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Bulgaria: Country Background Report

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Summary

In June 2001, the party of Simeon II, Bulgaria's former King from the pre-communist era, won just short of a majority of the vote in parliamentary elections. Simeon, who founded his party three months earlier, did not run for a seat in parliament, but nevertheless was nominated by his party on July 12 to become Prime Minister. Simeon II is the first ex-monarch to return to power in eastern Europe since World War II. The Simeon II National Movement party replaces a center-right government that achieved many significant economic reforms and consolidated Bulgaria's pro-Western orientation. Primary goals for Bulgaria remain full membership in NATO and the European Union. U.S. Administrations and Congress have noted Bulgaria's positive role in promoting peace and stability in the Balkan region. This report will be updated as events warrant.

Background

From the 14th to the 19th century, Bulgaria was part of the Ottoman empire. It gained independence in the late 19th century. Bulgaria was on the losing side of three wars in the 20th century and came under communist rule in 1944. During the Cold War, Bulgaria had the reputation of being the Soviet Union's most stalwart ally in the Warsaw Pact. Todor Zhivkov, head of the Bulgarian Communist Party, led a repressive regime in Bulgaria for 35 years. Beginning in 1989, Bulgaria began a gradual process of transformation to a democratic and market economic state that progressed more slowly than in other central European countries (such as Poland or Hungary), but with no violent changes in power as in Romania or Yugoslavia.

Bulgaria is a parliamentary democracy with a directly elected president. The prime minister and council of ministers hold most executive powers. Members of parliament are elected for four years, while the president has a five-year term. In 1994 parliamentary elections, the Bulgarian Socialist Party (BSP), the former communist party, won an absolute majority of the vote. Under Socialist Party leader and Prime Minister Zhan Videnov, economic reforms stalled while corruption grew. The Videnov government steadily lost support as economic conditions deteriorated to crisis levels. In early 1997,

the opposition Union of Democratic Forces (UDF) led popular demonstrations against the BSP government.

Early elections held on April 19, 1997, brought back to power the UDF and its coalition partners,¹ who won an absolute majority of the vote. Ivan Kostov of the UDF became Prime Minister. The Kostov government took swift measures to stabilize the economy and firmly orient Bulgaria's foreign policy toward integration into Euro-Atlantic institutions. The Kostov government became the first in the post-communist era in Bulgaria to complete its term in office. It weathered several external economic storms and received international praise for the example it set as a zone of stability in the volatile southeast Europe region. However, the Kostov government became plagued by widespread allegations of corruption and suffered drops in approval ratings by a population weary of economic hardship and distrustful of its political leaders.

Bulgaria at a Glance

| | |
|------------------------|---|
| <i>Area:</i> | 42,823 sq. mi., slightly larger than Tennessee |
| <i>Population:</i> | 7.9 million (2001 census) |
| <i>Ethnic Groups:</i> | Bulgarian (85%); Turkish (9%); Roma (4%). |
| <i>Capital:</i> | Sofia |
| <i>GDP/capita:</i> | \$1,600 (2000 estimate) |
| <i>Leadership:</i> | Petar Stoyanov, President Simeon Saxe-Coburg, Prime Minister-elect |
| <i>Last Elections:</i> | June 17, 2001 (parliamentary) October-November 1996 (presidential) |

Source: U.S. Dept of State, Reuters

Bulgaria continues the process of transition from a centralized economy to a prosperous and stable market-oriented one. Economic reforms slowed considerably during the BSP-led government from 1994 to 1997. With the backing of the International Monetary Fund (IMF) and other international financial institutions, the Kostov government introduced macroeconomic stabilization measures and structural reforms that resulted in a reduced budget deficit, lower inflation, and a rise in foreign investment. The introduction in July 1997 of a currency board swiftly pushed down Bulgaria's soaring inflation rates and continues to contribute to financial stability. Bulgaria's GDP declined by over 10% in 1996 and by 7% in 1997. GDP rebounded with 3.5% growth in 1998. The 1999 Kosovo war hit the Bulgarian economy by curtailing exports and expanding the current account deficit. Export growth, however, fueled strong GDP growth (around 5%) in 2000. GDP growth is expected to slow slightly to 4.8% growth in 2001 and 2002.² Unemployment remains high, at nearly 20%. The next government led by the Simeon II National Movement is expected to maintain the fundamental course of economic reforms of the previous government. However, it will be under pressure to make good on the party's campaign promises of economic benefits and improved living standards.

¹ The UDF was briefly in power from late 1991 to 1992. For the 1997 vote, the UDF formed an electoral alliance with the Bulgarian Agrarian National Union (BANU), the Democratic Party (DP), the Social Democratic Party (SDP), and the Turkish Initiative Committee for Renewal (ICR), known collectively as the United Democratic Forces. The Union of Democratic Forces by itself won 123 seats in parliament.

² Bulgaria: country forecast. The Economist Intelligence Unit, July 6, 2001.

2001 Elections and New Government. Bulgaria's previous elections focused on the divide between the two largest political groups, the leftist Socialists and the UDF-led reformers. A new element to the June 2001 elections was the emergence of a new political force centered around Simeon II, Bulgaria's former king. As a child, Simeon was forced out of the country by the Communist leadership in 1946. He spent 55 years in exile in Spain and became a successful business consultant. In April 2001, just a few months before the elections, Simeon founded the Simeon II National Movement (SNM) and its standing in public opinion polls swiftly and steadily rose. Simeon pledged to improve living standards within 800 days in office, fight corruption, lower taxes, increase social spending, and pursue accelerated economic reforms. Simeon did not himself run for a seat in parliament; the party's ticket included young business persons and local celebrities, many Western-educated.³ None in the SNM party, including Simeon, claimed to have any governing experience. Apparently receptive to the notion of a fresh start to political life, Bulgarian voters flocked to Simeon's party, even while details of its program and even its prospective leadership candidates remained vague.

The official results of the June 17, 2001, elections were as follows:

| Party | % of vote | Seats in parliament |
|--|-----------|---------------------|
| Simeon II National Movement | 42.74% | 120 |
| United Democratic Forces | 18.18% | 51 |
| Coalition for Bulgaria (incl. Socialist Party) | 17.15% | 48 |
| Movement for Rights and Freedoms | 7.45% | 21 |
| total | | 240 |

Simeon's party won 120 seats in parliament, one short of an absolute majority. Both the UDF and the ethnic Turkish Movement for Rights and Freedoms considered entering into coalition talks, but only the latter, which has 21 seats in parliament, is expected to join a Simeon-led coalition government. The UDF, meanwhile, has pledged to support the government's efforts to join the European Union and NATO, but said it will oppose any efforts to restore the monarchy in Bulgaria. After his party's defeat, former Prime Minister Kostov stepped down as UDF leader.

Stated priorities for the SNM team include lowering taxes, balancing the budget, increasing transparency in the privatization process, and attracting foreign investment.⁴ SNM leaders say that they wish to keep the general direction of the previous government's

³ Some candidates had to withdraw their names after they were identified as having had links with the communist-era secret police.

⁴ Reuters, July 12, 2001; *The Economist*, June 16, 2001.

reforms, but accelerate their implementation. Some observers speculate that the Simeon National Movement may eventually seek to re-establish the monarchy in Bulgaria, although the SNM denies having this goal.

Foreign Policy

Bulgaria and NATO. Bulgaria seeks NATO membership and hopes to be among the countries NATO may invite to join the alliance at the 2002 NATO summit in Prague. Nine other countries also seek membership in NATO (Albania, Croatia, Latvia, Estonia, Lithuania, Macedonia, Romania, Slovakia, and Slovenia). Leaders from these countries have pledged solidarity in their efforts to join NATO and have jointly called for NATO to extend membership invitations in 2002.

At NATO's April 1999 in Washington, DC, the allies welcomed their newest members (Poland, Hungary, and the Czech Republic) and reaffirmed their willingness to accept new members in the future. They announced the creation of a Membership Action Plan (MAP) to provide advice and support to countries seeking NATO membership. As part of the MAP, applicant states submit annual national programs on their preparations for membership. Bulgaria submitted its latest annual national program of the MAP in November 2000. The Bulgarian armed forces are in the process of reform and restructuring, but are considered a late starter on reform. The armed forces consist of the army, navy, and air force, with personnel strength of nearly 80,000 in 2000. By 2004, the armed forces are to be reduced to about 45,000 troops under a new structure of rapid reaction, main defense, territorial defense, and reserve forces. Bulgaria's defense budget in 2000 was over 2% of GDP, and projected to reach 2.8% in 2001. Bulgaria contributes a small platoon each to NATO's SFOR operation in Bosnia and KFOR operation in Kosovo. The Bulgarian defense industry was active in the trade of small armaments, some of which found their way to outlaw or rebel forces worldwide. The Kostov government cut back significantly on foreign arms sales in 2000 and 2001 and cracked down on illegal arms shipments.⁵

During Operation *Allied Force* in 1999, NATO extended a security guarantee to countries neighboring Serbia, including Bulgaria. Bulgaria granted NATO transit rights and use of its airspace, in spite of strong Bulgarian public opposition to the air strike campaign. In April 2001, the Bulgarian parliament ratified a memorandum with NATO, signed two weeks earlier, authorizing the transit and temporary stationing of NATO troops on Bulgarian territory at any time. It is the first such agreement to be concluded between NATO and a non-NATO country.

Bulgaria and the European Union. Bulgaria signed an association agreement with the European Union in March 1993, and formally applied for EU membership in December 1995.

Bulgaria is one of twelve associated countries currently in negotiations on joining the European Union. Bulgaria opened accession negotiations in February 2000 in the second "wave" of countries to start the accession process. In its latest progress report on EU

⁵ For further information see "With pain and hope, Bulgaria curbs weapons trade," *The Washington Post*, July 8, 2001.

candidate countries (from November 2000),⁶ the European Commission assessed that Bulgaria continued to meet the political criteria for membership, but needed to strengthen the judiciary. It said that Bulgaria has made progress in becoming a functioning market economy, but was not yet able to cope with the competitive pressure and market forces of the Union. It reported substantial progress by Bulgaria in aligning its legislation with that of the EU in several functional areas. In December 2000, EU leaders reaffirmed that the Union would be ready to accept new members by 2003 and that actual accession by the first new members could be achieved in 2004, but outside observers view this timetable as optimistic. Though Bulgaria is not expected to be among the first countries acceding to the EU, the previous Bulgarian government's goal was to conclude accession negotiations in 2004 and achieve full EU membership in 2006. The EU agreed in late 2000 to remove Bulgaria from the so-called "blacklist" of countries requiring visas for entry into EU territory, fulfilling a major goal of the Bulgarian government.

Regional Relations. For years, Bulgarian governments have emphasized good relations with neighbor countries in the region. Bulgaria has actively participated in numerous multilateral cooperation initiatives on economic, political, and security issues in the Balkan and Black Sea region. In March 1998, six southeastern European countries — Bulgaria, Turkey, Greece, Albania, Romania, and the former Yugoslav Republic of Macedonia (later joined by Italy) — agreed to create a multinational peace force. The joint Multi-National Peace Force Southeast Europe was inaugurated in September 1999 in the Bulgarian city of Plovdiv, the force's headquarters for an initial 4-year period. Bulgaria also participates in the Stability Pact for southeast Europe, a multi-dimensional forum launched in 1999 by the European Union to promote regional economic recovery and stability. Bulgaria maintains good relations with its neighboring countries, including NATO allies Greece and Turkey. Bulgarian officials have spoken out against border changes in the region and against future independence for Kosovo.

Perhaps no other conflict has alarmed Bulgaria as much as the sudden escalation of violence in the neighboring Former Yugoslav Republic of Macedonia (FYROM, referred to here as Macedonia) since early 2001. Bulgaria has historic ties to Macedonia, with many Bulgarians contending that the two share a common language and culture. At the same time, Bulgarian governments have strongly supported Macedonia's territorial integrity since Macedonia claimed independence in 1991. Bulgaria fears that prolonged violence in Macedonia could lead to the dismemberment of the young state and invite greater instability in the region. The Kostov government condemned the terrorist actions by the Albanian insurgents and urged the parties to resolve problems through political dialogue. Bulgaria has lent military assistance, including tanks and other military equipment, and economic support to the Macedonian government.

U.S. - Bulgarian Relations

Relations between the United States and Bulgaria have improved steadily since the fall of communism in Bulgaria and the rest of eastern Europe in 1989. The United States has provided bilateral assistance to Bulgaria for economic restructuring and the development of democratic institutions, and has supported multilateral financial and development aid programs for Bulgaria. From Fiscal Year 1990 through Fiscal Year 2000,

⁶ The Commission's reports are available on the web at <http://europa.eu.int>

the United States provided over \$326 million in Support for East European Democracy (SEED) Act bilateral assistance. Unlike some other central European countries that have undergone transformation from communism, Bulgaria has also been adversely affected by the violent conflicts in the region that have, among other things, disrupted trade routes and undermined regional stability. In consideration of this, U.S. Administrations have continued to designate bilateral aid funds for Bulgaria (while aid programs to more stable regions in Europe have discontinued). For FY2001, the United States provided an estimated \$35 million and for FY2002, the Bush Administration has requested \$35 million for Bulgaria. The United States also provides military assistance to Bulgaria in the form of foreign military financing (FMF) grants and funds for international military education and training (IMET) programs (\$7.8 million in FMF and \$1.1 million in IMET for FY2001). The United States has also funded programs for emergency food aid, educational institutions, and Peace Corps volunteers. In 1999, U.S. exports to Bulgaria reached \$185 million and U.S. investors ranked fourth among foreign investors in Bulgaria.

The United States and Bulgaria have shared the common interest of promoting peace and stability in the unstable southeast Europe region. Bulgaria has been an active participant in U.S. - supported regional initiatives such as the Stability Pact, the Southeast European Cooperative Initiative (SECI), and the Southeast Europe Defense Ministerial (SEDM). The Clinton Administration expressed gratitude for the Bulgarian government's steady support during NATO's Operation *Allied Force* campaign against Yugoslavia, and pledged assistance to offset adverse economic effects resulting from the Kosovo war. In November 1999 President Clinton became the first U.S. President to visit Bulgaria. He called Bulgaria a positive example for the region and said that a "more compelling case" (after the Kosovo war) could be made for NATO membership for the nations of southeast Europe.⁷

In April 2001, former Prime Minister Kostov became the first head of government from central Europe to meet with President George W. Bush and other top Administration officials in Washington, D.C.. Subjects of discussion reportedly included the conflicts in southeast Europe, further NATO enlargement, and the upcoming Bulgarian elections. The Bush Administration reportedly made no promises about Bulgaria's candidacy for NATO membership, but endorsed the Kostov government's unequivocally pro-Western outlook and reformist policies. During his first official visit to Europe in June 2001, President Bush expressed strong U.S. support for launching the next round of NATO enlargement at the 2002 alliance summit meeting in Prague. The Bush Administration has yet to indicate how many or which countries it will support for an invitation to join the alliance. Aspirant countries, including Bulgaria, warmly received Bush's expressed commitment to further NATO enlargement.

⁷ Reuters, November 22, 1999.

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