Briefing No 6
Bulgaria and the Enlargement of the European Union

* The views expressed in this document are not necessarily those held by the European Parliament as an institution.

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ANNEX
I. SUMMARY

Although the next parliamentary elections are not due until April 2001, the Union of Democratic Forces (UDF)-led government is thinking about its strategy to ensure re-election at a time when one of its potential allies, Euroleft, seems to be breaking up. Despite the major government reshuffle in December 1999, the level of trust in the government has continued to fall, exacerbated by continual allegations about corruption. The opposition forced a vote of no confidence in May, but the government survived comfortably enough. In June the chief Bulgarian negotiator with EU was forced to resign.

The main positive news for the government has been the decision of the European Council in Helsinki in December to open accession negotiations to the EU with Bulgaria. Negotiations on six chapters started in March with four chapters provisionally closed. Progress has also been made in relation to the decommissioning of the unsafe units of the Kozloduy nuclear power plants. In May, the Commission agreed a €212m loan to help with the costs of the project, although September saw fresh controversy erupt over the plant's safety.

II. POLITICAL SITUATION

a. Recent History

Bulgaria's recent history dates back to the Treaty of Berlin in 1878, when Bulgaria was merely one element in the overall balance of power of the region. A German prince was imported as king, as the great powers sought to limit Russian influence. Bulgaria was a German ally in both wars, but in World War II, Tsar Boris III refused to declare war on Russia or allow Bulgaria's Jews to be deported. However, in September 1944, an anti-German coup was staged as Russian forces entered the country. This brought to power the Fatherland Front, a broad coalition of forces, including the Bulgarian Communist Party (BCP). The BCP gradually consolidated its position, eliminating the other parties in the Fatherland Front. The monarchy was abolished by referendum in 1946, and the BCP's monopoly on power was symbolised by the show trial and execution of the Agrarian Party leader, Nikola Petkov, in 1948. Collectivisation of agriculture and nationalisation in industry were accompanied by a level of violence and repression unusual even by the standards of the region at the time.

The BCP leader, Georgi Dimitrov, was succeeded in 1948 by Vasil Kolarov and then Velko Chervenkov, who became both prime minister and party general secretary. In 1954 the two offices were separated and Todor Zhivkov became head of the party. After a power struggle, Mr Zhivkov ousted Mr Chervenkov as prime minister. He stayed in power for over twenty-five more years, and was ultra-loyal to the Kremlin. Nonetheless, Bulgaria was one of the less extreme communist regimes in the region. A comparatively open approach to economic reform led to what was, by communist standards, a reasonably productive agricultural sector and the appearance of dynamism in industry. However, foreign debt rose sharply in the 80s, as a result of oil price rises, falls in the amount of Soviet subsidies and the underlying structural problems in the economy. Politically, Mr Zhivkov vacillated between liberalisation and renewed controls. A campaign of forced assimilation of ethnic Turks in the mid-80s brought international condemnation.

In November 1989, the day after the Berlin Wall came down, Politburo colleagues forced Mr Zhivkov's resignation "on health grounds". There were mass street demonstrations, and the Union of Democratic Forces (UDF), an umbrella organisation of groups opposed to the government, was set up in December 1989. The BCP made concessions. Clauses in the constitution enshrining the BCP's political monopoly were repealed; the BCP renamed itself the Bulgarian Socialist Party; a government under Andrei Lukanov was installed; and the opposition was engaged in "round-table" discussions.

The first seven post-Communist years were marked by political instability. In the 1990 elections, the BSP won 52% of the seats, after which Mr Lukanov attempted unsuccessfully to build a government of national unity. In July of the same year, the President, Petur Mladenov, leader of the 1989 coup, was forced out and replaced as president by Zhelyu Zhelev of the UDF. Anti-communist feeling flared up in the autumn, with attacks on the BSP headquarters and demonstrations on the streets. With the departure of Mr Lukanov, a "government of experts" emerged in December 1990, headed by a judge with no political affiliations, Dimitur Popov. It contained representatives from the BSP, the UDF and the Bulgarian Agrarian National Union. The government had a limited mandate, focusing on emergency measures, the constitution and new elections. Bulgaria had been cut off from foreign credit the previous year, following the imposition on servicing debt. To reach an accommodation with outside agencies was therefore a top priority. In 1991, the government came forward with a package liberalising foreign exchange and prices,
followed by a foreign investment law, a commercial code and a competition law. A new constitution was passed in July 1991.

The elections in December 1991 produced a hung parliament, with the UDF, just short of a majority, forming a government supported by the Movement for Rights and Freedoms (MRF). The government was faced with growing differences between the UDF and the MRF, and President Zhelev became hostile to the UDF's extreme anti-communism. A scandal involving arms exports to former Yugoslavia precipitated a vote of confidence, which the government lost. A compromise emerged at the end of 1992 with another 'government of experts', led by a historian, Lyuben Rubov. It was supported by the MRF, BSP and a breakaway faction of the UDF. However, by early 1994, the government was coming under stern criticism from Mr Zhelev, the MRF and trades unions. Having achieved a long-awaited settlement with the country's commercial debtors in June 1994, Mr Berov stood down.

Elections followed in December 1994, giving a large majority for the BSP and its left-wing allies. The BSP had stressed its ability to deliver humane and controlled reform, whereas the UDF projected an image of gesture politics. The Bulgarian Business Bloc (BBB), led by Georges Ganchev, entered parliament. The BSP, under Zhan Videnov, formed a government with BBB support on most issues. However, this government was not a success. It concentrated too much on the righting of perceived wrongs from the past, instead of undertaking the necessary structural reforms. Suspicions of corruption among the government grew as grain was exported in the middle of a grain shortage in the winter of 1995. The economy then hit serious troubles in 1996.

In December 1996, after a year of ever-deepening gloom in the economy, and having lost the presidential election in November, Mr Videnov resigned as both state and party leader. His tough police minister, Nikolai Dobrev, was designated by the BSP as the next prime minister, but public opinion blocked the appointment. There was a demonstration in front of parliament in January 1997, when demonstrators broke in to the building and police used force against the crowd. Peaceful demonstrations grew throughout the country, with strikes, major roads being blocked and fuel shortages. In the face of this public displeasure, the BSP leadership declined to form a new government.

Until elections were held, a caretaker government was led by Stefan Sofianski, the mayor of Sofia, aligned with the UDF. Under this government, some stability was restored to the economy and a drive against crime and corruption was launched, including claims from the BSP that a purge of their supporters in the bureaucracy was being carried out. The elections in April 1997 saw a resounding victory for the UDF and its allies in the United Democratic Forces (UdDF). The BSP was the second largest group. The UDF leader, Ivan Kostov, formed a UdDF government in May 1997.

b. Institutions

A post-Communist constitution was adopted in July 1991, providing for a multi-party system, free elections on the basis of universal adult franchise, and specific human and civil rights. The government is parliamentary, consisting of a 240-seat National Assembly, directly elected by proportional representation, with a 4% threshold for representation. The parliamentary term is four years, although early elections may be called under specific circumstances, such as a losing a vote of confidence, but not at the government's discretion. There are strict rules for forming a government. The largest group in parliament is asked to form a government first, then the next largest if the first fails, and only then another group of the president's choice. A simple majority in parliament is required to approve a government, or Council of Ministers. A three-quarters majority is normally needed for measures amending the constitution.

The president is directly elected for a five-year term, with presidents only being able to serve for two terms. While more than a figurehead, the presidential role is clearly defined. He makes or ratifies certain military and diplomatic appointments, is commander-in-chief of the armed forces, can rule by decree in a state of emergency, can appoint a caretaker government in the run-up to elections, and has a delaying veto over legislation.

In both constitutional theory and practice, Bulgaria is highly centralised. While directly-elected councils and mayors exist at town, borough and village level, their dependence on central government for finance is marked and powers to raise their own revenue slight. There are eight larger regions (oblast), but these do not have directly-elected institutions, being run instead by prefect-style governors appointed by the government in Sofia.
The results of the April 1997 parliamentary elections were as follows:

<table>
<thead>
<tr>
<th>Party</th>
<th>Abbrev.</th>
<th>% of vote</th>
<th>No of seats</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Democratic Forces</td>
<td>UDF</td>
<td>52.26</td>
<td>137</td>
</tr>
<tr>
<td>Bulgaria Socialist Party</td>
<td>BSP</td>
<td>22.07</td>
<td>58</td>
</tr>
<tr>
<td>Alliance for National Salvation</td>
<td>ANS</td>
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<td>19</td>
</tr>
<tr>
<td>Euro-Left Coalition</td>
<td>EuL</td>
<td>5.50</td>
<td>14</td>
</tr>
<tr>
<td>Bulgarian Business Block</td>
<td>BBB</td>
<td>4.93</td>
<td>12</td>
</tr>
</tbody>
</table>

c) Recent Developments

i) Domestic political scene

While speculation that parliamentary elections, due before May 2001, might be held early has subsided, the issue of corruption remains one of the main preoccupations of the media. Although the present government has taken some anti-corruption measures such as the new Civil Service Act, public opinion remains sceptical and the suspicion of corruption tends to undermine confidence domestically and internationally. The anti-corruption Gergyovden movement has seen its poll ratings rise but most of the fall in support for the government seems to have swelled the ranks of those undecided or likely to abstain.

Disappointed with his party's performance at the local elections in October 1999, the prime minister, Ivan Kostov, conducted a thorough purge of his cabinet just before Christmas, removing ten ministers (including all three deputy prime ministers) and leaving in place just six (including two very junior ones). By doing so he rid himself of several underperforming ministers as well as one or two potential rivals. He also implicitly went some way to meeting public concerns about corruption, although he did this without admitting the validity of such concerns. The changes have not arrested the decline in trust felt for the government but have created some bitterness. In April the popular former interior minister Bogomil Bonev accused the government and UDF leadership of corruption but senior party colleagues rallied round the Prime Minister and in May the government survived a vote of confidence in parliament moved by the opposition BSP and Euroleft over claims that it was failing to crack down on corruption.

The two-day debate on the motion highlighted the government's unpopularity as the structural reform effort intensifies after the launch of negotiations on Bulgaria's application for European Union membership. According to a recent opinion poll, the government's approval rating has fallen to 19 per cent, although there is popular support to join the EU. The opposition claimed the privatisation process had been undermined by lack of transparency, with officials accepting payments to approve buyouts by managers and employees at loss-making companies. Georgi Parvanov, the Socialist leader, said privatisation in Bulgaria "had become a symbol of corruption". He said the government had failed to press charges against senior officials named in an investigation ordered by Bogomil Bonev, the then interior minister. Mr Bonev was sacked last December in a cabinet reshuffle and the investigation findings were not made public.

BSP leader Parvanov renewed his attacks after the summer recess. In a speech to Parliament on 15 September he accused the Prime Minister of being the driving force behind corruption and cronyism and repeated allegations of corruption levelled by an expelled Russian businessman against the UDF and the foundation run by Mr Kostov's wife. The Bulgarian News Agency reported that Mr Kostov was considering legal action. A BSP call for a committee of inquiry into the foundation's activities and finances was rejected.

In June the chief negotiator for EU accession, Mr Bozhkov, resigned over allegations of irregularities relating to various privatisations carried out during his time as industry minister. He was replaced by Vladimir Kissyov.

Rumours about realignments within the ruling UtdDF coalition abound, although there seems to be no clear rival to Mr Kostov. Among the opposition parties several developments have taken place in recent months. Georgi Parvanov
was re-elected leader of the main opposition party, the BSP, at a party congress held in May which also, in a symbolic break with the past, approved a resolution endorsing "active partnership and interaction with the North Atlantic alliance" and "integration into all European and Euro-Atlantic political, economic and defence structures". With a view to next year's elections, the BSP leader speaking on 24 September called for a new left-wing coalition.

The predominantly Turkish Movement for Rights and Freedoms (MRF) re-elected its founding leader Ahmed Dogan in January. Anxious to end his party's isolation while keeping all options open, he appeared to support moves towards a rapprochement with the UDF, especially if it were no longer led by Mr Kostov, and held consultations with the BSP on possible future cooperation.

These developments have fired speculation about which parties might form the government after the next elections and what electoral alliances may be formed in the light of potential changes to the election law. Another of the UDF's potential allies is in difficulties. The social-democratic Euroleft (a breakaway party from the BSP) has become increasingly divided and, although its leader Aleksandur Tomov was re-elected at the party conference in June, around a third of the delegates set up a new grouping, the Social Democratic Movement (SDM).

(source: Economist Intelligence Unit)

ii) Bulgarian Communist Regime Criminalised

On 26 April Parliament adopted, by 123 votes in favour with one abstention and none against, a law criminalising the communist regime that existed in Bulgaria from 9 September 1944 to 10 November 1989. Georgi Panev, MP of the Union of Democratic Forces (UDF) moved the draft, and its initial version pronounced the communist regime illegitimate. However, before the second reading the term "illegitimate" was replaced by "criminal". MPs of the opposition Bulgarian Socialist Party (BSP) walked out of the chamber before opening the debate. "We leave the vote on this mock law to you, we are walking out and will be back after the Easter holidays with a motion of no confidence in the Government," BSP leader Georgi Purvanov said, taking the floor before leaving with the rest of his group.

According to one provision, the Bulgarian Communist Party leadership and its top functionaries are guilty of "the purposeful destruction of the traditional values of European civilisation, conscious oppression of basic human rights, moral and economic decline of the country, the establishment of a centralised, administer-and-command type of economy, violation of the basic principles of the right to ownership, ruining the people’s moral values and encroaching upon their religious freedom, for the incessant terror against those who disagreed with the system and for the indiscriminate destruction of nature".

On a motion by UDF MP Yulii Slavov, the MPs adopted a clause pronouncing the BCP functionaries responsible for the "unprecedented outrageous dealing with the MPs of the 25th National Assembly and all those wrongly convicted by the so-called people’s courts." All actions aimed at resisting and overthrowing the communist regime were morally justified and deserve respect, the MPs present decided. There were provisions for compensating the victims of the communist regime and for lifting the statute of limitations from crimes committed by the regime between 1944 and 1989 in the bill but they were dropped.

iii) Local government

The increasing financial problems faced by a growing number of municipalities prompted calls from the local authorities and Parliamentary Speaker, Yordan Sokolov, at a meeting between the legislative and regional authorities held in Pleven on 25 September for greater autonomy for municipalities determining regional taxes. The Finance Ministry had to release a total of 110 million leva in additional subsidies to assist 132 municipalities.

iv) Presidency

In a special radio address on 25 September President Stoyanov said that if he stood for a second term, it would be as an independent candidate. He stressed that he would not give in to political pressures from whichever side they might come and compromise his oath of office to secure a second term.

v) Bulgarians abroad

Following the government's initiative this Easter in inviting to a two-day workshop Bulgarians who had made successful careers in Western Europe, the US or with foreign companies in Bulgaria, President Stoyanov called for the formation of a Bulgarian "lobby" abroad in a speech at the close of his 'All-Bulgarian gathering' held in August to coincide with the traditional folk festival at Rozhen.

vi) Nuclear energy

Nuclear power provides more than 40% of the country's electricity production and Bulgaria exports energy to Turkey and elsewhere. Safety and environmental concerns are focussed on the Kozloduy nuclear power station near the Romanian border which employs some 6 500 people. In 1993 Bulgaria signed the Nuclear Safety Account
Agreement which foresaw the early closure of units 1 to 4 at Kozloduy, representing the highest safety risk. The EU Commission then took the view that K1 - 2 could close in 2001 and K3 - 4 in 2001/2002. In September 1998, however, the Bulgarian Government decided on longer deadlines (2005 and 2010) and requested the revision of the Nuclear Safety Account Agreement to allow the units in question to operate "till the end of their economically-justified life".

These new dates were not however in line with international commitments entered into by Bulgaria and they do not respect the Accession Partnership priority. Bulgaria was therefore invited by the Council of Ministers and the European Parliament to comply with its commitments, while the Commission declared its willingness to assist Bulgaria in closing K1 - 4, both technically and financially.

In November 1999, the Commission and Bulgaria signed an Understanding in which Bulgaria agrees to definitively close the non-upgradeable Kozloduy units 1 and 2 before the year 2003 and units 3 and 4 earlier than their scheduled end of life. On 18 April 2000, the Commission approved the granting of a loan for the project following an in-depth assessment with respect to safety, environmental, economic and financial issues. An independent evaluation of the measures to be implemented confirmed that the upgrading would raise the safety of units 5 and 6 to internationally-acceptable levels and that the project was economically and financially viable.

In May, the European Commission signed a €212.5 million loan with the Kozloduy Nuclear Power Plant. The Bulgaria government and the Bulgarian National Electrical Company would provide guarantees for the loan.

Controversy erupted again at the beginning of September when the chairman of the state agency responsible for overseeing the peaceful use of nuclear energy, Georgy Kaschiev, commenting on an incident at Kozloduy on 28 August, expressed concern at worsening safety at the plant and at the high levels of background radiation recorded. This prompted calls for his resignation from the Environment Minister Evdokiya Maneva.

vii) Foreign policy and Regional Developments

The priority foreign policy goals of the Bulgarian government are membership of the EU and NATO. A key element in Bulgaria's foreign policy is to become a stabilising factor in the Balkan region. Bulgaria has been active in the context of the Stability Pact and the South East Europe Co-operation Process. Bulgaria supported NATO action in Kosovo and contributes to KFOR and SFOR. From 1 July to 31 December 2000 Bulgaria is co-chair of Stability Pact Work Table on Security.

Romania

At the beginning of June, Bulgaria and Romania signed an agreement to build a second bridge over the Danube, boosting regional cooperation and trade between southeastern and central Europe via a route bypassing sanctions-bound Yugoslavia. The new bridge would link the Romanian port of Calafat with the Bulgarian town of Vidin. The estimated cost of €190 million will be funded by through foreign credits coming mainly from the European Union. Bulgaria had initiated the project.

Road and rail links to the bridge are also expected to get aid. Romania plans to raise $1 billion for this infrastructure, of which $700 million would go to laying down a second track in the railway between Calafat and the Hungarian border. The only existing Danube bridge between Romania and Bulgaria is a 44-year-old, two-lane rail and road span connecting the Romanian port of Giurgiu and the Bulgarian town of Ruse.

Romania, Ukraine and Moldova

In June, Romania, Bulgaria, Ukraine and Moldova signed accords to restore flood plains and wetlands in the River Danube and Black Sea and create a river delta protected area. Environment ministers from the four countries signed in Bucharest the first accord to create the Lower Danube Green Corridor, intended to add some 300,000 hectares to the existing protected areas of 773,166 hectares.

The planned corridor would include wetland, lakes, flooded forests and meadows. More than 80 percent of the Danube basin's wetlands and flood plains have been destroyed over the past 100 years. The accord is also intended to help create business opportunities including fishing and tourism and to prevent and reduce pollution in the lower Danube area.

FYR Macedonia/Albania

The Burgas-Vlore oil pipeline project to link the Bulgarian Black Sea port of Burgas with the Albanian Adriatic port of Vlore via FYROM took a step forward in July as AMBO (the Albanian, Macedonian and Bulgarian Oil Corporation began to raise money following completion of feasibility studies. The route would follow "Transport
Corridor VIII“ running alongside rail and road links already under construction. AMBO aims to raise $ 450 million of the total cost of $1 113 million by a share issue with the rest to be raised by credits from international institutions. There are various other projects for pipelines to provide a route for oil from the Caspian region to Western markets and the Balkans are seen as a transit route to bypass the already congested Bosporus Straits especially once Caspian oil production increases. Competition is intense, with several proposals aiming to pipe oil from the Romanian port of Constanta to Trieste via Hungary and Slovenia or Croatia or even FRY and Greece has also lobbied in favour of an alternative Burgas-Alexandropoulis route.

III. ECONOMIC SITUATION

Summary

Bulgaria's strong performance of the past two years is expected to continue into 2000 and 2001 with forecasted real GDP growth of 4.5% and 4.9%. The Commission¹ expects industrial production to pick up and to be driven by strong exports. In 2000 the current account deficit should be redressed in the direction of 4% of GDP, which would be a considerable reduction compared to 1999 when the negative balance on the trade in goods was only partly offset by services. Foreign direct investment can be expected to rise as a result of privatisation but additional efforts will be required to attract a future stream of green-field investments. The government's budget is expected to show a higher deficit than in 1999 but remains sufficiently close to balance. Inflation is forecasted to be around 8% for the year as a whole. Due to the restructuring of enterprises and public utilities, unemployment is increasing.

Economic policy over the next two years will focus on continuing to fulfil conditions for IMF and World Bank loans², as well as passing and implementing EU legislation as part of Bulgaria's EU accession negotiations. These policies will entail further liberalisation in the utilities sectors, particularly energy; privatisation of some of the remaining large state-owned enterprises; further reform of the healthcare sector; and, in the EU sphere, a large volume of legislation that will affect both crossborder and domestic trade. For the longer term, Bulgaria's goal of EU accession will require rapid growth over many years and substantial efforts to develop a fully competitive market economy.

Forecast Performance

The economic recovery in second half of 1999 was prompted by the end of the Kosovo conflict, and was mainly driven by higher private consumption and vigorous investment activity. GDP growth reached 2.4% in 1999. The strong increase in the level of activity is expected to continue into 2000 and 2001, mainly in relation to the economic upswing in the EU. In the Commission's forecast real GDP growth increases to 4.5% in 2000, and 4.9% in 2001. Industrial production fell by 5% in 1999 as a consequence of on-going restructuring. Sectors such as vehicles and chemicals were particularly hard hit. It is expected that industrial production will pick up in 2000 and 2001, driven by an increase in domestic demand and strong export performance.

However, challenges remain:

- Unemployment is high. Having declined to 12% in 1998, unemployment rose substantially during 1999, and reached 18% in February 2000. Official unemployment increased throughout 1999 as a result of large-scale redundancies, following the restructuring or liquidation of public sector enterprises. Poverty also remains widespread, especially among pensioners and in less developed regions.

- There is a long remaining agenda to meet the criteria for EU accession, the government's key goal. Bulgaria's per capita income is the lowest among the 12 candidate countries, and many years of very rapid growth will be required for the country to catch up with the middle-income countries in the group. Bulgaria also has some way to go in completing structural reforms to develop a fully competitive market economy. The state-owned sector


² IMF, IMF Staff Country Reports n° 00/53, 00/54, Article IV Consultation and Third Review under the Extended Arrangement, April 19, 2000.
needs a higher degree of financial discipline. Effective liquidation and bankruptcy procedures are still in the process of being put in place, slowing the exit of unviable enterprises. The emerging private sector also faces many administrative obstacles, including burdensome authorisation procedures, weak governance, and a banking system hesitant to extend credit. Bulgaria's sovereign credit rating remains well below investment grade, and cumulative foreign direct investment (FDI) at less than US$ 200 per capita is low by regional standards.

Increasing the level of FDI is a priority for the Government in the light of the low levels that Bulgaria has managed to attract since the transition began. The current macroeconomic stability is a positive factor in attracting investors and the figures for 1999 show a very significant increase compared to 1998.

Economic Policies

Privatisation

In March 2000 the Government had privatised 71% of the fixed assets eligible for privatisation. Privatisation has seen some setbacks and it is now unlikely that any more large deals will be made in 2000. Bulbank was sold for US$ 385m in July 2000 but in late July/early August the sale of the national telecommunications operator, BTC, fell through. No bidders came forward for the Bulgartabac tobacco processor and the sale of Biochim bank ran into difficulties. It also became clear that the State Insurance Institute would not be sold before the end of the year as no tender has yet been called. The sale of the State Savings Bank is also not expected until 2001.

Budget, Prices

The government consolidated budget deficit is estimated to be 1.2% of GDP in 2000. The budget deficit is expected to rise slightly in 2001, owing to infrastructure spending.

In March 2000 the 'Bulgaria 2001' programme was updated. The aim is to continue the reform but the update of the programme also announces measures to create 250,000 new jobs and a freeze of certain energy prices. Structural reform progresses within framework and timetable set out by the medium-term programme agreed with IMF. Negotiations related to the sale to foreign investors of a limited number of major state-owned enterprises has progressed slower than previously announced. An agreement with Romania on constructing a second bridge over the Danube river is an important sign of improved regional co-operation and will in the medium term contribute to more sustained growth in the region.

High international oil prices, the weak euro-linked lev and the utility price increases in January and August 2000 are expected to push annual average inflation from 0.4% in 1999 to 7.9% in 2000, before lower international commodity prices and real appreciation of the lev allow it to ease to 4.8%.

Trade

In March-June 1999, the Kosovo conflict blocked transit routes to Western Europe, raising transport costs and causing further losses in exports. In 1999, Bulgaria also faced the strains related to the most intensive stage of privatisation and restructuring: large inefficient enterprises in the traditional sectors were being phased out, and were only gradually being replaced by a dynamic private sector. The combined effect of these shocks was a sharp decline in exports.

According to preliminary figures, the current account deteriorated to a deficit of 5.5% of GDP in 1999. While imports rose due to strong domestic demand for consumer goods and capital equipment, exports of goods fell significantly. The negative balance on goods (10% of GDP) was only partly offset by the strong performance on services, including a positive development in the tourism sector. For 2000 the Commission forecasters expect the deficit to end up slightly above 4% of GDP. Some of this deficit will be covered by inflows on FDI; however, the forecast of FDI has been lowered due to unsuccessful bidding. The remainder will have to be met by foreign borrowing, mainly from multilateral lenders.

Of total Bulgarian exports in 1999, more than 54% went to the EU (compared to 24% in 1991); in 1999, more than 50% of Bulgaria's imports came from the EU (39% in 1991). Main trading partners in the EU are Germany, Italy and Greece.
Main Economic Trends and Forecast Summary

<table>
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<tr>
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<th>1999(e)</th>
<th>2000(f)</th>
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<tr>
<td>Inflation</td>
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<tr>
<td>General Government Budget Balance (% of GDP)</td>
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<td>Current Account balance (% of GDP)</td>
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<tr>
<td>Unemployment rate</td>
<td>12.2</td>
<td>14.6</td>
<td>18.1</td>
<td></td>
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<tr>
<td></td>
<td>(e) Estimate</td>
<td>(f) Forecast</td>
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</table>

IV. RELATIONS WITH THE EU

Bulgaria applied for membership of the European Union on 18 December 1995. In its opinion on Bulgaria's application delivered in July 1997, the Commission recommended, on the basis of the Copenhagen criteria, that Bulgaria should not be in the first group of countries with whom negotiations should be opened. Although it was recognised as being on track as far as meeting the political criteria was concerned, the opinion concluded that Bulgaria had made only slow progress on the economic front. On the basis of the second regular report of the Commission, Bulgaria, along with five other countries, was invited at the Helsinki summit in December 1999 to start negotiations for membership. The substantive negotiations started in March 2000.

a. Commission


Regular Reports

In November 1998, the European Commission published its first regular report on progress made towards accession by Bulgaria, followed in October 1999 by the second regular report. In its conclusions, the second report calls for further efforts to strengthen the rule of law and protect human and minority rights, notably to implement decisions in respect of the Roma. The fight against corruption and improving the functioning of the legal system are also singled out for attention, although the report does acknowledge substantial progress in the area of justice and home affairs. The report notes Bulgaria's continued "progress in establishing a functioning market economy" while concluding that "further steps are needed and it is not yet in a position to cope with competitive pressure and market forces within the Union in the medium term. Priority should be given to completing privatisation and accelerating restructuring of the enterprise and banking sectors."

While welcoming Bulgaria's efforts to put in place key elements of internal market legislation, the report emphasises "the continuing need to pay particular attention to the capacity of the administration to implement and enforce legislation".
The report sees "no significant improvement in the area of state aids". Despite progress noted in alignment in agriculture, problems of implementation are cited, as well as the need for increased veterinary inspection and the speeding up of land restitution. While acknowledging the important steps taken towards establishing a basis for regional policy, the report notes less progress in the social sector and, despite legislative progress in environment, cites the lack of an overall strategy and sectoral strategies as problematic. Some steps forward in energy policy are contrasted with the lack of progress by Bulgaria to commit itself to a realistic timetable for the closure of units 1-4 at Kozloduy nuclear power station.

While welcoming the adoption of a civil service law and important progress in establishing the legal framework for setting up institutions to apply EU legislation, the report points out the extent to which the shortage of human and financial resources has hampered them in effectively implementing the acquis.

(For the full text of the Report please consult: http://europa.eu.int/comm/enlargement/docs/index.htm).

**Assistance programmes**

Bulgaria has benefitted from the PHARE programme since 1990. Under the new SAPARD facility for agricultural and rural development, Bulgaria has an annual indicative allocation of € 52 124 000 over the period 2000 to 2006. The Bulgarian national plan was endorsed in the STAR Management Committee in September 2000 opening the way for the launch of specific programmes. Bulgaria will also be able to apply for infrastructure assistance under the ISPA instrument within an indicative 8%-12% range of the total € 1040 million annual budget.

b. **European Parliament**

When the Parliament considered its opinion on the Commission's Agenda 2000 and Opinions on the applications for membership, it was the view of the House that the enlargement process should be as inclusive as possible. On 4 December 1997, the Parliament adopted a "Resolution on the Communication from the Commission 'Agenda 2000 - for a stronger and wider Union'" (C4- 0371/97). The resolution states that Parliament "believes that all countries which do at present meet the criterion of a stable democratic order, respect for human rights and the protection of minorities laid down at Copenhagen, have the right to open the reinforced accession and negotiating process at the same time, and that this process should begin for all these countries early in 1998." Having stressed that the process should be inclusive, the resolution affirmed the Parliament's belief "that intensive negotiations on an individual basis should begin with the countries which have made the most progress and - while noting some factual inaccuracies - supports the Commission's evaluations of which these countries presently are". Specifically on Bulgaria, the resolution "considers that Bulgaria has recently made substantial efforts towards transition to a market economy, although decisive measures still need to be taken in the spheres of the environment, transport, agriculture, energy and justice; considers that a wide-ranging administrative reform at all levels is also needed if the acquis communautaire is to be applied properly." It also "stresses Bulgaria's compliance with the main political criteria and in this sense is convinced that the opening of negotiations would promote and encourage continuation of the reforms undertaken and would prevent the Bulgarian people feeling excluded, whilst reaffirming the Union's presence in a region of great instability."

The Parliament also stressed the importance of the European Conference, seeing it "as an essential instrument for political cooperation".

The EU-Bulgaria Joint Parliamentary Committee held its 10th meeting on 5-6 July 2000. It concluded that the rapid pace of the enlargement negotiating process proved that Bulgaria has the capacity to effectively play its full part in the negotiations. The Committee noted the consensus in the Bulgarian Parliament for EU membership and the creation of a new standing committee, the Council on European Issues, to assess legislative priorities and check compliance of draft legislation with the acquis. The Joint Committee acknowledged the Bulgarian economy's resumed growth and called for development of a favourable business climate, efforts to overcome structural unemployment, social protection as the accompaniment to economic reform, and the maximisation of transparency in restructuring and privatising state monopolies. It welcomed the start of the implementation phase of the new framework programme for the re-integration of the Roma population. The Committee urged further action to fight corruption and improve institutional capacity, notably by strengthening the judiciary. It recognised the plan to upgrade border protection to Schengen standards by the end of 2001 as a valuable ambition while highlighting the practical difficulties to be overcome.

In the context of the annual debate on enlargement which the Conference of Presidents of the European Parliament decided to hold as of the first October 2000 plenary session, the Committee on Foreign Affairs adopted on 14 September a series of country reports as well as a global report on enlargement. The report on Bulgaria was drafted for the committee by Geoffrey Van Orden.
c. Council of Ministers

Following the conclusion of the Intergovernmental Conference in Amsterdam in June 1997, the Council, meeting in Luxembourg in December 1997, decided to "launch an accession process comprising the ten central and eastern European applicant states and Cyprus". In addition, the Council "decided to convene bilateral intergovernmental conferences in the spring of 1998 to begin negotiations with Cyprus, Hungary, Poland, Estonia, the Czech Republic and Slovenia on the conditions for their entry into the Union and the ensuing Treaty adjustments". The enlargement process was duly launched in London on 12 March 1998, with the first European Conference.

At Helsinki in December 1999, the European Council "decided to convene bilateral intergovernmental conferences in February 2000 to begin negotiations with Romania, Slovakia, Latvia, Lithuania, Bulgaria and Malta on the conditions for their entry into the Union and the ensuing Treaty adjustments." It stressed that "in the negotiations, each candidate State will be judged on its own merits. This principle will apply both to opening of the various negotiating chapters and to the conduct of the negotiations. In order to maintain momentum in the negotiations, cumbersome procedures should be avoided. Candidate States which have now been brought into the negotiating process will have the possibility to catch up within a reasonable period of time with those already in negotiations if they have made sufficient progress in their preparations. Progress in negotiations must go hand in hand with progress in incorporating the acquis into legislation and actually implementing and enforcing it."

Negotiations

Substantive accession negotiations started at deputy level on 28 March 2000 with a second session on 25 May. Negotiations with Bulgaria started on six chapters of the acquis communautaire: small and medium sized enterprises; science and research; education, professional training and youth; external economic relations; cultural and audiovisual policy; and common and security policy. At the Second Accession Conference at Ministerial level on 14 June four chapters were provisionally closed, with culture and audiovisual policy expected to be closed following adoption of changes to the law regulating radio and TV broadcasting. The main obstacle to closing the chapter on external relations is Bulgaria's insistence on maintaining its recently signed agreements with FYROM covering free trade and other areas deemed incompatible with EU membership, at least until the EU concludes a stabilisation and association agreement with FYROM. Bulgaria has also presented position papers on Statistics, Telecommunications, Consumer Protection and Health, Industrial Policy, Company Law and Competition Policy.

d. Position of the Bulgarian Government

The Bulgarian government considers accession to the EU an important strategic objective, which will help increase prosperity, and strengthen the rule of law and the role of the market economy. It welcomed the decision to have as inclusive an enlargement process as possible, but accepted that accession was not a single political act, but a lengthy process demanding the mobilisation of the whole of Bulgarian society in its effort to embrace European values.

Noting the significant achievements made at the end of the first phase of the negotiations in June 2000, the Bulgarian Foreign Minister stressed Bulgaria's resolve to keep the process of alignment with the acquis on track and to translate the commitments given during the negotiations into national legislation. On the specific chapters still open, the Bulgarian Government was confident the amendments to the Radio and Television Law would soon be approved and hoped that rapid progress would be made under the French Presidency towards the successful conclusion of a stabilisation and association agreement with FYROM.
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Tel: (32) 2 284 3072 / Fax: (32) 2 284 9063 / e-mail: aisaacs@europarl.eu.int
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Division for International and Constitutional Affairs/Luxembourg
Tel: (352) 4300 23707 / e-mail elensen@europarl.eu.int

Sources: Economist Intelligence Unit, BBC Monitoring Service, Bulgarian Radio, Bulgarian News Agency, Oxford Analytica Data Base, European Economy – Economic Reform Monitor (European Commission), Radio Free Europe, Reuters

Annexes:

1. Government List
2. External Trade of Bulgaria 1991-1999
   Share of EU in External Trade of Bulgaria 1991-1999
3. Basic Statistics for Applicant Countries in Central and Eastern Europe
GOVERNMENT LIST AT 24 MAY 2000

President**. Peter STOYANOV
Vice-president** Todor KAVALDZHIEV
(**Sworn in 19 Jan 97, took office 22 Jan)

CABINET: (Formed 21 May 97, reshuffled 21 Dec 1999)
Prime Minister Ivan KOSTOV
(Also Minister of State Administration)
Deputy Prime Minister Petar ZHOTEV
(Also Minister of Economy)

MINISTERS:
Agriculture & Forests Ventsislav VARBANOV
Culture Ema MOSKOVA
Defence Boiko NOEV
Ecology & Water Evdokia MANEVA
Economy Petar ZHOTEV
Education & Science Dimitar DIMITROV
Finance Muravei RADEV
Foreign Affairs Nadezhda MIHAIOLOVA
Health Ilko SEMERDZHIEV
Interior Emanuil YORDANOV
Justice Teodossyi SIMEONOV
Labour & Social Care Policy Ivan NEIKOV
Regional Development & Public Works Evgeni CHACHEV
State Administration Ivan KOSTOV
Transport & Communications Antoni SLAVINSKI
Without Portfolio Alexander PRAMATARSKI

Parliamentary Speaker Yordan SOKOLOV

Central Bank Governor Svetoslav GAVRIISKI

### Export

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<th>EU Mio ECU</th>
<th>Share</th>
<th>Total Mio ECU</th>
<th>EU Mio ECU</th>
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<td>1994</td>
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<td>1999</td>
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### Import

Sources: Direction of Trade Statistics, Yearbooks, IMF COMEXT, EUROSTAT

Production: JDa/Parliamentary Documentation Centre/European Parliament

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Production: JDa/PDC/EP
## Basic statistics for applicant countries in Central and Eastern Europe

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<th>Latvia</th>
<th>Lithuania</th>
<th>Czech Rep.</th>
<th>Hungary</th>
<th>Poland</th>
<th>Slovakia</th>
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<th>Romania</th>
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<th>European Union</th>
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<td><strong>Area (1000 sq. km)</strong></td>
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<td>64.6</td>
<td>65.2</td>
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<td><strong>Population (MIO, 1st January 1999)</strong></td>
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<td>2.4</td>
<td>2.7</td>
<td>103.0</td>
<td>10.1</td>
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<td><strong>Population (per sq. km)</strong></td>
<td>32</td>
<td>38</td>
<td>57</td>
<td>130</td>
<td>108</td>
<td>124</td>
<td>110</td>
<td>98</td>
<td>74</td>
<td>95</td>
<td>98</td>
<td>118</td>
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<td><strong>Infant mortality (per 1000, in 1998)</strong></td>
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<td>15.0</td>
<td>9.3</td>
<td>5.2</td>
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<td>9.5</td>
<td>8.8</td>
<td>5.0</td>
<td>14.4</td>
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<td><strong>Expectation of life at birth, 1997-98: Women</strong></td>
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<td>74.9</td>
<td>76.8</td>
<td>78.1</td>
<td>75.1</td>
<td>77.3</td>
<td>76.7</td>
<td>78.7</td>
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<td>65.9</td>
<td>71.1</td>
<td>66.4</td>
<td>68.9</td>
<td>68.6</td>
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<td>67.1</td>
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<td>50.4</td>
<td>44.9</td>
<td>46.8</td>
<td>48.8</td>
<td>48.7</td>
<td>43.9</td>
<td>47.7</td>
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<td><strong>Gross domestic product (1992), in 1000 MIO EUR:</strong></td>
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<td>57.7</td>
<td>56.0</td>
<td>49.8</td>
<td>44.4</td>
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<td><strong>GDP per capita in Purchasing Power Parity (1998)</strong></td>
<td>28</td>
<td>27</td>
<td>26.6</td>
<td>27.9</td>
<td>27.2</td>
<td>19.5</td>
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<td><strong>GDP per capita in Purchasing Power Parity (1998)</strong></td>
<td>57</td>
<td>56</td>
<td>55</td>
<td>54</td>
<td>53</td>
<td>53</td>
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<td>45</td>
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<td><strong>GDP per capita in Purchasing Power Parity (1998)</strong></td>
<td>27.1</td>
<td>28.9</td>
<td>39.6</td>
<td>48.8</td>
<td>51.4</td>
<td>52.7</td>
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<td><strong>Balance of payment (1999, MIO USD):</strong></td>
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<td>Merchandise exports (fob)</td>
<td>2.880</td>
<td>2.011</td>
<td>2.962</td>
<td>2.635</td>
<td>2.897</td>
<td>2.962</td>
<td>1.467</td>
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<td>Total external debt (1999, MIO USD):</td>
<td>782</td>
<td>756</td>
<td>1.910</td>
<td>25.261</td>
<td>28.568</td>
<td>47.728</td>
<td>2.927</td>
<td>2.927</td>
<td>2.927</td>
<td>2.927</td>
<td>22.46</td>
<td>139.46</td>
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<td>Debt service as % of exports of goods and services:</td>
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<td>2.2</td>
<td>3.3</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
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<td>Labour force (% of civilian employment by sector):</td>
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<td>Agriculture</td>
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<td>18.3</td>
<td>5.8</td>
<td>7.9</td>
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<td>Industry (Mining, manufacturing, construction and electricity, gas and water supply)</td>
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<td>Labour participation rate: Total:</td>
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<td>51</td>
<td>54</td>
<td>46</td>
<td>50</td>
<td>52</td>
<td>48</td>
<td>53</td>
<td>47</td>
<td>49.9</td>
<td>55</td>
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<td>Women</td>
<td>56</td>
<td>55</td>
<td>51</td>
<td>54</td>
<td>46</td>
<td>50</td>
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<td>48</td>
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<td>Adult literacy rate (%), 1997</td>
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<td>3.8</td>
<td>4.6</td>
<td>5.2</td>
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<td>3.7</td>
<td>6.0</td>
<td>3.3</td>
<td>3.3</td>
<td>n.a.(4)</td>
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<td>Internet hosts/1000 inhabitants (January 1999):</td>
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Source: Eurostat, IMF, OECD, UN and World Bank

Production: EU/Parliamentary Documentation Centre/European Parliament (07/09/2000)

(1) Population under 15 and over 64 as % of population between 15 and 64; (2) A lower figure indicates a more even income distribution; (3) net, excluding Greece;
(4) Donor aid only; (5) Italy minus (4); (6) Based on these indicators: 1 longevity, 2 educational attainment and 3 standard of living measured by GDP per capita in PPP (see Human Dev. Report, UNDP)

Note: Weightings in relations to populations or GDP (in 1997), bold italic and underlined text/figures indicate updated and/or revised data

Conversion rate: 1998: 1 ECU=1.121 USD; 1999: 1 E = 1.066