



BULGARIA

SEPTEMBER 2023

COUNTRY REPORT

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BULGARIA
ISSN: 1054-5298**



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BULGARIA

TABLE OF CONTENTS

COUNTRY REPORTS & ECONOMIC FORECASTS (CREF)

- 2 Map
- 3 Key Takeaways
- 5 Regime, Business & Investment Forecasts
- 7 Econometric Data
- 9 Intra-Regional Comparisons
- 11 Geopolitical & Economic Analysis
- 17 International Country Risk Guide (ICRG) Ratings



MAP



KEY TAKEAWAYS

MOST LIKELY REGIMES & THEIR PROBABILITIES	
18-MONTH	Center-Right Coalition 50%
FIVE-YEAR	*Center-Right Minority 40%

FORECASTS OF RISK TO INTERNATIONAL BUSINESS				
	TURMOIL	FINANCIAL TRANSFER	DIRECT INVESTMENT	EXPORT MARKET
18-MONTH	Low	A	A	A-
FIVE-YEAR	Low	A	A-	A-

() Indicates change in rating

* Indicates forecast of a new regime

KEY ECONOMIC FORECASTS			
	REAL GDP GROWTH (%)	INFLATION (%)	CURRENT ACCOUNT (\$bn)
2018-2022(AVG)	2.7	5.2	-0.15
2023(F)	1.6	9.9	-0.90
2024-2028(F)	3.1	2.5	-1.20

IMPROVED OUTLOOK FOR PROGRESS ON REFORMS

A protracted political impasse that produced five elections in two years came to an end in May with the conclusion of a power-sharing agreement between the long-dominant center-right GERB and the centrist PP-DB bloc. Under the arrangement, control of the prime minister's post will be held by Nikolay Denkov, a founding member of the PP, for nine months, after which it will be transferred to GERB's Maria Gabriel, a former EU commissioner. The DB-PP conditioned a partnership on GERB's non-participation in the Cabinet, beyond the appointment of Gabriel as minister of foreign affairs, and most ministries are headed by independent technocrats.

Top priorities outlined in the coalition agreement include comprehensive judicial reform and strengthening anti-corruption institutions, both of which are closely tied to Bulgaria's hopes of achieving membership in the Schengen area and timely adoption of the euro. GERB (along with allied Union for a Strong Bulgaria) and the PP-DB control a comfortable majority of 133 seats in the National Assembly, but the judicial reforms and proposed changes to the operation of caretaker governments (aimed primarily at limiting the president's influence over interim administrations) require the backing of a two-thirds supermajority, or 160 votes. GERB's traditional ally, the ethnic Turkish DPS, has agreed to consider the government's reforms, and its 36 seats would be enough to clear the higher threshold.

One of the main objectives of advocates of judicial reform is limiting the currently sweeping powers of the prosecutor-general, which is seen as essential to ensuring legal accountability for corrupt officials. In late July, 166 lawmakers signed off on a draft proposal submitted to the secretariat of the National Assembly, clearing the way to put it on the legislative agenda following the month-long August break. The draft is consistent with the stated goals of the PP-DB but omits the bloc's demand to eliminate the position of prosecutor-general in favor of structural changes designed to dilute the powers of the post.

The rapid arrival at consensus, facilitated by the DPS's decision to abandon its separate proposed changes to the constitution, was unexpected, and the strong support for the draft suggests that the reforms could be approved by the end of the year. However, Denkov is keeping his optimism in check, noting that there remains a danger that the reforms could yet meet resistance in the National Assembly, and expressing doubt that the partnership with GERB would survive such a setback.

The maintenance of political stability is crucial to Bulgaria's chances of securing up to €5.7 billion of financing the country is eligible to receive under the EU's post-pandemic recovery program. Any funds foregone due to renewed instability would have negative implications for medium-term investment levels.

More immediately, the government is counting on NGEU funds to hit the deficit target set under the 2023 budget tabled in late June. The fiscal targets are not overly ambitious but assumed real GDP growth of 1.8% in 2023 and an average of 3.25% in 2024-2025 would be more difficult to achieve if the government fails to take the steps required to secure EU funding and otherwise restore confidence after a prolonged period of political uncertainty.

Inflation poses a bigger obstacle to adopting the euro by the new target date of January 2025. Harmonized inflation remains well above the ceiling set under the Maastricht criteria, which is no more than 1.5 percentage points higher than the three best performing EU member states. Bulgaria will need to meet the criteria by mid-2024 to keep the plan for euro adoption in 2025 on track and will have no recourse to monetary tools to ease price pressures.

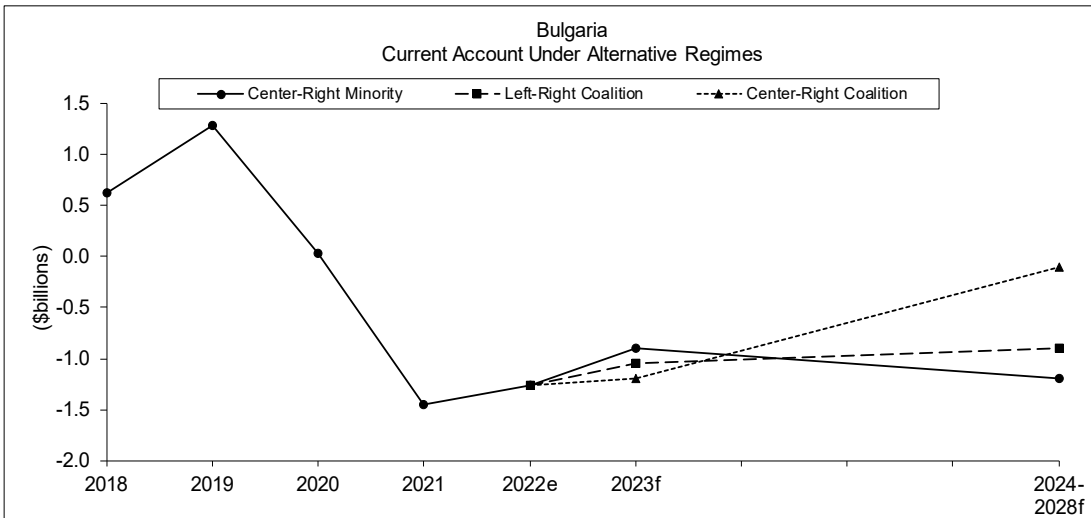
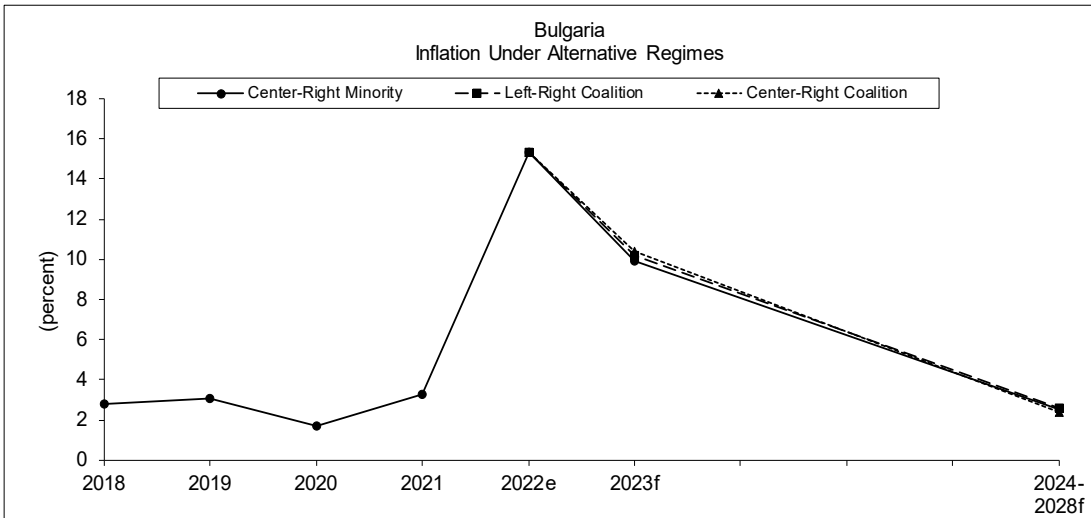
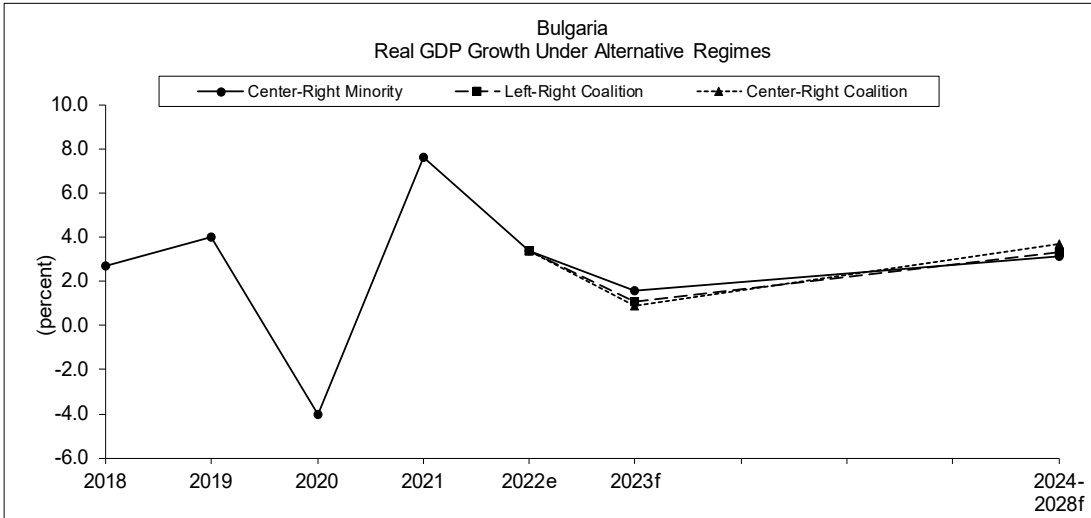
ECONOMIC FORECASTS FOR THE THREE ALTERNATIVE REGIMES

	Center-Right Minority			Left-Right Coalition			Center-Right Coalition		
	GROWTH (%)	INFLATION (%)	CACC (\$bn)	GROWTH (%)	INFLATION (%)	CACC (\$bn)	GROWTH (%)	INFLATION (%)	CACC (\$bn)
2023	1.6	9.9	-0.90	1.1	10.2	-1.05	0.9	10.4	-1.20
2024-2028	3.1	2.5	-1.20	3.3	2.6	-0.90	3.7	2.4	-0.10

REGIME, BUSINESS & INVESTMENT FORECASTS

SUMMARY OF 18-MONTH FORECAST				
REGIMES & PROBABILITIES		Center-Right Coalition 50%	Left-Right Coalition 30%	Center-Right Minority 20%
RISK FACTORS	CURRENT			
Turmoil	Low	Same	SLIGHTLY MORE	SLIGHTLY MORE
Investment				
Equity	Moderate	Same	Same	Same
Operations	High	SLIGHTLY LESS	Same	Same
Taxation	Low	Same	Same	Same
Repatriation	Low	Same	Same	Same
Exchange	Low	Same	Same	Same
Trade				
Tariffs	Moderate	Same	Same	Same
Other Barriers	Moderate	Same	Same	SLIGHTLY MORE
Payment Delays	Low	Same	Same	Same
Economic Policy				
Expansion	Low	Same	SLIGHTLY MORE	SLIGHTLY MORE
Labor Costs	Low	Same	Same	Same
Foreign Debt	Moderate	Same	Same	Same
SUMMARY OF FIVE-YEAR FORECAST				
REGIMES & PROBABILITIES		*Center-Right Minority 40%	Left-Right Coalition 35%	Center-Right Coalition 25%
RISK FACTORS	BASE			
Turmoil	Low	Same	Same	Same
Restrictions				
Investment	Moderate	Same	Same	SLIGHTLY LESS
Trade	Moderate	Same	Same	SLIGHTLY LESS
Economic Problems				
Domestic	Moderate	Same	Same	SLIGHTLY LESS
International	Moderate	Same	Same	SLIGHTLY LESS

* When present, indicates forecast of a new regime



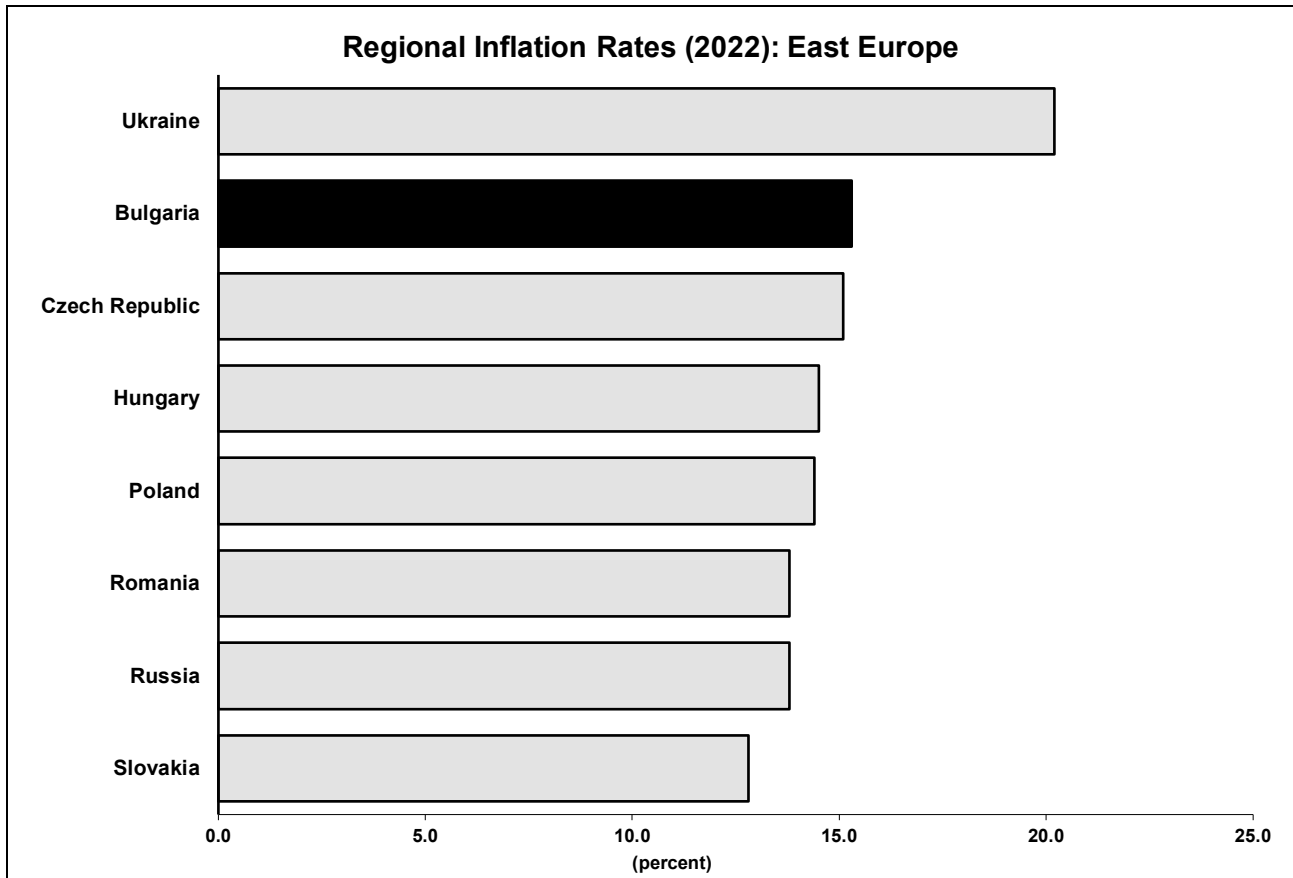
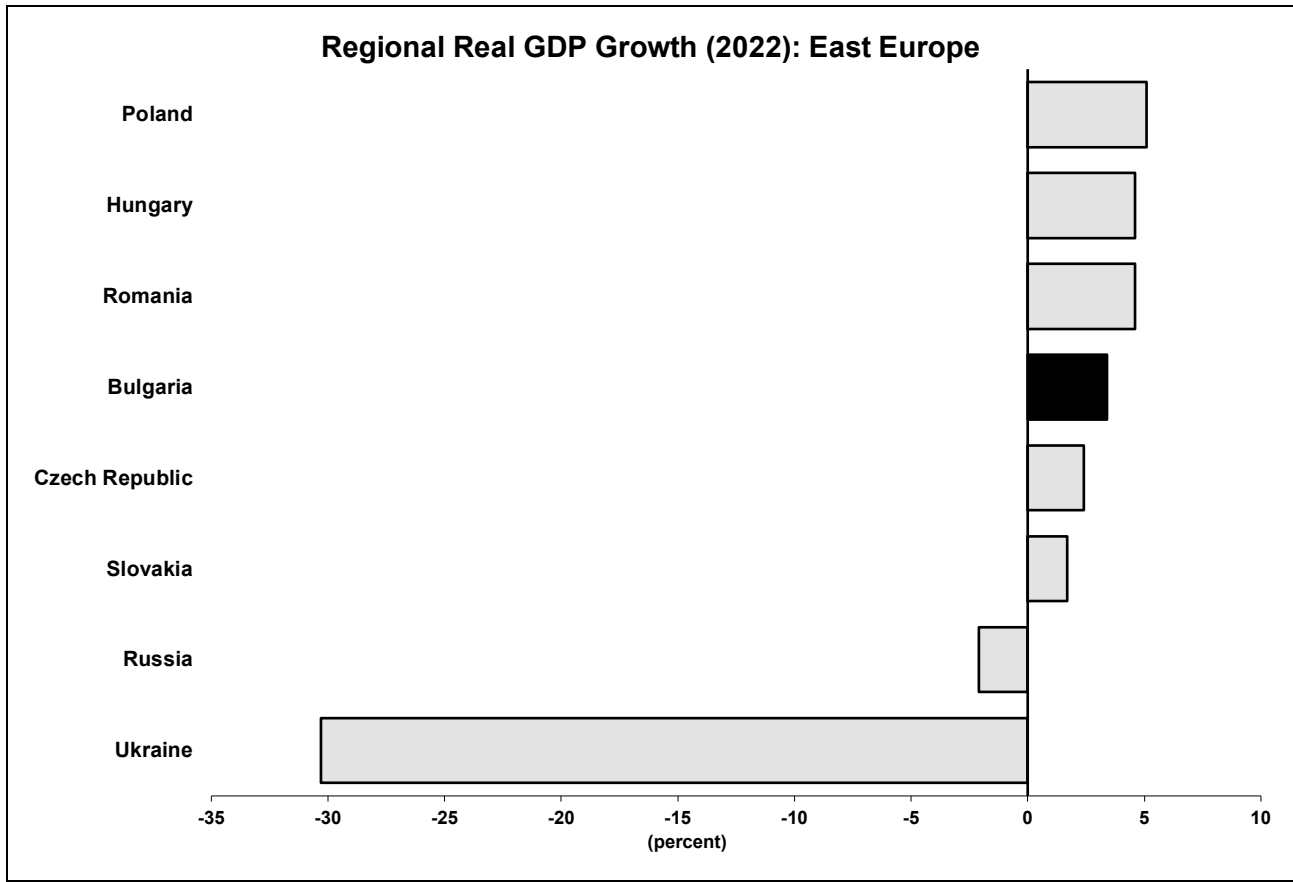
Bulgaria Econometric Data

	2013-2017 Average	2018-2022 Average	2013	2014	2015	2016	2017
Domestic Economic Indicators							
GDP (Nominal, \$bn)	55.37	75.69	55.80	57.01	50.82	53.95	59.25
Per Capita GDP (\$)	7747	11001	7707	7918	7108	7599	8404
Real GDP Growth Rate (%)	1.9	2.7	-0.6	1.0	3.4	3.0	2.8
Inflation Rate (%)	0.1	5.2	0.9	-1.4	-0.1	-0.8	2.1
Capital Investment (\$bn)	11.11	13.21	11.77	11.99	10.68	10.28	10.84
Capital Investment/GDP (%)	20.1	17.7	21.1	21.0	21.0	19.1	18.3
Budget Revenues (\$bn)	18.13	25.99	18.34	18.54	16.99	17.86	18.90
Budget Revenues/GDP (%)	32.8	34.2	32.9	32.5	33.4	33.1	31.9
Budget Expenditures (\$bn)	18.74	27.16	19.53	20.56	17.87	17.14	18.61
Budget Expenditures/GDP (%)	33.9	35.7	35.0	36.1	35.2	31.8	31.4
Budget Balance (\$bn)	-0.62	-1.17	-1.19	-2.02	-0.88	0.72	0.29
Budget Balance/GDP (%)	-1.1	-1.5	-2.1	-3.5	-1.7	1.3	0.5
Money Supply (M1, \$bn)	22.15	47.63	18.33	21.14	20.43	23.21	27.62
Change in Real Wages (%)	8.1	4.8	4.8	7.1	9.7	10.3	8.6
Unemployment Rate (%)	9.5	4.9	13.0	11.5	9.2	7.7	6.2
International Economic Indicators							
Foreign Direct Investment (\$bn)	1.74	2.67	2.00	1.07	2.21	1.46	1.97
Forex Reserves (\$bn)	20.66	30.96	17.34	17.64	19.89	22.74	25.68
Gross Reserves (ex gold, \$bn)	21.61	32.53	18.33	18.58	20.78	23.69	26.69
Gold Reserves (\$bn)	1.53	2.17	1.55	1.53	1.38	1.50	1.69
Gross reserves (inc gold, \$bn)	23.14	34.69	19.88	20.11	22.16	25.19	28.38
Total Foreign Debt (\$bn)	45.33	45.19	49.05	52.24	40.71	42.13	42.50
Total Foreign Debt/GDP (%)	81.9	60.2	87.9	91.6	80.1	78.1	71.7
Debt Service (\$bn)	2.06	1.71	1.98	1.19	3.38	1.96	1.77
Debt Service/XGS (%)	5.2	3.1	4.8	2.9	9.3	5.1	4.0
Current Account (\$bn)	1.00	-0.15	0.71	0.70	0.00	1.65	1.96
Current Account/GDP (%)	1.8	-0.1	1.3	1.2	0.0	3.1	3.3
Current Account/XGS (%)	2.4	-0.1	1.7	1.7	0.0	4.3	4.4
Exports (\$bn)	27.27	37.33	28.18	27.92	24.30	25.55	30.38
Imports (\$bn)	29.76	40.82	32.07	31.61	27.21	26.65	31.25
Trade Balance (\$bn)	-2.49	-3.48	-3.89	-3.69	-2.91	-1.10	-0.87
Exports of Services (\$bn)	8.62	10.88	7.82	9.01	8.10	8.89	9.30
Income, credit (\$bn)	1.26	2.02	1.16	1.23	1.08	1.27	1.57
Transfers, credit (\$bn)	3.11	3.04	4.05	3.01	2.82	2.71	2.96
Exports G&S (\$bn)	40.26	53.27	41.21	41.17	36.30	38.42	44.21
Liabilities (\$bn)	0.99	1.48	0.96	1.07	0.92	1.07	0.93
Net Reserves (\$bn)	22.15	33.21	18.92	19.04	21.24	24.12	27.45
Liquidity (months import cover)	9.0	10.0	7.1	7.2	9.4	10.9	10.5
Currency Exchange Rate	1.643	1.727	1.474	1.476	1.763	1.768	1.734
Currency Change (%)	-2.2	-1.2	3.6	-0.1	-16.3	-0.3	2.0
Social Indicators							
Population (million)	7.15	6.89	7.24	7.20	7.15	7.10	7.05
Population Growth (%)	-0.7	-0.9	-0.6	-0.6	-0.7	-0.7	-0.7
Infant Deaths/1000	7	7	8	7	7	7	6
Persons under Age 15 (%)	15	15	14	14	15	15	15
Urban Population (%)	73	73	73	73	73	73	73
Urban Growth (%)	-0.7	-0.9	-0.6	-0.6	-0.7	-0.7	-0.7
Literacy % pop.	98	98	98	98	98	98	98
Agricultural Work Force (%)	7	7	7	7	7	7	7
Industry-Commerce Work Force (%)	31	29	35	35	30	30	27
Services Work Force (%)	62	64	58	58	63	63	66
Unionized Work Force (%)	21	21	21	21	21	21	21
Energy - total consumption (10 ¹⁵ Btu)	0.75	0.73	0.71	0.75	0.79	0.75	0.76
Energy - consumption/head (10 ⁹ Btu)	0.11	0.11	0.10	0.10	0.11	0.11	0.11

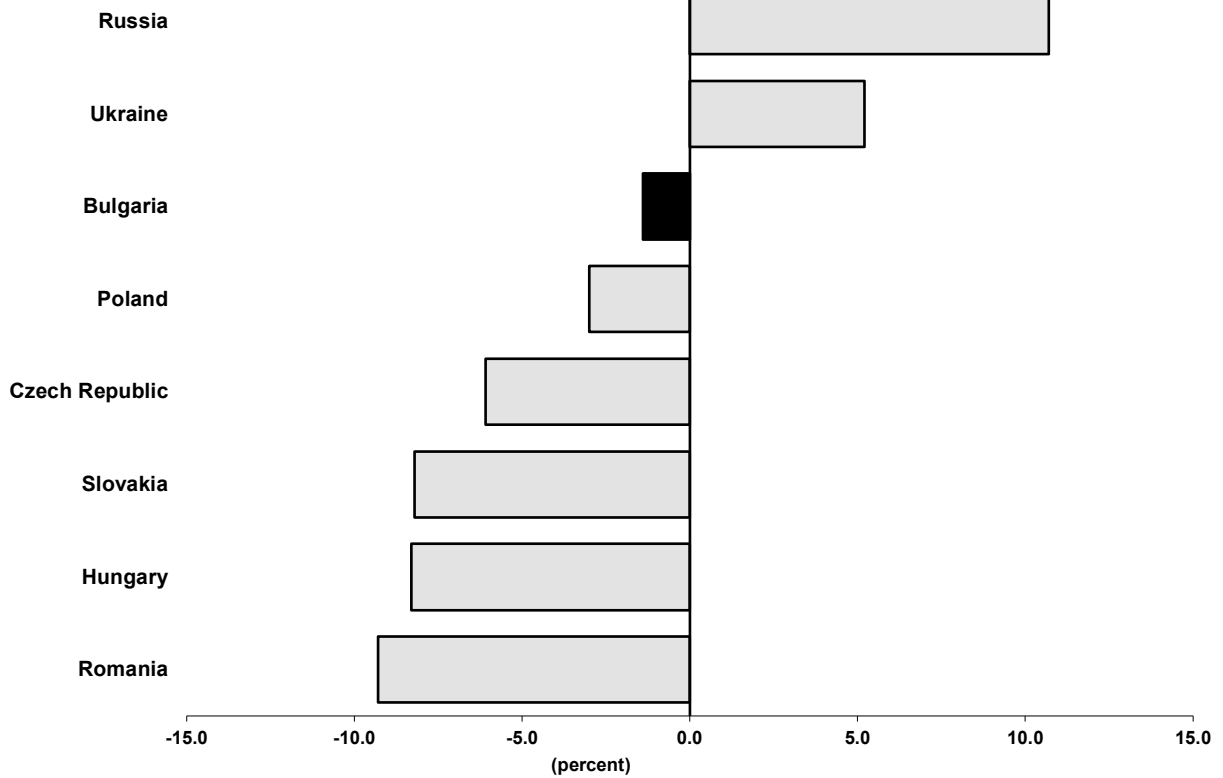
Bulgaria Econometric Data

	2013-2017 Average	2018-2022 Average	2018	2019	2020	2021	2022
Domestic Economic Indicators							
GDP (Nominal, \$bn)	55.37	75.69	66.32	68.92	70.25	84.04	88.92
Per Capita GDP (\$)	7747	11001	9474	9917	10152	12287	13173
Real GDP Growth Rate (%)	1.9	2.7	2.7	4.0	-4.0	7.6	3.4
Inflation Rate (%)	0.1	5.2	2.8	3.1	1.7	3.3	15.3
Capital Investment (\$bn)	11.11	13.21	12.44	12.82	13.39	13.74	13.66
Capital Investment/GDP (%)	20.1	17.7	18.8	18.6	19.1	16.4	15.4
Budget Revenues (\$bn)	18.13	25.99	22.00	23.29	23.85	28.86	31.95
Budget Revenues/GDP (%)	32.8	34.2	33.2	33.8	34.0	34.3	35.9
Budget Expenditures (\$bn)	18.74	27.16	22.03	24.01	25.36	31.70	32.69
Budget Expenditures/GDP (%)	33.9	35.7	33.2	34.8	36.1	37.7	36.8
Budget Balance (\$bn)	-0.62	-1.17	-0.03	-0.72	-1.51	-2.84	-0.74
Budget Balance/GDP (%)	-1.1	-1.5	-0.1	-1.0	-2.2	-3.4	-0.8
Money Supply (M1, \$bn)	22.15	47.63	32.30	35.41	48.96	59.14	62.35
Change in Real Wages (%)	8.1	4.8	6.7	8.1	3.2	8.7	-2.5
Unemployment Rate (%)	9.5	4.9	5.3	4.3	5.2	5.3	4.3
International Economic Indicators							
Foreign Direct Investment (\$bn)	1.74	2.67	1.82	2.22	3.60	2.40	3.29
Forex Reserves (\$bn)	20.66	30.96	28.84	24.86	31.92	36.10	33.06
Gross Reserves (ex gold, \$bn)	21.61	32.53	27.85	25.84	35.38	38.41	35.16
Gold Reserves (\$bn)	1.53	2.17	1.72	1.98	2.30	2.49	2.34
Gross reserves (inc gold, \$bn)	23.14	34.69	29.57	27.82	37.68	40.90	37.50
Total Foreign Debt (\$bn)	45.33	45.19	43.86	42.24	44.46	48.84	46.53
Total Foreign Debt/GDP (%)	81.9	60.2	66.1	61.3	63.3	58.1	52.3
Debt Service (\$bn)	2.06	1.71	1.02	0.88	1.62	2.45	2.59
Debt Service/XGS (%)	5.2	3.1	2.1	1.8	3.7	4.3	3.8
Current Account (\$bn)	1.00	-0.15	0.63	1.29	0.03	-1.45	-1.26
Current Account/GDP (%)	1.8	-0.1	0.9	1.9	0.0	-1.7	-1.4
Current Account/XGS (%)	2.4	-0.1	1.3	2.6	0.1	-2.5	-1.8
Exports (\$bn)	27.27	37.33	32.71	32.61	31.10	40.67	49.57
Imports (\$bn)	29.76	40.82	35.91	35.87	33.31	44.08	54.91
Trade Balance (\$bn)	-2.49	-3.48	-3.20	-3.26	-2.21	-3.41	-5.34
Exports of Services (\$bn)	8.62	10.88	10.84	11.46	8.35	10.91	12.85
Income, credit (\$bn)	1.26	2.02	1.34	1.47	1.97	2.68	2.64
Transfers, credit (\$bn)	3.11	3.04	3.50	3.42	2.49	2.68	3.10
Exports G&S (\$bn)	40.26	53.27	48.39	48.96	43.91	56.94	68.16
Liabilities (\$bn)	0.99	1.48	1.00	0.95	0.93	2.35	2.19
Net Reserves (\$bn)	22.15	33.21	28.57	26.87	36.75	38.55	35.31
Liquidity (months import cover)	9.0	10.0	9.5	9.0	13.2	10.5	7.7
Currency Exchange Rate	1.643	1.727	1.658	1.747	1.716	1.654	1.860
Currency Change (%)	-2.2	-1.2	4.6	-5.1	1.8	3.7	-11.1
Social Indicators							
Population (million)	7.15	6.89	7.00	6.95	6.92	6.84	6.75
Population Growth (%)	-0.7	-0.9	-0.7	-0.7	-0.4	-1.2	-1.3
Infant Deaths/1000	7	7	6	8	8	6	6
Persons under Age 15 (%)	15	15	15	15	15	15	15
Urban Population (%)	73	73	74	74	73	73	73
Urban Growth (%)	-0.7	-0.9	0.7	-0.7	-1.8	-1.2	-1.3
Literacy % pop.	98	98	98	98	98	98	98
Agricultural Work Force (%)	7	7	6	7	7	7	7
Industry-Commerce Work Force (%)	31	29	29	30	29	29	29
Services Work Force (%)	62	64	65	63	64	64	64
Unionized Work Force (%)	21	21	21	21	21	21	21
Energy - total consumption (10 ¹⁵ Btu)	0.75	0.73	0.75	0.72	0.67	0.74	0.75
Energy - consumption/head (10 ⁹ Btu)	0.11	0.11	0.11	0.10	0.10	0.11	0.11

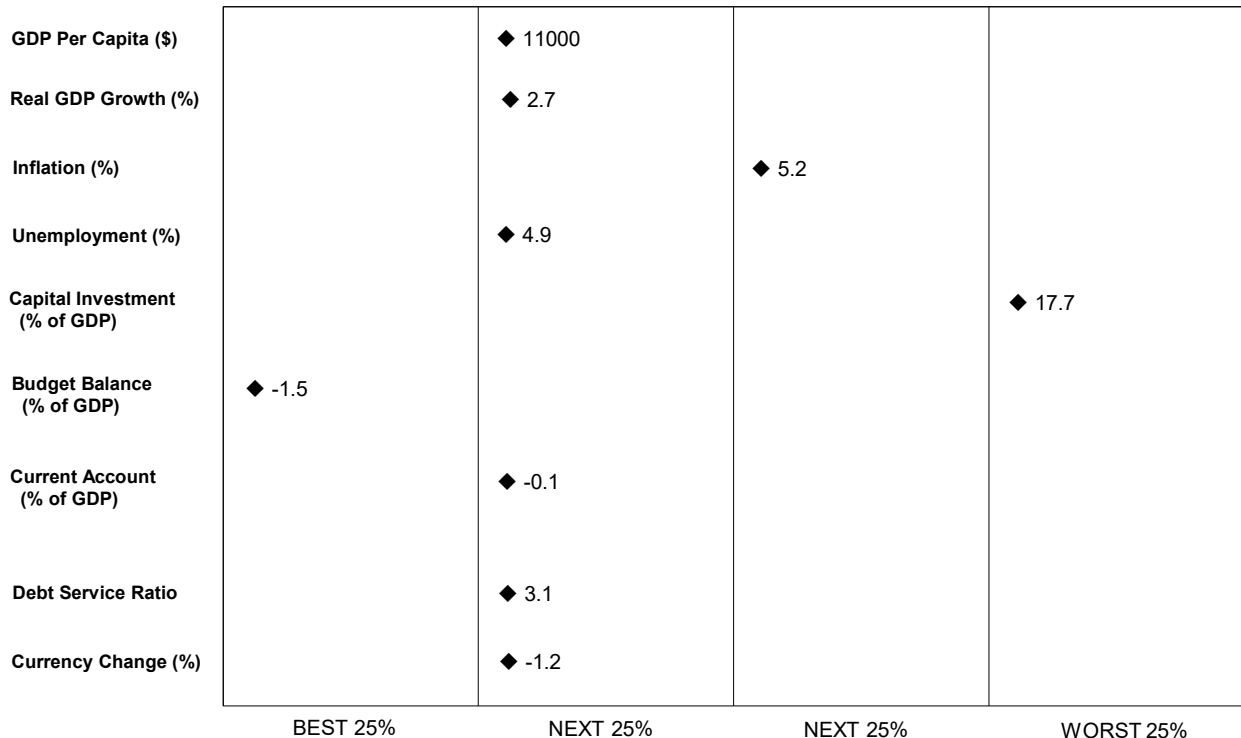
INTRA-REGIONAL COMPARISONS



Regional Current Account/GDP (2022): East Europe



Economic Performance Profile Country's Ranking Relative to All Countries Covered by Political Risk Services 2018-2022



GEOPOLITICAL & ECONOMIC ANALYSIS

IMPASSE BROKEN

Voters cast ballots to fill the 240 seats in the National Assembly for the fifth time in two years in early April. As was the case in the previous four trips to the polls, the center-right Citizens for the European Development of Bulgaria (GERB), which has been a dominant political force for the past two decades, failed to win enough seats to form a majority government with the support of its traditional partner, the ethnic Turkish Movement of Rights and Freedoms (DPS). And for the fifth time since April 2021, GERB'S main rival to head the government—in this case, an alliance of the centrist We Continue the Change (PP) and the center-right Democratic Bulgaria (DB)—confronted no clear path to cobbling together a majority coalition that did not include the corruption-tainted GERB.

PP leader Kiril Petkov attempted to overcome that obstacle after the November 2021 election by pulling together an ideologically diverse coalition that included the DB, a leftist bloc dominated by the Bulgarian Socialist Party (BSP), and the populist There Is Such a People (ITN). However, the arrangement was unstable from the start and collapsed after just six months, with the ITN withdrawing its support in June 2022, paving the way for the first-ever toppling of a Bulgarian government by means of a confidence vote.

Facing a similarly narrow path to a majority after a snap election in early October 2022, GERB leader Boyko Borisov sought to remove a key obstacle to cementing a partnership with the PP and the DB by announcing that he would play no formal role in the government. However, neither his offer to stand aside nor his appeals for solidarity among the pro-European parties amid the crisis created by the war in Ukraine was enough to overcome the resistance of the PP and the DB to teaming up with GERB, whose record in office is blemished by scandals, incompetence, and sometimes questionable respect for democratic norms.

The political tumult that led to three elections in 2021 delayed Bulgaria's delivery of a National Recovery and Resilience Plan (NRRP), resulting in its failure to qualify for pre-financing under the €723 billion Next Generation EU (NGEU) post-pandemic recovery program. The costs of failure to break the impasse mounted in 2022, as the lack of a fully functioning government forced Bulgaria to revise its timeline for adopting the euro (which has been pushed back to 2025, at the earliest) and left it in a weak position to overcome Austrian and Dutch objections to its accession to the EU's visa-free Schengen Zone.

The string of elections also facilitated the rapid emergence of the far-right nationalist Revival as a potential significant political force. Since winning representation in the National Assembly for the first time at the November 2021 elections, the pro-Russian and staunchly anti-EU party has increased its seat total from 13 to 37 over the course of three elections, and its 14.2% vote total was the third highest after

GERB and the PP-DB. Failure to prevent yet another snap election would have provided an opportunity for Revival to build on its recent successes, while also enabling President Rumen Radev to continue playing an outsized role in shaping policy through his influence over the composition of the caretaker government.

Under pressure to show flexibility, Petkov agreed to a proposal under which GERB and the PP-DB would share power for a period of at least 18 months, with control of the prime minister's post rotating from Nikolay Denkov, a founding member of the PP, to GERB's Maria Gabriel, a former EU commissioner, after nine months. Acknowledging the violation of his campaign pledge of non-cooperation with GERB, Petkov announced that the PP-DB would not otherwise hold ministerial positions in a government headed by Borisov's party, instead nominating independent technocrats to fill its allotted posts.

The deal nearly fell apart before it was finalized amid a furor over a leaked video recording of Petkov and Asen Vasilev, the co-leader of the PP, discussing (among other things) plans to reduce GERB's influence within the civil service. The resulting suspension of talks prevented Gabriel from forming a government in the allotted time, and President Rumen Radev passed the mandate to Denkov, in accordance with the constitution.

Radev suggested that Denkov should surrender the mandate, owing to the loss of trust stemming from the leaked tapes, an act of overreach that prompted protests and calls for his impeachment from the PP-DB. Apparently alarmed by Radev's seeming reluctance to cede control to an elected government, GERB expressed its continued interest in reaching an agreement with the PP-DB, which conditioned a partnership on GERB's non-participation in the Cabinet, beyond the appointment of Gabriel as minister of foreign affairs. A deal was struck in early June, and the government was confirmed with 131 votes on June 6.

IMPROVED OUTLOOK FOR PROGRESS ON REFORMS

Top priorities outlined in the coalition agreement include comprehensive judicial reform and strengthening anti-corruption institutions, both of which are closely tied to Bulgaria's hopes of achieving membership in the Schengen area and timely adoption of the euro. GERB (along with allied Union for a Strong Bulgaria) and the PP-DB control a comfortable majority of 133 seats in the National Assembly, but the judicial reforms and proposed changes to the operation of caretaker governments (aimed primarily at limiting the president's influence over interim administrations) require the backing of a two-thirds supermajority, or 160 votes. The DPS has agreed to consider the government's reforms, and its 36 seats are enough to clear the higher threshold.

There is a consensus among the pro-European parties of the need to root out the corruption that has been a chronic impediment to Bulgaria's ability to fully take advantage of the economic potential of

membership in the EU. However, corruption runs deep in Bulgaria and has been the downfall of numerous governments over the last two decades. Moreover, history suggests that a government in which GERB plays a dominant role will not move aggressively on that front, which is a key reason the PP has been reluctant to team up with Borissov's party.

One of the main objectives of advocates of judicial reform is limiting the currently sweeping powers of the prosecutor-general, which is seen as essential to ensuring legal accountability for corrupt officials. Only after GERB agreed to seek the removal of Prosecutor-General Ivan Geshev, who was appointed by then-Prime Minister Borisov in 2019 and was alleged to have protected the GERB leader from criminal prosecution for corruption and abuse of power, did the PP-DB agree to consider a governing partnership with its rival.

The Supreme Judicial Council, the country's top court, voted to remove Geshev by a vote of 16-4 on June 12, less than a week after the government was confirmed. Geshev has announced his intention to form a new political party and threatened to expose the corruption of lawmakers he claims have betrayed him. In that vein, he has specifically admitted to suppressing investigations into Borisov, including a case involving money laundering that led to the GERB leader's arrest during Petkov's brief turn as prime minister.

It remains to be seen whether Geshev can make good on his threat, and whether the already uncomfortable partnership of GERB and the PP-DB can survive the fallout from any bombshells that might detonate in the coming weeks and months. In the meantime, the governing partners and the DPS appear to have reached a consensus on the main outlines of the judicial reforms.

In late July, 166 lawmakers signed off on a draft proposal submitted to the secretariat of the National Assembly, clearing the way to put it on the legislative agenda following the month-long August break. The draft is consistent with the stated goals of the PP-DB but omits the bloc's demand to eliminate the position of prosecutor-general in favor of structural changes designed to dilute the powers of the post.

The governing partners and the DPS have also agreed to maintain the caretaker format, with some important changes that are designed to reduce the president's direct influence over the policies of an interim government. If approved, the amendments will require the president to choose a caretaker prime minister from among the chair of the National Assembly, the chair of the Court of Cassation, or the governor of the Bulgarian National Bank, who will have full discretion to choose the members of the Cabinet.

The rapid arrival at consensus, facilitated by the DPS's decision to abandon its separate proposed changes to the constitution, was unexpected, and the strong support for the draft suggests that the reforms could be approved by the end of the year. However, Denkov is keeping his optimism in check,

noting that there remains a danger that the reforms could yet meet resistance in the National Assembly, and expressing doubt that the partnership with GERB would survive such a setback.

DANGER OF MISSED OPPORTUNITY

The maintenance of political stability is crucial to Bulgaria's chances of securing up to €5.7 billion of financing the country is eligible to receive under the EU's post-pandemic recovery program. Thus far, Bulgaria has received a single tranche of €1.37 billion, which was distributed in December 2022, following fulfillment of 22 milestones (legislative reforms) and targets (investment projects). The funding will be directed to projects related to achieving key goals of the NGEU, including decarbonization and digitalization, as well as implementation of the judicial reforms and anti-money-laundering regulations.

The government is hoping to secure a second tranche later this year, which will require fulfillment of more than 60 milestones and targets. Bulgaria's chances of hitting the benchmarks hinge on the maintenance of a stable government, which is also essential to making effective use of the funding that is made available.

Any funds foregone due to renewed instability would have negative implications for medium-term investment levels. Bulgaria currently has the highest level of income inequality and the lowest average monthly wage in the EU, and the poverty rate tops 20%. Failure to address those socioeconomic weaknesses would leave Bulgaria vulnerable to deepening discontent and a possible loss of faith in liberal democracy that is plainly evident in Hungary and Poland and being embraced by a small but growing sector of the population across Europe.

INFLATION MAIN IMPEDIMENT TO EURO ADOPTION

More immediately, the government is counting on NGEU funds to hit the deficit target set under the 2023 budget tabled late June. The spending plan projects a small increase in the general government shortfall to 3% of GDP this year (up from 2.8% in 2022), reflecting the impact of a minimum-wage hike and inflation-adjusted increases in pension benefits. The deficit is projected to remain stable at 3% of GDP next year, before widening to 3.6% of GDP in 2025, an increase attributable to spending on the purchase of new F-16 fighter jets.

The fiscal targets are not overly ambitious but assumed real GDP growth of 1.8% in 2023 and an average of 3.25% in 2024-2025 would be more difficult to achieve if the government fails to take the steps required to secure EU funding and otherwise restore confidence after a prolonged period of political uncertainty. In any case, inflation poses the bigger obstacle to adopting the euro by the new target date of January 2025.

Harmonized inflation fell from a peak of 15.6% (year-on-year) in September 2022 to 7.5% in June. However, the figure has stabilized over the last three months (ticking up to 7.8% in July) and remains well above the ceiling set under the Maastricht criteria, which is no more than 1.5 percentage points higher than the three best performing EU member states. Bulgaria will need to meet the criteria by mid-2024 to keep the plan for euro adoption in 2025 on track and will have no recourse to monetary tools to ease price pressures.

Real GDP growth held steady at 2.2% (year-on-year) in the first quarter of 2023 but slowed to 1.8% in the April-June period, reflecting the dampening effect of higher borrowing costs on domestic consumption and the weakness of the export sector. Monetary tightening by the ECB will reinforce the slowing trend in the second half of the year, but stronger fixed investment, supported by the delivery of EU project funding, will sustain annual average growth above 1.5%.

INTERNATIONAL COUNTRY RISK GUIDE (ICRG) RATINGS

PRS' Country Reports and Economic Forecasts (CREF) and the International Country Risk Guide (ICRG) have been independently back-tested for accuracy and relevance for over 40 years.

In a landmark 2014 study published in the International Journal of Business Studies* – using data on political risk claims and a unique textual-based database of risk realizations – both CREF and ICRG forecasts were found to have “predictive power for both political risk insurance claims as well as political risk events measured by news coverage.”

It is therefore instructive to present the scores from Table 1 of the ICRG for a complimentary look at the composite risk scores – calculated by using a combination of the overall political, financial, and economic risk metrics – for the 141+ countries covered each month. Please contact custserv@prsgroup.com for more information.

TABLE 1
COUNTRY RISK, RANKED BY COMPOSITE RISK RATING
SEPTEMBER 2023 VERSUS OCTOBER 2022

RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
<i>Very Low Risk</i>					
1	Norway	86.8	86.3	0.5	2
2	Switzerland	86.0	87.0	-1.0	1
3	Luxembourg	85.8	85.5	0.3	4
4	Denmark	84.8	83.8	1.0	6
5	Taiwan	84.5	83.8	0.8	6
6	Singapore	84.3	85.8	-1.5	3
7	Ireland	83.8	81.8	2.0	9
8	Saudi Arabia	82.5	85.5	-3.0	4
9	Brunei	81.5	79.5	2.0	15
10	Canada	80.8	81.3	-0.5	10
10	Iceland	80.8	80.0	0.8	14
10	Qatar	80.8	78.8	2.0	17

* C Harvey, et al., “Political Risk Spreads,” Journal of International Business Studies, (2014), 471-493.

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RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
13	Japan	80.5	75.8	4.8	25
13	Netherlands	80.5	79.3	1.3	16
13	United Arab Emirates	80.5	82.3	-1.8	8
16	Korea, Republic	80.3	77.0	3.3	23
17	Kuwait	80.0	80.8	-0.8	11
17	Sweden	80.0	80.3	-0.3	13
Low Risk					
19	Australia	79.5	80.8	-1.3	11
19	Botswana	79.5	76.3	3.3	24
21	Germany	79.3	78.3	1.0	18
22	Finland	78.8	78.0	0.8	20
23	Hong Kong	78.0	73.8	4.3	36
24	New Zealand	77.8	74.8	3.0	32
25	Portugal	77.0	75.0	2.0	31
25	Trinidad & Tobago	77.0	77.5	-0.5	22
27	Austria	76.5	78.0	-1.5	20
27	Oman	76.5	78.3	-1.8	18
29	Czech Republic	76.0	75.5	0.5	28
30	Kazakhstan	75.5	75.5	0.0	28
31	Guyana	75.3	75.8	-0.5	25
32	Malaysia	75.0	73.0	2.0	40
33	Uzbekistan	74.8	72	2.5	43
34	Bahamas	74.5	70.8	3.8	55
34	Belgium	74.5	74.0	0.5	35
34	Italy	74.5	72.8	1.8	41
37	Israel	74.3	74.8	-0.5	32
38	Slovenia	74.0	72.3	1.8	43
38	United Kingdom	74.0	75.8	-1.8	25

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RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
40	Azerbaijan	73.8	73.3	0.5	38
40	Croatia	73.8	73.3	0.5	38
40	Libya	73.8	70.5	3.3	59
40	Malta	73.8	74.3	-0.5	34
40	Panama	73.8	73.5	0.3	37
40	Uruguay	73.8	75.5	-1.8	28
46	Costa Rica	73.0	72.0	1.0	45
47	Latvia	72.8	71.0	1.8	52
48	France	72.5	71.8	0.8	48
48	Jamaica	72.5	72.0	0.5	45
50	Chile	72.0	70.5	1.5	59
50	Dominican Republic	72.0	72.5	-0.5	42
50	Spain	72.0	72.0	0.0	45
53	Philippines	71.8	70.0	1.8	61
54	Bulgaria	71.5	70.0	1.5	61
54	Vietnam	71.5	70.8	0.8	55
56	Poland	71.3	70.8	0.5	55
57	Brazil	71.0	69.0	2.0	70
58	Hungary	70.8	71.3	-0.5	50
59	Thailand	70.5	64.3	6.3	91
60	Guatemala	70.3	71.0	-0.8	52
60	India	70.3	69.5	0.8	64
60	United States	70.3	71.5	-1.3	49
63	Cyprus	70.0	69.5	0.5	64
63	Gabon	70.0	66.0	4.0	85
Moderate Risk					
65	China, Peoples' Rep.	69.8	69.5	0.3	64
65	Lithuania	69.8	69.8	0.0	63

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RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
67	Greece	69.5	67.3	2.3	78
68	Bahrain	69.3	68.8	0.5	71
68	Estonia	69.3	70.8	-1.5	55
68	Indonesia	69.3	68.3	1.0	73
68	Papua New Guinea	69.3	69.3	0.0	67
72	Namibia	69.0	71.0	-2.0	52
73	Iraq	68.8	71.3	-2.5	50
74	Congo, Republic	68.5	63.8	4.8	96
74	Mexico	68.5	68.8	-0.3	71
74	Peru	68.5	68.0	0.5	75
77	Algeria	67.8	69.3	-1.5	67
78	Slovakia	67.5	68.3	-0.8	73
79	Romania	67.3	66.3	1.0	84
79	South Africa	67.3	66.8	0.5	81
81	Honduras	67.0	66.8	0.3	81
82	Gambia	66.8	65.8	1.0	88
82	Russia	66.8	66.0	0.8	85
84	El Salvador	66.5	63.5	3.0	98
84	Mongolia	66.5	65.5	1.0	89
84	Serbia	66.5	66.8	-0.3	81
87	Morocco	66.3	64.3	2.0	91
88	Ecuador	66.0	67.5	-1.5	76
88	Tanzania	66.0	64.8	1.3	90
90	Guinea-Bissau	65.3	62.5	2.8	103
90	Jordan	65.3	64.0	1.3	95
92	Paraguay	65.3	64.3	1.0	91
93	Albania	64.8	67.5	-2.8	76
94	Bolivia	64.5	66.0	-1.5	85

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RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
95	Nicaragua	63.8	62.8	1.0	100
96	Bangladesh	63.5	62.5	1.0	103
96	Cote d'Ivoire	63.5	61.0	2.5	107
96	Togo	63.5	62.8	0.8	100
99	Colombia	63.3	63.8	-0.5	96
100	Iran	63.0	67.0	-4.0	79
101	Madagascar	62.8	62.8	0.0	100
102	Angola	62.3	67.0	-4.8	79
103	Zambia	62.0	63.0	-1.0	99
104	Belarus	61.8	56.5	5.3	126
104	Cuba	61.8	69.3	-7.5	67
104	Ghana	61.8	59.0	2.8	114
107	Cameroon	61.5	59.8	1.8	110
108	Moldova	61.3	58.8	2.5	116
108	Ukraine	61.3	56.3	5.0	127
110	Armenia	61.0	60.5	0.5	108
111	Guinea	60.0	57.3	2.8	124
111	Mozambique	60.0	53.5	6.5	132
111	Uganda	60.0	59.3	0.8	112
High Risk					
114	Tunisia	59.8	61.3	-1.5	106
115	Burkina Faso	59.0	58.3	0.8	118
116	Suriname	58.8	59.0	-0.3	114
117	Senegal	58.5	58.0	0.5	122
118	Ethiopia	58.0	58.0	0.0	122
119	Mali	57.8	58.3	-0.5	118
120	Zimbabwe	57.5	61.5	-4.0	105
121	Congo, Dem. Republic	57.0	60.3	-3.3	109

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RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
121	Kenya	57.0	58.3	-1.3	118
121	Myanmar	57.0	55.8	1.3	128
124	Haiti	56.5	54.8	1.8	130
125	Argentina	56.3	64.3	-8.0	91
125	Sierra Leone	56.3	53.8	2.5	131
127	Egypt	56.0	59.3	-3.3	112
128	Yemen, Republic	55.8	48.3	7.5	138
129	Nigeria	55.5	59.8	-4.3	110
130	Turkey	55.3	55.8	-0.5	128
131	Liberia	55.0	58.3	-3.3	118
131	Venezuela	55.0	58.5	-3.5	117
133	Sri Lanka	54.5	48.5	6.0	137
134	Malawi	52.8	51.0	1.8	135
135	Somalia	51.8	52.0	-0.3	133
Very High Risk					
136	Korea, D.P.R.	49.3	51.0	-1.8	135
136	Pakistan	49.3	52.0	-2.8	133
138	Niger	46.8	56.8	-10.0	125
139	Syria	45.0	43.8	1.3	139
140	Sudan	44.8	43.0	1.8	140
141	Lebanon	35.0	41.5	-6.5	141

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