



# Bulgaria: Current Issues and U.S. Policy

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March 13, 2008

Congressional Research Service

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[www.crs.gov](http://www.crs.gov)

RS22247

## **Summary**

This short report provides information on Bulgaria's current political and economic situation, and foreign policy. It also discusses U.S. policy toward Bulgaria. This report will be updated as warranted.

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## Political Situation

Bulgaria is a parliamentary democracy that has held generally free and fair elections since the overthrow of the Communist regime in 1989. Bulgaria held its most recent parliamentary elections on June 25, 2005. The winner of the vote was a coalition led by the left-of-center Bulgarian Socialist Party (BSP), which received 82 seats in the 240-seat National Assembly, Bulgaria's unicameral parliament. The National Movement for Stability and Progress (NMSPP), a centrist group, finished second with 63 seats. The Movement for Rights and Freedoms (MRF), representing the country's ethnic Turkish minority, won 34 seats. Ataka (Attack!), a group that mixes far-right xenophobia with leftist economic populism, won a surprising 21 seats. Three center-right groups won the remaining seats: the Union of Democratic Forces (UDF) (20); Democrats for a Strong Bulgaria (DSB) (17); and the Bulgarian National Union Coalition (13). In an effort to boost turnout, the government introduced a lottery in which voters could win televisions, cars, and other prizes. Nevertheless, turnout was only 55%, the lowest since the end of communism.

### Bulgaria: Basic Facts

**Land Area:** 110,550 sq. km (slightly larger than Tennessee)

**Population:** 7.3 million (2007 estimate)

**Ethnic Composition:** 83.9% Bulgarian, 9.4% Turkish, 4.7% Roma (2001 census)

**Gross Domestic Product:** \$39.07 billion, 2007 estimate.

**Source:** CIA, *The World Factbook*, 2008.

All parties pledged to exclude Ataka from the government. Nevertheless, analysts were concerned about the group's electoral success, which shows significant public dissatisfaction with Bulgaria's political class. Experts note that it has been a common phenomenon in Central and Eastern Europe that when a former Communist Party (such as the BSP) moves to the center, often as part of European integration efforts, its place in the political spectrum is often taken over by populist and nationalist groups.

The process of forming a new government proved difficult, in part because of the scattered distribution of the vote and personal animosity among party leaders, including within the center-right portion of the political spectrum. The stalemate was finally resolved on August 15, when the parliament approved a new coalition government. It is composed of the BSP, MRF, and NMSPP, with BSP leader Sergei Stanishev as Prime Minister. Critics claim that Stanishev is a relatively weak leader and that real power rests in the hands of party barons, particularly in the BSP and MRF. This situation, they say, has hindered reform implementation and the fight against corruption.

Despite the defection of some NMSPP deputies to the opposition in 2007, the government retains a majority and appears determined to stay in power until 2009, when new elections must be held. A new party, Citizens for the European Development of Bulgaria (CEDB), is not currently represented in parliament, but could win a large number of seats in new elections. The CEDB, led by Sofia mayor Boiko Borisov, espouses pro-EU and pro-law-and-order policies. The current coalition could face a serious challenge if a number of small center-right parties in the current parliament can form an alliance with the CEDB.

President Georgi Parvanov, backed by the BSP, won re-election in 2006. Although Parvanov is one of Bulgaria's most popular political figures, most political power is held by the Prime Minister and government; the Bulgarian presidency is relatively weak.

## **Economic Situation**

Bulgaria is one of the poorest countries in Europe. According to the World Bank, its per capita income is only 56% of that of the eight central and eastern European countries that joined the EU in 2004. As in many other transition countries, Sofia and other urban areas are more prosperous than rural ones, which have suffered an exodus of young people. Bulgaria is also battling a rapidly shrinking and aging population, due partly to a low birth rate and partly to the emigration of large numbers of young Bulgarians to better-paying jobs in Western Europe. Mistakes and fitful reforms made by previous governments, culminating in disastrous policies pursued by a previous BSP government in 1995-1996, were serious setbacks.

However, Bulgaria's economic situation has improved substantially since 1997, when the country's currency was pegged to the euro under a currency board arrangement, which gives the Bulgarian central bank little discretion in setting monetary policy. From 1998 through 2005, Bulgaria has had an average economic growth rate of more than 5% per year. Gross Domestic Product (GDP) grew by just under 6% in the first three-quarters of 2007. Unemployment has fallen from 18.1% in 2000 to 7.8% in 2007.

Bulgaria ran a government budget surplus of 3.5% of GDP in 2007. The central bank is working to restrain rapidly expanding commercial bank lending in order to maintain stable growth. However, inflation remains high; average consumer price inflation was 8.4% in 2007. Persistent inflation is likely to delay Bulgaria's efforts to adopt the euro as its currency for a few years, at least. Due to strong import demand, Bulgaria had a large current account deficit of 20% of GDP in 2007. On the other hand, Bulgaria has seen a surge of foreign direct investment (FDI) in recent years. FDI amounted to \$8.4 billion in 2007, or nearly 20% of GDP. Bulgaria is attractive to investors because it can supply not only cheap labor, but qualified experts in such fields as computer science.

Organized crime and corruption are very serious problems in Bulgaria. Powerful organized crime kingpins continue to operate in Bulgaria with relative impunity, and dozens have died in contract killings and gang shootouts in the past few years. Organized crime groups are involved in such activities as trafficking in persons, drugs and weapons, money laundering, counterfeiting, optical disc piracy, and credit card fraud. High-level corruption is also a critical issue. Powerful politicians are perceived as operating their ministries as corrupt fiefdoms with relative impunity. One of Bulgaria's biggest challenges is long-delayed judicial reform. The Bulgarian system remains weak, corrupt, and sometimes politicized.<sup>1</sup> Experts believe that Bulgaria must also overhaul its education and health care systems.

## **Foreign Policy**

Bulgaria's foreign policy in recent years has focused on joining NATO and the European Union. Bulgaria joined NATO in April 2004, in part due to strong U.S. support. Bulgaria has deployed over 400 troops to Afghanistan as part of the NATO-led International Security Assistance Force (ISAF). They are stationed in Kabul and in the southern Afghan city of Kandahar. Bulgaria is

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<sup>1</sup> *Economist Intelligence Unit Country Report: Bulgaria*, October 2006; 2004 State Department Country Reports on Human Rights Practices, from the State Department website, <http://www.state.gov>.

considering providing training to Afghan security forces. Bulgaria has deployed 42 soldiers to KFOR, the NATO-led peacekeeping force in Kosovo, as well as to SFOR, the former NATO-led peacekeeping force in Bosnia. SFOR has been replaced by an EU-led force, in which Bulgaria is also participating, with 152 soldiers.<sup>2</sup> Bulgaria has supported extending membership invitations to Albania, Croatia, and Macedonia at the NATO summit in Bucharest on April 2-4, 2008. Bulgarian officials say the move would strengthen peace and stability in the region.

Bulgarian officials say that military modernization has proceeded slowly in part because of the costs of participating in overseas deployments. In April 2005, Gen. Nikola Kolev, Chief of General Staff of the Bulgarian army, said that it will take at least 10 years for Bulgaria to achieve full integration in the Alliance, citing in particular the need for new equipment. He said that Bulgaria was focusing on preparing at least one mechanized brigade for use in the full range of NATO's missions, as well as several smaller, specialized units, totaling over 5,000 men in all. Some observers have expressed concern that some of the Soviet-trained officers holding senior positions in the Bulgarian military and intelligence services may continue to have links with Russian intelligence agencies. In 2004, several senior Bulgarian nominees to NATO posts were denied NATO security clearances.<sup>3</sup>

Bulgaria joined the EU in January 2007, but under stringent conditions. It must provide regular reports to the EU Commission on its progress toward specific benchmarks in several areas, including the fight against organized crime and corruption, and judiciary reform. The EU may apply sanctions (suspending judicial cooperation, for example) against Bulgaria if the benchmarks are not met. In February 2008, the European Commission released a report on Bulgaria's progress. It recognized progress in judicial reform and fighting corruption on Bulgaria's borders, but noted shortcomings in such areas as corruption in local government, healthcare, and education. The report particularly stressed the need to make stronger efforts in fighting high-level corruption and organized crime.<sup>4</sup> No sanctions have been taken against Bulgaria yet, but the EU has suspended funding for some projects in Bulgaria, due to irregularities in how the money has been spent, including corruption concerns.

Russia and Bulgaria have traditionally had good relations, due to longstanding historical and personal ties. However, some analysts have expressed concern about Russia's dominance in Bulgaria's energy sector. Bulgaria is almost entirely dependent on Russia for its oil and natural gas needs. Russian firms own major oil refineries, a key commercial natural gas distribution company, and many retail gasoline stations in Bulgaria. As in other countries in Central Europe, some analysts are concerned that Russia could use this control and its links with some politicians (particularly in the BSP) and business leaders to manipulate the country.

Bulgarian-Russian energy relations became closer in January 2008, when President Putin won Bulgaria's support for Russia's South Stream natural gas pipeline. Bulgaria's position on the Black Sea may make it an important transit point for oil and natural gas supplies from Russia and the Caspian Sea region to Western Europe. Routes through Bulgaria would avoid Turkey's crowded Bosphorus and Dardanelles straits. South Stream, which would run through Bulgaria and the Balkans to western Europe, may increase Europe's dependence on Russian energy by

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<sup>2</sup> Bulgarian news agency BTA wire service dispatch, November 16, 2008.

<sup>3</sup> Judy Dempsey, "As EU and NATO Enlarge, Trust Weakens for Sharing of Intelligence," *International Herald Tribune*, November 12, 2004.

<sup>4</sup> The text of the reports can be found at [http://ec.europa.eu/dgs/secretariat\\_general/cvm/progress\\_reports\\_en.htm](http://ec.europa.eu/dgs/secretariat_general/cvm/progress_reports_en.htm).

reducing the prospects for the U.S.- and EU-sponsored Nabucco project. Nabucco is intended to supply Central Asian gas to Europe without transiting Russia. Russian and Bulgarian leaders also signed agreements on a proposed oil pipeline from the Bulgarian city of Burgas to the Greek port at Alexandroupoulos on the Aegean Sea and on building two Russian nuclear reactors in Bulgaria.<sup>5</sup>

## **U.S. Policy**

The United States and Bulgaria have excellent bilateral relations. In April 2006, the United States signed a Defense Cooperation Agreement with Sofia on use of military bases in Bulgaria. (Even before the agreement, the United States was already using Bulgarian bases for joint exercises with Bulgarian and other troops, as well as for U.S. forces in transit to Iraq and Afghanistan.) The Bulgarian government eagerly sought such bases, viewing them as an economic stimulus and as useful in cementing strategic bonds with the United States. The bases involved include the Bezmer and Graf Ignatievo air bases and the Novo Selo training range. About 2,500 U.S. troops are expected to be deployed to the relatively spartan facilities at the bases at any one time, each group staying for only a few months.<sup>6</sup> In February 2008, the United States signed additional agreements needed to implement the 2006 accord, including on customs procedures, taxes, and other issues. Bases in Bulgaria are likely to be less expensive than bases in Western Europe and subject to fewer constraints on training and exercises. Bulgaria is also closer geographically to the Middle East than Western Europe. At the same time, Bulgaria's infrastructure is inferior to that of countries such as Germany.

Bulgaria contributed 450 troops to U.S.-led coalition forces in Iraq, despite the deployment's unpopularity among Bulgarians, according to opinion polls. Bulgaria suffered casualties in Iraq: 13 soldiers have died. In March 2005, a Bulgarian soldier was killed in a friendly-fire incident involving U.S. troops. In May 2005, with the parliamentary elections looming, the Bulgarian parliament voted to withdraw the Bulgarian contingent by the end of the year. Although the 450-man infantry battalion was indeed withdrawn at the end of 2005, Bulgaria sent a 150-man unit to guard a refugee camp north of Baghdad in March 2006. Bulgaria is also helping to train Iraqi security force members in Bulgaria.

The State Department's 2007 Trafficking in Persons report said that Bulgaria is a "transit country and to a lesser extent, a source country" for human trafficking. It is a "Tier 2" country, meaning that it does not fully comply with the minimum standards for the elimination of trafficking, but is making significant efforts to do so. The report said that Bulgaria improved its victim assistance infrastructure and continued to demonstrate increased law enforcement efforts. However, Bulgaria's National Anti-Trafficking Commission could not effectively monitor and improve national and local efforts due to inadequate staffing, according to the report.

In FY2006, Bulgaria received \$35 million in U.S. total aid. FY2006 was the last year that Bulgaria received assistance under the SEED program to promote political and economic reform, because of Bulgaria's pending admission to the EU. In FY2007, Bulgaria received \$11 million in U.S. aid, including \$9.6 million in Foreign Military Financing (FMF) and \$1.4 million in IMET

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<sup>5</sup> Southeastern Europe Country Analysis Brief, U.S. Energy Information Administration, Department of Energy website, <http://www.eia.doe.gov/emeu/cabs/seurope.html>.

<sup>6</sup> "Frequently Asked Questions About Shared Military Facilities," U.S. Embassy in Bulgaria website, <http://bulgaria.usembassy.gov>, December 1, 2007.

military training funding to bring Bulgaria's military closer to NATO standards. Bulgaria will receive an estimated \$8.5 million in U.S. aid in FY2008. Of the amount, \$6.6 million is in FMF, \$1.6 million is in IMET, and \$0.3 million in funding to destroy excess small arms and ammunition stocks. For FY2009, the Administration requested \$11 million in aid for Bulgaria. This total includes \$9 million in FMF and \$1.6 million in IMET. Another \$0.4 million is aimed at helping Bulgaria destroy small arms and ammunition stocks.<sup>7</sup>



Source: Map Resources. Adapted by CRS. (K. Yancey 8/31/05).

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<sup>7</sup> "FY2009 Budget Justification for Foreign Operations," from the State Department website, <http://www.state.gov>.



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