are most notable in energy sector and transportation. Privatization of the Bulgarian freight railroad company was cancelled because there were no interested parties to it. Apart from privatization, public private partnerships (PPP) are also considered, especially for national airports. Relatively low level of public spending leaves room for lower taxes: both personal income and corporate tax are flat and are set at 10%. VAT stands at the standard rate of 20% and the preferential one of 9%. However, high social contributions make labour tax wedge significant. Shadow economy is widespread, creating up to one third of the GDP.

## **Regulation of Credit, Labour, and Business : 6.62**

Bulgarian regulatory framework is mostly business-friendly, but there are many problems. Corruption of public servants, inefficient government bureaucracy and policy instability are considered as the problems affecting further improvements of business environment the most. Inconsistent application of laws, e.g. fostering favouritism by state officials, is another negative feature. Starting a new business is inexpensive but not very expedient - this procedure has recently been made easier by lowering registration fees. There is no minimum paid in capital. Obtaining electricity connection is very expensive due to high fees to the utility company. Tax regulations are overly complicated and burdensome, requiring long hours to comply, but overall number of payments is not high. Labour regulation in Bulgaria is flexible. Collective bargaining is mostly limited to public sector employees, through the tripartite social dialogue, and is quite rarely present in private sector. The minimum wage is not considerably high, relatively, i.e. as compared to the average salary. It saw a small increase in July 2015, to 380 levs. Furthermore, hiring and firing procedures, and above all working hours, are also flexible, with temporary contracts limited to 36 months, and redundancy notification period and severance pay staying flat, while not increasing with the number of years in tenure. The government has created a list of 85 different reform policy measures in order to further improve business environment. However, their implementation is yet to materialize.

## **Freedom to Trade Internationally : 8.8**

Freedom of international trade is upheld in Bulgaria. Being an EU member state, it implements the EU common trade policy, which is mostly liberal, with overall low tariffs. Average applied tariff rate stands at 5.3%. However, agricultural products are on average more protected than the industrial ones. Thus, Bulgarian foreign trade is generally liberalized, but complicated and expensive standardization requirements for imported goods often create regulatory non-tariff barriers to trade. Customs office documentation compliance procedures are quick and inexpensive. However,

corruption in the department remains an issue. Inadequate transportation infrastructure - both railways and roads - increases freight costs, thus burdening international trade. Bulgaria's main export markets are fellow EU member countries (Germany, Italy, Romania, France and Belgium), followed by Turkey, with similar patterns in imports (hereby with a more prominent role of Russian Federation as the main energy supplier). Bulgaria, alongside Romania, Croatia, Ireland, Cyprus and United Kingdom, is still not a part of the Schengen area. Controls on capital inflows and outflows implemented by the Bulgarian National Bank are still prevalent.