

Bulgaria 2019



Total: 66.07

Quick facts

Population:	7.0 million
Unemployment rate:	5.3 %
GDP:	65.197 billion \$
GDP growth rate:	3.1 %
GDP per capita:	23 170 \$ PPP

Political Freedom

Free and Fair Elections : 8.93

In the observed period, citizens were able to cast their votes at the European Parliament elections, held in May 2019, with around 33% of them exercising their voting rights. Political parties were competing for 17 MEP seats, with most of the seats having had been won by the ruling Citizens for European Development of Bulgaria (GERB) – 6 of them, while 4 seats each were won by the Movement for Rights and Freedoms (DPS) and by the Bulgaria Socialist Party (BSP). The biggest surprise came from the newly developed Democratic Bulgaria coalition, which had not had significant political influence before these elections. Namely, Democratic Bulgaria won 1 seat. The victory of GERB came in the mid of the so-called “Apartment” scandal, itself including several high-profile GERB representatives, who had obtained real estate at prices far below the estimated market value. According to the opinion polls at that moment, they were measured behind BSP. The ruling party GERB also retook the capital Sofia, as well as 15 out of the 28 mayoral seats, at the local elections in November this year. Current Mayor of Sofia Yordanka Fandukova was t the second round despite scandals with the poor repair work of the city center and deteriorating air quality in the capital. Bulgaria is a parliamentary democracy, with its 240-seat unicameral National Assembly. Representatives are elected via proportional representation in multiple constituencies. Elections are generally deemed as free and fair by international community, with some problems which remain yet to be addressed, such as party financing, restrictions to conduct a campaign in Bulgarian language only, and election-day violations such as voter intimidation or cases of vote buying. Ruling party pushed for several electoral changes in recent years. However, many of them were declined. Key concerns include the introduction of electronic vote, the regulation of preferential votes, voting abroad, campaign transparency and vote-buying. Sanctions - as a part of

legislative changes adopted in parliament in regard to mandatory voting - were later declared as unconstitutional by the court. In the mid-2019, Bulgarian parliament adopted measures that should cut state subsidies to political parties and remove limits for private donations to political parties. It is still to be seen whether these measures will enter into force later during the year, since they were widely criticized, for limiting political pluralism in the country and for their potential to increase the already high level of corruption.

Absence of Unconstitutional Veto Players : 6.67

Bulgaria doesn't have unconstitutional veto players and decision-making process is in the hands of the democratically elected officials. Legal framework is set to ensure their effective governance over the country. However, there are certain players in Bulgarian society that are able to undermine democratic procedures and institutions. According to Transparency International, Bulgaria remained as the most corruptive EU country, with little of it having been done to tackle high profile corruption and organized crime. Legislation for the establishment of the commission for tackling official corruption was adopted by the parliament in 2018. Besides corruption among politicians, organized crime and wealthy oligarchs are also representing undermining factors to democracy in Bulgaria. Many of them maintain close ties with politicians or even are involved into politics, using their influence to shape the country's policies according to their personal needs. Weak system of checks and balances allows for manipulation of democratic institutions. Although formally independent, judiciary is often subject to extensive political pressure, or pressure by wealthy businesses.

Freedom of Press : 6.49

Likewise as in the case of corruption, Bulgaria is also at the forefront among all EU countries when it comes to lack of freedom and independence of the media sector. Despite the fact that law provides for freedom of the press, there are many problems related to this area, resulting in Bulgaria's country ranking on the 111th place in the Reporters without Borders 2019 World Press Freedom Index, lower than any other EU-member state. Period under review was marked by growing physical and verbal violence toward journalists, creating an atmosphere of fear among them. High level corruption and strong connections between organized crime and politicians provide fertile ground and huge space for investigative journalism but at the same time make this profession very dangerous. The problem of abuse of budgets for communicating EU programs in Bulgaria, by using them as a tool for the influence over the media environment in the country, has remained. Namely, EU funds are relocated in a way so as to fund government-friendly media outlets. Also, recent concentration of the media ownership in the hands of wealthy businessmen, as well as media opaque structures, caused growing concerns over independence of journalistic profession and pluralism of the Bulgarian media scene in general.

Rule of Law

Independence of the Judiciary : 4.97

During more than a decade in the EU, Bulgaria has made some progress in advancing rule of law, including more independence of its judiciary. Freedom House noted that the country "has

benefited from legal and institutional reforms associated with EU membership” but also that “it is still prone to politicization”. To its part, the EU, through its Cooperation and Verification Mechanism (CVM), established specially for Bulgaria and Romania, has notified – in the former - “significant progress” in 2017 and “sufficient progress” in 2018. Among new institutions, there would also be a special inspectorate to investigate the judges` conflicts of interest and their asset declarations. The election of the new Supreme Judiciary Council in 2017 has certainly been encouraging news, yet FNF`s own monitoring on the ground showed that – during the selection process regarding recent judicial appointments - trade-offs between political parties, instead of merit-based decisions, were in place too often. Big challenge for the independence of the judiciary system in Bulgaria is also the structure of the Bulgaria`s prosecutor`s office. The Chief Prosecutor, who is above all other prosecutors, can stop any investigation, including a (hypothetical) investigation against his own self. He is elected by the Supreme Judicial Court, which has 25 members, 11 of which are appointed by political parties. Recently, Ivan Geshev was elected as the Chief Prosecutor, amid protests against him. Better selection, monitoring and evaluation of judges and prosecutors might on a longer run decrease corruption in the judiciary. As for the latter, the portal GAN assessed in December 2017: “Organized crime in Bulgaria is enabled by corruption in the public administration, judiciary, police, and customs.”

Corruption : 4.2

Bulgaria is the most corrupted EU-member. Transparency International ranked it as 77/180 in its Corruption Perception Index 2018 report, with a score slightly lower (42/100) than in 2017 (43) but higher than in 2016 (41). State capture by the informal alliance of political and business oligarchy, organized crime, only partially reformed secret services, and biased media, had for a very long time been the main catalyst of corruption. Under the influence of the EU, serious legislative steps were taken, especially during 2017 and 2018, and in particular against conflict of interest and money laundering. By the late 2018, EU had already noticed improvements, while during 2019 it has considered on whether or not to completely end the corruption monitoring program in Bulgaria in the framework of CVM (unlike the one in the neighboring Romania that would certainly continue). If the EU withdrew, that would mean that domestic (at least legal) mechanisms were all in place and sufficient to provide results on the longer run. That would also mean more responsibility on the face of domestic (old as well as recently created) anti-graft institutions.

Protection of Human Rights : 7.09

Academic freedom, huge operational space for international, foreign or domestic NGOs and think-tanks, and a decent level of freedom of assembly and movement - all those human rights and freedoms have been undisputed in Bulgaria. Treatment of migrants is but high on the list of disputable and sometimes despicable policies: summary detentions, push backs and abuse, as well as denial of even basic services to migrant children are quite common. Treatment of Roma is also improvable, whereby the latter face systematic obstacles in access to education, health care, housing and employment. On the other hand, a number of ethno-linguistic minorities (such as Turks) enjoy various educational, cultural or media rights and freedoms, alas, the one to conduct political campaigning in the mother-tongue is quite limited to them. Women employment rate is lower than for men, but on the other hand the gender pay gap is smaller than the EU average. Women are still under-represented in management structures, but numerous have recently come to important political positions. Domestic violence and insufficient application of the existing laws that protect women thereof remain as a problem, yet, in July 2018, the Constitutional Court has found Istanbul Convention on prevention of gender-based violence as unconstitutional hence unfit to be ratified by Bulgaria. LGBT people face numerous problems in society, while enjoying at least

a basic protection by the state. Sofia Pride was freely held in June 2019, yet LGBT people in Bulgaria still lack equality of their unions, with all the adjacent social benefits that different-sex couples enjoy, as well as opportunities to adopt and raise children.

Economic Freedom

Security of Property Rights : 5.04

Private property rights in Bulgaria are mostly protected. However, the rule of law in Bulgaria is undermined by the deficiencies in the judiciary, which is considered to be under external influences. It is - also, still - one of the least trusted institutions in society, and it is perceived as corrupt. Court proceedings are generally long, effectively limiting the right to a legal proceeding within a reasonable timeframe. They last 1.5 years on average and incur very high costs. There are also a significant number of backlog court cases in the courts, which further impedes court dealings. There is a specialized commercial court, but not a court dedicated to small-claims cases. Resolving insolvency lasts longer than three years on average, and results in a low recovery rate, below two fifths of the claim. There have been several judiciary reforms under the Cooperation and Verification Mechanism (CVM) of the EU, including establishing a unified anti-corruption commission, and aiming at strengthening the independence of judges and prosecutors in the Supreme Judicial Council. However, most of these actions are not perceived as successful in increasing the level of independence and accountability in the judiciary, and the CVM was concluded in October since it was mostly considered as ineffective. Although most of the land has a clear title, property registration is burdened with numerous procedures and associated costs through notary fees and the property transfer tax that vary from one municipality to another. Registration of property has been made more secure with the recent introduction of notaries, but the local tax administration is often slow. There is no general discrimination against foreign companies in Bulgaria, but in specific cases regulatory obstacles could be used to benefit important market players. An important example is the energy company that enjoys a quasi-monopoly status, since new prospect market players from the US have been actively discouraged from entering the market. The Offshore Company Act stipulates restrictions for companies that have got 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 by local governors, but these cases are rare. Non-EU nationals cannot own agricultural land, and neither could off-shore registered companies do so.

Size of Government: Expenditures, Taxes, and Enterprises : 7.71

Government expenditures in Bulgaria are moderate in comparison to other European countries, reaching only 35% of GDP in 2018. Economic growth is robust, reaching 3%. Unemployment has fallen to its lowest level, nearing only 5%. However, Bulgaria remains the poorest country in the EU, as measured by GDP per capita, with approximately 50% of the EU purchasing power average. After a fiscal stabilization program that was implemented in 2016, Bulgaria enjoyed a

prudent fiscal policy with small deficits in recent years and even a surplus in 2018, supported by a fiscal rule framework. Fiscal policy framework envisages a balanced budget in medium term. Public debt is low, currently standing at 20% of GDP, which provides significant fiscal space in case of need. Even though the pension reform - implemented in 2015 through an increase of the pension contribution rate and the statutory retirement age - has somewhat alleviated fiscal pressures stemming from population aging on the medium run, the pension system is not sustainable. That will lead to high pension deficits, that will themselves need to be addressed. Apart from public utilities, SOEs operate in various industries, but are mostly notable in energy sector, transportation and infrastructure. There are approximately 220 SOEs in the country, and their revenues surpass 13% of GDP. However, their management is often dubious, suffering strong political influence, which is often leading to poor performance, which to its part creates infrastructure bottlenecks and fiscal risks. Although direct government subsidies to inefficient SOEs are below the EU average level, this figure is inflated through indirect channels, such as by tolerating arrears. Total SOE debt is lower than the EU average, but several SOEs in the energy and transportation sectors have accumulated considerable debts, and the bulk of it needs to be serviced by loss-making state entities, which itself is unsustainable. Improving SOE governance could have a significant positive impact on public infrastructure. Therefore, the commitment to enter the ERM II mechanism could prove as an important vehicle for this, since it requires alignment of the current SOE legislation with the OECD guidelines. The Sofia airport concession, which was initially cancelled and delayed on several occasions, was finally finalized, by awarding the concession to an international consortium. However, there are several outstanding issues that have not been fully resolved, since this consortium did not provide the highest financial bid. Shadow economy in Bulgaria is widespread, reaching up to one third of the GDP, and although tax collection has improved there is still much more to be done in this field. Relatively low level of public spending, as compared to the EU average, leaves room for lower taxation: both personal income and corporate tax are flat and set at 10%. The standard VAT rate is 20%, while the preferential one is just 9%. However, high social contributions make the labour tax wedge significant - approximately 34% on the average wage - which is comparable to the OECD average and somewhat below other countries in the region.

Regulation of Credit, Labour, and Business : 6.37

Bulgarian regulatory framework is mostly business-friendly. However, the quality of regulatory framework is not as much a pressing issue as it is the case with its impartial implementation. Due to political influence and corruption, some companies receive preferential treatment by the authorities. Application of the rules could be inconsistent also due to the low quality of the civil service. Widespread corruption among the administration also remains a serious issue, as is also the policy instability stemming from frequent regulatory changes. Starting a new business is inexpensive but not very expedient, mostly due to a slow VAT registration process. There is no minimum paid-in capital requirement. Getting a building license is a process consisted of many procedures, which could last for more than 3 months. It could incur significant costs through mandatory fees. Obtaining an electricity connection is very expensive due to high mandatory fees of the utility company, and also a very lengthy procedure, lasting up to 9 months, due to inefficiency of the public utility provider and municipality supervision bodies. Tax regulations are overly complicated and burdensome, especially those pertaining to VAT and social security contributions, requiring long hours to comply, although the overall number of payments is not high. Labour regulation in Bulgaria is mostly flexible: fixed term contracts are not prohibited for permanent tasks and could last up to 36 months while redundancy notification period and severance pay do not increase with the number of years in tenure. Collective bargaining is mostly

limited to public sector employees, through the tripartite social dialogue, and is mostly absent from private sector. The last increase of the minimum wage was in July, for additional 10% nominally, which is a manner that has been in place for several years now - significantly above the productivity rise. Nevertheless, the unemployment has reached its historical low records, partially due to emigration. The process of minimum wage determination is mostly arbitrary, with political considerations overcoming the economic ones.

Freedom to Trade Internationally : 8.6

Freedom of international trade in Bulgaria is generally respected. 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 5.2%, while those on agriculture products could be double that level. Although trade tariffs have been generally liberalized, complicated and expensive standardization requirements for imported goods often created regulatory non-tariff barriers to trade. On the other hand, customs office documentation compliance procedures are quick and inexpensive, but corruptive practices within the customs office remain a concern. Low quality of transportation infrastructure - both railways and roads - increases freight costs, thus burdening international trade; financial resources from the EU for these purposes - through regional cohesive funds - are underutilized due to the lack of accountability in project financing and low administrative capacities for absorption. Bulgaria's main export markets are fellow EU-member countries such as Germany, Italy, Romania or France, followed by Turkey, with similar patterns in imports. Bulgaria, alongside Romania, Croatia, Ireland, Cyprus and United Kingdom (which will exit the EU), is one of the few EU countries that is not a part of the Schengen area. To its part, not being a euro-zone country is mitigated by the fact that Bulgaria has - since 1997 - been using a currency board, with its currency previously pegged to German mark, and now to the euro. As an EU member, Bulgaria is obliged to aim towards the euro-zone. Unlike some other CEE countries, which have put this question on hold, it has made progress in this regard. It has already fulfilled the Maastricht criteria, regarding the level of public debt, deficit, inflation and interest rates, and is now in the process of joining the ERM II currency exchange mechanism, in which it would need to stay for at least two years prior to the adoption of euro. In order to join the ERM II, and the banking union, Bulgaria needs to complete strengthening of the financial sector supervision, improve SOE corporate governance and enhance anti-money laundering framework. There are some restrictions on foreign workers, such as the one that non-EU workers cannot exceed 35% of total workforce in SMEs or 20% in large companies. In 2017, the procedures for obtaining work permits for non-EU workers were simplified and the necessary waiting time was shortened.