REGULAR REPORT

FROM THE COMMISSION

ON

BULGARIA'S

PROGRESS TOWARDS ACCESSION

****

Table of contents

A. Introduction

a) Preface
The Context of the Progress Report
b) Relations between the European Union and Bulgaria
The enhanced Pre-Accession Strategy
Recent developments in bilateral relations

B. Criteria for membership

1. Political criteria
1.1. Democracy and the Rule of Law
Parliament
The Executive
The judicial system
Anti-Corruption measures
1.2. Human Rights and the Protection of Minorities
Civil and Political Rights
Economic, Social and Cultural Rights
Minority Rights and the Protection of Minorities
1.3. General evaluation

2. Economic criteria
2.1. Introduction
2.2. Economic developments since the Commission published its Opinion
Macroeconomic developments
Structural reforms
2.3. Assessment in terms of the Copenhagen criteria
The existence of a functioning market economy
The capacity to cope with competitive pressure and market forces
2.4. General evaluation

3. Ability to assume the obligations of Membership
3.1. Internal Market without frontiers
General framework
The Four Freedoms
Competition
3.2. Innovation
Information Society
Education, Training and Youth
Research and Technological Development
Telecommunications
Audio-visual

3.3. Economic and Fiscal Affairs

Economic and Monetary Union
Taxation
Statistics

3.4. Sectoral Policies
Industry
Agriculture
Fisheries
Energy
Transport
Small and Medium Enterprises

3.5. Economic and Social Cohesion
Employment and Social Affairs
Regional Policy and Cohesion

3.6. Quality of Life and Environment
Environment
Consumer Protection

3.7. Justice and Home Affairs

3.8. External Policies
Trade and International Economic Relations
Development
Customs
Common Foreign and Security Policy

3.9. Financial Questions
Financial Control

4. Administrative capacity to apply the *acquis*

4.1 Administrative structures
4.2 Administrative and judicial structures and capacity
4.3 Twinning
4.4 General Evaluation

C. Conclusion

D. Accession Partnerships and National Programmes for the Adoption of the *Acquis*: global assessment of implementation

1. Accession Partnership
2. National programme for the adoption of the *Acquis*

Annex

Statistical Data

A. Introduction

a) Preface

In Agenda 2000 the Commission said it would report regularly to the European Council on progress made by each of the candidate countries of Central and Eastern Europe in preparations for membership and that it would submit its first report at the end of 1998. The European Council in Luxembourg decided that

"From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and East European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*. Prior to those reports, implementation of the Accession Partnerships and progress in adopting the *acquis* will be examined with each applicant State in the Europe Agreement bodies. The Commission's reports will serve as a basis for taking, in the Council context, the necessary decisions on the conduct of the accession negotiations or their extension to other applicants. In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States' ability to meet the economic criteria and fulfil the obligations deriving from accession.

A dynamic approach should be maintained in assessing the progress made by applicant States in the regular reports which the Commission will submit to the Council."

The European Council in Cardiff supported those conclusions, stating that "The Union's priority is to maintain the enlargement process for the countries covered in the Luxembourg European Council conclusions, within which they can actively pursue their candidatures and make progress towards taking on the obligations of membership, including the Copenhagen criteria. Each of these candidate countries will be judged on the basis of the same criteria and will proceed in its candidature at its own rate, depending on its degree of preparedness. Much will depend on the efforts made by the candidate countries themselves to meet the criteria. All will benefit from strengthened relations with the EU including through political dialogue and tailored strategies to help them prepared for accession."

In accordance with the guidance provided by these Council Conclusions, the progress report on Bulgaria follows the same structure as the Opinion. It

- describes the relations between Bulgaria and the Union, particularly in the framework of the Europe Agreement;

- analyses the situation in respect of the political conditions set by the European Council (democracy, rule of law, human rights, protection of minorities)

- assesses Bulgaria's situation and prospects in respect of the economic conditions mentioned by the European Council (functioning market economy, capacity to cope with competitive pressures and market forces within the Union)

- addresses the question of Bulgaria's capacity to adopt the obligations of membership, that is, the *acquis* of the Union as expressed in the Treaty, the secondary legislation and the policies of the Union.

It also covers judicial and administrative capacity as requested by the Madrid European Council which underlined the necessity for the candidate countries to adapt their administrative structures so as to guarantee the harmonious implementation of Community policies after membership.

This approach ensures equal treatment for all the candidate countries. The report takes into consideration progress since the Opinion. It looks at whether intended reforms referred to in the Opinion have been carried out and examines new initiatives, including those directly related to addressing Accession Partnership priorities. The report contains a separate section which examines the extent to which Bulgaria has addressed the short term priorities set out in the Accession Partnerships.

While the assessment of progress in meeting the political and *acquis* criteria focuses on that which has been accomplished since the Opinion, the economic assessment is based on a longer term evaluation of Bulgaria's economic performance. The assessment of progress made in adopting the *acquis* has been made on the basis of adopted legislation rather than legislation which is in various stages of either preparation or Parliamentary approval. Only in this manner was it possible to objectively measure and compare concrete progress in preparation for accession.

The report draws on numerous sources of information. The candidate countries were invited to provide information on progress made in preparations for membership since the publication of the Opinion. Their presentations at the meetings held under the auspices of the Europe Agreement, their National Programmes for the Adoption of the *Acquis* and the information provided in the context of the analytical examination of the *acquis* provided were additional sources of information. Council deliberations on the Opinion and the reports and resolutions of the European Parliament on the Commission Opinions[1] and in particular the report on the application of Bulgaria for accession to the EU prepared by Ms Aelvoet were taken into account in the preparation of the reports. The Commission also used assessments made by the Member States, particularly with respect to the political criteria for membership and the work of various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the IFIs as well as that of non-governmental organisations in preparation of the regular reports.

[1] European Parliament Doc. 224.339 'Report on the Communication from the Commission Agenda 2000' (Rapporteurs : A. Oostlander and E. Baron Crespo; Co-rapporteurs : M. Aelvoet, J. Donner, O. Von Habsburg, E. Caccavale, F. Kristoffersen, M. Hoff, C. Carnero Gonzales, P. Bernard-Raymond, R. Speciale, J. Wiersma, J.W. Bertens)

b) Relations between the European Union and Bulgaria

The Enhanced Pre-Accession Strategy

On 30 March 1998 the accession process was formally launched by a meeting of the Ministers for Foreign Affairs of the fifteen EU Member States, the ten Central and East European applicant states and Cyprus. In advance of this meeting country specific Accession Partnerships were adopted to support the applicant countries in their preparations for membership. These documents set out the priorities for further work and the supporting financial assistance available from the EU. In May Bulgaria presented a first version of its National Programme for the Adoption of the *Acquis* (NPAA) which describes in more detail the actions needed to reach the objectives set out in the Accession Partnership. An analytical examination of the *acquis* ("screening") started on 3 April. Pre-accession aid will be increased substantially. Alongside the Phare programme, it will, as from the year 2000, comprise aid for agriculture and a structural instrument which will give priority to measures similar to those of the Cohesion Fund in environment and transport. The Phare programme will concentrate on institution building and investment in other areas.

Recent developments in bilateral relations

Bulgaria has continued to implement the Europe Agreement correctly and contributed to the smooth functioning of the various joint institutions.

The Association Council met in October 1998. Association Committee meetings were held in October 1997 and October 1998. The October 1998 meeting was the first to discuss the implementation of the Accession Partnership priorities. The system of subcommittees continues to function as a forum for technical discussions.

Since the issuing of the Opinion the Joint Parliamentary Committee comprising representatives of the Bulgarian and European Parliament met four times, in July and November 1997, June and November 1998. A Joint Consultative Economic and Social Committee was set up in 1998.

Bulgaria continues to be concerned by the EU visa requirements for its citizens and has requested that this restriction be lifted.

The EU remained Bulgaria's major trading partner in 1997 with a share of 43% in total Bulgarian exports and of 37% in total of Bulgarian imports. While the share of EU exports has increased compared with 1996, the share of EU imports has remained unchanged during the same period. Compared to 1996 EU exports increased in 1997 from BECU 1.7 to 1.8. There has been a small trade surplus in favour of Bulgaria of BECU 0.24 in 1997.

Under the Europe Agreement an adaptation protocol, covering in particular agricultural and processed agricultural products, has been signed to take into account the results of the Uruguay Round and the accession of Austria, Finland and Sweden to the EU.

Several trade issues have been resolved (e.g. abolition of the Customs Clearance Fee, early phasing out of the import surcharge, further alignment of VAT, excise tax and the Customs Code). Bulgaria has asked for prolongation of the transition period on state aids for products covered by the ECSC Treaty.

The 1998 Phare programme consists of a national allocation (68 MECU), based on the Accession Partnership priorities, to support in particular economic reforms, administrative capacity reinforcement, nuclear safety as well as the participation in Community programmes and Tempus. An additional 51 MECU have been allocated for a cross-border co-operation programme.

In addition, funding will be provided under the Catch-up Facility[2], for projects in land restitution, banking and enterprise reform, and the fight against corruption within the Bulgarian Customs administration.

Under a new facility for large scale infrastructure projects, cofinanced by the European Investment Bank and the International Financial Institutions, 20 MECU will be provided for rail rehabilitation in 1998.

Bulgaria also participates in and benefits from Phare funded multi-country and horizontal programmes such as customs, nuclear safety, environment, small and medium sized enterprises, statistics, public administration reform and TAIEX.

B. Criteria for membership

1. Political criteria

Introduction

In its 1997 Opinion on Bulgaria's application for EU membership, the Commission concluded that:

"The current improvement in Bulgaria, following the arrival in power of a new government, indicates that Bulgaria is on its way to satisfy the political criteria."

Furthermore, in the Accession Partnership with Bulgaria "further efforts to integrate the Roma and consolidation of protection of individual liberties" were mentioned as a medium-term priority.

Recent developments

[2] Special EU financial assistance given to Latvia, Lithuania, Slovakia, Bulgaria and Romania for projects aimed at accelerating EU accession preparations in certain areas.

The political situation has been stable since the coming into office of the Government of Prime Minister Kostov in May 1997. A reform orientated majority under the leadership of the United Democratic Forces (UDF) has helped to secure support for market economy reforms and further integration of the country with the European Union and other Euro-Atlantic bodies. Commitment to EU membership is high in the government agenda, one of the key foreign policy goals and a major inspiration for internal reform policies.

1.1. Democracy and the Rule of Law

The Parliament

No major changes have been introduced as regards the Bulgarian Parliament's role and powers. It continues to operate satisfactorily, its powers are respected and the opposition plays a full part in its activities.

The Executive

The main central institutions of the State continue to operate smoothly in general in spite of a certain instability because administrative reform is still at an early stage. An administrative reform process has been launched with a view to creating an independent, efficient and professional civil service. A number of initial steps have been taken to this end, notably through the adoption of a strategy on the modernisation of the administrative system and a law on public administration . These will need to be completed by further legislation.

The Judiciary

The reform of the judicial system has begun. The main recent achievements include :

- Amendments to the Code of Criminal Procedures, which needs further refinements, and to the Code of Civil Procedures entered into force on 1 April 1998. A three-tier jurisdiction has been introduced.

- Courts of appeal were constituted throughout the country and the Supreme Court of Appeal and the Supreme Administrative Court started work. They still suffer from understaffing and lack of experienced judges familiar with the enforcement of the new legislation based on the *acquis communautaire*.

Further efforts are needed to ensure its proper functioning including its capacity to enforce the *acquis communautaire*. The main challenges are related to the transformation of the inherited system and its extension to criminal investigations and public security. It is regrettable that a new law on the judicial system which proposes to reinforce judicial independence has not yet been adopted by Parliament.

Further efforts will be needed to improve the status of judges and prosecutors, change the investigation procedures, strengthen the judiciary against possible corruption, fill vacancies, speed up and make more transparent and efficient the handling of cases in order to reduce the

number of outstanding cases, increase opportunities for legal aid, reduce pre-trial detention time to international standards, enforce rulings effectively and restore public confidence in the Judiciary.

Anti-corruption measures

Corruption remains a serious problem in Bulgaria as mentioned in the Opinion. The government has given priority to this area and has taken measures to combat it. These include :

- drawing up a programme to combat organised crime and corruption which details the role and duties of the state police, and conditions for effective counter measures against crime.
- several amendments to the Penal Code.
- adoption by the National Assembly of laws on Measures Against Money Laundering and the ratification of the Convention for Combat Against the Subornation of Foreign Officials in International Commercial Agreements.
- establishment of a Single Information System to counter crime and an Interministerial Co-ordination Council on organised crime and corruption.

Under the Catch-up Facility[3] the EU has approved assistance for a project designed to counter corruption in the Bulgarian Customs Administration.

Despite these measures and a substantial increase in public awareness, considerable further efforts are needed in order to achieve tangible results.

1.2. Human Rights and the Protection of Minorities

Bulgaria has ratified most of the major international human rights instruments but has not signed Protocol n° 6 to the European Convention for Protection of Human Rights and Fundamental Freedoms concerning the abolition of the death penalty. On 9 October 1997 the Framework Convention of the Council of Europe for the Protection of National Minorities, the European Convention on Nationality and the European Social Charter of the Council of Europe. Bulgaria has signed but not yet ratified.

Civil and Political Rights

The protection of civil and political rights has improved even though the situation of law enforcement bodies continues to be difficult. Recent developments include the following:

[3] Special EU financial assistance given to Latvia, Lithuania, Slovakia, Bulgaria and Romania for projects aimed at accelerating EU accession preparations in certain areas

- Amendments to the Code of Criminal Procedures which have contributed to improving the rights of individuals in the judicial system despite some reports about instances of inhuman and degrading treatment inflicted by the police. Further efforts were made to pursue close co-operation with the European Committee for the Prevention of Torture.

- Adoption in 1997, of a new Law on the Ministry of Interior providing for additional guarantees in the exercise of human rights and basic freedoms. It aims at ensuring greater transparency in the work of the Ministry of Interior and should become an effective instrument in cases of abuse of power by the police and other security services. It also provides for the right of appeal against orders for arrest and strengthens the rights of citizens in Court.
  However, the law needs further improvement as regards control over police misconduct, information and personal data, guarantees about "measures of administrative coercion" as well as strengthening of appeal procedures.

- Continuation of a 1990 moratorium on the use of the death penalty, although the amended penal code still refers to it.

- The adoption of some institutional changes aimed at strengthening the independence of the national media.

A long term strategy has been established in order to improve legislation on asylum and refugees and to establish an infrastructure for receiving refugees and for their social integration into the Bulgarian society.

However, the situation in Bulgarian prisons still needs special attention. The large number of individuals held in pre-trial detention for long periods has decreased, however, some cases of ill treatment by law enforcement officers were still reported. The situation concerning detention of juveniles in educational boarding schools still needs to be improved. Nevertheless, the main problem in this field continues to be related to the procedure for placing juveniles in such schools and in particular to the lack of respect of their defence rights. Cases of police violence are not always followed up. Finally certain provisions of the new draft Media Law, covering the specific functions, rights and responsibility of the National Council for Radio and Television (NCRT), the main implementing body, give rise to concerns about possible political control over the electronic media. The President has decided to refer this law back to Parliament for further discussion.

A growing number of non-governmental organisations (NGOs) continue to enhance their role as a balancing factor at national as well at the regional level, including in the investigation and advocacy of human rights issues, including prison conditions and woman's and children's rights. They operate without government restrictions. Several organisations deal with issues of concern to various ethnic groups. The EU initiative for democracy and human rights actively supports NGOs working in this field in Bulgaria.

Economic, Social and Cultural Rights

Basic economic, social and cultural rights continue to be respected in Bulgaria. Bulgaria ratified Convention No 144 which refers to trilateral consultations on the application of international labour norms, as adopted by the International Labour Convention.

Freedom of religion continues to be guaranteed. As regards the registration of "non-traditional" religions and their registration, the climate seems to be more relaxed and practical solutions are usually found.

Minority Rights and the Protection of Minorities

There have been only slight changes in the respect of minority rights and the protection of minorities. The social situation of the Roma minority, still needs to be improved. A first step was made on 4 December 1997, Bulgaria adopted a decree setting up a National Council for Ethnic and Demographic Affairs (NCEDA), which includes representatives of the government as well as various minority groups; it aims to develop and put forward strategies on demographic policy, and to promote tolerance and understanding between various ethnic and minority groups.

The integration and treatment of the Roma community continues to present a serious challenge. Roma still continue to be discriminated against in all spheres of social life (education, employment, housing, social security and health care) and they are seriously underrepresented in decision making bodies, partly due to discrimination and lack of opportunity, but also due to divisions among their representatives.

The economic difficulties of the country continue to affect particularly the Roma community. The social situation of the Roma people was identified by the National Council and by leading government majority figures as one of the most urgent problems, and a joint working group has been set up in order to help improve their situation.

The Turkish minority continues to be fully integrated and represented in political life. No particular complaints as regards their educational or language rights were reported.

1.3. General evaluation

Developments confirm that Bulgaria fulfils the Copenhagen political criteria. There has been some progress in the fight against corruption although further efforts are needed. Continued attention also needs to be paid to respect for the rule of law at all levels of the administration and by the law enforcement bodies. Further efforts are required to prevent the social exclusion of the Roma and to reform the judiciary.

2. Economic criteria

2.1. Introduction

In its 1997 Opinion on Bulgaria's application for EU membership, the Commission concluded that :

"Bulgaria's progress in the creation of a market economy has been limited by the absence of a commitment to market-oriented economic policies; it would not be able to cope with competitive pressure and market forces within the Union in the medium term."

In examining the economic developments in Bulgaria since the Opinion, the Commission's approach is guided by the conclusions of the European Council in Copenhagen in June 1993 which stated that membership of the Union requires :

- the existence of a functioning market economy;
- the capacity to cope with competitive pressure and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the Opinion.

2.2. Economic developments since the Commission published its Opinion

Bulgaria's economic performance has significantly improved since mid-1997. The positive developments which were emerging at the time the Commission published its Opinion have continued. Substantial progress in macroeconomic stabilisation has been achieved. Structural reforms have advanced, though the rate of progress has appeared to slow during much of 1998. The core of Bulgaria's successful stabilisation has been the operation of a fixed exchange rate under a currency board regime. This was introduced as part of a 1-year stand-by arrangement agreed with the IMP in Spring 1997. This stand-by arrangement was successfully completed. It has been followed by a 3-year arrangement under the IMF's Extended Fund Facility which the Bulgarian government has committed itself to an economic policy programme which lays the groundwork for further structural reforms.

Macroeconomic developments

GDP is now expected to increase by about 4-5% in 1998. This return to economic growth follows two years of deep recession, during which time GDP fell by a cumulative 17%.

In the second half of 1996 and the first months of 1997, Bulgaria underwent very high inflation: prices rose by 240% in February 1997 alone. By the time the Opinion was published, inflation had already largely subsided. This trend has since been consolidated. Inflation is now relatively low, at less than 1% per month. In the 12 months to August 1998, prices rose by 6.1%.

The budget is expected to be in balance this year against a deficit target of 2% of Gross Domestic Product (GDP) in the budget law. In 1997, a deficit of 2.6% was recorded. This was a substantially better performance than had been planned: the budget initially agreed with the IMF foresaw a deficit of about 4%. Improvements in tax collection – some of which were one-off – contributed to the better than expected out-turn.

Smaller interest payments due to lower interest rates on domestic debt largely explain the improvement observed in the fiscal position: interest rates on this debt are under 10% per annum, as against several hundred percent per year in late 1996 and early 1997. Interest

payments on domestic debt will amount to less than 2% of GDP in 1998, compared with 18% in 1996, when the budget deficit exceeded 13% of GDP.

Low interest rates are the outcome of several factors. There has been a sizeable inflow of foreign currency to the banking system. This has come from foreign direct and portfolio investment, and from the fact that Bulgarians have converted their savings from foreign currencies back into leva. Together with increased confidence in the currency, the improved fiscal position of the government, notably thanks to substantial privatisation receipts, has allowed interest rates to fall. Also, the government's ability to borrow money at low rates suggests that banks are either reluctant or unable to lend for productive investment because of the need to strengthen balance sheets. This is likely to constrain economic growth.

A key element in the successful lowering of inflation and interest rates was the introduction from July 1997 of a currency board arrangement. Even before its formal establishment, the prospect of a government with the authority to implement strong economic policies had a positive impact: monthly inflation fell to low single digits by April 1997. According to the rules of the currency board arrangement the central bank is obliged to buy and sell foreign currency at a fixed exchange rate of 1000 leva to the deutschmark, and the size of the domestic money supply is dependent on the central bank's stock of foreign exchange reserves. The central bank cannot lend directly to the government, which is therefore obliged to limit its spending to what it can raise through taxation and commercial borrowing, and it can only lend to commercial banks if there is a systemic risk. The rules of the currency board also foster financial discipline as banks and companies have to repay loans with no prospect of being bailed out by the state.

Bulgaria: Main economic trends		**1994**	**1995**	**1996**	**1997**	**1998 latest**	
Real GDP growth rate	*per cent*	1.8	2.1	-10.9	-6.9	11.9	Jan-Jun
Inflation rate							
annual average	*per cent*	96	62	123	1085	30.4	Jan-Sep
December-on-December	*per cent*	122	33	311	578	5.5	Sep-on-Sep
Unemployment rate, end-year							
ILO definition	*per cent*	20.5	14.7	13.7	15.0		
registered	*per cent*	12.9	11.1	12.5	13.7	10.7	Sep
General government budget balance	*per cent of GDP*	-5.8	-6.4	-13.4	-2.6		
Current account balance	*per cent of GDP*	-0.3	-0.2	0.8	4.1		
	billion ECU	0.0	0.0	0.0	0.4	0.0	Jan-Jun
Foreign debt							
debt/export ratio [1]	*per cent*		151	158	151		
gross foreign debt	*billion ECU*	9.6	7.8	7.6	8.6	7.9	Sep
Foreign direct investment inflow							
net inflow according to EBRD	*per cent of GDP*	1.1	0.6	1.0	4.8		
balance of payments data	*million ECU*	88	63	79	439	110	Jan-Jun

Source: Commission services, national sources, EBRD
[1] *Gross hard currency debt as a precentage of exports of goods and services*

Successful macroeconomic stabilisation, combined with the authorities' commitment to accelerating privatisation, has produced a substantial rise in Foreign Direct Investment (FDI). Inflows of FDI reached ECU 439 million in 1997 or 4.8% of GDP. This is more than the total FDI received from 1991 to 1996. In 1998 FDI inflows have slowed somewhat.

Further inflows of foreign currency came from lending by international institutions and from a substantial trade surplus in 1997. The trade surplus is due to a fall in imports, reflecting the depth of the recession, rather than strong export performance. The net effect of balance of

payments developments has been a strong increase in the central bank's foreign reserves. These rose from under ECU 450 million in January 1997 to over ECU 2.5 billion at the end of August 1998. This is the equivalent of about 5 months of imports of goods and services.

The crisis in Russia is likely to affect Bulgaria, mainly through trade and its effects on global financial markets. Bulgaria has some trade links with Russia (exports to Russia accounted for 8% of total exports in 1997) but trade with other CIS countries remains significant (18% of total exports). Therefore a prolonged crisis in Russia with spill-over effects on neighbouring countries could have a significant impact on the trade balance. However, direct financial effects are expected to be contained. The exposure of Bulgarian banks to Russia is limited, and the stock market is still underdeveloped. More significantly, the Russian crisis could create financing difficulties for the country, as its access to international financial markets may become more difficult and as the increased aversion of international investors to emerging markets may cause capital inflows to diminish.

Structural reforms

The rise in FDI is the most obvious sign of the government's initial success in accelerating the pace of privatisation. In addition to a number of large sales, which have generated a major share of FDI, there is a continuing flow of privatisations of smaller companies, usually to Bulgarian investors. Many of the latter have been sold through management and employee buyouts. Progress in enterprise privatisation has been substantial. The cumulative share of divested long-term assets of enterprises amounted to 20% at the end of 1997 against 5.1% a year earlier. The government plans to privatise half of state-owned assets by the first quarter of 1999.

In an attempt to accelerate the privatisation process and to increase its transparency, the authorities have contracted out the privatisation of several large enterprises. International consultants are authorised to issue tenders for sale, and to conduct negotiations with prospective bidders, although the final decision rests with the Government. This procedure is not open-ended – if buyers for an enterprise cannot be found within a specified period, the authorities have committed themselves to liquidating the company. The latter commitment has not yet been tested. If the procedure works, there should be a renewed surge of privatisations in early 1999.

The authorities are also keen to sell companies by distributing privatisation vouchers to the population. Experience in other countries has shown that this sort of privatisation can produce a diffuse ownership structure which is unable to exercise effective control over the enterprises. However, the share of enterprise capital sold against vouchers remains quite limited in Bulgaria.

The stock market started operating in late 1997. To date, shares are listed in just one company on the official market, but an active over-the-counter market has appeared. The authorities have announced their intention to privatise companies by offering their shares through the stock market. So far, little has happened in this area.

Bulgaria: Main indicators of economic structure
(all data for 1997 unless otherwise indicated)

Population	*million*	8.3
GDP per head	*PPS-ECU*	4400
as % of EU-15 average	*per cent*	23
Share of agriculture in:		
gross value added	*per cent (1996)*	15.4
employment	*per cent (1996)*	24.4
Investment-to-GDP ratio	*per cent*	11
Gross foreign debt/GDP	*per cent*	96
Exports of goods & services/GDP	*per cent*	61
Stock of foreign direct investment[1]	*billion ECU*	0.8
	ECU per head	101

Source: Commission services, national sources, EBRD
[1] FDI stock converted at end-1997 exchange rate of 1ECU=$1.10421

Structural reform has also advanced in the financial sector. Major reform of banking legislation accompanied the establishment of the currency board. The State Savings bank, which still holds most household savings, is being transformed into a commercial bank. A self-funding deposit insurance scheme has started operating. The financial position of the banking sector has improved significantly. Fifteen of the weakest banks have closed. All banks meet the minimum capital adequacy ratio of 8% and this ratio is gradually being raised to 12% by the end of 1999. Most significantly, privatisation has started. One bank was sold in 1997 and the privatisation of a second bank was successfully completed in 1998. Procedures for the sale of the remaining state commercial banks have been launched. Pressure and encouragement from international institutions have been important in maintaining the momentum of bank privatisation: the national authorities have intermittently made statements which sent mixed signals about the government's commitment to rapid bank privatisation.

The process of restituting agricultural land to its legal owners has received greater attention. In July 1998, 72% of the agricultural land subject to restitution had been restored to its previous owners. Perhaps the single most important boost given to the agriculture sector was the Government's decision to liberalise most food prices, shortly after taking office. This had an early and very noticeable impact: compared with 1996/7 when the country had to resort to emergency wheat imports in the face of bread shortages, there was actually a grain surplus in 1997/8. Further liberalisation measures in the agriculture sector have included the abolition of guaranteed prices for some farm produce.

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

The existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. The performance of a market economy is enhanced by macroeconomic stability and consensus about economic policy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

Following the removal of widespread price controls in 1997, the prices of most goods and services are freely determined by market forces : the share of controlled prices in the CPI basket decreased from 52.1% in December 1996 to 15.8% at the beginning of 1998. Further liberalisation is still necessary. Prices of energy in particular are distorted by a system of controls and cross-subsidies. Removal of these distortions is linked with the restructuring of this sector. The authorities also use some indirect methods to influence price setting. The prices of a number of basic goods are "monitored": retailers are obliged to agree their prices with their suppliers, and publish the agreed price. In practice, this system appears to be largely inoperative, but could be used as a form of control on profit margins.

Further progress in the liberalisation of foreign trade has been achieved, in particular as regards agricultural products. Also, the import surcharge which was introduced in 1996 because of balance of payments difficulties, will be removed ahead of schedule, from 1 January 1999. However, the foreign trade regime still comprises a substantial number of products subject to tariff rates. Additionally, there is a tendency to temporarily adjust tariff rates in response to perceived domestic shortages or surpluses of particular items, which contributes to the complexity and lack of transparency of the trade regime.

Improvements to the legal system have been made which should allow for more effective vindication of property rights. However, bankruptcy and liquidation procedures remain slow, notably in relation to the banks which were closed in 1996. More attention is also being paid to law enforcement.

The reform of public administration has just started, and needs to be carried further than present plans appear to indicate (see also under Chapter D). Tax collection has improved, and more effective financial control is being exercised over state-owned enterprises, prior to their privatisation.

Faster privatisation and land restitution are also contributing to establishing clearer property rights, by removing ambiguity about precisely who owns these rights. Notwithstanding the improvements which have taken place, some problems and uncertainties persist. More generally, it is too soon to judge whether the new legislation and procedures will work well in practice. While the capacity of the legal system and the public administration to ensure their efficient implementation has not been exhaustively tested, application lacks transparency.

The ability of the Bulgarian financial sector to fulfil the role of Financial intermediation between savers and investors in the changed circumstances of the currency board arrangement remains largely untested. The deep recession which Bulgaria suffered in 1996 and 1997 brought normal banking activity almost to a halt. Banks have to date undertaken very little new lending, so it is impossible to assess whether they are able to act as responsible financial intermediaries. As the recovery strengthens and economic activity picks up, the ability of banks to act as responsible providers of investment finance will come under increasing

attention. Successful completion of the privatisation of the banking sector should help to boost banks' lending skills.

The credibility of the authorities' commitment to macroeconomic stabilisation and reforms has created a climate of greater stability and certainty. However, the government has sometimes appeared uncertain about the necessity of far-reaching reforms in some areas. Examples include the banking sector, where sustained pressure from international institutions has been necessary to keep privatisation moving forward, and the steel industry, where the authorities have given ambiguous signals about their commitment to liquidating the main producer, if it cannot be privatised by 1999.

In general, Bulgaria has advanced in the creation of a functioning market economy. Considerable progress has been achieved in the field of macroeconomic stabilisation. The consolidation and further improvement of the macroeconomic stability will require a continued commitment to the currency board and sustained efforts with respect to structural reforms. While prices have been almost fully liberalised, further liberalisation of the trade regime is necessary and the reform effort needs to be sustained to establish a regulatory and law enforcement framework that meets the needs of a market economy.

The Capacity to Cope with Competitive Pressure and Market Forces within the Union

Bulgaria's ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union prior to accession. Evidence of this is provided by both the volume and the range of products traded with EU Member States.

The acceleration in Bulgaria's transition to a market economy improves its prospects for developing the capacity to cope with competitive pressures with the Union.

The substantial improvements in macroeconomic stability which have been described above are beginning to bear fruit in the form of a rise in investment, both by Bulgarian entrepreneurs and from abroad. However, this rise is from very low levels. Further strengthening of the legal framework will be necessary in order to attract sustained high levels of investment.

Investment by local firms will help create a network of small and medium-sized enterprises able to compete on the Single Market. Foreign Direct Investment (FDI) has also started to play a significant role in the Bulgarian economy. In 1997, inflows of FDI were in terms of share of GDP comparable to the levels attracted by the most advanced reforming countries in Central and Eastern Europe. However, FDI inflows are still low on a per capita basis or in cumulative stock data. A smaller increase in FDI inflows is expected this year compared with 1997.

The faster pace of privatisation should also be favourable for investment. However, many firms have been bought by their existing management and employees. Although this is helping to consolidate support for market reforms, it may slow down the rate of improvements in competitiveness since it may not be conducive to rapid restructuring. Moreover, questions may be raised about the ability of worker-owned firms to undertake restructuring when it requires laying off workers. The new owners are unlikely to have substantial funds of their own with which to undertake investment in modern plant and equipment. They may face special problems in raising finance because the banks have little experience of lending to such enterprises, and also because banks are currently adopting a very cautious approach to lending.

Although the health of the financial sector has improved through a combination of measures such as recapitalisation, closure of weak banks and strengthening of supervision, banks are not fully playing their role of financial intermediators. Further reforms are still needed to improve the efficiency of the banking system.

The degree of trade integration with the Union is increasing steadily. The EU accounted for about 45% of exports and 38% of imports in 1997. However, the overall competitive position of Bulgaria remains weak: exports are concentrated in a small number of product categories, such as base metals, clothing, chemicals and fertilisers. Continued substantial investment, including inflows of FDI, will be needed over several years if Bulgaria is to strengthen its competitive position and broaden its export base.

Faced with the overriding priority of restoring confidence and placing the public finances on a sounder footing, the authorities have been unable to allocate resources to public investment. One consequence is that there has been little investment in infrastructure : public funds are not available for this purpose in significant amounts, and it has not been possible to put in place a framework for private operation of major infrastructure.

Major reforms are also needed in the energy sector and energy pricing policy. Bulgaria is extremely inefficient in its use of energy, which in turn affects its competitive position.

The reforms which are presently being executed are helping to improve Bulgaria's international competitiveness. They are still at a relatively early stage, however. Substantial enterprise restructuring is still required and additional reforms are needed to establish a competitive financial sector. Due to the lack of market-oriented policies in the past, and in spite of its current progress, Bulgaria would still face serious difficulties to cope with competitive pressure and market forces within the Union in the medium-term.

2.4. General Evaluation

Although Bulgaria has recently made progress in the creation of a market economy, it would still face serious difficulties in coping with competitive pressure and market forces within the Union in the medium term.

The authorities have made a bold start in addressing the priorities that were identified in the Opinion. They have made substantial progress in stabilising the economy and have succeeded in re-launching privatisation and structural reform. Much remains to be done and the relatively recent introduction of reform means that the process cannot yet be considered as well established.

It is therefore vital that the government builds on its achievements to date and takes action to reinvigorate reforms. Priorities should include completing trade and price liberalisation, and accelerating the privatisation of the financial and enterprise sectors. Bulgarian enterprises need to achieve sustained improvements in productivity in order to increase competitiveness. Fiscal policy must remain supportive of a stable economic climate. Increased foreign involvement in the banking sector will help improve the efficiency of financial intermediation. Accompanying these reforms, public administration must adapt to its role in a market economy.

3. Ability to assume the obligations of membership

This section aims to up-date the Commission's Opinion of 1997 as concerns Bulgaria's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union puts into effect its objectives.

In the 1997 Commission's Opinion on Bulgaria's application for EU-membership, the Commission concluded that

"Despite the progress that has been made, Bulgaria has neither transposed nor taken on the essential elements of the *acquis*, particularly as regards the internal market. It is therefore uncertain whether Bulgaria will be in a position to assume the obligations of membership in the medium term. In addition, considerable efforts will be needed in the areas of environment, transport, energy, justice and home affairs as well as agriculture".

The presentation which follows uses the same structure as the 1997 Opinion, but the general descriptions of each sector have been omitted. Instead, the report focuses on progress made since July 1997. Under each heading legislative decisions and progress in implementing and enforcing the legislation is reported.

3.1. Internal Market without frontiers

As explained in the Opinion, the Union's internal market is defined in Article 7a of the Treaty as an area without internal frontiers in which the free movements of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

Effective implementation and enforcement of these four freedoms requires not only compliance with such important principles as, for example, non-discrimination or mutual recognition of national legislations but also the effective application of common rules, such as those designed for safety, environmental or consumer protection, and effective means of redress. The same principles apply to certain common rules, for example in the areas of public procurement, intellectual property and data protection, which are important in shaping the general framework within which the economies operate.

General Framework

Bulgaria's progress on the effective implementation of the public procurement concept has been limited. However, it has committed itself to becoming a contracting party to the WTO Agreement on Government Procurement.

In the area of intellectual property rights (IPR), priority has been given to the fight against piracy. The Penal Code has been amended, border controls were enhanced and a Council on Copyright was set up. These measures led to a reversal of the previous negative trend of violation of intellectual property rights. In January 1998, the Bulgarian Parliament adopted a law amending copyright legislation increasing the level of penalties and fines in the case of piracy infringements, providing for SID identification codes for CDs and tightening CD licensing conditions (plant licensing scheme, decommissioning of a plant). Effective implementation and enforcement of the IPR legislation will need to be carefully monitored.

In the field of industrial property rights, the main development was the submission of Bulgaria's application to accede to the Munich Convention at the end of 1997.

In the field of company law, adoption of the Foreign Investment Act on 10 October 1997 further aligned Bulgaria's legislation on the Second, Eleventh and Twelfth Directives.

As far as accounting is concerned, a greater degree of compatibility with EC law has been achieved. In 1998, a law amending and supplementing the Law on Accounting was passed, which aims at a fuller approximation of national accounting legislation with the requirements laid down in the Fourth, Seventh and Eighth Accounting Directives.

Some first steps were taken in order to introduce the concept of data protection. A detailed plan of legislative measures has been adopted. Bulgaria recently signed the Council of Europe Convention n°108 on personal data protection but has not yet ratified it.

The four freedoms

Free Movement of Goods

Little progress has been made as regards standardisation and conformity assessment structures, apart from some institutional arrangements and preparatory legal work, including the implementation of EN standards as Bulgarian State Standards. The Committee for Standardisation and Metrology needs to move further towards an open, fully participative structure of standards development. Functional independence and overall transparency have yet to be achieved. A national accreditation service has recently been established.

The concept of civil liability for damage caused by defective products has not yet been introduced in the Bulgarian Civil Code.

The legal basis for the adoption of the New Approach Directives, is not yet in place. Some preparatory work has been undertaken on alignment with New Approach Directives in toys, simple pressure vessels, construction products and medical sectors.

A Law on measurements was adopted in April 1998. This Law covers measuring instruments which are subject to compulsory metrological control.

Free Movement of Capital

Bulgaria has not fully liberalised outward capital transactions, as they are subject to licensing. On inward investment there is no discrimination between foreign and local capital.

As already mentioned above FDI increased in 1997. In October 1997 a new Foreign Investment Law was adopted confirming the national treatment of foreign investment and simplifying procedures for the registration of foreign investments. Foreign investors can repatriate their profits freely. The Law offers certain tax and duty exemptions or preferences, in particular for priority investment projects. However there are problems with the implementation of the law and the delivery of concessions to foreign investors.

Under the new law the constitutional problem of foreign companies not being able to buy land is largely resolved since joint ventures or 100%-foreign owned companies registered under Bulgarian law can buy land.

Free Movement of Services

A series of measures were adopted to restructure the financial sector and strengthen regulation of the banking and financial services market following the economic and banking crisis of 1996/97.

In the banking sector, the privatisation process has started, but the momentum should be maintained. Out of the four privatisation procedures to be concluded this year, one has been completed. The increased capital requirements imposed on banks might lead to a consolidation of the sector, notably as far as small private banks are concerned.

The current payment system in Bulgaria cannot be considered sufficiently advanced, and further reforms, notably the implementation of a real-time gross settlement system, will be necessary to align it on the systems existing in the Union. Regulation of the banking sector has been strengthened by the adoption of a new Banking Act. This Act was completed by a series of amendments to all major regulations on banking supervision (own funds, solvency ratios, bad debts, etc…) introduced in July 1997. Legislation on deposit guarantees was adopted in April 1998.

On 9 July 1998 the Parliament passed a new act to combat money laundering to replace the 1996 law which was insufficient and never applied.

Rapid progress has been accomplished with regard to approximation of legislation, notably with regard to banking supervision. Nevertheless, some time is needed to appreciate how the legislative framework will be applied in practice.

There have also been developments in the securities markets although the market is still relatively narrow. The Bulgarian Stock Exchange became operational, but trade is still limited. Capital adequacy of investment firms and the activities of investment firms were the object of two new regulations adopted at the end of 1997.

The number of Investment Intermediaries increased as a result to the transformation of the former Privatisation Funds into investment funds. The Securities and Stock Exchange Commission also licensed a number of banks and investment funds to serve as investment intermediaries.

Progress has been made in bringing insurance legislation into line with the *acquis* although the insurance market is still underdeveloped. A special National Insurance Council was established to take care of granting and withdrawal of authorisations and the Insurance Supervision, under the Ministry of Finance.

There is a danger of monopolisation of the market by the former state insurance companies since the requirements for licensing are very high.

Free Movement of Persons

(a) Free Movement of persons, freedom of establishment and mutual recognition of diplomas and qualifications

The legal basis concerning free movements of foreigners and their rights to perform business improved somewhat.

As regards mutual recognition of diplomas and professional qualifications, some progress has occurred since 1997, as legislative reforms have been undertaken, mainly in the field of health professions. Specific training in general medical practice has been introduced from October 1997.

(b) Abolition of checks on persons at internal frontiers

Bulgaria has made progress in this field, particularly in areas such as immigration, border controls as well as readmission agreements and security of documents. Progress on visa issuing is dealt with under the section "Justice and Home Affairs"

Competition

A new Law on the Protection of Competition entered into force on 12 May 1998 replacing the previous 1991 act. The new law contains the basic concepts of the EC anti-trust rules and detailed procedural rules for their implementation. The enforcement powers of the Commission for the Protection of Competition (CPC) have been strengthened, in particular through the power to impose sanctions in case of infringement of the law. The CPC has drafted a methodology for the definition of the relevant market based upon the relevant Community acts. However the new law is surrounded with some uncertainty as a result of the ruling of the Constitutional Court of 29 September 1998 on the constitutionality of certain provisions of the act.

The adoption of the new Law on the Protection of Competition- a short-term priority in the Accession Partnership - is an important step towards the establishment of an effective system ensuring that competition is not distorted in Bulgaria. Further alignment to the principles of secondary Community legislation (e.g. block exemptions) should follow. It is further important that the necessary actions are taken for the credible enforcement of the law. In particular, the necessary funds should be made available to provide specific training of competition experts, as well as to inform the public of the new legislative provisions.

Steps were taken to strengthen the operation of the CPC . In particular, a new structure and a new set of procedures have been worked out, and the recruitment of qualified staff is underway. On 7 October 1997, the Association Council adopted Implementing Rules for the competition provisions of the Europe Agreement applicable to undertakings.

In December 1997 a separate unit was created within the Ministry of Finance with responsibility for monitoring and control of state aid in Bulgaria.

The new competition law contains a section whereby the CPC is empowered to pronounce on the admissibility of notified State aid projects. The provisions concerning the control of State aid should however be complemented and clarified, both in terms of the specific conditions of admissibility of State aid and in terms of procedure. Specific training on state aids will be necessary.

Work on the establishment of an updated State aid inventory has started. The first annual report on State aid was presented to the Commission in July 1998. Substantial amelioration are necessary in future reports to provide for the basic level of comparability with EU surveys.

Conclusion

Progress has been made in meeting the short term priorities of the Accession Partnership, notably in the areas of intellectual and industrial property and of financial services. Nevertheless, the main thrust of the 1997 evaluation as to Bulgaria's capacity to take on the

internal market *acquis* is still valid. The scale of progress still required calls for considerable and sustained efforts, both in approximation of legislation and in the establishment of structures to implement it, particularly as regards public procurement, industrial property, data protection, standardisation and certification and the new approach which are still in an early stage.

Bulgaria has made progress in adopting the legal basis for the application of anti-trust rules. The Office for the Protection of Competition needs to be re-inforced so as to ensure effective enforcement of the new competition law.

More efforts are needed concerning the completion of the necessary legislative framework for State aid monitoring and the establishment of an updated and comprehensive State aid inventory. At the same time State aid experts must be trained in implementation.

3.2. Innovation

The Information Society

Bulgaria participates in the joint High-Level Committee on Information Society and actively supports the development of the information society. A Coordination Council on Information Society problems was established in February 1998. The IT private sector is showing an increasing degree of assertiveness and self-regulation. However, Bulgaria needs to adopt modern policies towards the information technology sector (in terms of customs tariffs, tax policies, etc.).

Education, Training and Youth Issues

The 1995 Higher Education Act provided a basis for continuing reform in 1997 and 1998 in university education aimed at aligning the system with EU Member State practices. The reform process includes the unification of the autonomous universities, links between budget subsidies and results, and the introduction of a modern management system.

Recent developments include establishment of a National Agency on Assessments and Accreditation and amendments to the National Education Act. in 1998. The Ministry of Education and Sciences drafted a National Education Strategy an Information and Communication Technologies and a national concept for vocational education and training, and approved a framework of the National programme for adult education.

From 1 January 1999 Bulgaria will participate in three EU Programmes “Youth for Europe”, “Socrates” and “Leonardo”.

Research and technological Development

In June 1998 Bulgaria asked for full association with the Fifth Framework Programme. Two rounds of exploratory talks aimed at preparing negotiations were held.

Research is not mentioned as a priority in the National Programme for the Adoption of the *Acquis*.

Telecommunications

Bulgaria has made progress in the telecommunication sector. A new telecommunications act has been adopted which includes the introduction of a liberalised regime for all activities in the Bulgarian telecommunications sector with the exception of the activities related to the provision of regular telephone services and renting out telephone lines. These activities are reserved for the State monopoly under the Constitution until December 31, 2002, in line with WTO terms.

The mobile phone service providers are either private or joint private/public. No new licenses for telecommunication services were issued during the last year.

Foreign investment needs to be increased and an independent regulatory body and open procedures on licensing and concession should be established.

Audio-visual

Efforts have been made to develop a modern legal framework, that will meet the requirements of "Television without Frontiers" directive, and create a favourable environment for the development of private and public broadcasting, covering all modes of transmission and guaranteeing fundamental freedoms enshrined in the European Convention on Human Rights. However, the television broadcasting law (September 1996) was incompatible with the acquis. The law was declared unconstitutional and never fully came into force. A new Media law was adopted by the Parliament but is also incompatible with the audio-visual acquis.

Conclusion

Three has been progress in telecommunications and education. However significant efforts are still needed in the audio-visual sector.

3.3. Economic and Fiscal Affairs

Economic and Monetary Union

Bulgaria has made some progress in preparing itself for participation in the Economic and Monetary Union.

With the introduction of the currency board arrangement from July 1997, progress in macroeconomic stabilisation has been achieved and the inflationary financing of the budget deficit by the central bank was effectively discontinued. The exchange rate was fixed to the German mark at the ratio of 1.000 leva/1 DEM. On 1 January 1999 the existing DM-peg will be replaced by an equivalent peg with the EURO.

Since July 1997 the Bulgarian National Bank monetary policy is subject to the provisions of the currency board arrangement which establishes institutional independence from the Government and other State institutions. The National Bank has enhanced stability of the banking system by imposing efficient regulatory and supervisory measures. However, a persistent and prolonged effort to accelerate and deepen reforms of the financial sector is needed.

Taxation

Bulgaria has continued the process of aligning its VAT legislation since the publication of the Opinion. The latest changes, which entered into force in August 1998, relate to the introduction of a special scheme for second hand goods, the introduction of a mechanism for restoring tax credits similar to the scheme employed by Member States and a reimbursement scheme for foreign tourists.

Further improvements are needed in terms of definition of the taxable scope and information systems for administering and collection of VAT as well as a refund scheme for foreign taxable persons not established within Bulgaria. Improvements in administrative capacity as well as arrangements for administrative co-operation and mutual assistance are needed.

Bulgaria is currently mid-way through a legislative reform of its excise tax system. As the Commission's Opinion on Bulgaria noted significant discrepancies still exist between Bulgaria's excise system and Community requirements. There is a need for a warehousing system, and for alignment with ad valorem excise and goods subject to Community excises.

Statistics

The National Statistical Institute (NSI) has identified the main areas where legal transposition and amendments to national legislation are required.

The administrative structures to implement and enforce the *acquis*, in particular the National Statistical Council (SSC), are largely in place. It is important the NSI plays a strong lead role in implementing EC legislation throughout the statistical system. Progress has been made in collaboration between the NSI and the Ministry of Agriculture. Moreover, progress has been made regarding the legal adoption of most standard EU statistical classifications at the beginning of 1998. Improvements are needed in external trade statistics, transport statistics,

regional statistics, national accounts, coverage of the business register and related business surveys, and agricultural statistics.

3.4. Sectoral Policies

Industry

Industrial policy is based on the government's Bulgaria 2001 Programme. Structural reform in the field of industry is implemented through the privatisation process. Laws have been approved and passed in the National Assembly in the area of privatisation, foreign investments, and competition. Medium-term programmes include a special programme for accelerating the privatisation of State owned enterprises, approximation of legislation, and integration into the European internal market. Other objectives include restructuring strategic sectors, the attraction of foreign investment, and support for SMEs.

Whilst Bulgaria adheres to the principle of a horizontal industrial policy, specific restructuring programmes are being applied for some sectors, such as steel, chemical, pharmaceuticals and defence industries. The guiding principles in the restructuring programmes are to ensure viability in a market economy, as well as alternative employment for the redundant workers. The main principles of Bulgaria's industrial policy would appear broadly compatible with the EU's industrial competitiveness approach, but considerable further work's needed in order to restructure heavy industry and to progress towards an EU compatible system for conformity assessment.

Privatisation of large companies has accelerated in many sectors. A second round of mass privatisation is taking place in 1998. An ambitious privatisation programme, based on the sales of majority stakes to strategic investors, was adopted in October 1997. This programme provides for the privatisation of up to 38 per cent of the states assets before the end of 1998 and up to 78 per cent at the end of 1999. Support to non-profitable enterprises will be terminated by 2001 (109 loss-making state owned enterprises were liquidated between May 1997 and August 1998). A new law on foreign investments, concerning the entire regulatory framework, has been adopted and a second round of mass privatisation was launched in July 1998.

Privatisation and modernisation of the industrial sector needs foreign strategic investments. The activities of the government are directed at improving the investment climate and guaranteeing the inflow of foreign direct investments.

In December 1997, Bulgaria asked for an extension of Protocol 2 of the Europe Agreement which allows the granting of state aid for restructuring in the steel sector. Bulgaria is drawing up a restructuring programme for the sector. However, there are serious questions concerning the long-term viability of the steel sector and the compatibility of the restructuring plan with EU restructuring criteria. Progress in other sectors include a programme for restructuring and privatisation of the defence industry and the restructuring of the energy sector.

Conclusion

The government's structural reform programme has begun to improve the framework for modernising industry. However, many sectors continue to face significant problems in restructuring and adapting to market conditions. It is of particular importance to accelerate the privatisation process and to establish a sustainable and competitive industrial structure.

VAT legislation and adequate structures for enforcement and collection remain a difficult challenge, and further alignment of excise duties is needed.

Agriculture

Agricultural situation

The agricultural sector used to account for 11-13 % of GDP, but after the 1996/1997 crisis agriculture was the only sector in which the gross value added increased by about 30 % in 1997: as a result, the share of agriculture in total GDP amounted to about 26 % in 1997. The agricultural recovery was mainly due to a favourable grain harvest, although the livestock sector was showing some signs of stabilisation.

Shortages of agricultural products on the domestic market (in particular dairy products), export bans (oilseeds) and high export taxes resulted in a 25 % decrease of agricultural exports in 1997. Lower import duties applied for wheat and meats allowed for stabilisation of the total agricultural imports. The agricultural trade surplus decreased by half, amounting to around ECU 200 million.

Agricultural policy

Land restitution progressed. By July 1998, 75 % of agricultural land had been restored to its previous owners or to their heirs. But title deeds had been issued for only 22 % of the restituted land and a unified land cadastre is still needed, as its absence impedes of an active land market and hampering the land restructuring process.

Since mid-1997, the restructuring and privatisation of the agro-food sector has made significant progress, but the share of state ownership remains high (around 60 %), in particular in some sectors (meat processing, canning and sugar, wine).

All export bans were lifted, export taxes on grains and grain products, sunflower and vegetable oils disappeared, but some export taxes (including live animals and hide) still remain.

Controls on profit margins and ceiling prices were eliminated. The price liberalisation process engaged in 1990 will be completed once the "negotiated prices", introduced mid-1997 are removed.

About 650.000 tonnes of the 1997 wheat harvest were purchased (mainly by the state mills) under the "minimum price" system and using loans guaranteed by the government. The later decline of world and national grain prices created important financial difficulties for the public banks and purchasing companies involved, indicating a need for further development in this area.

At this stage of early restructuring of the agricultural and food sectors, Bulgaria has not initiated any of the specific regulatory schemes of the E.U. common market regulations. The recent Farmers Support Act aims to establish a comprehensive single framework for extending assistance to farmers during the transition towards a more efficient and competitive market-oriented agriculture. A state fund was created in 1995 to manage direct subsidies and short term preferential credit lines for certain types of productions.

Bulgaria's geographical and economic situation places heavy demands on the state and private services and organisations responsible for monitoring, inspection and diagnosis of veterinary, phytosanitary and public health requirements and standards.

The food processing industry lacks modern equipment, experience and knowledge of setting and enforcing quality standards demanded by export markets. Bulgarian enterprises continue to experience difficulties in fully complying with EU health requirements for imported animals and animal products. The overall improvements needed to fully align with the *acquis* will require considerable resources and restructuring of the sector.

There are no particular measures for commodity market organisations except that the Bulgarian authorities have established 17 working groups for each of the main Common agricultural policy sectors. These aim to study ways in which Member States implement the Common agricultural policy and to recommend options for Bulgaria.

Conclusion

In relation to the short term priorities of the Accession Partnership, progress made is encouraging.

Progress has been made in the liberalisation of agricultural prices and of export tariffs and non-quantitative restrictions on exports. Limited progress has been in bringing forward the privatisation of the food industry and in approximation of legislation.

Further efforts are needed in particular to assist the process of land reform, to develop an active land market and to increase inter-ministerial co-operation in setting up and ensuring a unified land registration system. Particular attention should be paid to the veterinary and phytosanitary sector.

Fisheries

No particular progress has been made in the Fisheries sector apart from the establishment of a number of institutions dealing with infrastructure.

On the implementation and enforcement side administrative structures, follow-up and control mechanisms will have to be adopted, in order to implement the common fishery policy. Measures needed include the management of resources, the keeping of a fishing fleet register, the application of structural policy for the sector. Market management schemes and the collection of statistical data as already outlined in the Opinion on EC policies on health, hygiene and the environment will need to be applied.

Energy

Bulgaria has continued to adapt its energy sector, albeit at a relatively slow pace, to EU competition rules and the requirements of the internal energy market. In this context the Government has recently adopted a Strategy on the development of the energy sector until 2010 and an Action Plan for the first phase up to 2001. It should be noted that growth in power production capacity is based on demand forecasts which appear very high. The strategy is based on continuous growth in energy production, which does not correspond to demand forecasts. The first phase of the energy strategy (until 2001), although focusing excessively on the power sector, should provide a good basis for reform, aiming, inter alia, at abolishing monopolies, reducing the role of the state in the sector, and restructuring industries.

Some progress has been achieved in energy price transparency, but Bulgaria still needs to develop a clear policy on energy pricing, and in particular has to align its non cost based and cross subsidised energy prices (particularly for industries). There are advanced plans for reform in the electricity and solid fuel sectors, as well as in the field of energy efficiency, but progress has been slow in the oil and gas sectors. The latter is not mentioned in the strategy and information on levels of oil stocks are not available. Bulgaria plays an active role in regional energy network interconnections.

The Nuclear Safety Account Agreement (NSAA) which Bulgaria has signed, foresees early closure of Kozloduy NPP Units 1-4, subject to certain conditions which were initially foreseen to be fulfilled by 1998. The Accession Partnership requires the establishment of realistic closure commitments as entered into in the NSAA. Bulgaria's energy strategy indicates that decommissioning of Kozloduy NPP units 1 to 2 will take place after the implementation of the modernisation of units 5 and 6 (expected around 2004) and for units 3 and 4 after 2010. These intentions are not in line with Bulgaria's international commitments in the NSA agreement. The Commission takes the view that Bulgaria must respect its commitments and close units 1-4 as soon as units 5 and 6 have been modernised.

A short term safety programme for Kozloduy units 1 to 4 has been implemented. Preparatory work for the modernisation of units 5 and 6 is ongoing and a 16-month Basic Engineering Programme has started.

The Bulgarian Nuclear Safety Authority (BNSA) lacks the required number of staff to follow its duties properly. Funds for waste management and decommissioning have been created.

Conclusion

Bulgaria's progress in meeting the short term priorities of the Accession Partnership related to the energy sector has been inadequate. It needs to step up its efforts in the energy sector to prepare for integration, although some progress has been made in preparing the accession framework. Bulgaria has to ensure the early closure of Kozloduy Units 1 to 4 on the basis of the NSA Agreement and an agreed realistic timetable. For Units 5 and 6, the upgrading

programme should be carried out so as to reduce the overall duration of the work. The BNSA needs additional resources and means to enable it to discharge its duties and responsibilities.

Furthermore, the following issues need close attention: effective adoption and implementation of sectoral laws and reform plans (including the establishment and operation of the regulatory authority) in order to adapt to the internal energy market; price and tariff structure reform, leading to cost based and transparent energy prices; emergency preparedness (including the constitution of mandatory oil stocks); energy efficiency and fuel qualities; restructuring and state interventions in the solid fuel sector.

Transport

Since 1997 the Bulgarian legal harmonisation process has been accelerated.

As regards Civil Aviation, the Civil Aviation Law, intended to transpose substantial EC requirements in this field, had been adopted by the National Assembly. Further Regulations on licensing and certification are under way. The current negotiations on market access in this sector will provide the appropriate framework for identifying in detail the measures required by Bulgaria to ensure fulfilment of the *acquis*, with appropriate deadlines.

As regards road transport, the Road Transport Law, dealing with conditions for operating transport, freight and passenger services, has been adopted by the National Assembly. It is intended to be in line with Community requirements relating to market access and admission to the occupation.

The current negotiations on conditions for the carriage of goods by road, and on international occasional carriage of passengers by bus should offer an opportunity to establish appropriate medium term deadlines for fulfilling the priority Community requirements in these fields.

Bulgaria is actively implementing its Road Infrastructure Programme. In the "Transport Infrastructure Needs Assessment" (TINA), an outline of the priorities for main rail and road networks has been endorsed, fulfilling the criteria in the Guidelines for developing the Trans-European Transport Network. Bulgaria's contribution to regional co-operation, aimed at reinforcing connections with neighbouring countries has also increased. Further efforts are needed in the area of maritime safety.

Conclusion

Although Bulgaria's harmonisation process has already made progress in some transport modes, additional efforts will still be necessary, including the need to improve administrative structures. Bulgaria should be encouraged to prepare a detailed summary programme for the establishment of the necessary bodies to manage the *acquis*, including identification of training needs where appropriate, and to establish a global strategy on infrastructure financing, involving the EU, the international financial institutions and the private sector.

Small and Medium Enterprises

Bulgaria has taken some encouraging steps in this sector. The Bulgarian Government adopted a National Strategy for stimulating the development of SMEs in July 1998. In addition, the relevant Agency for SMEs has been established. The National Strategy contains a set of objectives which appear to be very ambitious in the short-term perspective, and might therefore require review towards the end of the year.

Bulgaria is expected to be integrated in the Community SME programme through the third Multiannual Programme for SMEs (1997-2000).

The limited *acquis* specific to enterprise policy is however only a part of the challenge over the coming years. It is clear that considerable efforts will continue to be needed to strengthen the development and the sustainability of the private sector, consisting mainly of SMEs.

Overall, it is as yet too early to draw any conclusions on concrete progress in view of the fact that the legislation regarding specific measures to be implemented has yet to be adopted, but it would seem unlikely that Bulgaria would have any difficulties in adopting the *acquis*.

3.5. Employment and Social Cohesion

Employment and Social Affairs

In a Charter for Social Partnership agreed between the Government and the biggest employers and employees organisations it is recognised that joint efforts are required to improve social dialogue. Provisions for the setting up of an Economic and Social Council have been made. There is also a growing sense of joint responsibility in the process of integrating the country in the EU. However, due to traditional attitudes and to the weakness of independent employer organisations, tripartite arrangements and agreements still prevail and independent bipartite agreements between the social partners remain rare. Overall trade union support for government economic policies appears to be weakening in recent months.

A National Employment Service, including a national network of nine regional, 122 local and three mobile employment agencies has been set up. Labour market policies require more clearly formulated objectives and priorities, in particular with regard to human resources training.

The approval of the Unemployment Protection and Employment Promotion Act is a step towards a clearer definition of labour market policy, including active policies and vocational training. However, there appears to be insufficient institutional and personal capacity to implement this law. Although the principle of equality of treatment is enshrined in the Bulgarian Constitution by a non discrimination clause, there is little evidence of measures taken for the practical enforcement of the principle.

Registered unemployment has been going down from 14.2 % in July 1997 to 11.0 % in July 1998, on the basis of registered unemployment, but whether this heralds a structural improvement remains to be confirmed. The high proportion of long-term unemployed remains a major problem, regional disparities have worsened and unemployment rates among minorities and disabled people are high.

In the area of social protection a comprehensive reform is underway aiming at long-term financial stability of insurance, both through financial stabilisation of the Public Insurance Fund and the National Insurance Institute and through the adoption of legislation regulating voluntary and occupational pensions funds.
A very substantial proportion of the population continues to live in poverty, against which the level of social benefits offers inadequate protection.

With regard to the reform of the health care system a new Health Insurance act was adopted in June 1998, but still has to enter into force. It provides for an obligatory package of medical services plus complementary voluntary health insurance to cover additional services.

A new framework Health and Safety at Work Act was adopted in December 1997, as a step towards harmonisation with EU legislation. The law includes provisions for the establishment of national, branch and regional councils on working conditions and creation of economic incentives for improving health and safety at work. In this field, the institutional capacity as well as financial resources have to be strengthened in order to increase compliance with Community norms in this area.

In the area of Labour law the adoption, by the end of 1997, of the new Law on Unemployment Protection and Promotion of Employment was the major event, replacing a number of provisions of the Labour Act of 1986.

Conclusion

In the social field the Bulgarian government is still confronted with tremendous problems: poverty remains widespread, the overall health situation has not improved substantially and continues to require an injection of resources.

In the area of the social dialogue more active, representative and autonomous employers' organisations and unions are needed, both at national level and at company level, also with a view to information and consultation requirements, included in a number of labour law directives. Further alignment in health and safety at work legislation and strengthening of institutional capacity and financial resources will be important to improve the situation concerning health care, health and safety at work and the labour market in general.

Regional Policy and Cohesion

The Opinion concluded that Bulgaria did not yet display the capacity to participate in EU structural policy and that significant reforms were still necessary notably in establishing an administrative framework and budgetary procedures for regional policy. Bulgaria has begun to tackle these priorities. A reform of Bulgaria's territorial organisation has also been initiated which would lead to the creation of 28 districts.

Bulgaria's operational structure for regional policy needs to be further developed by strengthening the capacity of the relevant Ministry. Although the Ministry responsible for regional policy is already performing a co-ordination role, the Regional Development Council's capacity to ensure proper inter-ministerial co-ordination is doubtful. Its role is mainly consultative. While financial procedures have been improved, they still need to be strengthened. Financial instruments are limited but Bulgaria's co-financing capacity is still difficult to assess as total development related expenditure is difficult to identify. Monitoring and control procedures also need to be improved.

Conclusion

While Bulgaria has achieved some progress in establishing a basis for its regional policy, significant progress is still needed before it is ready to participate in EU structural policy.

3.6. Quality of Life and Environment

Environment

Since 1997, Bulgaria has made some progress in adopting legal acts with a view to harmonising its legislation to EU legislation. Better understanding of the importance of environmental problems is developing and environmental programmes are becoming part of privatisation deals. Strategic plans for implementation and enforcement have been developed, but have to be made operational. The Ministry of Environment and Waters, which still lacks adequate staffing, needs to be restructured.

Progress in transposition and implementation has been made in waste and air sectors with the adoption of a new Waste Management Act, although the implementing provisions still need to be adopted. Some implementing regulations have been adopted on air quality standards, emission limit values on stationary sources, and air pollution from industrial plants. The necessary implementing regulations for the new Waste Management Act still need to be adopted.

The directive on air pollution from industrial plants is partly transposed, but national requirements remain vague. A national monitoring system for air and water is being established, but its implementation is still in an early stage.

However, there is at present no transposition of the EU environmental *Acquis* in areas such as water, pollution control and risk management. While the asbestos directive has been partially transposed, all the other EU requirements related to GMO’s and chemicals are still to be established.

No progress has been made in the approximation with EU radiation protection directives and there appears to be a lack of human resources in the Nuclear Safety Authority.

In order to meet the priorities set out in the Accession Partnership further efforts are needed to develop framework legislation, specifically in the water and waste sector. There are ambitious plans for transposition and their implementation will suffer from the serious lack of staff within the Ministry of Environment and Waters. Full implementation will require a more realistic time frame than foreseen by Bulgaria.

Conclusion

Some progress has been made to comply with the requirements of the short-term priorities within the Accession Partnership. Further substantial efforts are needed before Bulgaria can assume all the obligations of membership in the environmental sector.

Effective full compliance with EU environmental legislation will take somewhat longer as the Opinion states. In addition to increased large scale investments, in cooperation with international financial institutions,based on enhanced economic recovery, Bulgaria needs to strengthen the administrative capacity of the relevant institutions, including monitoring laboratories and implementation and enforcement structures. Further efforts in establishing transposition of framework and horizontal legislation as well as approximation programmes and implementation strategies, in particular in the water sector. Further sustained efforts are needed relating to municipal waste management and air pollution.

Consumer Protection

Bulgaria has made limited progress in the sector. If Bulgaria is to comply with Community legislation the protection of consumers, which is a medium priority in the Accession Partnership, it needs to accelerate its preparation of Consumer Protection legislation. The main principles of the *acquis* have still to be transposed into Bulgarian law. There is also a need for efficient institutional structures to ensure the application of legislation. The consumer movement will only develop if it gets increased resources and support.

3.7. Justice and Home Affairs

In its Opinion of July 1997 the Commission highlighted the amount of work Bulgaria still had to do in all areas to conform to the acquis. Its main efforts were to be concentrated on the right of asylum and foreign nationals in general, border controls and the fight against organised crime and drug trafficking.

Immigration/Border controls

A comprehensive strategy to fight illegal immigration was adopted in 1997 and a number of specific measures have been put in place, such as the law to prevent the establishment of “phantom factories”, a law on the situation of aliens (passed on first reading) and legislation on Bulgarian identity papers that is in conformity with European standards. This legislation

on identity papers has been put into effect and supplemented by measures to detect false papers. The system for issuing visas has improved markedly, thanks largely to the creation of a central data bank that can be accessed by all consulates. Further readmission agreements have been concluded.

The Bulgarian border control system is in the process of reform and the border service is being demilitarised. Most border posts have an electronic link to Sofia to help prevent the entry of undesirable aliens. Despite these efforts, the infrastructure at the border posts still needs improving, particularly at Sofia airport. It is essential that Bulgaria carry out all these reforms in order to be able to meet Bulgaria's request to be taken off the common list.

Right of asylum

Bulgaria is presently a country of transit but might become a country of final destination. It has started a long-term plan to align its domestic legislation, including the social dimension. The asylum bill currently before the parliament is a first step in this direction but does not fully conform to the acquis as regards transparency and access to the asylum procedure. Further measures are needed to link this law up with the legislation on foreigners and nationality.

Police

The fight against organised crime is a clear priority, as illustrated by the adoption of a national strategy to combat crime, by which the national authorities set objectives and allocate resources. This has led to the setting-up of a national service for control of organised crime and increased international cooperation. An agreement has been concluded with Turkey to combat terrorism and organised crime.

New legislation on money laundering, increasing the number of institutions required to collect and pass on relevant information, was passed in April this year. A special unit has been set up in the Finance Ministry. Although more has to be done, the political will is there.

Drugs

The "Balkan route" remains one of the most notorious drugs routes in Europe and measures have been taken to stop transit through Bulgaria. This has gone hand in hand with measures to limit the sale and production of narcotics within the country. International cooperation has been enhanced by the setting-up in Sofia of a regional centre to combat drug trafficking in south-east Europe. Romania and Greece are also participating.

A national anti-drugs plan has been drawn up and legislation on narcotics and precursors is before the parliament. These measures will be underpinned by a multidisciplinary strategy, including the reinforcement of the national contact point for information on drugs.

Judicial cooperation

The first steps have been taken with a view to acceding to the three Hague Conference conventions on private international law and Bulgaria has already submitted its application.

Proposed amendments to the criminal procedures code are based on principles that conform to EU standards for legal assistance in criminal matters and extradition. Bilateral agreements have been concluded with Cyprus, the Czech Republic, Italy and Turkey. On 17 February Bulgaria ratified the European Convention on the Suppression of Terrorism of 27 January 1977. A law adopted on 30 April concerning sentencing authorises work in firms. Prison guards now have civilian status.

Conclusions

Bulgaria has made laudable progress in meeting the short-term priorities for the Accession Partnership (combating organised crime and border management) but more unremitting effort will be needed to comply with the acquis. Looking ahead, these efforts will have to be supplemented by determined action on two fronts to achieve medium-term objectives,:

- legislation on asylum and foreign nationals with have to be brought up to EU standards to complete the work done to install efficient controls at the borders, one of which will be an external border;
- resolute action on staffing to ensure sufficient numbers and a sufficient level of training to implement the new legislation properly.

3.8. External Policies

Trade and International Economic Relations

In 1997 trade with the EU totalled 3.5 Becu, exports amount to 1.9 Becu (43 % of total exports) and imports to 1.6 Becu (37 % of all imports).

As a WTO Member State, Bulgaria concluded negotiations on basic telecommunications and financial services and respects its WTO obligations. In accordance with its obligations as a WTO member, Bulgaria is currently preparing its offer for starting negotiations on accession to the plurilateral Agreement on Government Procurement.

Bulgaria grants duty-free treatment to imports of most commodities from developing countries and supports the WTO Comprehensive Programme for rendering technical assistance in trade with developing countries.

A Free Trade Agreement between Bulgaria and the EFTA countries is being implemented. Bulgaria has unilaterally lifted customs duties on the import of textile commodities originating in the EFTA countries in view of equalising customs duty treatment with that accorded to the EU. In July 1998 Bulgaria signed an Agreement on Accession to the Central European Free Trade Agreement (CEFTA). In July 1998 Bulgaria signed a Free Trade Agreement with Turkey.

Development

Bulgaria traditionally maintains good relations with developing countries and despite its financial difficulties it has invariably responded to appeals and taken part in initiatives of the international community for helping developing countries, including the granting of humanitarian aid.

The Republic of Bulgaria is not party to multilateral agreements with the developing countries or their integration groupings. However, Bulgaria has unilaterally granted preferential treatment to developing countries on an autonomous basis and in the case of 48 most underdeveloped countries it has also granted customs duty-free treatment.

Customs

The new Bulgarian customs code adopted in January was due to enter into force on 7 August together with the implementing provisions. But entry into force has now been postponed until 1 January next year so that customs officials and operators can familiarise themselves with the new legislation. The new code provides for customs procedures similar to those applied in the Community. The implementing provisions for the code are not yet fully adopted.

It is too soon to pass judgement on the quality of the legislation emerging from this reform or the capacity of the Bulgarian customs authorities to implement it effectively and uniformly - the clarity of the drafting of current legislation leaves something to be desired. The provisions on free zones in the new code seem unclear.

The customs authorities do not have sufficient powers. Despite some amendments Bulgaria does not yet have an integrated tariff. It issues binding tariff information notices but the system could be improved. Bulgaria has not made enough progress in getting itself ready to accede to the Convention on a common transit procedure. However, the implementation of the new customs code should bring in a single administrative document (on the lines of the Community's SAD).

Bulgaria has put an end to customs clearance charges, as required by the Europe Agreement.

Efforts are also being made to overhaul customs administration, give customs officers proper training and career prospects, and set up information exchanges between customs offices and the regional and national authorities. These efforts must continue and central controls over customs offices should be tightened.

At present there is no computerised system covering the whole customs clearance procedure from the customs declaration to discharge of the debt. But much work has been done in recent months to draw up a realistic plan to computerise customs offices and it is vital that it continue.

Bulgaria is well on the road to full integration into the pan-European cumulation of origin system following its accession to CEFTA and the signing of a free trade agreement with Turkey on 11 July.

Conclusion

Bulgaria has made encouraging progress in customs matters in recent months. The authorities have been making a real effort to implement reforms rapidly. It remains to be seen whether they will be capable of properly implementing customs legislation compatible with that of the Community and meeting the medium-term priority laid down for the Accession Partnership.

Common Foreign and Security Policy

The active and constructive Bulgarian foreign policy continued over the reported period. The new government has acted in order to place Bulgaria most firmly in its broader international and European context. It has regularly aligned its positions with those of the Union and whenever invited, it has adhered to the Union's statements, declarations and demarches including in the context of the UN and OSCE. .

The objectives of accession to EU and NATO are in the centre of Bulgarian foreign policy, .

Bulgaria has continued to play an active regional role The regional policy of Bulgaria in South-Eastern Europe of cooperation and stability is a major asset of the country. It offers a good chance for the CFSP of the EU to co-operate with Bulgaria, for example by supporting its "common declaration" on the conflict in Kosovo (March, 1998). Bulgaria was very much behind this timely initiative that was positively assessed by the states of the Contact Group for ex-Yugoslavia.

Bulgaria's intensive bilateral ties with neighbouring countries, the trilateral context of the relations with Romania and Greece as well as with Romania and Turkey add to multilateral regional cooperation. Relations with FYROM have also improved.

Intensified cooperation with the Organisation for Black Sea Economic Cooperation, the Central European Initiative and well as the accession to CEFTA from 1 January 1999 also contribute to the improvement of stability in the region.

Bulgaria has achieved progress in its alignment with the CFSP *acquis*.

3.9. Financial Questions

Financial Control

With regard to external financial control, the National Audit office started preparations for adoption of the audit standards of the European Union. A bureau for financial investigation is foreseen under the law against Money Laundering adopted in July 1998. An integrated Information system between the central office and the regional audit offices is still to be set up. A cooperation agreement has been made between the National Audit office and the Office of the Prosecutor General to enforce financial control and sanction fraud.

With regard to internal financial control, the State Financial Control within the Ministry of Finance performs ex post controls and supervises control structures in public bodies. It has prepared a management strategy, establishing new responsibilities in view of the adoption of the *acquis communautaire* and the fight against organised crime. However, the scope and functions of internal financial control need to be more clearly established. An effective internal audit mechanism should be set up. Possible overlaps between the National Audit Office and government internal control units have to be addressed properly.

Conclusion

Serious efforts are needed to clarify the respective roles and responsibilities and to achieve progress towards an independent internal control system. It requires urgent strengthening including in the fight against corruption, also in view of the pre-accession funds and Structural Funds in the future.

3.10 General Evaluation

The pace of transposition of Community legislation in Bulgaria has picked up in most areas. However, implementation and enforcement capacities need to be strengthened. Given limited administrative and financial resources, this remains a major challenge and it is too early to assess if the newly transposed legislation will be effectively applied.

Attention devoted to strengthening the intellectual property legislative framework and enforcement capacity reflects positively on the country's ability to adopt and apply key legislation.

Bulgaria needs to put into place a system of standards and certification compatible with that of the EU, and to give immediate attention to the adoption of the necessary legal base. Although first steps have been taken towards control of state aids, much more needs to be done to apply the rules. In agriculture, further efforts are needed to complete land reform, to develop an active land market, to set up and operate a unified land registration system, and to strengthen veterinary and phytosanitary control. While Bulgaria is now developing a comprehensive energy plan, the intentions of the government with regard to the closure of certain units in Kosloduy are still unclear. Initial progress in justice and home affairs is encouraging but needs to be enhanced, particularly with regard to border management issues, in view of Bulgaria's request to be removed from the common visa list.

Bulgaria has made progress in addressing certain aspects of all of the short term Accession Partnership priorities.

4. Administrative capacity to apply the *acquis*

This chapter updates the information given in the Opinion. The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme Agenda 2000 underlined the importance of incorporating Community legislation into national legislation effectively, but the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership.

In this year's report the Commission has worked with the candidate countries to identify an illustrative list of enforcement bodies in key areas of the *acquis*. Wherever possible information is provided on whether these bodies have sufficient legal powers to implement the *acquis*, on staffing levels and on staff qualifications and on budget availability. In some cases it is already possible to give information on the quality of decisions being taken. The Commission intends to further develop this aspect in future reports.

In its Opinion the Commission concluded that : 'substantial administrative reform will be necessary if Bulgaria is to have the structures to apply and enforce the *acquis* effectively'.

4.1. Administrative structures

The government attaches high priority to the reform of the administrative system. In February 1998 it adopted a Strategy to Establish a Modern Administrative System in the Republic of Bulgaria. The strategy includes :

- development of a basis for a thorough reform of administrative structures and procedures ;
- the establishment of a legal base for the civil service ;
- the establishment of a system of public accountancy and audit ;
- a career-development policy for all levels of the administration.

However a plan to implement this strategy including a timetable, criteria for assessment of the change and calculation of the necessary resources, is still under preparation. The law on public administration has been recently adopted.

An important step in inter-ministerial co-ordination was the establishment of an integrated information system for public administration. The Supreme Administrative Court was established and started to work effectively.

Currently 5769 civil servants work in the central public administration.

Since the publication of the Opinion Bulgaria has set up a new European Integration mechanism which is centered around the Foreign Minister and Ministry of Foreign Affairs. The new coordinating structure for European integration issues involves a Council on

European Integration. The supporting administrative structure is the European integration department in the Ministry of Foreign Affairs. The mechanism includes also a Committee on European Integration and 30 working groups. The Ministry of Justice and Legal European Integration is responsible for coordination of approximation of legislation.

4.2. Administrative and judicial capacity : key areas for the implementation of the *acquis*:

Uniform application of EC law : Bulgaria has a decentralised legislative system with centralised conformity and quality mechanism : Line ministries are responsible for preparing initial draft texts of laws for their areas of responsibility, while the Legislative Council at the Ministry of Justice and European Legal Integration carries out a compliance check to ensure compatibility with EU law. In total there are 1,232 judges posted (80 vacancies).

Despite some progress, the Ministry of Justice and European Legal Integration still needs to further enhance the capacity of its European Integration Department to co-ordinate legislation. A total of 158 people work in the Ministry of Justice and European legal Integration.

Internal Market: Bulgaria has set up a Council on Copyright and related rights and has strengthened enforcement bodies. As regards export Insurance, the Bulgarian Agency for export Insurance and an Interdepartmental Council on Export Insurance was established.

An investment broker services were created which are monitored by the Securities and Stock Exchange Commission. The amendments to the *Insurance* Law introduced a two-stage administrative system which consists of an Insurance Supervision Directorate and National Insurance Council responsible for granting or withdrawal of authorisation based on new requirements. An Export Insurance Company was also created.

In the field of free movement of services the lack of credit register for banks, together with the overall slow bank privatisation are the main constrains for meeting the single market requirements in the banking sector.

In the field of free movement of goods, no progress has been made in the establishment of an adequate infrastructure for the application and implementation of the “acquis”. Functional independence between the standardisation and certification activities within the Committee for Standardisation and Metrology (CSM) in Bulgaria has not yet been achieved and the overall picture needs to made more transparent. However, a National Accreditation Service was established recently

Competition : The institution in charge is the Commission for the Protection of Competition (11 members and 75 officials). The Commission not only determines infringements of the law but also imposes sanctions and may decide on the termination of anti-competition agreements or practices. The Commission for the Protection of Competition is consulted prior to the conclusion of contracts and gives authorisation for enterprise mergers and take-overs.
The system of monitoring and control on the State aids is still in the process of creation. A State Aids unit (10 staff) has been set up in the Ministry of Finance to monitor and control

state aid. However, the role and functions of the Commission for the Protection of Competition and the State aid unit within the Ministry of Finance still need to be clarified. Responsibilities and relations between the controlling agency, central, regional and local administration and the other institutions related to the allocation and control of State aid needs to be defined.

Telecommunications : Recently a new regulatory agency in the field of telecommunications was established. The State Committee on Post and Telecommunications (213 staff)is in charge of policy-implementation in this field.

Customs and Indirect Taxation : The relevant authority is the Tax Administration Directorate (State Revenue Service) in the Ministry of Finance. A new structure started to function in January 1998. The main innovation consists in the replacement of the system of tax offices according to the type of tax by an integrated structure of Territorial Directorates. A Single Tax Registration Numbers System was created but very slow to install. Currently 365 employees are working in the Ministry of Finance as well as 94 in the General Tax Administration.

The new Customs Code foresees the simplification of administrative procedures and practices in line with EU requirements. However, Bulgaria still needs to prepare implementation of legislation together with a training programme for the Customs administration. A special unit has been set up within the structure of the General Customs Directorate (301 staff) for co-ordinating the pre-accession activities of the Bulgarian Customs administration.

Agriculture : The Ministry of Agriculture, Forestry and Land Reform (255 employees) formed 15 working groups charged with preparation for accession on all aspects of the EU Common Agricultural Policy and Common Market. The National Veterinary Service is in charge of introducing EU standards in veterinary audit and certification procedures. It has 2968 staff of which 1514 are qualified vets and 1000 are licensed private vets. A National Virus Laboratory has been created.

The National Office on Plant Protection, Quarantine and Agrochemistry is in charge of policy-implementation in the filed of plant protection.

Facilities for veterinary control at border inspection posts still need upgrading in order to comply with Community standards. Further efforts are needed to develop acceptable veterinary audit and certification procedures for both imports and exports, and to maintain an adequately resourced, staffed and trained veterinary sector. Although Bulgaria has largely aligned its legislation in the field of plant health, administrative structures for control and inspection arrangements are still inadequate to ensure appropriate levels of protection.

Despite the legislative achievements in agriculture further efforts are needed strengthen administrative capacity to implement and enforce the policy instruments of the CAP.

Transport : The government has set up specialised administrative units together with a integrated information infrastructure A 'European Integration' department was created in the 'Foreign Transport Policy' Directorate. A Department of 'Legal European Integration' was set up in the Ministry of Transport. A specialised structure ('State Automobile Inspection') is in charge of the implementation of the law on automobile transport. The former State Air transport Administration was transformed into Civil Air transport Administration after the

adoption of the Law of the Civil Air Transport. An integrated information system at the Ministry of Transport was created, which will start operating by the end of 1998. Currently 246 people work in the Ministry of Transport.

Employment and Social Policy : A Charter for Social Partnership regulates the previous co-operation between the government and the biggest employers and employees organisations.
A National Council for labour environment co-ordinates policy in the field of occupational health and safety.

In spite of these institutional and legislative developments important efforts need to be made to develop clear objectives and priorities for employment policies. Currently 142 people work in the Ministry of Labour and Social Policy.

Regional Policy and Cohesion : The government has undertaken efforts to replace the previous sectoral approach to regional development by a coherent regional policy. A Regional Development Fund was established (in the Law on the Municipal Budgets) but it is not operational yet. Currently 205 people work in the Ministry of Regional Development and Public Works.

A Council on the Development of Infrastructure under the Council of Ministers was established (April 1998). The Council is in charge of inter-ministerial co-ordination and exchange of information on some policy-priorities such as the transeuropean infrastructural corridors.

The national Programme for training in public administration and Euro Integration addresses the training needs of local government including training in the administration of structural funds of the EU.

Environment : Structural changes were made within the Ministry of Environment and Water (191 staff), aimed at strengthening the institutional capacities of the Ministry. The Ministry has around 1000 staff in regional and environmental inspectorates. The National Water Council and the National Committee for Ecology were incorporated into the Ministry and a "European Integration" department was established.

Lack of qualified administrative personnel, as well as lack of a thorough evaluation of the administrative costs for the adoption and implementation of the *acquis* are problems that need to be addressed.

Bulgaria needs to strengthen administrative capacity in these institutions, including monitoring laboratories and implementation and enforcement structures. There is the need to encourage the improvement of the co-ordination between inspectorates.

Justice and Home Affairs : The Ministry of the Interior performs its tasks and functions through national, territorial, administrative and technical services. It is responsible for the National Security Service (250 staff in central and 250 staff in regional offices), the National Police Service (20,000 staff), the National Service for Combating Organised Crime, the National Fire and Emergency Safety Service, the National Border Police Service (9,500 staff for 2,400 km borderline) and the National Gendarmerie Service. The structure of the Ministry of the Interior follows the administrative division of the country. There are 28 Regional

Directorates each with a Director who co-ordinates and administers the activities of the Regional Security, Police, Combating Organised Crime, Fire and Emergency Safety Units.

Concrete measures to improve efficiency of institutions in compliance to EU standards have been undertaken in areas such as the fight against corruption and organised crime, border control, reform of the judiciary. Under the Law on Border Guards a new civilian border control police replaced the border control guards under the Ministry of Defence.

With regard to border management, the lack of adequate technical mean is a significant barrier to effective border control. Bulgaria needs to focus on a reform of the court administration system to further strengthen the independence of the judiciary and to create new models for criminal procedures and legal aid. Apart from the programme of the Ministry of Interior for European Integration 1998-2000 and the relevant sections in the National Programme for the Adoption of the *Acquis*, there is no coherent plan for action covering the whole area of Justice and Home Affairs.

Financial Control : Financial control in Bulgaria is performed on three levels - by the national Audit Office (11 members, 409 staff of which 306 are inspectors), by the Ministry of Finance and by financial control offices within different institutions (63 people are currently employed in the State Financial Control General Administration and 1,400 staff in regional administration). The National Audit office has started preparations for adoption of the audit standards of the European Union. The law against Money Laundering adopted (July 1998) foresees the creation of a bureau for financial investigation.

Serious efforts are needed to address the lack of clarity concerning the roles and responsibilities of the different bodies active in the field of public auditing. A clear cut balance of responsibilities still needs to be introduced between the different financial control institutions, their roles, responsibilities and reporting obligations as well as a clear time frame for its implementation.

4.3 Twinning

In order to help candidate countries meet the challenge of strengthening their administrative capacity and adapting their administrations to implement the acquis the Commission and the Member States are developing a process of twinning under the Phare programme. In the EU the acquis is implemented in the Member States by national administrations (at central, regional and local level) and by agencies, professional bodies and the private sector. This vast body of administrative and technical expertise is now being made available to the candidate countries. Initially twinning will cover four sectors – agriculture, environment, finance and justice and home affairs but will gradually be extended to the whole of the acquis.

Bulgaria is participating actively in twinning.

4.4 General Evaluation

Bulgaria's capacity to implement and enforce the acquis is still weak. Important first steps have been taken in general public administration reform and in the areas of anti-trust, indirect taxation and regional policy administration. Bulgaria has recognised the importance of taking

action on justice and home affairs and a number of concrete steps have already been taken. There is an ongoing need to build up capacity to formulate and coordinate policy inside the administration, including in the area of EU affairs.

C. Conclusion

Bulgaria meets the Copenhagen political criteria although continuing efforts are needed in the fight against corruption and to reform the judiciary.

Although Bulgaria has made progress recently in the creation of a market economy it would be face serious difficulties in coping with competitive pressure and market forces within the Union in the medium term. The momentum reached in transposition of legislation, if matched with the strengthening of corresponding institutions should eventually allow Bulgaria to take on the obligations of membership. However, further efforts are needed particularly in the internal market and in the areas of standards and certification, control of state aids, the future of Kosloduy and in justice and home affairs.

D. Accession Partnerships and National Programme for the Adoption of the *Acquis* : Global Assessment of Implementation

The purpose of the Accession Partnership is to set out in a single framework the priority areas for further work identified in the Commission's Opinions, the financial means available to help the candidate countries implement these priorities and the conditions which will apply to that assistance. Each candidate country was invited to adopt a National Programme for the Adoption of the *Acquis* setting out how it would deal with the Accession Partnership, the timetable for implementing its priorities and outlining human and financial resource implications. Both the Accession Partnerships and the National Programmes for the Adoption of the *Acquis* will be revised regularly to take account of progress made and to allow for new priorities to be set.

1. Accession Partnership: Assessment of short-term priorities

The Accession Partnership[3] sets out the following short-term priorities for Bulgaria:

- **Economic reform :** establishment of medium-term economic policy priorities and joint assessment within the framework of the Europe agreement; pursuit of the programme launched by the Government, including transparent privatisation of state enterprises and banks and restructuring measures in industry, financial sector and agriculture and measures to encourage increased foreign direct investment.

- **Reinforcement of institutional and administrative capacity :** adoption of the draft civil service law and progress in public administration reform as well as institutional strengthening in the areas of internal financial control capacity, environment, customs policy, reinforcement of phytosanitary and veterinary administrations, particularly as regards facilities at external borders, begin to set up structures needed for regional and structural policy.

- **Internal Market :** further alignment including in the areas of intellectual and industrial property rights (strengthening of enforcement of protection), financial services, taxation, the adoption of the necessary legislative framework for state aid monitoring and the establishment of a first state aid inventory, the adoption of a new competition law.

- **Justice and Home Affairs :** concrete steps to combat corruption and organised crime and improve border management.

- **Environment :** continue transposition of framework and horizontal legislation establishment of implementation of detailed approximation programmes and implementation strategies related to individual acts. Planning and commencement of implementation of these programmes and strategies.

- **Energy :** in particular establishing a comprehensive, long term, energy strategy and respect of nuclear safety standards and realistic closure commitments for certain units as entered into in the Nuclear Safety Account Agreement.

Progress concerning the short-term objectives of the Accession Partnership can be summarised as follows:

- **Economic reform :** Bulgaria has prepared a new economic mid term strategy reflecting achievements in economic reform and addressing the Accession Partnership priority and which will be jointly assessed with the Commission. Overall economic stability has been achieved. This has created positive perspectives for economic growth, low inflation, reduction in public debts, increased foreign investment and privatisation. Further efforts are needed concerning transparent privatisation of state enterprises and banks, developing the banking sector, completing price and trade liberalisation, reforming the energy sector and improving the legal and regulatory framework to improve law and contract enforcement. Land reform and establishment of the agricultural census need particular efforts.

[3] Council Regulation 622/98, OJ L85 of 20 March 1998

- **Reinforcement of institutional and administrative capacity :** Bulgaria needs to invest substantial efforts to increase the institutional and administrative capacity of its administration. A general public reform strategy was set up, but further steps need to be taken to adopt and to implement the law on the administration and the civil service law. Special efforts are needed to enhance structural reform of public administration, of the institutions involved in applying, monitoring and enforcing the *acquis* in areas such as environment and customs and particularly in the field of phytosanitary and veterinary bodies and the related border control facilities as well as further steps to prepare for the regional and structural fund facilities.

- **Internal Market :** Bulgaria has made progress in the field of intellectual and industrial property rights and its enforcement, financial services, taxation and the legislative framework for state aid monitoring as well as competition law. Further efforts need to be made in the fields of state aid monitoring and the establishment of a compatible state aid inventory.

- **Justice and Home Affairs :** Bulgaria has taken some concrete measures to reform the judiciary, approximate legislation to establish structures to deal with corruption and organised crime and to improve border management. Efforts need to be sustained in particularly as regards corruption which is a priority of the Bulgarian Government. Further efforts need to be invested in the fields of asylum, border management and control and organisation of the police. The further strengthening of the efficiency and independence of the judiciary and the law enforcement bodies, particularly the training of judges and prosecutors is equally important, particularly in the field of implementation of EU legislation.

- **Environment :** Bulgaria has prepared strategic plans on implementation and enforcement of the environmental acquis, but they still need to become operational. Progress was made in the air and the waste sector, but further work is also needed in the other framework legislation sectors for example water, pollution control and risk management.

- **Energy :** Bulgaria has made progress in preparing an action plan and a long-term strategy, but efforts needed to be stepped up to prepare for integration of the national energy system and energy market into the EU. In particular Bulgaria needs to ensure that the respect of nuclear safety standards and early closure of units 1-4 of NPP in Kozloduy on the basis of the NSA agreement and a realistic timetable.

Bulgaria has made progress in addressing certain aspects of all of the short term Accession Partnership priorities. Priorities such as the adoption of an economic reform strategy and measures aimed at macroeconomic stability; transposition of intellectual property, financial services, taxation and competition legislation; taking measures to combat organised crime and corruption, and the development of an energy strategy have been addressed. Substantial efforts are still needed however in regard to many of the other short term priorities including the privatisation and restructuring, meeting closure commitments for Kozloduy, strengthening of institutional and administrative capacity, developing an adequate state aid control system, the development of approximation programmes and implementation strategies in the environmental field and in taking further steps to combat corruption and organised crime.

2. National Programme for the Adoption of the *Acquis* Assessment

The Bulgarian National Programme for the Adoption of the *Acquis* was adopted by the Council of Ministers and presented to the Commission on 30 March 1998 during the launch of the Accession Process. Overall, the Bulgarian National Programme for the Adoption of the *Acquis* is a comprehensive document, well structured and concise and covers the Accession Partnership priorities. Bulgaria indicated that the existing National Programme for the Adoption of the *Acquis* is recognised as a first draft and will be revised on the basis of the comments received by the Commission.

The text of the National Programme for the Adoption of the *Acquis* follows the structure of the Opinion as well as the timeframe established in the Accession Partnership as regards the short and medium term priorities.

A comprehensive and well designed set of tables, relating to all areas covered by the *Acquis*, provides for information on the transposition and implementation of the *Acquis.*

Most of the short and medium term priorities of the Accession Partnership have been covered in the National Programme for the Adoption of the *Acquis*, reflecting the Bulgarian will to make progress in the implementation of the *acquis*. There are however differences in the coverage of the elements included in the Accession Partnership and areas which have not been covered sufficiently and where additional information is necessary such as fight against organised crime and corruption, economic reforms, standardisation, competition policy, state aid, environment, energy, regional policy and in particular public administration reform.

The information provided is not homogenous for all sectors. Notably strategic elements concerning political and economic policy and institution building (especially as regards fight against organised crime and corruption) are missing and certain areas such as standardisation, environment, energy area and reform, state aid, free movement of goods, regional and structural policy are not fully covered. The sections on administration capacity need to be further developed and to be integrated into the sectoral areas. Special attention has to be paid to implementation and enforcement strategies and structures.

Generally, the timetable for the implementation provides details, but needs to be made more specific it appears to be overly ambitious for a number of sectors.

Budget indications are provided, but should give details on the source of financing especially for institution building and investment projects.

The National Programme for the Adoption of the *Acquis* needs to be revised to :

- cover in a more homogenous way the various sectors covered under the Accession Partnership and the related *acquis*.

- Further develop the link between the strategic plans, the priorities and the related *acquis* in order to ensure consistency.

- More adequately cover the establishment of the implementation and enforcement capacities in all areas of the *acquis*.

- More clearly assess budgetary implications and identify the source of resources to be allocated for each field of the EC legislation.

- Provide a more detailed assessment of staffing and training needs.

Once the National Programme for the Adoption of the *Acquis* is revised, the Commission will take a position on the National Programme for the Adoption of the *Acquis* which will be communicated to the Council during the second semester of 1999, at the time of the re-examination of the Accession Partnership.

Annex

STATISTICAL DATA

STATISTICAL DATA

	1993	1994	1995	1996	1997
Basic data	In 1000				
Population (end of period)	8460	8427	8385	8341	8285
	in 1000 hectares				
Total Area	**11099**	**11099**	**11099**	**11099**	**11099**
National Accounts	in Bn Lev				
Gross Domestic Product at current prices	**298.9**	**525.6**	**880.3**	**1748.7**	**17103.4**
	in Bn ECU				
Gross Domestic Product at current prices	**9.2**	8.1	**11.0**	**7.8**	**9.0**
	in ECU per capita				
Gross Domestic Product at current prices	**1100**	**1000**	**1300**	**900**	**1100**
Structure of Production	in % of Total Gross Value Added				
- Agriculture	**:**	**:**	**:**	**15.4**	**26.2**
- Industry	**:**	**:**	**:**	**25.9**	**26.7**
- Construction	**:**	**:**	**:**	**4.3**	**2.8**
- Services	**:**	**:**	**:**	**54.5**	**44.4**
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	**:**	**:**	**85.9**	**88.5**	**84.1**
- household and NPISH	**:**	**:**	**70.7**	**76.6**	**71.8**
- general government	**:**	**:**	**15.3**	**11.9**	**12.4**
- Gross fixed capital formation	**:**	**:**	**15.3**	**13.6**	**11.3**
- Exports of goods and services	**:**	**:**	**44.7**	**62.9**	**61.3**
- Imports of goods and services	**:**	**:**	**46.3**	**59.8**	**55.7**
	% change over the previous year				
Gross Domestic Product	-1.5	1.8	2.9	-10.1	-6.9
	in Purchasing Power parities				
Gross Domestic Product per capita	4400	4700	4900	4600	4400
Inflation rate	% change over the previous year				
Consumer Price Index	56.1	87.1	62.1	123.0	:
Balance of payments	in millions of ECU (current prices)				
-Exports of goods	3182	3308	4086	3851	4332
-Imports of goods	3939	3322	3994	3704	3984
-Trade balance	-756	-14	93	148	348
-Net services	-49	9	117	95	151
-Net income	-166	-161	-330	-312	-317
-Net current transfers	32	140	101	82	209
-of which: government transfers		3	11	29	113
-Current account balance	-939	-27	-20	13	392
-Reserve assets (incl. Gold)	861	1066	1176	633	2241

-Reserve assets (excl. Gold)	587	814	941	386	1986
Public Finance	**in % of Gross Domestic Product**				
General Government Deficit/Surplus	-11.3	-5.2	-5.1	-15.3	:
Gross foreign debt	:	66.2	44.5	56.5	:

	1993	1994	1995	1996	1997
Financial indicators					
Monetary Aggregates	**in Bn ECU**				
- M1	1.3	0.9	1.2	0.4	1.2
- M2	6.3	5	6.1	2	2.9
Total credit	:	:	6.8	3.3	2.6
Average short-term interest rates	**% per annum**				
- Lending rate	59.5	72.6	58-0	123.5	84.0
- Deposit rate	42.6	51.1	35.9	74.7	46.8
ECU exchange rates	**(1ECU=..National currency)**				
- Average of period	32.39	64.53	80.01	223.25	1901.22
- End of period	36.49	81.21	92.92	610.64	1961.63
- Effective exchange rate index	:	:	:	:	:
Foreign Trade	**in millions of ECU**				
Imports	4071.1	3525.7	4325.1	3949.7	2849.9
Exports	3184.4	3357.7	4093.5	3806.7	3125.5
Balance	-886.7	-168.0	-231.6	-143.0	275.6
	corresponding period of the previous year = 100				
Terms of trade	108.8	100.8	97.6	:	:
	as % of total				
Imports with EU-15	**28**	**32.1**	**36.5**	**32.1**	**:**
Exports with EU-15	**28.1**	**35.5**	**37.6**	**38.8**	**:**
Demography	**per 1000 of population**				
Natural growth rate	**-3.0**	**-3.8**	**-5.1**	**-5.4**	**:**
Net migration rate (including corrections)	**0.0**	**0.0**	**0.0**	**0.1**	**:**
	per 1000 live-births				
Infant mortality rate	15.5	16.3	14.8	15.6	17.5
	at birth				
Life expectancy : Males	:	:	67.1	:	:
Females	:	:	74.6	:	:
Labour market	**in % of labour force**				
Economic Activity rate (ILO methodology)	55.4	52.4	51.5	51.8	51.6
Unemployment rate (ILO methodology) : Total	21.4	20.5	14.7	13.7	15.0
< 25 years	47.0	44.9	37.7	33.5	36.0
> 25 years	17.3	16.8	11.6	11.3	12.4
Average employment by NACE branches	**in % of total**				
- Agriculture and Forestry	22.1	23.2	23.9	24.4	:

- Industry	30.3	29.1	28.1	27.5	**:**
- Construction	6	5.6	5.5	5.1	:
- Services	41.6	42.1	42.5	43	:
Infrastructure	**in Km per 1000 Km2**				
Railway network	**:**	**:**	**38.7**	**38.7**	**:**
	in km				
Length of motorways	**:**	**:**	**314**	**314**	**:**
Industry and Agriculture	**previous year = 100**				
Industrial production volume indices	90.2	110.7	104.5	103.8	:
Gross agricultural production volume indices	80.6	107.1	116.0	88.5	121.1

Methodological Notes

Gross domestic Product per capita in PPS : Revised data using the new PPP results from the 1996 International Comparison Project.

Reserve assets: are end-year stock data. They are defined as the sum of central bank holdings of gold, foreign exchange, and other (gross) claims on non-residents. Gold is valued at end-year market price.

General government deficit / surplus : is an approximation of the national accounts definition, derived from data based on the IMF's GFS (government finance statistics) methodology. The general government deficit / surplus is obtained by adding the central government deficit / surplus (normally including certain extra-budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific policy purposes, which is a financing item in the national accounts.

Monetary aggregates : are end-year stock data. M1 generally means notes and coin in circulation plus bank sight deposits. M2 generally means M1 plus savings deposits plus other short-term claims on banks. Total credit generally means domestic credit to the government and private sectors. It should be noted that the problem of measuring the circulation of foreign currency in some Applicant Countries may affect the reliability of the data.

Interest rates : Annual average rates. Lending rates generally consist of the average rate charged on loans granted by reporting banks. Deposit rates generally refer to average demand and time deposit rates.

Exchange rates : Where available, the ECU exchange rates are those officially notified to DG II. The effective exchange rate index is weighted by major trading partners, with a base year of 1990.

Imports and exports (current prices) : The data is based upon the "special trade" system, according to which, external trade comprises goods crossing the customs border of the country. Trade data excludes direct re-exports, trade in services and trade with customs free zones as well as licences, know-how and patents. Value of external trade turnover includes the market value of the goods and the additional costs (freight, insurance etc.).

Trade Classification : Merchandise trade flows are recorded according to Combined Nomenclature (CN) and the Single Administrative Document (SAD). Imports are recorded on CIF basis, exports on FOB basis.
Eurostat has converted the National Currency to the US dollar by applying the International Monetary Fund annual average exchange rates.

Terms of trade : Up to 1994, using Paasche formula, indices are calculated from the sample of commodities consisting of all export and import for final use only, excluding special consignment, processing, re-exports. Since 1995, the price indices have been calculated by "unit value" method using Laspeyre formula.

Imports and exports with EU-15 : Data declared by Bulgaria. Data for years 1993 and 1994 refer to trade with EU-12 only.

Economic activity rate (ILO Methodology) : Percentage of labour force in the total population aged 15+. This rate is derived from LFSS (Labour Force Sample Survey) observing the following ILO definitions and recommendations :
Labour force: employed and unemployed persons in the sense of the ILO definitions stated below.

The employed : all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of cooperatives or contributing family workers. Members of armed forces and women on child-care leave are included.

The unemployed : all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed: (i) have no work, (ii) are actively seeking a job and (iii) are ready to take up a job within a fortnight.
The data correspond respectively to September 1993, October 1994, October 1995 and November 1996.

Unemployment rate (by ILO methodology) : - Percentage of the unemployed labour force. This rate is derived from LFSS (Labour Force Survey) observing the ILO definitions and recommendations (see ILO definitions above). The data correspond respectively to September 1993, October 1994, October 1995 and November 1996.

Average employment by NACE branches : This data is not derived from LFSS.

Industrial production volume indices : Industrial production covers mining and quarrying, manufacturing and electricity, gas, steam and water supply (according to the NACE Rev.1 Classification Sections C,D,E).
The index of annual industrial production is based on the exhaustive survey of enterprises (public and private) assigned to industrial sector.

Gross agricultural production volume indices : Data are based on SNA methodology.

Sources

Basic data, National Accounts, Foreign trade, Demography, Labour market, Infrastructure, Industry and Agriculture : New Cronos.

Reserve assets and Financial indicators : Where possible Eurostat B-4's questionnaire on monetary and financial statistics has been used as the source. Applicant Countries are asked to supply regularly an update of tables contained in the questionnaire. The statistics covered include foreign official reserves, monetary aggregates, interest rates, and exchange rates. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source. The European Commission (DG II) is used as the source for exchange rates against the ECU, where possible.

Concerning gross foreign debt, the OECD External Debt Statistics publication has been used as the source.

Concerning general government deficit / surplus, Applicant Countries are presently unable to provide reliable data. Unit B-4 is working closely with these countries with the aim of improving their national accounts based government finance statistics. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (for an explanation of methodology, see below).