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Outlook on Bulgaria 2018

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World Leader: Bulgarian Outsourcing • Bulgarian Auto: Ripe for Investment • Is Bulgaria Really as Corrupt as the Headlines Would Suggest? • Feeling Good: FDI in Bulgaria • Staying Positive: Bulgaria in the EU



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ISSN 2399-7605

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BULGARIA

IN BRIEF

Bulgarian assumed the rotating six-month presidency of the European Council on January 1. During a ceremony in Sofia to mark the occasion the country's Prime Minister Boyko Borisov set out four priorities for the Bulgarian presidency: "The future of Europe and young people, the European prospects of the Western Balkans and the connectivity between the EU and the Western Balkans, a secure and stable Europe, digital economy and the skills needed for the future."

Just two days after Bulgaria assumed the presidency, President Rumen Radev vetoed an anti-corruption bill passed in parliament in December, saying it would not be effective. He argued that the bill would not be independent and could be used to persecute political opponents. The EU has been pressing the government to take steps to rein in administrative and political corruption for years. Anti-corruption agency Transparency International has said Bulgaria is the most corrupt country in the bloc.

On January 9, influential businessman Petar Hristov was shot dead outside his office in broad daylight in Sofia, in a case which raised serious questions about organised crime in Bulgaria. Mr Hristov was a 49-year-old executive said to have close ties to Bulgaria's ruling party. He was shot in the chest while getting into his jeep. He was taken to hospital but died of his wounds soon after. Mr Hristov was the owner of a large dairy compa-

ny, Laktima, and also had interests in construction, real estate and tourism.

In early January, plans to create one of Europe's largest ski areas in the mountains above the town of Bansko provoked some of the largest public protests Bulgaria has seen since the fall of communism in 1990. According to the World Wildlife Fund (WWF) the plans for the extended Bansko ski area threaten a World Heritage site home to bears, chamois, wolves and centuries old pine forests.

Bulgaria's Finance Minister Vladislav Goranov suggested in January that the Balkan country is ready to join the eurozone, and that it will take its first steps along the road to adopting the single currency this summer. Mr Goranov told assembled journalists in Sofia that Bulgaria will "most likely apply in the first semester" to join the EU Exchange Rate Mechanism (ERM II), the successor to ERM which helps non euro-area countries prepare themselves for participation in the euro area. The convergence criterion on exchange rate stability requires participation in ERM II.

Bulgaria performed well in the latest Open Budget Survey (OBS), which assesses budget accountability and transparency in 115 countries across the world. The country was ranked 21st worldwide, fourth in emerging Europe behind Georgia, Romania and Slovenia.

Foreign Minister Ekaterina Zakharieva welcomed the publication of the European Commission's Western Balkans

strategy in February and committed Bulgaria to doing all it can to further the European integration of the regions. "We welcome the commission's readiness to support the countries of the Western Balkans with six new initiatives to strengthen the rule of law, security and migration, socio-economic development, transport and energy connectivity, the digital agenda and the abandonment of roaming and good neighbourly relations," she said. Bulgaria will host a Western Balkans summit in Sofia in May.

The Bulgarian outsourcing industry continued to grow. In February, the Bulgarian Outsourcing Association (BOA) announced that as many as 20,000 new jobs might be needed within the sector by 2020. The outsourcing industry in Bulgaria has evolved of late, moving from what were merely call centre-related activities to more complex processes including analytics, building, maintaining and securing growth of core business operations. According to the BOA, the outsourcing industry is expected to generate a turnover of 2.5 billion euros, or 4.3 per cent of the GDP, by 2020.

In March, Bulgaria was ticked off by the EU for not meeting the requirements of the Third Energy Package for the liberalisation of the electricity and gas market. According to the European Commission, Bulgaria misapplied several of the requirements of the directive regarding the separation of networks from gen-

eration and supply activities and the separation of transmission system operators. "The Commission expects all member states to fully comply with the EU acquis, and, if necessary, we stand ready to offer technical assistance to our member states in order to ensure that they will meet those requirements," Anna-Kaisa Itkonen, European Commission spokesperson for climate action and energy told *Emerging Europe*.

A state commission claimed in March that the renowned Bulgarian psychoanalyst and philosopher Julia Kristeva worked as an agent and collaborator with the Balkan country's secret services during the communist era. Kristeva, 76, is the author of more than 30 books and worked alongside leading French intellectuals such as Jacques Derrida, Jacques Lacan and Roland Barthes. The commission that identifies people who had worked for the communist-era secret services alleged that Kristeva, under the code name 'Sabina', had been a

collaborator for the first department of the Committee for State Security. The department oversaw intelligence in the area of the arts and mass media.

The Bulgarian Euroins Insurance Group (EIG), one of the largest independent insurance groups in emerging Europe, announced on April 17 that it had bought ERV Ukraine, the travel insurance business of Germany-based ERGO, part of Munich-Re. With purchase agreements signed, the deal is expected to be finalised once regulatory approval has been granted. EIG did not disclose how much it would pay for ERV Ukraine. "The acquisition of ERGO's travel insurance business in Ukraine is in line with our strategy to expand and diversify our portfolio in Eastern Europe and strengthens our position as a leading insurance group in the region," said Kiril Boshov, CEO of EIG.

Later in April the Bulgarian football club Slavia Sofia have sacked Kenya international Aboud Omar, accusing the defender of insulting his team mates and

coaches. In a statement the club said the problems had been going on for several months and that he had also shown disrespect to Bulgaria. "I decided to remove Aboud Omar from the team and his contractual relations with the club will be suspended under the existing legal order," Slavia president Ventseslav Stefanov said in a statement. The 25-year-old left back became the first Kenyan player in the Bulgarian league when he joined them in 2016.

The Bulgarian seaside resort of Sunny Beach was named as the cheapest European beach holiday destination for 2018 in the 12th annual Post Office Travel Money Holiday Costs Barometer. The ranking looked at the price of nine typical holiday items – a cup of coffee, a bottle of local beer, a Coca-Cola, a glass of wine, a bottle of water, sunscreen, insect repellent, a two-course lunch for two, and a three-course evening meal for two with a bottle of house wine, the cost of which in Sunny Beach is less than 50 euros.



Maintaining Relationships

Alexander Manolev, the Bulgarian deputy minister of economy, speaks to Andrew Wrobel about the country's stability and potential.

Andrew Wrobel: In April 2016, I spoke to Bojidar Loukarsky, the then minister of economy, who told me that Bulgaria was an island of stability in Europe. Is it still?

Alexander Manolev: It is, and several facts strongly confirm this statement. First of all, the political stability — the last parliamentary elections a year ago confirmed the credibility of the largest political party in Bulgaria, which has a stable majority and a clear horizon of governance. Moreover, the main priority is to maintain macroeconomic and fiscal stability to create conditions for economic growth. I can say that this is a trend we have maintained in recent years. Preliminary data for GDP in 2017 demonstrate growth of 3.6 per cent in 2017 and 3.9 per cent in 2016. The 2017 current account balance was positive at about 2 billion euros and at the end of January 2018 it is about 140 million euros. There has also been a steady decline in unemployment since 2015, with a rate of 7.1 per cent in 2017 and it keeps falling. So I can say that the good macroeconomic indicators and political stability are key factors in attracting more investment and guaranteeing sustainable economic growth.

But we are not satisfied with these achievements. Today we are faced with many challenges, not only at national level, but also internationally — globalisation, declining demographics, migration, the need for timely measures on environmental protection, increasing resource constraints, as well as the need to introduce technical and technological innovations. Global changes in recent years and advancement of partners and competitors call

for decisive action and even closer cooperation to ensure the future in the coming decades. When we talk about stability, we do not mean only Bulgaria, but also the entire region. One of the priorities of the Bulgarian Presidency of the Council of the EU is security and stability in the Western Balkans. And our country strives to be an active participant in the integration process and strengthening the cooperation among all countries in the region. The aim is to ensure the connectivity of the Western Balkan countries - transport, energy, educational and digital – consistent with our continuing efforts over the years for their European perspective.

Before I continue with the challenges, let me circle back to the 3.6 per cent growth. What is your forecast for 2018 like?

Indeed, the Bulgarian economy reported 3.6 per cent real growth in 2017, with an expected 4 per cent in the September 2017 forecast. This was due to the stronger negative contribution of net exports, while domestic demand performed better than expected. According to the Ministry of Finance forecast, GDP growth is expected to accelerate to 3.9 per cent in 2018, with domestic demand continuing to be the driving force.

GDP growth rates are expected to remain relatively high in the future. Consumption is expected to rise by 5 per cent and the growth of fixed capital investment is expected to reach 10 per cent. Similarly, the forecast for 2020-2021 is good. Of course, we have GDP growth, but we must strive for even better results to catch up with Western European countries.

So we have the growing economy but when we look at the business climate it seems the situation has deteriorated. In the 2017 Doing Business ranking the country came 39th and in 2018 Bulgaria ranked 50th. Has the government introduced any necessary reforms?

Allow me disagree with you. This year the ranking methodology has been changed, so the results should not be compared automatically with the previous year. Bulgaria is performing well in cross-border trade indicators (21st place), protection of minority share-holders (24th place), execution of contracts (40th place) and loans (42nd place).

But the methodology changes frequently and some countries go up or down.

Of course there are lower score indicators and we are aware of those issues. We face many challenges and yet I think we are progressing and achieving better results. And this is confirmed by a number of surveys and studies that various organisations and embassies undertake with foreign businesses in Bulgaria. For example, according to German-Bulgarian Chamber of Commerce research, over 90 per cent of German companies in Bulgaria would invest again in our country if they had this opportunity. Another survey, made by the Embassy of Sweden and processed in their country, among their businesses, shows that 74 per cent of Swedish companies in Bulgaria are planning to expand their operations over the next three years and 94 per cent of the existing investors will maintain or expand their activity



Alexander Manolev. Photo courtesy Bulgarian Ministry of Economy

here. Similar data is available for Italian businesses and third-country companies. For me this is the most credible indicator of the business environment in Bulgaria and reflective of the attitude of foreign investors.

However, as I said, it does not mean there is nothing to improve. On the contrary, we maintain relationships with business and we aim to constantly improve the environment and solve the problems they face. As an example, I can point out that reducing the administrative burden is a top priority not only for the ministry of economy

but also for the whole government. We have made a review of all services and regimes our ministry is responsible for, and we made changes affecting 60 per cent of them such as reducing or dropping fees; reduction of required documents; digitalisation of services. Equally strong measures are taken throughout the administration - ministries, agencies, etc. I can talk a great deal about the things we do — the support for small and medium-sized enterprises, attracting investment in value-added sectors of the economy, the promotion of implementation and

development of innovation. Many of these priorities are supported by the matching budgets. So I think the business environment in Bulgaria is constantly improving and with the joint efforts of the private sector and the state, I hope we will achieve even better results.

In January 2017, Bulgaria celebrated its 10th anniversary as an EU member state. Now we are half way through the Bulgarian Presidency of the Council of the European Union, which you briefly mentioned. Do you

think people's expectations related to the EU membership have been met?

I think there is no EU state where people's expectations regarding the membership have been completely fulfilled. Moreover, the EU is a living organism that continues to grow and improve. As far as Bulgaria is concerned people's expectations generally about the transition to democracy and particularly joining the EU were higher in terms of the pace of the reforms. Bulgarians were not prepared for the extended process and the high price which this journey required. Nevertheless, EU membership was a motivating and unifying driver for our society which we accomplished relatively quickly. The macroeconomic indicators prove we have achieved remarkable results after accession – the GDP has doubled; exports have reached record heights and our economy has attracted billions of investment. The outcome for a large number of our companies was their successful integration into the value added supply chains within the EU.

A good example is the establishment of the Bulgarian automotive parts and components which is interconnected with the EU automotive industry. Bulgaria's exports have increased over 30 times after the year 2000 and more than 10 times following the accession with 80 per cent destined to the EU.

Another compelling example is the apparel industry which has started its integration within EU supply chains since the beginning of the 21st century. It is a primary driver for our exports and improved competitiveness with 90 per cent of the production aimed at EU markets. Bulgaria benefits greatly from the EU's Cohesion Policy which has a major impact on our economy and the country as whole. But these outcomes are still to be felt in further increasing individual incomes and wealth.

This continues to be our primary goal which will improve people's satisfaction with the membership. However Bulgarians are optimistic about the EU. A recent study by the EU Repre-

sentation in Bulgaria marking the decade of our accession showed that since 2007 the approval of EU membership has maintained its level of 50 per cent with 16 per cent dissatisfaction and 34 per cent undecided.

I promised to come back to the challenges, and demographics is a real issue in Bulgaria. The population has already fallen and base-line scenarios predict a further decline by approximately 7 per cent by 2030. How do you see that?

Indeed, the negative EU trends for ageing population and declining birth rates are very prominent in Bulgaria. Tackling those issues is of primary importance for the government which takes multi-faceted measures in reducing the brain drain, attracting emigrants to return home, encouraging young entrepreneurs, sustainable economic development, maintain the intellectual capacity and wellbeing of the people.

It is our priority to strengthen the ties between education and the labour market by introducing and implementing dual education. We encourage employers to engage in defining the curriculums to reflect their regional needs so that schools could meet those expectations. As such we aim to enhance balanced regional development and create regional sector specialisation. We have drafted a contract between employers and students so that their employment is guaranteed during education and after graduation. These measures correspond with people's aspirations to find work closer to their homes and relatives. But if some sectors are underdeveloped and underpaid it is only natural for people to look for professional opportunities. We are trying to reverse this trend.

Our National Strategy for SME Promotion 2014-2020 features a special focus on Entrepreneurship by aiming to support young entrepreneurs and entrepreneurship education in schools. We have a longstanding tradition as a Ministry to deliver projects which stimulate entrepreneurs to start

their own companies and engage with innovation. We also allocate financial resources to educate students on the benefits and mechanisms of starting their own business. We also manage the EU Operational Programme Competitiveness and Innovation which in 2018 will provide 35 million euros to reinforce start-ups. The increase of Bulgaria's competitiveness will support our efforts to reverse the negative trends we have discussed.

I also need to ask you about corruption. This year's Corruption Perception Index ranks Bulgaria 43rd. That doesn't seem to have changed, does it?

This is again a top priority for the government and a number of specific actions have been taken over the last year, many of which in line with the recommendations of the European Commission's Co-operation and Evaluation Mechanism. A package of legislative changes has been adopted. We have also developed a National Strategy for Prevention and Counteraction to Corruption, which envisages building an effective system of anti-corruption bodies and units, strengthening the capacity of the institutions and improving the inter-institutional co-operation.

A Law on Counteracting Corruption and the Removal of Unlawfully Acquired Property, which creates an effective mechanism for counteracting high-level corruption, has already been adopted. According to its provisions, a centralised anti-corruption body was established. The Code of Criminal Procedure has also been amended and detailed as the Special Criminal Court will now address corruption offences.

I'm not a specialist on the subject, of course, and I do not want to go into details, but since the formation of the government, many decisive actions have been undertaken. I also want to assure all potential investors that the institutions in Bulgaria will react to every signal and even to the least suspicion of exerting pressure or any attempt for corrupt practices.



Alexander Manolev. Photo courtesy Bulgarian Ministry of Economy

Finally, in June the EBRD and Emerging Europe are organising an investment conference showcasing investment opportunities in London. What generally makes Bulgaria attractive for investors? What will be your message for investors?

There are quite a few of them. Bulgaria has the lowest tax rates in the EU — a 10 per cent total direct tax rate, a 5 per cent dividend tax and the lowest operating costs in Europe. Computers, software, new equipment and assets have a 50 per cent annual depreciation. Good labour qualifications are highly appreciated by foreign investors. At the same time, we have the lowest operational costs and our country has proven to be politically and economically stable. A number of incentives are also offered under the Investment Promotion Act, and each serious company receives personalised service from the Bulgarian Investment Agency throughout the whole investment process.

Investors appreciate the beneficial environment. Suffice it to say that over the last ten years, according to Bul-

garian National Bank, over 29 billion euros have been invested in Bulgaria. The first among foreign investors is the Netherlands (with over 6 billion euros), followed by Austria (with nearly 3 billion euros), Germany (over 2 billion euros) and Greece (1.9 billion euros). In other words, a very solid base has been created in our country, which we need to continue to improve.

In line with the objectives of the Europe 2020 Strategy for sustainable growth driven by knowledge and innovation, the main objectives of Bulgaria's investment policy are to increase investments for technological development in high value-added manufacturing and services and to generate new high-productivity jobs. We aim to undertake integrated counteraction to negative trends in investment activity and employment. We strive to promote industrial zones actively as value-added locations for potential investors. Most of them are managed by the state through a national company, and this provides additional security for companies.

As I said, with investments we also

try to develop what we have achieved so far. Bulgaria has the fastest growing ICT sector in Southeastern Europe, and we are expecting these professionals to create the world we will live in tomorrow. That is why we must do our best to retain these experts in our country and educate their successors. There are a lot of changes in the service sector and we achieve top rankings along with the best outsourcing locations in Europe. And let me point out that this is also a sector of the future that will be driven much more by knowledge resources than the low cost of raw materials. Mechanical engineering creates jobs for thousands of people in Bulgaria, and the sector is expected to grow in the next years due to constantly evolving and intelligent technologies. Undoubtedly the automotive industry is one of the fastest growing sectors of the Bulgarian economy. A lot of interesting things are going to happen in this sector, and many of them are related to high technology. A lot of other sectors also deserve to be mentioned, including electronics. ▲

For Aerospace Investors, the Glamour is Back



Vesselin Vassilev



The aerospace sector worldwide is today steadily and rapidly regaining its technological glamour and high business attractiveness, involving not only old and new players in its various supply and value chains but also general pub-

lic fans of aviation and space, including the always eager for new excitement young people.

All of this is due both to the rapid and exciting development of new technologies allowing us to fly easily and safely – from the fast development of new aeroplane designs (including

materials, avionics, engines), through various types of personally operated UAVs, to novel non-aeroplane family flight devices such as ‘flying car’, gyrocopters, or even new exciting sports flying equipment such as ‘flight suite’, or ‘iron man’ style equipment, and much else.



Lowering the barriers

The development of new commercial end-user products and services lowering the barrier between the user and aerospace technology (e.g. personal courier services by drones or even the low-cost airline flights, and not to forget security and defence applications and services-aerial imagery and surveillance), further widens the base for rising interest in aerospace sector development, and the use of aerospace technologies in all layers of society. As identified by a number of different studies, the sector has the typical potential to offer the amazing figure of over 400 per cent return on investment in a typical five-year investment horizon. Aerospace is exciting, inspiring and profitable even under slow economic growth conditions. Aerospace expertise today is also largely distributed among various players, thus the bottom-up approach of structuring and executing academic, public and commercial activities is highly feasible and provides competitive advantage for old and new players. The number of start-ups active in the areas of aerospace technologies, UAVs, space technology and their applications is constantly increasing and driving a new ecosystem, complimenting but also gradually changing the game in the sector.

Bulgaria is one of the EU countries having certainly strong but largely unexplored potential for developing of aerospace industry. Bulgarian aerospace-oriented business and users are speeding up to take part of the global developments in the sector. Historically, the country was among the pioneers of aviation – being among the first worldwide to use airplanes in military operations during the Balkan war (1912 – 1913) and setting up a national aircraft design and manufacturing industry (1925-1954), with more than 40 aircraft designs and 1000 aircraft units manufactured. Over the years Bulgarian scientists, engineers and experts contributed and held lead positions with different aerospace companies worldwide (Boeing, NASA and others)

and also contributed to the development in the last few decades of a strong national aircraft maintenance and repair industry – both civil and defence oriented.

Bulgaria in space

Bulgarian aerospace and engineering sciences expertise also led the development of national space science and engineering activities, leading to Bulgaria becoming in 1968 the 18th space nation by launching a nationally-developed satellite payload, and further implementing two national human space flight science programs (1979 and 1988) and various scientific instruments within the former East European INTERCOSMOS program.

The Bulgarian public today is among the leaders in the EU willing to support increased EU investment in aviation and space R&TD, infrastructure and services, as shown by some of the European Commission's Eurobarometer survey series. Bulgarian engineers and professionals are excited by aviation and space activities, willing to dedicate their expertise, energy and career into the sector. Excellent aircraft maintenance engineering education is among the lead factors driving the development today of Bulgaria as a European hub for both civil and military aircraft maintenance and service. The strong world-class engineering expertise of Bulgarian professionals and SMEs in areas such as ICT, electronics (including avionics), mechanical engineering, composites (including carbon fibre), embedded systems, high-speed wireless communications, radars and full systems development and other, is the ground for further developing an aircraft design, aircraft production and aircraft modernisation industry and related business models, including activities related to ground operations and services and air-traffic management.

Exciting times


In addition to the number of potential vendors through the whole supply

chain, there already exist a number of players with expertise in full aircraft and aircraft system design and production – starting from ultra-light sports and recreation airplane design and assembly including avionics, through the development of novel UAV systems for commercial and defence applications (for example long range and time of flight, high payload and speeds). Furthermore, such technological expertise is a strong driver for creating a national space sector industry, largely stimulated by Bulgaria's associate membership with ESA. There has been increasing attention over the last few years of government bodies to the development of the aerospace industry - opening new opportunities for business activities both in the civil sector, by providing various incentives and support to investors, but also through the national plan for air force modernisation and related purchase and long-term aircraft and aircraft systems maintenance. It is also worth mentioning some new initiatives of the regional authorities in the sector – the participation of Sofia municipality in the aerospace city of the future initiative of the Financial Times, the initiatives of the public and private bodies to develop a national network of small airfields to serve the increasing number of private aircraft owners and pilots.

As such, it is correct to say that today the aerospace sector in Bulgaria, although in its initial development phase, offers an exciting and a rapidly growing number of opportunities for achieving excellent R&D and business results to the benefit of both the vendors and the users of the aviation and space related technologies, products and services. Let's explore these opportunities together! ▲

Dr Vesselin Vassilev is the CEO of the independent industry-driven Bulgaria-based consortia Cluster for Aerospace Technologies, Research and Applications”(CASTRA, castra.org).

Energising Industry

 Claudia Patricolo

Bulgaria's energy sector is one of the main exporters of electricity in South Eastern Europe, and is among the best performing countries in the EU when it comes to green power.

Bulgaria is currently ranked as number 44 on the Energy Architecture Performance Index Report, a benchmark of 126 countries, which indicates that it has improved energy efficiency in recent years.

Most of the country's power is generated by the two working nuclear power plants at Kozloduy, which produce one third of Bulgaria's electricity. Some of the rest is coal-powered, primarily from the mines at Maritsa Iztok, which, according to the World Coal Institute, produces 88 per cent of Bulgaria's total coal output for generating both heat and electricity.

This could be problematic if, as expected, the price of extracted lignite increases, threatening the viability of the mine.

"Coal is a basic raw material for all energy. If its price is increased, it will cause a rise in prices throughout the entire production chain," Minister of Energy Temenujka Petkova said, after a meeting with representatives of Maritsa Iztok.

However, Mrs Petkova also stressed how things have changed since the new government took office in 2014. "The mines were in extremely poor financial condition, even wages did not reach the minimum level. Now the situation is radically changed: for the first time the company has positive financial results, and revenues have increased as well as the wages."

Black gold

Bulgaria has also the biggest oil refinery in the Balkans: Lukoil (Lu-



koil Neftochim Burgas), which was purchased by the Russians in 1999. Although oil is mainly imported from Russia, the country is becoming less dependent on it due to pipeline connections to Turkey, Greece and Macedonia.

"Bulgarian participation in the project to build a liquefied natural gas terminal near Alexandroupolis is strategically important for the diversification and security of energy supply," added Mrs Petkova said.

"The procedures for choosing a pipe supplier and an engineering consultant are underway. The first of these procedures involves 10 candidates from different continents, which is a sign of the assessment that business gives to the promise of the project. By the end of April, the participants in the second round of the competition will be an-

nounced, and the contractor will be selected in June."

Furthermore, in 2016 Bulgaria signed an agreement with Romania for an underwater section of gas interconnector. This interconnection will bring Bulgaria one step closer to implementing the European Energy Union's principles of a more secure and stable energy delivery for Bulgaria and its neighbouring countries.

But how does Bulgaria aim to move from a transit country for Russian gas to an energy trading centre?

"To be honest, I don't see how it could be implemented as Bulgaria has gas connections only with the Russian pipelines through Romania (in Greece a new pipeline is under construction linking Turkey to Western Greece and on to Italy). Taking into account the

current political situation there are almost no possibilities to get gas from the Middle East due to the insecure political situation in the region,” Evelina Stoykova, manager at the Sofia Energy Centre tells Emerging Europe.

Renewable

When it comes to renewable energy, there is no doubt that Bulgaria is performing well. According to Eurostat, Bulgaria reached a 19 per cent share of green energy production by 2012 – well above its mandatory target of 16 per cent for 2020, and well ahead of schedule.

“In Bulgaria we have only low-quality coal which has little future. The main potential now is nuclear and solar energy,” Mrs Stoykova says.

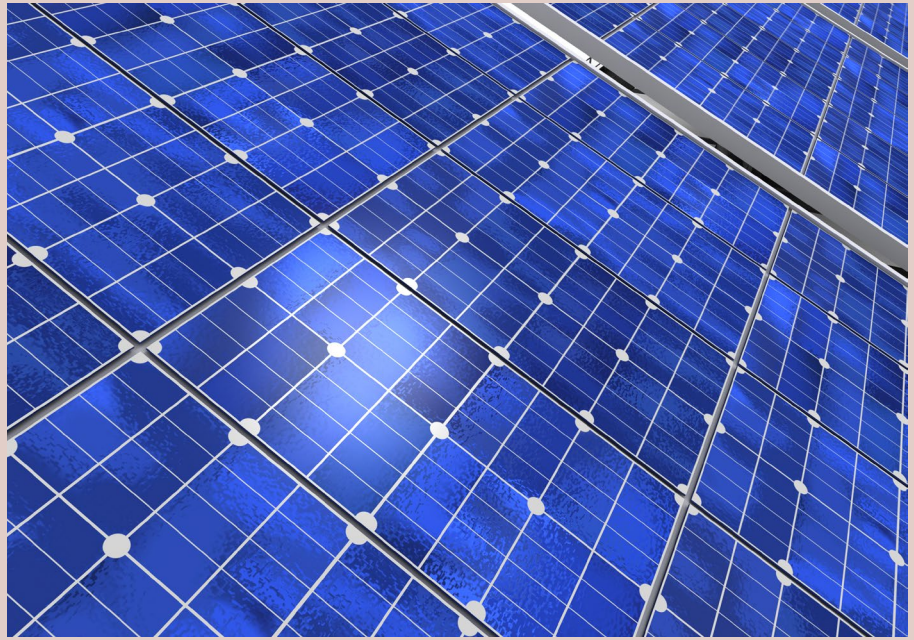
Currently 80 per cent of the territory of Bulgaria is suitable for utilisation of solar energy.

“Using the sun for energy is not new. It is the largest renewable source of electricity. There are many technologies to use solar. They apply in different spheres of life: residential, commercial and industrial, agriculture and transport,” said Dimitar Believe, chairman of the board of directors of the Central Power Renewal Base.

For residents the main obstacle is the relatively high initial investment in solar energy utilisation equipment. There seems to be potential for the use of conventional thermal solar panels. Currently traditional solar panels are sold mainly to hotels and office buildings for hot-water supply.

Then, biomass is a somewhat unexploited renewable energy source that has a good technical potential of installation. Biomass could cover about 9 per cent of the end energy consumption in Bulgaria and it is somewhere between 0.5 to three times cheaper compared to the widely used diesel fuel.

But the Bulgarian renewable energy market is still being hampered by an unfavourable regulatory framework and a hostile and restrictive state policy. According to the Bulgarian Solar Association (BSA), only a few hundred kilowatts of PV were deployed in the coun-



try over the past three years.

“Several retroactive measures were implemented against solar in Bulgaria over the past few years, and their negative impact on all of the producers have resulted in insolvency and bankruptcy for a number of them as they have not managed to repay their loans,” explained BSA’s president Malinka Nikolova.

“On the other hand people in power regularly discuss the termination of the large solar power installations contracts and cutting their preferential purchase price – they have been trying to do that for years. To date, common sense has prevailed, but the topic is regularly raised in the public space,” she continued.

EU impact

The European Commission has made it clear that Bulgaria still does not meet the requirements of the Third Energy Package for the liberalisation of the electricity and gas market. The country misapplied several of the requirements of the directive regarding the separation of networks from generation and supply activities and the separation of transmission system operators.

“The Commission expects all member states to fully comply with the EU


acquis, and, if necessary, we stand ready to offer technical assistance to our member states in order to ensure that they will meet those requirements,” Anna-Kaisa Itkonen, European Commission spokesperson for climate action and energy tells Emerging Europe.

As well as that, the privatisation of energy producers and distributors, initiated in 2002, needs to speed up. It is a slow process however, and the sector continues to be somewhat inefficient and in need of a lot more investment.

“Promised measures for the transition to clean energy aim at preserving the competitiveness and sustainability of the industry in Europe,” said Minister Petkova.

“At the end of 2016, the European Commission presented the ambitious Clean Energy package for all Europeans, which brings together measures aimed at preserving the competitiveness of the transition economy to decarbonisation. I assure Bulgarian companies that they in the government they have a secure partner, defending their interests. In the framework of the first Bulgarian Presidency of the Council of the EU, the Ministry of Energy aims to maintain the pace of discussions on the package so as to bring the dossier to a successful conclusion. ▲

World Leader: Bulgarian Outsourcing

 Shakhil Shah

Bulgaria is one of the world's leading destinations for BPO and ITO outsourcing services. Having won the Global Sourcing Association award for Offshoring Destination of the Year 2015, the country has continued to develop its outsourcing industry.

Bulgaria is one of the most progressive countries across CEE when it comes to outsourcing," says Tom Quigley, CEO of the Emerging Europe Alliance for Business Services, Innovation and Technology. "From government through to the outsourcing association, and investment promotion agency to service providers, there is clear alignment behind the capability of the country."

"Bulgaria was named as the number one outsourcing destination across Europe in 2015, and in 2016 and 2017 we retained top three placings," adds Svetoslav Ivanov, executive director of the Bulgarian Outsourcing Association (BOA).

Rapid development

The outsourcing sector in Bulgaria is developing at a rapid pace and has seen significant change and growth in recent years. During this time the country has transitioned from a location for outsourcing services - such as call centres - to offering more advanced and complex services such as BPO and ITO services. According to a report produced by the BOA, the outsourcing industry in Bulgaria is expected to generate 2.5 billion euros and account for 4.3 per cent of the country's GDP by 2020.

"The Bulgarian outsourcing sector has gone through fundamental changes over the past decade, moving from customer support services in the period 2010-2013, where the processes and technologies were relatively unified and standardised, to services with high added value," says Stefan Bumov,

co-founder and COO at HeleCloud. "Driven by customer needs the outsourcing sector now provides far more complex processes including analytics, building, maintaining and securing growth of core business operations such as marketing, sales, accounting, human resources management and Fin Tech, amongst others."

Mr Ivanov says that in its first phase, between 2008-2015, the industry grew on average at 25 per cent year on year. Since then, growth in the industry has slowed.

"The outsourcing business in Bulgaria is entering its matured stage," he says. "While growth is still visible, it has dropped to approximately 10-15 per cent year on year. This trend is logical and understandable as a huge part of the biggest local players are already established and are now in the process of growing their local structures outside the capital Sofia across second tier cities like Plovdiv, Varna and Burgas."

Challenges

With this fast paced growth there are inevitably going to be challenges that companies looking to transfer services will face. Some of these challenges include, but are not limited to a shortage of employees, finding appropriate facilities, and increased competition in the industry.

With regards to the workforce, by 2020 it is expected that there will be 20,000 new jobs in the Bulgarian outsourcing sector. One of the biggest challenges is finding a well-educated and skilled workforce, especially given that at present the country is experi-

encing a shortage of graduates.

"This sector needs experts in HR management, finance and accounting, and IT specialists," says Plamen Tsekov, board member responsible for government relations at the BOA. He adds that the ability to speak two or more languages is becoming less of an advantage, and he believes that what is more important for the growth of the sector when it comes to the workforce are people with engineering and business skills.

However, all is certainly not lost. As Mr Bumov points out, BOA, the Bulgarian government and local authorities are working together to ensure stable growth as well as finding ways to develop the business environment.

"The increasing need for an educated workforce is being addressed with numerous state-supported initiatives including the launch of the national education IT Career programme, which engages business organisations and mentors from leading companies in the sector and incorporates the latest technologies, best practices and industry know-how," Mr Bumov adds. He also mentions the initiative taken by the city of Sofia in launching a new digital platform aimed at facilitating dialogue between schools, universities and business representatives. In addition, several new high schools have been opened, all of which put a particular focus on developing language, mathematical and IT skills.

Beyond Sofia

Another challenge mentioned above is finding appropriate facilities.



At present approximately 80 per cent of all outsourced services are concentrated in Bulgaria's capital Sofia. This causes several issues, not only with access to the talent pool, but also finding office space.

"Currently, Sofia has over 1.66 million sq metres of class A and B office space. Demand is rising and the outsourcing sector is the primary driver in this business segment," Mr Bumov adds.

Both Mr Bumov and Mr Ivanov agree that there are increased opportunities and development potential in second tier cities such as Plovdiv, Burgas, Varna and Veliko Tarnovo.

Mr Ivanov goes on to add that: "the two leading segments of the industry in Bulgaria are BPO and ITO. The back offices of global organisations, shared service centres and outsourced R&D are among the key outsourcing activities across the industry. In the past 12 months international companies including Coca-Cola, Siemens and VMware have continued to invest in Sofia and

across the country."

In spite of the challenges, Mr Quigley states: "many of the service providers I have encountered have a genuine desire to partner, and approach any transaction with a long-term view - in other words you will find many of them, certainly those who are members of the BOA, vested in the relationship, keen to achieve a win-win outcome, and a flexible partner."

Why Bulgaria?

There are many reasons for choosing Bulgaria as an outsourcing destination, which include geographical location, developed infrastructure, real estate equipped to accommodate industry needs, an educated work force, taxation, well developed second tier cities and cost savings. However, from the various interviews and conversations that have taken place, it is clear that Bulgaria has maintained its high ranking in Europe with regards to outsourcing also because of the alignment between the government,


associations and businesses.

According to Mr Quigley, "one of the advantages is the aforementioned vertical alignment of communication and effort from the top down. What's more, the country is also investing more in future skills within its education programmes, ensuring ongoing access to a steady supply of IT resources. Finally, there is clear evidence that the favourable taxation treatment is luring many Bulgarians back to their homeland, bringing a variety of key skills and competencies back to the country."

Mr Quigley's advice to companies or investors looking to outsource their services to Bulgaria is that they should "engage directly with BOA. Not only are they incredibly knowledgeable about the skills sets that are prominent in the various cities, but they are genuinely passionate about providing you with the facts and not the hyperbole around outsourcing in the country."

"Please visit us face to face, meet the business, meet the people" Mr Ivanov concludes. ▲

Bulgarian Agriculture and Agribusiness

 Bozhidar Ivanov



Bulgaria is ranked fourth amongst EU members in terms of GDP growth for the last decade. Aggregated economic growth reached 85 per cent between 2006 – 2017, whereas accumulated inflation for the period amounts to just 34 per cent. The stable development of the entire economy is reinforced by the strict monetary policy, where the national currency rate is pegged to the euro and the money supply is tied to foreign currency reserves, which engender a less risky and more predictable investment environment. The monetary regime, adopted in 1997, has facilitated the achievement of a conservative fiscal policy over the last 20 years, as the share of consolidated governmental debts amounts to 29 per cent of GDP, which places Bulgaria third among EU member states with the lowest percentage of governmental liabilities. The macroeconomic stability is steadied by the relatively high percentage of total investments, which in the last 10 years represent an average of 24 per cent of GDP annually.

Enhancing farming investments

The stable macroeconomic conditions, accession to European Union with its common market and valuable cohesive, social and agricultural support policy promote the viability of Bulgarian agri-business. The strongest effect on agriculture is seen in the stabilisation of farm incomes and enhancement of farmers' investments, which is prompted by tangible public support to agriculture. Annual incomes per farm rose from around 3000 euros in 2007 to over 10000 euros in 2016. Revenues from subsidies rose from around 500

euros per farm in 2007 to nearly 4000 euros in 2016, 40 per cent of factor incomes. Bulgarian agriculture has modernised and significantly improved its technological capacity.

Bulgaria's accession to the EU accelerated the restructuring process in Bulgarian agriculture. The number of farms fell from 493,000 in 2007 to 204,000 in 2016 and the average size increased from 6.2 ha to 18 ha. per holding. This is one of the biggest and most significant changes seen since accession: the disappearance of the smallest farms. The GVA from agriculture in recent years has constantly declined and is about 4 per cent of the national GDP due to outmatching growth in secondary and tertiary industries over agriculture. The highest performance is seen within grain and oilseed production, which compose of about 50 per cent of the GAO. Their growth is notable.

Public investment

Agriculture has taken advantage of the public investment aid bound to the sector. Over 10 years of EU membership, the growth in indirect productive investment in agriculture jumped annually threefold from 50 million euros up to 150 million euros. This has brought a beneficial economic impact. Investments in agriculture grow significantly, but a predominant part of investment also goes on indirect capital (non-productive and auxiliary machinery, buildings and so on) instead of direct (production investment in livestock and crops), which partially improves productivity and efficiency in agriculture but does not contribute significantly to Gross Value Added.

Although agriculture's contribu-

tion to the country's GDP has fallen, the value added from the food processing industry in the food value chain has achieved significant results. In recent years, the food industry has seen growth of 65 per cent compared to the period prior to accession. The share in total industry GVA remains high - over 10 per cent. Since Bulgaria joined the EU, the food industry has adapted well to the conditions of European membership and has overtaken a lot of other industrial sectors. Food exports have increased substantially and their share in the total export volume of the country exceeds 9 per cent.

The future challenges to the Bulgarian agriculture are related to achieving a sustainable and vibrant development of the food chain, particularly in terms of boosting the value added. It can be attained by focusing on livestock, fruit and vegetables. The value chain is characterised by a shortage of domestically produced primary raw materials for the meat and dairy processing chains and canning industry, weaknesses are noted in insufficient production efficiency due to high fixed costs and underuse of technological capacity. These challenges should be handled hereinafter.

Agriculture provides very good conditions for investment, in the meat industries and vegetable-growing (greenhouses), which heavily depend on capital. Internal conditions are favourably attributed to resource availability, low costs to production factors, while reliable local and external market demand should guarantee further stability, policy consistency and support for different initiatives. ▲

Bozhidar Ivanov is associate professor at the Institute of Agricultural Economics Sofia (IAE).

Bulgarian Auto: Ripe for Investment



Lubomir Stanislavov



Bulgaria is increasingly attracting the interest of foreign investors and the country currently has five or six possibilities of bringing in a large car manufacturer.

At the moment more than 150 large enterprises from the automotive industry in Bulgaria produce parts for almost any brand of the global automotive industry imaginable. Most of the companies are Tier 1, 2 and 3 suppliers.

The export is for 9 of 10 of the biggest carmakers in the world. With over 4.5 per cent of Bulgaria's Gross Domestic Product and around 43,000 occupied, the automotive industry is surely taking the leading position in the economy of the country.

Existing companies willing to invest in new property or upgrading what they currently have represent about 30 per cent of all automotive companies in the country. Most of them are planning to invest in equipment and some of them plan to unveil new R&D centres.

Magna will be making a new investment in Bulgaria during the period 2018-2021 of more than 100 million euros. Etem has announced plans to expand its factory in Sofia with an investment worth more than 50 million euros. Sensata is going to build a third plant in Bulgaria with an investment of more than 100 million euros, while Melexis Bulgaria is expanding its plant in Sofia with an investment of over 75 million euros.

Running R&D facilities are currently concentrated in the development of electronics and diagnostic software, electric and mechanical system design, sensor and indicator design, manufac-

turing system development, etc.

Companies like Visteon, Etem, Magna and Sensata will invest in the development of R&D centres. Digitalisation, Industry 4.0, new logistics possibilities and clever infrastructure are among the main topics in the B2B meetings currently being organised in the country.

Bulgaria has its advantages when it comes to the automotive industry, as the expertise of the workforce makes the country a much more convenient place for production of car electronics or development of autonomous vehicle technologies than some of its neighbours in Southeast Europe (SEE), such as Serbia or Romania. More and more partnerships with technical high schools and universities are starting to develop, but unfortunately Bulgaria is about 10 years behind the leaders in the region such as Slovakia.

The cost of labour is one of the advantages of Bulgaria when choosing a country for the expansion of a business. However, the labor cost is not the only measure when it comes to human capital. Bulgaria is well known for the high skill sets of the talent pool as well. Nowadays, Bulgaria is becoming a popular destination, as employees are fluent in various languages, command mathematics, IT and engineering skills. Also, due to the religious and cultural coherence of the country (over 90 per cent are Christian Orthodox), the employees express loyalty in their work, which is also appreciated by employers. In terms of mathematical and engineering science, Bulgaria takes place among many international pre- and post-college science competitions, many of which won by the Bul-

garian students.

Together with the government, Automotive Cluster Bulgaria is developing projects for new industrial zones which will be convenient for the automotive industry — the industrial zones are designed to satisfy the needs of all types of car companies, including Original Equipment Manufacturers (OEMs).


The state also supports changes in the education system: for example the introduction of dual education in secondary schools in Bulgaria over the last three years in order to support the business.

Automotive Cluster Bulgaria and the local authorities are focused in attracting automotive business in the country and individually prepared to offer incentives, as well as to support the launch of any production in the country.

Bulgaria has experience in the production of cars, for example, the Great Wall in the city of Lovech, where production is going to be restarted at the end of 2018, under the brand of Haval, after a restructuring period; BulgarRenault in the 60s and the Rover with the Darucar company in the 90s in Varna. The difference and optimistic attitude today comes from the collaboration between the government, supported by branch organisations such as Automotive Cluster Bulgaria, Financial Institutions (Bulgarian Development Bank), Science Institutes, Universities and Communities. All of them demonstrates readiness and determination to support. ▲

Lubomir Stanislavov is CEO at the Automotive Cluster Bulgaria.

Unsustainable Tourism?

 Craig Turp

As a number of cities, regions and even countries begin to question their own tourist booms and look to either reduce the overall number of visitors or encourage different, more sustainable kinds of tourism, Bulgaria has so far remained committed to bringing in as many mass tourists as possible. Under pressure from environmental groups, this might be about to change.

The numbers are impressive, and on paper, Bulgarian tourism has never been in better shape. Almost 9 million visitors chose the country as a holiday or short-break destination in 2017: a number which exceeds the population of the country. Revenue from international tourism reached 6.9 billion leva (3.53 billion euros) last year, an increase of 9 per cent on 2016. “The growth in tourist numbers over the past five years has averaged six per cent each year,” says Bulgaria’s Minister of Tourism Nikolina Angelkova. “This is above EU and worldwide averages.” The figures for 2018 so far are even higher: up almost 19 per cent on 2017.

“There are visibly more tourists in Sofia,” says Paromita Sanatani, who has published the *Sofia Insider* for more than two decades. “At the weekends it is now almost impossible to hear Bulgarian being spoken in the city centre; English dominates. I would put it down to the huge number of flights: both Ryanair and Wizz Air have bases at Sofia. The majority of these visitors seem to be young people, backpackers, and they are coming from all over the world, from Europe, the US, Latin America.”

Pirin in peril

Ongoing protests against a project to extend the ski area at Bansko, already Bulgaria’s largest ski resort with around 60 kilometres of pistes, were some of the largest the country has witnessed since the collapse of the



A gondola lift at Bansko. BigStockPhoto

communist government in 1989. Tens of thousands of people took to the streets of Sofia and other major cities in opposition to the project, which would see further construction take place in the Pirin National Park, a UNESCO World Heritage site home to bears, chamois, wolves and centuries old pine forests. Environmental campaigners have condemned the plans. The operator of the Bansko ski area wants to extend the ski area to over 330 kilometres of pistes served by 110 lifts.

“When the Bulgarian government amended the Pirin National Park management plan in December 2017 it opened up 48 per cent of the park for construction,” said Konstantin Ivanov, regional head campaigns and communications at the WWF’s Danube-Carpathian Programme. The current man-

agement plan allows for construction on just 0.6 per cent of the park’s territory.”

“We are appealing the amendment in court but it could take a long time to get a decision,” Mr Ivanov tells *Emerging Europe*. “The protests have been going on for more than three months now, taking place in more than 50 cities in Bulgaria and abroad, including in Sofia during the informal council of EU environmental ministers in April.”

The row over Bansko highlights a growing problem for Bulgarian tourism, particular winter resorts: many are now well-over capacity, victims of their own success, combining as they do outstanding value for money with facilities as impressive as anywhere in western Europe.

The WWF is keen to point out that

they are far from killjoys, stating in an in-depth report prepared by strategy and policy advisory firm Dalberg that skiing provides opportunities for sport and recreation and to be in close contact with nature. Skiing is also seen as an important stimulant to local economies, and that there are many areas where downhill ski development is appropriate. However, skiing can have a negative impact on ecosystems and their natural value when its development is not controlled and not regulated properly. Any investment must be prudent, with a longer-term perspective of the relative costs and benefits and must be aligned with the principles of sustainable development of World Heritage sites.

When boom turns to bust

“On the Black Sea coast and at Bansko in particular the building boom which began around 2004 in the anticipation of Bulgaria entering the EU got out of control,” Paromita Sanatani tells *Emerging Europe*. “More property was built than there were buyers, and infrastructure couldn’t keep up. We have ended up with places like Sunny Beach on the coast which in the peak season suffers from huge water shortage problems. Those people who bought thinking they could make a quick buck have seen property prices stagnate or even go down. There is still far more supply than demand.”

“Such development puts enormous pressure on the ecosystem, destroys habitats and in the long run deprives Bulgaria of nature that may not be found anywhere else and which local people can rely on to attract a different type of tourists without destroying nature,” adds the WWF’s Mr Ivanov.

In Bansko – whose outskirts remain littered with uninhabited or half-completed apartment complexes, the problem is that lift capacity cannot cope with bed capacity which leads to long queues for the lifts. This is one of the reasons that the resort’s operator is so keen to extend the ski area and double bed capacity. Development at



The church at Assenovgrad Fortress

Borovets, another Bulgarian ski resort, which sits in the middle of a forest less than an hour from Sofia has been much better planned than as Bansko.

“As a ski destination Borovets remains more attractive and less busy than Bansko,” says Mrs Sanatani. “Building has been a little less overwhelming, more carefully distributed, plus of course you are not reliant on the one lift to get you up the mountain.”

Plovdiv Buzz

The current buzz around Plovdiv, Bulgaria’s second largest city, is about far more than being a European Capital of Culture in 2019. The city has a relatively young and dynamic mayor who has been keen to attract all kinds of events to the city. The rejuvenation of the city’s central Kapana district, which had been all but derelict for years, has been a real hit, not only with locals but internationally. “The weather is great, selection of musical events in the amphitheatre is fabulous, and Plovdiv is a great location from which to set out for other places in the region, be it Pamporovo or Smolyan in the south or Isar in the north. And of course, Plovdiv is in the heart of the country’s main wine-making region,” says Paromita Sanatani, who also published a city guide to Plovdiv and

knows the city intimately.

Minister of Tourism Nikolina Angelkova said recently that she wants to encourage more tourism in Bulgaria’s interior, particularly the country’s vineyards. Bulgaria has a longstanding wine-making tradition and increasingly produces wines of very high quality which remain competitive on international markets. The country exported more than 34 million euros worth of wine in 2017.

La vie en rose

Close to Plovdiv is the small town of Kazanlak, ground zero for Bulgaria’s lucrative rose oil industry. Each May the town plays host to the colourful Festival of the Roses, which ends with an extravagant parade along the length of Kazanlak’s main street. Tens of thousands of people line the streets, with the grandstands reserved for local dignitaries and, increasingly, coachloads of Japanese tourists, for whom the festival has become something of an annual pilgrimage.

“We get visitors from all over the world, but the most numerous are the Japanese,” Teo Dimitrov, who organises tours of rose oil factories, tells *Emerging Europe*. “They have been coming since before the fall of communism, but only recently in such huge numbers. I think it’s the unique colour of rose blossom – and the smell of course - that attracts people.”

Dimitrov’s sustainable, slow-paced tours which offer insight into Bulgarian tradition, history, and support the local economy are exactly the kind of holidays that the WWF is keen to promote.

“Unfortunately, there has been little public discussion on the development of tourism in Bulgaria and in most places development has been carried out on a case by case basis,” says the WWF’s Konstantin Ivanov. “Imagine if the country had a working strategy for the development of spa or eco-tourism? Unfortunately, I don’t see a strategic approach to the development of tourism in Bulgaria.” ▲

Easier Than Ever: Getting to Bulgaria

One of the reasons Bulgaria has been so phenomenally successful at attracting visitors is because the country's four international airports are all served by a number of international airlines. This despite the fact Bulgaria's own once prominent airline, Balkan Bulgarian, went out of business more than 15 years ago. Founded in 1947, Balkan became a significant European airline during the 1970s, and was responsible for bringing in almost all of the hundreds of thousands of package tourists who flocked to Bulgaria for extraordinarily cheap holidays. Like many national carriers in emerging Europe however, it struggled to cope with the instability caused by the fall of communism - the airline was a constant source of dispute amongst warring political factions - and after several failed attempts at privatisation it was liquidated in December 2002.

Its successor, Bulgaria Air - owned by Chimimport, a large holding company listed on the Sofia Stock Exchange - is currently the second-largest airline in Bulgaria: Wizz Air is the largest. In 2016, the airline saw a small drop in passenger

numbers, down 2 per cent to 1,246,350 million. In 2017 the airline - officially now the national flag carrier - accounted for 15.4 per cent of all traffic from Sofia Airport, the country's busiest. Wizz Air flew more than 31.5 per cent of Sofia's passengers, Ryanair 22.2 per cent. Bulgaria Air's revenue in 2016 totalled 147.6 million euros, and the company made a loss of 3.6 million euros.

Bulgaria Air serves 22 major cities in Europe and the Middle East from Sofia, as well as domestic flights to Varna and Burgas. Wizz Air serves 30 destinations from Sofia - including Brussels, Budapest, Geneva, Lisbon, London, Madrid, Paris and Rome, as well as offering nine more routes from Varna and four from Burgas, both on the Black Sea coast. The next biggest player on the market is Ryanair, which flies to nine countries from Sofia, four from Plovdiv, seven from Burgas and one from Varna.

Sofia Airport has seen much development in recent times but remains something of an enigma, and the overall experience depends very much on what terminal is used. The small Terminal 1, first built before World War II, primarily serves low-cost and charter


flights. Terminal 2, opened in 2006, is much more modern and far larger, and yet endless delays in finding a company to run it have meant that it lacks a number of services. Since 2015, Sofia Airport has been linked to the city centre by a direct metro connection. The airport saw a 7.8 per cent year-on-year increase in passenger numbers in March 2018, (556,088 versus 515,857 in the third month of last year), including a steep hike in domestic passenger numbers, which increased 62 per cent. The amount of cargo handled by the airport also grew, by 8.5 per cent year-on-year, to 1890 tonnes.

Many visitors - from neighbouring countries especially - choose to drive to Bulgaria. The country's roads are improving, but some routes remain congested, especially on single-carriageway sections (much of the route from Ruse and the Romanian border to Sofia is single-carriageway). The A1 motorway, which links Sofia to Burgas, and the A4, which links Sofia to Erdine on the Turkish border, have sped things up: Sofia to Istanbul is now just a six-hour drive. The A3, heading south from Sofia, currently goes as far as Blagoevgrad. Only short sections of the A2, which should connect Sofia with Varna, have so far been opened.

From continental Europe, the principal train routes to Bulgaria are Vienna to Sofia via Zagreb and Belgrade, and Budapest to Sofia via Belgrade or Bucharest. Sleeping cars are usually available on these services. Approaching Bulgaria from the south, there are direct trains to Sofia from Istanbul, and from Thessaloniki, Greece. Be warned however that despite some improvements in the country's railway infrastructure, journey times remain far longer than they ought to be. Travelling by train in Bulgaria is for those who have a love of trains and are not in too much of a hurry to reach their destination. ▲



Breaking Records: An Outlook on the Bulgarian Real Estate Market

 Iglia Yordanova



The real estate market in Bulgaria over the past year has progressed, achieving record levels in a number of major segments. The indicators point towards further growth. Outstanding results have been registered in the investment and the office arenas with the outsourcing and automotive industries contributing to the overall buoyant market.

The investment market had a record year in 2017 with total sales transactions volume, according to Colliers data, reaching 957 million euro for the first time in the last decade. International buyers have increased activity, prevailing over locals – unseen since 2012. South African funds took the lead, contributing to 71 per cent of total transactions, attracted mostly by shopping centres, followed by offices. A yield compression was observed, consequent to the positive development and the big number of large-scale deals with high quality income generating assets. Following the strong year for the retail segment investment, offices, industrial and logistics, and hotels are likely to start catching up in 2018. Strong end-user demand remains among the country's advantages, which may reinforce further investment interest.

The office market had a record breaking 2017 as well, with total take-up of more than 200,000 sqm or 55 per cent annual growth. The segment had not seen such growth in 10 years. A market specific is the large number of transactions with properties under construction, due to scarce contem-

porary office space availability, with vacancies standing at 9 per cent in 2017. IT and outsourcing companies have played the role of a distinguished demand driver over the few past years. The input of the outsourcing sector on the total number of transactions was evident with its 53 per cent share in the second half of the last year. Furthermore, the sector seems to be establishing itself as a priority sector for the overall economy of the country, now contributing 3.6 per cent to GDP.

Another sector with a similar share in GDP (4 per cent) and of growing importance to the country and the real estate market, in particular, is automotive. According to the most recent survey of Colliers International, Automotive Cluster Bulgaria and PwC, conducted last year, the automotive companies in the country, producing components for top international automotive brands, total 130, employing over 37,000 people. These are predominantly Tier 1, 2 and 3 suppliers and include producers, which service other industries as well. The components, manufactured in Bulgaria, are aimed at leading brands such as Tesla, Audi, Mercedes-Benz, BMW, Mini Cooper, Porsche, Bentley, Lamborghini, Ford, Nissan, Seat, Alfa Romeo, Volkswagen, Volvo, Renault, Mitsubishi, Skoda, Fiat. A notable statistic is that 90 per cent of the airbag sensors in European cars are being made in Bulgaria.

The unquestionable advantages of the country, identified in the survey, include the strategic geographical location, EU membership, tax incentives, low taxes and operational costs,

currency board, variety of educational institutions. All these, combined with one of the lowest corporate tax rates in the EU – 10 per cent, way below Romania with 16 per cent, Poland – 19 per cent, and Slovakia – 21 per cent, make Bulgaria a preferred location for the automotive industry.

The other major real estate segments in the country – retail and industrial and logistics, although not breaking records, continued their stable upward development. The retail segment, most appealing to investors in 2017, is likely to experience higher dynamics - modifications in the tenant mix, transformations and reconstructions, resulting from the change of ownership of some of the shopping centres. Retail park attractiveness will grow directly proportional courtesy to the continuous tenant mix diversification.

The potential of the industrial and logistics market may well unfold, influenced to a large extent by the automotive sector's expansion. State industrial zones are likely to enjoy increasing popularity, due to their strategic locations, rapid access to major roads and technical infrastructure, inter alia. Speculative project construction will sustain with 55,000 m² expecting completion in 2018.

The escalation of growth, seen in most of the major real estate segments throughout 2017, points toward a 2018 leitmotif of breaking through to further market prosperity. ▲

Iglia Yordanova is the managing director of Colliers International Bulgaria.

Is Bulgaria Really as **Corrupt** as the Headlines Would Suggest?

 Shakhil Shah

In the most recent Corruption Perception Index (CPI) carried out by Transparency International (TI) in 2017, Bulgaria scored very low, taking 43 points out of a possible 100, as well as ranking 71 out of 180 countries. Based on the results, Bulgaria is the most corrupt country in the European Union.

Corrupt means incapable to act by following the rules, Kalin Slavov, executive director at Transparency International Bulgaria tells Emerging Europe. “It is a political and social issue at the same time. On the political side – the public authorities do not perform their functions within the established institutional and legal models and this makes the rules a facade. On the social side – in their everyday lives citizens often face difficulties in taking advantage of their rights according to the formally established rules.”

CCTV-ed by the EU

“No one is prosecuting political corruption, there are no ex-government officials in jail,” says Ognian Shentov, chairman of the Centre for the Study of Democracy (CSD) in Sofia. “We have reached a stage of state corruption which we describe as state capture.”

Bulgaria has been in the EU for over a decade and remains under the EC’s special monitoring mechanism (CVM) in order to bring the country’s justice system in line. The CVM was only intended to last a few years but both Bulgaria and Romania remain subject to it.

“Clearly, the mechanism has produced results. Bulgaria has managed to bring organised crime under control,” Ruslan Stafanov, director of CSD’s Economic Programme told the Guardian. “But on corruption and judicial reform, it is not producing the results the EU and Brussels had expected.”

Mr Stafanov also adds that the findings of TI are unjustified, in labelling Bulgaria as the most corrupt country in the EU. “The TI report is a question of whether you like your country or not. I don’t think Bulgaria is experiencing more corruption than, say, Slovakia, but the potential impact is much bigger because the economy in Bulgaria is much smaller,” he says.

Whilst Bulgaria has made progress when it comes to corruption, there is still a long way for them to go. Especially in combating high-level graft.

More reform needed

“What is needed is adequate reform within the public administration, while reform of the judiciary system must also be pursued. Those are the fundamental areas where we should focus our efforts,” said Vanya Nusheva, a political scientist and programme director at Transparency International Bulgaria.

“The largest challenge is the defamiation of the process of establishment of public institutions through vote-buying and control/pressure over the voters,” TI’s Mr Slavov says. “This is a basis for further replication of the corrupt model in the actions of the authorities. Within our initiative for monitoring last year’s parliamentary elections, TI Bulgaria analysed the anti-corruption measures proposed by political parties in their election platforms.”

“At the political level there is ‘competition’ between the president and the government to take ownership of the fight against corruption,” Mr Slavov continues. “This is why there were two separate anti-corruption draft laws. One, which would have seen the president appoint the management of the anti-corruption body, did not pass. Practically speaking, the ‘new’ law represents a codification via incorporation of previously existing laws and does not provide for new regulations. This was the reason for the president stating that such a law was not necessary. The presidential veto itself was more a political act than an attempt at improvement.”

But things are starting to look up for Bulgaria. On January 19 a new Anti-corruption and Forfeiture of Assets Act (AFAA) came into force, replac-

ing two existing pieces of legislation – the Prevention of Conflict of Interest Act, and the Forfeiture of Illegally Acquired Assets Act. In addition, the AFAA creates a single commission to enforce the law.

Under arrest

In the months since the law came in to force, the Special Prosecution Office and the Anti-corruption and Forfeiture of Assets Committee (AFAC), have been cleaning up corruption in Bulgaria.

In March 2018 it was reported that 11 employees of the National Revenue Agency had been detained and would face charges of corruption, while some would also face charges of money laundering and one with heading an organised crime group.

More recently, on April 17, Desislava Ivancheva, mayor of Sofia's central district, was arrested in a raid carried out by the police, the Special Prosecution Office and AFAC.

Ivan Gehsev, head of the Special Prosecution Office, said in a press conference on April 18 that "Desislava Ivancheva, the mayor of Mladost, one of the largest districts of Bulgaria's capital, Sofia, allegedly demanded a bribe of 500,000 euros to allow the construction of four new buildings in her district."

Some critics believe that Ms Ivancheva's highly publicised arrest was more a show of force than anything else.

Nikolay Hajighenov, a lawyer, who runs an anti-corruption blog and is a critic of the government, spoke out on public radio: "This show arrest has nothing to do with justice. A bribe is proven when it




is handed over, not after a chase through the centre of the city."

Ekaterina Zaharieva, deputy prime minister for judicial reform, also agrees that the operation involving Ms Ivancheva "went a bit over the top."

Despite the controversy involving Ms Ivancheva's arrest, it is clear that Bulgaria's new anti-corruption agen-

cy is taking real steps to lower corruption in the country. It must be given all the support it needs, not least by the EU. As the enormously successful DNA in neighbouring Romania demonstrates, effective anti-corruption agencies can make a positive difference to the perception investors have about a country, becoming powerful national brands. ▲

Feeling Good: FDI in Bulgaria

 Yoan Stanev

Bulgaria has seen a significant rise in foreign direct investments since its accession to the EU. But what have investors told us about the business climate in the country?

According to preliminary data from the Bulgarian National Bank, Bulgaria received 158.8 million euros in foreign direct investments (FDI) in January 2018 alone, a 64.7 per cent (62.4 million euros) increase from the first month of 2017, which saw 96.5 million euros in FDI. Last year saw 39.9 billion euros in FDI, of which 32.9 billion euros were in non-financial enterprises – an increase of 9.4 billion euros from 2016, according to National Statistical Institute data. The macroeconomic forecasts published by the European Commission are also showing positive signs: real GDP growth in 2017 is estimated at 3.8 per cent (0.4 per cent higher than the previous year, as per World Bank data), driven by both consumption and investment. Higher consumption was fuelled mostly by strong wage increases linked to tighter labour market conditions and to public sector wage increases.

Since the financial crisis of the 1990s, Bulgaria's GDP has increased more than fourfold between 2000 and 2008 – from 13.1 to 54.4 billion US dollars respectively. There are many factors that have contributed to these statistics: for instance, Bulgaria has the lowest corporate tax rate of 10 per cent in the European Union (narrowly beating Cyprus and Ireland who have 12.5 per cent each) and a skilled and

efficient workforce that produces value for money, depending on the industry. However, FDI levels for the last several years have oscillated around 2-3 per cent of GDP, which is significantly lower than the pre-2008 period, when they reached close to 30 per cent, writes Rumen Galabinov – a leading economist. According to Mr Galabinov, the number of investors who plan to do business in Bulgaria in the long-term – 10 years at least – are still too few, and the country cannot rely on EU funds if it wants sustainable economic growth. Therefore, despite the obvious foreign interest in the country, Bulgaria's business climate is still far from ideal.

Emerging Europe has contacted leading entrepreneurs and senior representatives of foreign companies in the country, to see how they have experienced the Bulgarian business climate.

Feeling positive

On the whole, they gave us a significantly positive image of the business environment in the country. Omourtag Petkov, Chairman of the British Bulgarian Business Association (BBBA) and Partner in Djingov, Gouginski, Kyutchukov & Velichkov (DGKV) – a legal consultancy firm, told *Emerging Europe* “in combination with low-cost labour, macroeconomic and (relative) political stability,

a good geographical location and the somewhat improved infrastructure, low tax rates are seen as the icing on the cake.” Jeffrey Puritt, president and CEO of TELUS International, which operates delivery centres in eight countries, including Romania and Bulgaria, told *Emerging Europe* that Bulgaria ticked all the boxes: “First and foremost, you need access to a skilled labour pool. Secondly, you need a reliable business environment, and reliability has a number of attributes – an economic climate that's receptive to foreign direct investment so that companies such as ours have the degree of visibility, the confidence and the certainty that there'll be an opportunity to generate a return on that investment. I also mean reliability in terms of the infrastructure; whether it's connectivity, power, airports or roads and the like.”

Sofia is undoubtedly the hub of FDI in Bulgaria. Of the 23.5 billion euros invested in 2016, 12.21 billion euros were invested in the capital city itself – over half for the entire country. What makes Sofia so attractive? The founders of Escreo – Yassen Russev, Elena Nikolova and Iskren Mitev – said that, as a capital city, Sofia's advantages include “good inner country connections, a rich market and a natural innovation leadership status, thus attracting foreign businesses when they decide to initiate a local develop-

ment.” The city has many bookstores, vast public transport coverage, street musicians at every corner, farmers markets and it’s constantly striving to improve itself. Vladislav Mihaylov, CEO of Birlibam – a digital business card app – described Sofia as “a city that is developing really fast and is populated with extremely talented, creative and young specialists”. He also mentioned that his enterprise was lucky to be born in Sofia – “At pres-

ent, the entrepreneurial spirit spreads around the country and young people are not afraid to start their journey to the future.”

Corruption remains an issue

Although Bulgaria has proven to be an attractive business destination for many entrepreneurs, it is not without its downsides. Mr Petkov added that amongst Bulgaria’s disadvantag-

es are “excessive corruption pressure in certain sectors of the economy and issues with the rule of law ... on a couple of occasions there have been major attempts at ‘stealing’ big businesses from their foreign owners by means of frivolous litigation based on bogus arguments combined with shenanigans at the Registration Agency.” Nikolay Mutafov, CEO of Accedia, recently told Invest Sofia that he recognised the attraction of the highly skilled in-



The NDK Building in Sofia. Photo: BigStockPhoto



Sofia's busy orbital highway. Photo: BigStockPhoto

dividuals in the country and persuading them to stay in the long run as the biggest challenge for him and his company. In addition, he too recognised that the high level of corruption in Bulgaria has proven to be the biggest obstacle to improving the business climate, as is the inefficiency and inflexibility of the state administrative processes and lack of e-government. And although Sofia is a booming capital city, there is significant room for improvement of the infrastructure to allow for a more favourable business atmosphere in the city.

In terms of sectors, there are significant investment prospects in the automotive, the outsourcing, and the IT industries. These sectors are thriving in Bulgaria, which has become a top destination for them at European and even worldwide level, adds Mr Petkov. This is generally the case because they fall “outside the radar of the government and politics in general – no public procurement and no public funding is involved.” Also, businesses in those sectors are mostly exporting their

goods and services, they have been kept safe from the changes in the economic fortunes of Bulgaria after 2008. Therefore, they have not experienced the corruption pressure that plagues other industries.

Ease of doing business

Emerging Europe also spoke to Alan Hutchison, CEO of ProsFit Technologies – a company that develops the technology for prosthetic sockets. ProsFit was founded in Bulgaria and its team is located there, with customers across Europe, Asia Pacific and the Middle East. He emphasised the convenient location of Bulgaria: “We do not have any problems serving these international markets from Bulgaria,” he said. There is political stability and predictability regarding the fiscal and regulatory environment, with access to risk capital and strong logistics connections that ease the import and export procedures. Mr Hutchison also commented on the human capital in Bulgaria, which is extremely valuable,

mentioning that the availability of suitable intelligent individuals, suppliers and service providers, the stability, commitment and cultural compatibility of the workforce, as well as the access to technical universities made the country a natural choice.

Furthermore, Mr Hutchison drew our attention to the ease with which he launched ProsFit: “We have not experienced any hurdles which were more significant than in other countries. We have not experience any issues with the legal or bureaucratic system or experienced any corruption. The bureaucratic system is relatively effective and often enables paperwork to be handled more easily than in other countries,” said the CEO. The main hurdle for ProsFit Technologies was in fact the language barrier, which was easy to overcome due to being surrounded by supportive people with excellent language skills. Regarding the access to talent in the country, Mr Hutchison recognised that there is indeed a big “fight for talent” to secure individuals with certain skills, especially related



Central Plovdiv. Photo: BigStockPhoto

to IT and software. “We have recently seen a lack of people in Bulgaria who have international business development and sales experience, but we expect this to grow over time,” he told Emerging Europe. On the other hand, Mr Petkov stated that in more than 40 per cent of Bulgarian business, “the lack of personnel is perceived as the single most important obstacle to the growth” and he adds that “the recently liberalised regime of the so-called blue cards, easing the hiring of skilled labour from outside the EU, will help at least to a certain extent.” However, sectors such as tourism and construction continue to experience difficulties in finding capable non-qualified personnel.

Partnerships

Despite such obstacles, Bulgaria continues to attract foreign investors, as it has many of the conditions required for launching and developing a business. However, Mr Petkov highlighted that “having an experienced and reputable local partner and dedicated and highly qualified lawyers would help a foreign investor a lot to succeed in Bulgaria.” Although the state bureaucracy may not have been a significant obstacle for businesses such as Mr Hutchison’s ProsFit, it has nonetheless left a mark on Bulgaria’s business reputation. Mr Petkov added that “detailed and clearly structured relationships and contracts with local

partners and suppliers means no unpleasant surprises at a later stage ... it is better to avoid the need to look for help and support from the political establishment.” Mr Hutchison maintained that Bulgaria is an excellent investment destination that ProsFit actively promotes. He adds that you can build a good company in the country, from where you can serve international markets. ProsFit’s international investors have been very satisfied with the local situation, security and prospects in Bulgaria and he added that “Bulgaria offers a stable environment for our business, and we intend to continue in Bulgaria - we do not have concerns about keeping the company here in the longer term.” ▲

Domestic Demand Still Driving Growth

Larisa Manastirli, director for Bulgaria at the European Bank for Reconstruction and Development (EBRD), spoke to Andrew Wrobel about the Bulgarian EU Presidency as well as the challenges the country is facing.

Andrew Wrobel: ***When we spoke more than a year ago, when Bulgaria celebrated 10 years as an EU member state, you told me that a lot of expectations related to the EU membership hadn't been met. Now we are half way through the Bulgarian Presidency of the Council of the European Union. Have things improved?***

Larisa Manastirli: Well, half-way through the EU Presidency, I would say that the Bulgarian government has been managing the task in a professional and well-coordinated manner and the prime minister and government ministers have been driving the EU agenda discussions on various topics, including sensitive ones, in a very inclusive way by trying to close the gap between various EU member states, while at the same time focusing on achieving shared goals and declared objectives. Expectations were high, and surely met, but we need to wait for a final assessment until the end of the term.

I think the priorities chosen for the Western Balkans, which are connectivity and integration, have been well selected and could serve as good examples of strengthening regional cooperation, sharing knowledge and building improved hard and soft infrastructure. These are important steps towards strengthening peace and fruitful trade and economic relationships between and within the countries of the Balkans for mutual benefit.

In 2017, we also spoke about the political situation and the upcoming



elections. Is the situation stable, would you say?

Political forces in Bulgaria have managed to maintain political stability despite disagreements. However, it is difficult to predict what will happen once the EU Presidency will be over.

When it comes to the business climate it seems the situation has deteriorated. In the 2017 Doing Business ranking the country came 39th and in 2018 Bulgaria ranked 50th. Has the government introduced any necessary reforms? Is the economic situation more predictable long term?

I would say the drop in the ranking is mainly due to the fact that other countries have done more than Bulgaria to improve their business climate. So

we can't say that the situation has deteriorated in absolute terms. However, it is a strong signal that Bulgaria has to accelerate and improve the quality and enforcement of actions that contribute to a conducive investment climate in all sectors as the country competes globally for investments. In that sense it is a brutal, yet welcome reminder that competition never ceases.

In 2017, the economy grew by 3.6 per cent. It seems that the growth might be slightly lower this and next year — by 0.1-0.2 percentage points. What pushes the economy forward?

Domestic demand was the main driver of growth in 2017. Private consumption grew as a result of the tight labour market and rising wages, while the improved absorption of EU structural funds saw investment pick up. We expect domestic demand to remain the main driver of growth in 2018-19, driven by these two factors. With GDP per capita standing at 49 per cent of the EU average there are positive convergence-based growth prospects in the medium term, but this may be challenged if structural reforms are not re-invigorated.

How do you see the fight against corruption. Has the situation improved?

The current government and parliament have taken important steps such as the adoption of a new anti-corruption bill and the establishment of a new anti-corruption authority. These



Larisa Manastirli. Photo courtesy EBRD

are welcome developments. The society and the business community want to see a more holistic approach and the implementation of all recommendations of the EU Cooperation and Verification Mechanism, including addressing shortcomings in the judiciary, the fight against corruption and organised crime.

Demographics is a real issue in Bulgaria. The population has already fallen and base-line scenarios predict a further decline by approximately 7 per cent by 2030. How do you see that?

Emigration and ageing weigh on Bulgaria's long-term growth prospects. The job market is expected to tighten further in the coming years, and employers are having increasing difficul-

ties to fill highly qualified positions. We are currently commissioning a study on the labour markets in Romania and Bulgaria, which will also focus on demographic trends and challenges and develop policy recommendations to address these.

The EBRD has invested almost 4 billion euros in Bulgaria. In which sectors do you see largest opportunities?

We are open to work with companies from many sectors and our portfolio is quite diversified. This mirrors the Bulgarian economy which is also quite diversified and offers many opportunities. Sectors that are growing and in need of funding, include manufacturing, the automotive industry, agribusiness (from primary agricul-

ture to food industry), infrastructure, ICT, power and energy, and tourism.

In June the EBRD and Emerging Europe are organising an investment conference showcasing investment opportunities in London. Why would you recommend doing business in the country?

Bulgaria is a member of the European Union and as such offers all advantages of the EU Single Market and Customs Union. It boasts an attractive geographical location, has a well-educated and open-minded population speaking foreign languages, offers a mild climate and a well-diversified economy with growth potential, which could be unlocked with new investments. ▲

Early Election? Bulgarian Politics



Petar Cholakov



Boyko Borisov's grip on power seems firm but early elections might be just around the corner.

At first glance, both Boyko Borisov - now in his third term as Prime Minister of Bulgaria - and his party GERB have accomplished a lot. The unemployment rate is around 6 per cent (the lowest since 2008) and GDP per capita is increasing. Furthermore, Borisov has embarked on several impressive foreign policy initiatives. The PM hosted the EU-Turkey summit in Varna on March 26, and the cabinet has set the integration of the Western Balkans as a top priority for the Bulgarian presidency of the EU Council. This initiative could not only prove to be very beneficial for the economic development of the region but to also limit Russia's persistent attempts to destabilise the Balkans.

However, even with expected economic growth of 4 per cent for 2018, Bulgaria remains the poorest EU country and the one with the highest level of corruption in the public sector (Transparency International's CPI, 2017). The freedom of the press has rapidly deteriorated. According to the annual media freedom index published by Reporters Without Borders, Bulgaria collapsed from the 36th position in 2006 to 109th in 2017. The party system is at the stage of a cartel. In general, ruling formations are tempted to use the resources of the state in order to remain in the corridors of power. Nepotism is widespread. Often, instead of engaging in a real competition, parties prefer to

work together behind closed doors, a malicious practice which enables each of them to receive a piece of the pie. The recent sale of CEZ Bulgaria to the small and virtually unknown company Inercom, as well as the chaotic reaction of Borisov's government to the deal which will affect 3 million consumers, remains the biggest scandal that continues to pose a threat to the ruling coalition between GERB and the United Patriots (UP).

The UP consists of three small populist radical right parties - Ataka, NFSB and IMRO. The actions of the leaders of these formations often cast a menacing shadow on Borisov's ambition to portray his government as a pillar of EU values and a loyal supporter of NATO. The Bulgarian PM withdrew from parliament a motion to ratify the Istanbul Convention on preventing and combating violence against women, faced with ever-growing resistance from the UP, the opposition BSP, and more broadly, with the population. In April 2018, Mr Volen Siderov, the leader of Ataka and an admirer of Vladimir Putin's regime, said in Crimea that the peninsula was "not annexed by Russia" and claimed that under the influence of his party, the Bulgarian government decided not to expel Russian diplomats over the Scripal affair - a position which is in sharp contrast with the stance of NATO and most EU countries.

The opinion polls reveal that despite the incessant scandals GERB remains the strongest political party.

However, the gap between Borisov's formation and the Socialists is shrinking and at present stands at only 2.5 per cent. The most popular politician, with an approval rating of 57 per cent of respondents, is President Radev, who was elected with the help of the Socialists. Borisov's own rating (33 per cent) lags far behind. The public support for the United Patriots has been reduced significantly to a mere 5 per cent. In order to demonstrate that they have not been tamed by GERB, the leaders of the UP are becoming more and more critical of Borisov's policies and engage in risky publicity stunts.

It is likely that the ongoing scandals will take a toll on GERB while its unruly partners continue to resort to a political blackmail. In this situation Borisov may decide to throw the towel once again and roll the dice by causing a snap election. Thus he will be able to catch the opposition, which grows stronger but is still not ready to rule, off guard. After all, the leader of GERB already employed successfully this strategy at the end of 2016, after his party lost the presidential race. ▲

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Staying Positive: Bulgaria in the EU



Eli Gateva



Bulgaria joined the European Union (EU) on January 1, 2007. The accession marked an important turning point in the history of the country and the reunification of the European continent. Membership has provided Bulgaria with new opportunities and more importantly a place at the table where the future of Europe is decided. Over the last 11 years Bulgaria's economic performance has improved. However, incomplete reforms in the areas of judicial reform and the fight against corruption and organised crime have cast a shadow on Bulgaria's membership and prevented the country from achieving its potential. On January 1, 2018 Bulgaria took over the rotating presidency of the Council of the EU. Leading the Council at turbulent times is not an easy task even for big and experienced member states, but if Bulgaria can rise up to the challenge, it will also allow the country to shape the future of European integration.

EU membership has had a positive impact on the Bulgarian economy. The GDP has increased from 28.7 billion euros in 2007 to 45 billion euros in 2016. The Balkan country has benefitted from EU Cohesion policy and regional policy. EU funds have supported the development of major infrastructure projects (including the extension of the Sofia metro and the completion of Trakia and Maritsa motorways) and environmental services. Bulgaria has also used EU funding to boost regional development, competitiveness and innovation. The econom-

ic indicators have improved, but they are still below EU average. Although there is disappointment about the slow pace of economic convergence, support for EU membership remains high. Most Bulgarians think that their country has benefitted from EU membership and continue to support further European integration.

Higher standards

EU membership has enhanced consumer rights and environmental standards. Despite initial restrictions, Bulgarians have exercised their rights as European citizens and embraced the opportunity to study and work in other EU member states. However, the free movement of labour has made it more difficult for Bulgaria to retain and attract highly skilled professionals. This is a pressing issue which Bulgarian politicians will need to address as a matter of urgency.

The Bulgarian authorities have also been urged to address outstanding issues in the areas of judiciary reform and the fight against corruption and organised crime. The main EU institutions have repeatedly raised concerns about the slow pace of reforms. Bulgaria has been monitored by the European Commission under the Cooperation and Verification Mechanism (CVM) for more than a decade. The 2016 CVM report noted that 'over the past ten years, overall progress has not been as fast as hoped as for and a number of significant challenges remain to be addressed.' Enhancing the efficiency and the ef-

fectiveness of judiciary is crucial for advancing the quality of democracy and economic development.


The national interest

In addition to driving domestic reforms, EU membership enables member states to pursue their national interests at European level. The Bulgarian Presidency has prepared an ambitious agenda with key priorities including: cohesion policy, the digital single market and the European perspective of the Western Balkans and Turkey. It is too early to judge how successful the presidency will be. However, it has managed to put enlargement back on the EU agenda and has tried to enhance the partnership between the EU and Turkey.

EU membership has had a positive impact on Bulgaria. However, it is clear that there are still a number of important reforms that need to be completed in order to allow Bulgarians to enjoy higher levels of economic prosperity, better governance and better quality of life. Being at the helm of the Council in the first half of 2018 is a huge responsibility, but it will also provide Bulgarian politicians with the opportunity to demonstrate their European credentials and allow them to shape the debates about the future of the Union. ▲

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Bulgaria's EU Presidency: Expansive

 Yoan Stanev

At the helm of EU decision-making 11 years after accession, Bulgaria is seeking to lead the Western Balkans into the EU.

Bulgaria acceded to the EU in 2007 along with Romania and, exactly 11 years later, took up the presidency of the council of the EU – the EU institution representing the executive governments of the member states. It is the first time that the country has had to step up to such a leading role within the Union. Unlike the traditional public negativity towards the state institutions, the public mood was generally positive towards the country's EU presidency. In a Gallup International survey of late 2017, 55 per cent of respondents believed that Bulgaria will do well during its Presidency, 16 per cent thought the opposite, and over a quarter, 29 per cent, did not know or did not provide an answer.

A key priority of the presidency is foreign policy – the Western Balkans and its European Perspective and Connectivity. In its official programme, the presidency recognises that accession to the EU is “the most effective instrument for guaranteeing peace, stability and prosperity in the Western Balkans.” By prioritising the neighbouring region, Bulgaria has sought to cement itself as the leader of the Balkans into Europe, even claiming that its ambition during is “to be a Balkan presidency.”

The Commission's Strategy Paper for the Western Balkans, published in February 2018, kick started the presidency's Western Balkan ambitions. The paper sets 2025 as a target year for Serbia and Montenegro to join the EU if they carry out all the necessary reforms – it is explicit that this is not an accession promise. With this strategy paper, the EU reaffirmed its commitment to the region: “The door is open ... There is a clear path for the Western Balkans

to finally join the European Union,” EU foreign policy chief Federica Mogherini said of the six countries in question, as she presented the plan at the European Parliament in Strasbourg. However, realising that such favouritism on the part of the Commission, by setting a goal date only for Montenegro and Serbia, does reinforce the *regatta* principle – that the EU is encouraging the Western Balkan countries to race and outdo each other in the lead up to accession – which is in itself contradictory to EU calls for regional cooperation as a prerequisite for accession. Commission president Jean-Claude Juncker subsequently stated that the 2025 target should apply to all Western Balkan nations.

Sofia, therefore, has a chance to bring about greater consistency in EU policy towards Western Balkan accession when it hosts the EU-Western Balkans summit on May 17. An important step in the right direction was the historic (and long overdue) signing of the Treaty of Friendship, Good Neighbourliness and Cooperation between Bulgaria and the Republic of Macedonia (FYROM). The treaty seeks to mend differences regarding historic events, the celebration of mutual holidays and improved links between the countries. The Balkans are known for having good transport connections to Western Europe, but intraregional transport infrastructure remains inadequate. Having remained unfinished since the communist period, the construction of the Sofia-Skopje railway service is expected to be renewed and completed by 2027, connecting several towns along the route in both countries.

Although the task of leading the integration of the Western Balkans into

the EU is a justified one for the Bulgarian presidency to set itself, it is by no means an easy and straightforward process. The highlight of the presidency will indeed be the EU-Western Balkans summit. Bulgaria has never before hosted an international meeting of this magnitude, which is to include all 28 EU leaders and the six Western Balkan leaders, including, yes, Kosovo. The difficulties regarding Kosovo and its international status means that not all who are invited are willing to sit at the same table. Spanish Prime Minister Mariano Rajoy told his Bulgarian counterpart Boyko Borissov that he may not attend if Kosovo is participating – Mr Rajoy himself faces problems with separatists at home.

Sofia's plan to ease tensions is to host a first stage of the summit – a dinner with the 28 member states only, and a second day with the leaders of the EU institutions and the six Balkan hopefuls. However, this plan may prove to fail: not surprisingly, Serbia may refuse to sit at a table with Kosovo. The Bulgarian presidency is understandable, and rightfully, seeking to replicate the role of Catherine Ashton during her mediation of Belgrade-Prishtina talks in 2013, but it will have greater difficulty, as the discussions will not be about the normalisation of Serbia-Kosovo relations, but about the accession of the six nations, thus *de facto* recognising Kosovo as a potential candidate country and, in practice, an independent state. Hopefully, Sofia can utilise its current presidency of the council of the EU and establish itself as a key regional player and promoter of peace and stability in the entire Balkan region. We will see how Bulgaria will mediate on May 17. ▲

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