

Bulgaria 2018



Total: 63.15

Political Freedom

Free and Fair Elections : 8.93

Unlike previous years, the reviewed period was marked by political stability in Bulgaria, without major elections and subordinate to Bulgarian presidency at the Council of the European Union. Political landscape is pluralistic, and parties are able to compete and operate freely. Elections are generally free and fair, however there are many problems which raise concern in the Bulgarian electoral process yet remain unaddressed. OSCE observation mission to the last parliamentary elections pointed out on issues like restrictions to conduct a campaign in Bulgarian language only, campaign finance reporting, the use of media during campaigns or irregularities such as vote buying or controlled voting on the voting day. Right-leaning government was formed in May 2017 by the conservative Citizens for European Development of Bulgaria party – GERB and the nationalistic block United Patriots (UP), making a third government led by Boyko Borissov as Prime Minister. Changes of electoral law were often on the table or even passed the parliament in previous years, however many of them were declined. Sanctions - as a part of legislative changes adopted in parliament in regard to mandatory voting - were later declared as unconstitutional by the court. Members of the 240-seat Bulgarian National Assembly are elected by proportional representation in multiple constituencies. Referendum on switching to a majority vote system wasn't successful due to insufficient turnout.

Absence of Unconstitutional Veto Players : 6.67

There are no unconstitutional veto players in Bulgaria. Elected officials are provided with a legal framework which allows them to effectively govern the country. Despite that, organized crime, influential oligarchs and high-level corruption among politicians can undermine democratic procedures and decision-making processes. Although formally independent, judiciary is often subject to extensive political pressure, or one by wealthy businesses. Corruptive practices are not rare in this branch of power. According to Transparency International, Bulgaria is the most corruptive country in the EU. Weak system of checks and balances allows for manipulation of democratic institutions. After his appointment, president Rumen Radev didn't hesitate to exercise his powers and to veto certain legislative amendments, ensuring limits upon and a degree of control over legislative and executive.

Freedom of Press : 5.8

Media landscape in Bulgaria is only partly free and independent, with country deteriorating further

in the Reporters Without Borders 2018 World Press Freedom Index, holding 111th place, lower than any other EU-member state, and being at the fourth last place in Europe (just before Russia, Belarus and Turkey). Serious concern and threat to pluralism is caused by growing concentration of media ownership and opaque media structures. Journalists` independence is hindered by growing pressure by politicians and media owners, who nurture close relations with those in power. Budgets for communicating EU programs in Bulgaria are used as a tool for the influence over the media environment in the country. Namely, EU funds are relocated in a way so as to fund government-friendly media outlets. An environment of intimidation and harassment surrounds journalists, often leading them into self-censorship when reporting on delicate issues. Most prominent such case was at the end of 2017, when Deputy Prime Minister and an MP openly threatened a journalist due to his reporting, which resulted in the resignation of the MP only. Practicing fake news is widespread, whereby citizens are exposed to manipulations.

* Press freedom score will be updated after data from primary source have been published. For more information see Methodology section.

Rule of Law

Independence of the Judiciary : 3.33

Despite more than a decade of EU membership, Bulgaria has seen very little progress in independence of its judiciary. There was stagnation, or oscillations. Stalemate thereof considerably hinders improvement in other areas of rule of law, e.g. fighting corruption, or safeguarding human rights. As Freedom House noted in Nations in Transit in 2018, “Bulgarian justice system continued to face [...] a high level of politicization, a statist approach with [...] inefficiency and lack of administrative capacity”. EU has, via CVM reports, closely monitored Bulgaria and noted “significant progress” during 2017. While the election of the new Supreme Judiciary Council was encouraging, the rest of the recent judicial appointments were marked by political parties` trade-offs instead of merit-based selection. Improvements were recently noted in the prison system, yet still burdened by problems of overcrowding, police abuse and poor living conditions.

Corruption : 4.3

Bulgaria is the worst corrupted EU-member, behind the otherwise comparable Hungary, Romania, Greece or Croatia, so much so that it is among major obstacles to its accession to Schengen Area and the anticipated rapid economic development. Transparency International ranked it 71-73/180 in its CPI 2017 report – a bit better than in 2016. The corruptive environment stimulates the growth of the grey market in Bulgaria, which is the largest in the EU and accounts to nearly 30% of the GDP. State capture by the informal alliance of political and business oligarchy, organized crime, only partially reformed secret services, and biased media, has remained as the main catalyst of corruption. Thereby, foreign, non-EU influences are also non-neglect. In January 2018, a new law went into force, combining provisions on anti-graft and on prevention of conflict of interest. In March 2018, new law against money laundering was carried. Earlier, in October 2017, a new Law

on Public Administration was adopted, inter alia standardizing internal inspections in the administration. Frank implementation of all those, throughout the government structure and public administration, itself having had been so often missing in the past, will be a crucial factor for would-be improvements. As a part of the government anti-corruption efforts, a specialized anti-corruption body was established to investigate high level corruption. With its president appointed by the national parliament, however, its true independence from established political elites is put into question. Atop all those, fighting the widespread petty corruption remains a giant task.

Protection of Human Rights : 6.69

As Amnesty International again objected in 2018, ill treatment of refugees (summary detentions, push-backs and abuse) continued, necessary services were not provided even to some unaccompanied children, while a climate of xenophobia and intolerance sharply intensified. AI also noted that “marginalization and widespread discrimination against Roma persisted”, as manifested through systematic obstacles in access to education, health care, housing and employment. Most of the ethno-linguistic minorities in Bulgaria on one hand enjoy lots of opportunities to develop their identity through education, culture and media while on the other hand in some walks (e.g. political campaigning) the use of their languages is banned. Positive developments in Bulgaria include academic freedom, huge operational space for international, foreign or domestic NGOs and think-tanks, and a decent level of freedom of assembly and movement. Media and journalists, however, suffer enormous pressures, especially when investigating corruption. Sofia Pride, held in June 2018, was the biggest Pride so far and showed an annual progress in the attitude of the City administration towards LGBT citizens. Police managed to prevent homophobic extremists from disrupting the manifestation. Same-sex unions (in as much as they are recognized EU-wide), inheritance rights, adoption of children, etc., were the main demands this year. Extremely populist and biased debate was led throughout the first half of 2018 over the ratification of the Convention on preventing and combating violence against women and domestic violence (Istanbul Convention). Critics interpreted it as promotion of gay issues and thus alternation of the established social norms. They also challenged its constitutionality.

Economic Freedom

Security of Property Rights : 4.82

Private property rights in Bulgaria are mostly protected. Although legal framework is mostly in line with other EU countries, its adequate implementation is often lacking. Rule of law in Bulgaria rests on weak foundations due to the weak judiciary that is often considered to be under external influences. Judiciary is still one of the least trusted institutions in the society. It is also perceived as highly corrupt. Regulatory enforcement is also weak or arbitrary. There is a significant number of backlog cases in courts, which further impedes court dealings. Court proceedings are generally long, effectively limiting the right to a legal proceeding within a reasonable timeframe, since these last 1.5 years on average and incur very high costs. There is also little use of automated procedures. Resolving insolvency lasts longer than three years on average and results in a very low recovery rate of just a little over one third of the claim. Furthermore, some other issues in this

area pose challenges: there are no rules for granting a second chance to entrepreneurs in a reasonable timeframe following a bankruptcy. Although most of the land has a clear title, property registration is burdened with many unnecessary procedures and high notary fees, while property taxes vary from municipality to municipality. Registration of property has been upgraded with the introduction of notaries, but the local tax administration is often slow - however, there is an expeditious procedure for a higher fee. There is no general discrimination against foreign companies in Bulgaria, but in specific cases regulatory obstacles can be used to benefit important market players. The Offshore Company Act stipulates restrictions for companies that have more than 10% registered offshore equity participation in 28 specific industries (including banking and insurance, natural resource exploitation, etc.). That was one of the measures against money laundering and corruption, but its influence has been diluted by the fact that it did not apply to Bulgarian nationals or businesses whose parent companies were publicly traded. Private property can be expropriated by the Cabinet of Ministers or local governors, but at a market price, while court litigation against those acts is possible.

Size of Government: Expenditures, Taxes, and Enterprises : 7.57

Government expenditures in Bulgaria are very moderate in comparison to other European countries, reaching only 33% of GDP in 2017, due to rising exports and domestic demand. Economic growth is robust, reaching 3.5%. Unemployment has fallen to its lowest level, nearing only 6%. However, Bulgaria remains the poorest country in the EU, as measured by GDP per capita, with approximately 50% of the EU purchasing power average. The country recorded fiscal surpluses after the fiscal stabilization program that was implemented during 2016, but its fiscal position recently changed to a minor deficit. The already low level of public debt by European standards is on a downward spiral, reaching 24% of GDP in 2017. Wage increases due to a shortage of labour ended the deflation that was present since 2013. However, the performance of major state-owned enterprises still poses significant economic and fiscal risks, stemming from their inadequate corporate governance structure that is under strong influence of political parties in power. Although direct government subsidies to inefficient SOEs are below the EU average level, this figure is inflated through indirect ones, such as tolerating arrears. Apart from public utilities, SOEs operate in various industries, but are mostly notable in energy sector, transportation and infrastructure. The Sofia airport concession, which was initially cancelled, has once more been given a new consideration with the new tender call. Shadow economy is widespread, creating up to one third of the GDP, and although the tax collection has increased there is still much to be done in the field. Relatively low level of public spending leaves room for lower taxation: both personal income and corporate tax are flat, and set at 10%. The standard rate of VAT is 20%, while 9% for tourism. However, high social contributions make the labour tax wedge significant, approximately 36% on the average wage, which is comparable to the OECD average.

Regulation of Credit, Labour, and Business : 6.35

Bulgarian regulatory framework is mostly business-friendly, but the biggest obstacles remain in the area of favourable treatment of different business entities and partial application of rules. Corruption in public services and administration is present, corroborated by government policy instability arising from frequent regulatory changes and inconsistent application of laws. Starting a new business is inexpensive but not very expedient, mostly due to slow VAT registration process. The minimum paid in capital is symbolic, being just one euro. Obtaining electricity connection is

very expensive, due to high costs of the utility company, and also is a lengthy procedure, due to inefficiency of the public utility provider. Tax regulations are overly complicated and burdensome, requiring long hours to comply, but overall number of payments is not high. Automatic energy management system which monitors outages increased reliability of the power supply. Labour regulation in Bulgaria is flexible. Fixed term contracts are not prohibited for permanent tasks and can last up to 36 months. Redundancy notification period and severance pay stay flat, not increasing with the number of years in tenure, which is coupled with the lack of reassignment obligations in case of redundancies. Collective bargaining is mostly limited to public sector employees, through the tripartite social dialogue, and is quite rarely present in the private sector. The minimum wage has been increased in July last year by almost 10% nominally, from 460 to 510 BGL (i.e. from 235 to 260 euro), whereby the process of its determination is not transparent. Inefficient government bureaucracy, corruption and tax rates are perceived as the most critical areas for doing business in Bulgaria.

Freedom to Trade Internationally : 8.69

Freedom of international trade in Bulgaria is generally guaranteed. Since its EU accession in 2007, Bulgaria implements the common EU trade policy, with overall low tariffs. Average applied MFN tariff rate for manufactured goods is 5.1%, while those on agriculture products are double that level. Although trade tariffs have been generally liberalized, complicated and expensive standardization requirements for imported goods often create regulatory non-tariff barriers to trade. On the other hand, customs office documentation compliance procedures are quick and inexpensive, but corruptive practices within the custom office remain a concern. Low quality of transportation infrastructure - both railways and roads - increases freight costs, thus burdening international trade. Bulgaria's main export markets are fellow EU member countries, such as: Germany, Italy, Romania and France, followed by Turkey, with similar patterns in imports. Due to rising exports, Bulgaria has almost doubled its current account surplus from 2.3% to 4.5% of GDP in the previous year. Bulgaria, alongside Romania, Croatia, Ireland, Cyprus and United Kingdom, is among few EU countries that are still not a part of the Schengen area. Not being a euro-zone country is mitigated by the fact that Bulgaria has for almost two decades been using a currency board, previously pegged to the German mark, while now to the euro. Controls on capital inflows and outflows, implemented by the Bulgarian National Bank, are still present.