The fall of Bulgaria’s government provides an opportunity to overcome the country’s persistent corruption problem

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The Bulgarian parliament was dissolved on 6 August, with new elections being called for 5 October. As **Aneta Spendzharova** *writes, one of the key precipitating factors in the Bulgarian government’s collapse was a scandal relating to one of the country’s largest banks. She argues that the banking crisis is indicative of wider corruption issues within Bulgaria and that the new elections will provide an opportunity for voters to break with the problems of the past.*

A banking scandal has gripped the attention of the Bulgarian public since mid-June 2014. The business partnership between one of the wealthiest Bulgarian businessmen, Tzvetan Vassilev, and Member of Parliament Delyan Peevsky broke down, triggering the collapse of a large domestic-owned bank and an outburst of allegations of corruption, betrayal, and a murder plot. The banking crisis was the last straw that brought down the unpopular Bulgarian Socialist Party (BSP) and Movement for Rights and Freedoms (DPS) coalition government, with parliament being dissolved on 6 August and new elections being called for 5 October.

After twelve CVM (cooperation and verification mechanism) reports by the European Commission, countless hearings in Brussels and Washington, D.C. and a proliferation of corruption-fighting institutions, a question that Bulgarian citizens have been asking since the 1990s still applies. Which way is the country going: toward being a reliable European Union (EU) member state or one that is persistently saddled with corruption?

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The main banking sector regulator, the Bulgarian National Bank (BNB), announced on 20 June that Corporate Commercial Bank (abbreviated as KTB in Bulgarian) entered into conservatorship to thoroughly review the bank’s balance sheet. KTB is one of the largest domestic-owned banks in the country and has gained market share aggressively over the past five years. According to the preliminary audit, KTB is not adequately capitalised and is, practically, insolvent. To stem contagion to other banks, the Bulgarian Finance Ministry issued government bonds for 1.2 billion leva (€600 million) and the European Commission approved a 3.3 billion leva (€1.65 billion) state aid package on 29 June.

Yet, it is unclear whether KTB will be wound down or recapitalised. The bank’s operations have been halted and all of its assets have been frozen at least until September 2014. However, in August 2014, a letter from the European Commission warned the Bulgarian authorities that citizens should be given access to their deposits in accordance with EU law.

Why should we care that a domestic-owned Bulgarian bank is in trouble, given that KTB is not systemically important either in Bulgaria or in the region? This bank recapitalisation stands out in a broader regional context. Unlike the recent bank bail-outs in the Baltic states in 2008-2009 and bank recapitalisations in Hungary in 2010 and

Slovenia in 2013, KTB did not go under because of unjustifiably optimistic investment in a domestic property boom or financing the expansion of domestic companies abroad. Instead, KTB exemplifies a perennial problem in Bulgarian politics: the nexus between the political and business elite and syphoning off of public funds through banks affiliated with the ruling government.

On 14 July 2014, the independent audit of KTB revealed missing credit files for 3.5 billion leva, which is about 65 per cent of the bank's portfolio. The audit also showed that of those loans, 2.5 billion leva were given out in 2013-14 to companies which can be traced directly or indirectly to the bank's owner, Tzvetan Vassilev. To many Bulgarians, the latest developments hearken back to 1996-97 when the banking system collapsed under the weight of bad loans given to zombie companies. Citizens queued for days in front of shady currency exchange booths to convert their savings into more trustworthy foreign currency. The 1996-97 bank collapse prompted a series of reforms such as bank privatisation to strategic foreign investors and securing greater independence for the Bulgarian National Bank.

When Bulgaria joined the EU in 2007, analysts and citizens alike thought that, surely, now all would be well in the long run. But the hope that external intervention would put 'the house in order' proved unrealised. And what a messy house Bulgarian domestic politics still is. Moises Naim has gone as far as to label Bulgaria a 'mafia state', arguing in 2012 that in "states such as Bulgaria, Guinea-Bissau, Montenegro, Myanmar… Ukraine, and Venezuela, the national interest and the interests of organised crime are now inextricably intertwined". Regrettably, domestic-owned Bulgarian banks such as KTB have become synonymous with ill-gotten gains, nepotism, and money laundering.

Two protagonists on the Bulgarian political stage, Delyan Peevsky and Nikolay Barekov, give us a good sense of the nexus between politics and business that has hindered the country's progress toward becoming a consolidated democracy. Peevsky's family has been building a media empire with financial support from KTB. In turn, media outlets such as the newspapers "Monitor" and "Telegraph" have been used for political purposes. Moreover, a perfectly transparent and lawful mechanism of representative democracy – voting – almost catapulted Peevsky from the Bulgarian political scene onto the European one. He was placed second on the European Parliament electoral list of the Movement for Rights and Freedoms which would have garnered him a seat as part of the liberal ALDE group. In May 2014, an open letter from critically-minded Bulgarian citizens from the "Protest Network" social movement warned about Peevsky's dubious domestic record and asked ALDE to reconsider his place on the DPS electoral list. Eventually, Peevsky withdrew his EP candidacy.

Barekov, on the other hand, was elected as an MEP and intends to take his seat in the European Parliament. He has even boasted before the Bulgarian media about meeting representatives of the main EP political groups to see 'which group has the most to offer'. His political party, Bulgaria without Censorship, has been described as a 'media project' based on a reality show, funded by as you might have guessed, KTB.

It is disconcerting that lawfully elected Bulgarian politicians such as Barekov have now joined the ranks of EU decision-makers in Brussels and will be voting on legislation important for all European citizens such as TTIP, banking union, energy, and internet privacy protection. As we have seen from Bulgarian domestic politics, for some politicians, the European level playing field is not about the common market or competition policy. In the EP, they see a platform to convert political influence into lasting private gains on an ever larger scale.

There are, of course, responsible politicians concerned about the public good in Bulgaria too. The danger highlighted by the latest domestic banking scandal is that the very mechanisms of representative democracy may lose credibility. Is electoral democracy meaningful without the rule of law?

On 5 October, voters will have to make a choice between Bulgaria as an EU member state or as the kind of 'mafia state' described by Moises Naim. We hope that the two notions are mutually exclusive. After all, the rule of law is the very basis of trust among the member states. Nevertheless, almost two decades after sweeping regulatory reforms and bank privatisation and seven years after joining the European Union, clientelism and crony capitalism are still rife in Bulgaria, as highlighted by the latest domestic banking debacle.

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