# Bulgaria

## Baa1 stable/BBB stable/BBB positive*

### Outlook

Failed government rotation has paved the way for a new snap election to be held in June. The election is likely to produce another fragmented parliament, where pro-European parties will dominate and will have the best chances to form a government. However, opinion polls show that the situation is very dynamic and could change significantly in the run-up to the election.

We have downwardly revised our GDP-growth projection for this year given the negative impact that increased political uncertainty is likely to have on investment. In addition, we think Bulgaria's accession to the euro area will be postponed to 2026, as it will require a stable government that is actively working to achieve its strategic foreign priorities.

### Strategy

We do not expect to see major changes in funding needs or in the way the sovereign is likely to meet them compared to three months ago.

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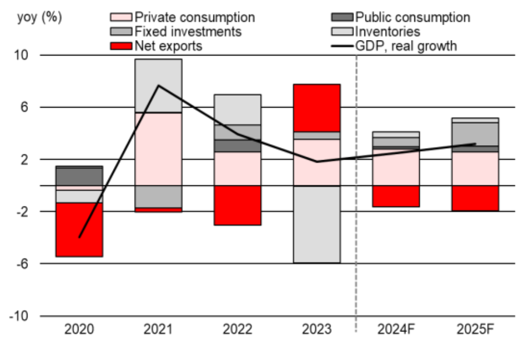
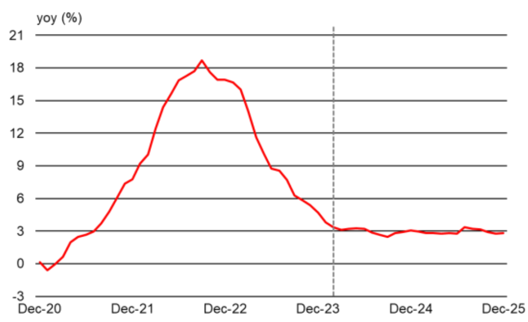
**KEY DATES/EVENTS**

- 26 April: sovereign-rating review by Fitch
- 15 April, 15 May, 14 June: inflation
- 15 May, 7 June: 1Q24 GDP (flash, structure)
- 9 June: election for European Parliament

**GDP GROWTH FORECAST**




**INFLATION FORECAST**




Source: National Statistical Institute, UniCredit Research

**MACROECONOMIC DATA AND FORECASTS**

| | 2021 | 2022 | 2023 | 2024F | 2025F |
|---|---|---|---|---|---|
| GDP (EUR bn) | 71.1 | 85.8 | 93.9 | 100.5 | 108.1 |
| Population (mn) | 6.5 | 6.4 | 6.4 | 6.3 | 6.3 |
| GDP per capita (EUR) | 10 899 | 13 307 | 14 711 | 15 888 | 17 251 |
| **Real economy, change (%)** | | | | | |
| GDP | 7.7 | 3.9 | 1.8 | 2.5 | 3.2 |
| Private consumption | 8.5 | 3.9 | 5.4 | 4.1 | 3.7 |
| Fixed investment | -8.3 | 6.5 | 3.3 | 3.9 | 9.6 |
| Public consumption | 0.4 | 5.5 | -0.4 | 1.0 | 2.8 |
| Exports | 11.2 | 11.6 | -1.9 | 2.8 | 4.3 |
| Imports | 10.7 | 15.0 | -6.3 | 4.8 | 6.6 |
| Monthly wages, nominal (EUR) | 798 | 900 | 1023 | 1107 | 1191 |
| Real wages, change (%) | 9.0 | -2.5 | 4.0 | 5.1 | 4.7 |
| Unemployment rate (%) | 5.3 | 4.1 | 4.3 | 4.2 | 4.0 |
| **Fiscal accounts (% of GDP)** | | | | | |
| Budget balance | -4.0 | -2.9 | -2.2 | -2.9 | -3.0 |
| Primary balance | -3.5 | -2.5 | -1.7 | -2.4 | -2.5 |
| Public debt | 23.4 | 22.1 | 22.5 | 24.3 | 25.9 |
| **External accounts** | | | | | |
| Current-account balance (EUR bn) | -1.2 | -1.2 | 0.3 | -0.2 | -0.3 |
| Current-account balance/GDP (%) | -1.7 | -1.4 | 0.3 | -0.2 | -0.2 |
| Extended basic balance/GDP (%) | 1.1 | 1.9 | 4.5 | 4.7 | 5.1 |
| Net FDI (% of GDP) | 1.8 | 2.5 | 3.0 | 3.2 | 3.5 |
| Gross foreign debt (% of GDP) | 58.1 | 52.3 | 47.2 | 45.0 | 43.6 |
| FX reserves (EUR bn) | 34.6 | 38.4 | 41.9 | 44.3 | 47.1 |
| Months of imports, goods & services | 9.4 | 7.4 | 9.0 | 8.6 | 8.3 |
| **Inflation/monetary/FX** | | | | | |
| CPI (pavg) | 3.3 | 15.3 | 9.6 | 3.1 | 2.9 |
| CPI (eop) | 7.8 | 16.9 | 4.7 | 3.1 | 2.8 |
| LEONIA (eop) | -0.53 | 1.82 | 3.80 | 3.10 | 2.15 |
| USD-BGN (eop) | 1.65 | 1.86 | 1.81 | 1.73 | 1.70 |
| EUR-BGN (eop) | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 |
| USD-BGN (pavg) | 1.73 | 1.85 | 1.80 | 1.75 | 1.72 |
| EUR-BGN (pavg) | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 |

Source: Bulgarian National Bank, Eurostat, National Statistical Institute, UniCredit Research

*long-term foreign-currency credit ratings as provided by Moody's, S&P and Fitch, respectively

## New snap election, with risk of strong protest vote looming

**Bulgaria has entered a new phase of political instability**

The two largest coalitions in the parliament – the center-right pro-European coalition formed by Citizens for European Development of Bulgaria (GERB) and Union of Democratic Forces (SDS) and the centrist-liberal coalition formed by We Continue the Change (WCC) and Democratic Bulgaria (DB) – failed to agree on forming a new government. This paved the way for a new snap parliamentary election, which is likely to be held in parallel with the election for European Parliament in June. Political power will now move into the hands of a new caretaker government, with the president of the parliament, Rossen Zhelyazkov, as its most likely prime minister. In line with the recent amendments to the Constitution, the parliament will not be dissolved and will retain its credentials until the MPs from the next legislature are sworn in.

**There have been no major changes in support for the main parties…**

GERB-SDS is in the lead according to public-opinion polls conducted at the beginning of March (see chart). WCC-DB is trailing behind by a gap that is now somewhat larger than it was during the last parliamentary election, held in April 2023. While polls show some decline in combined support for the main pro-European parties, this has not translated into an increase in support for Bulgaria's far-right, EU-sceptic, nationalist or populist parties (see chart). A new party established with the backing of President Rumen Radev could change this, especially if the architects of such a party are able to articulate an alternative vision for the country's governance and socio- and economic development. However, the time to launch such a party seems limited to us, and this most likely means that its inception is likely to be postponed for the time being.

**…but the situation is very dynamic and could change abruptly**

We do not predict that the election's outcome will differ from that suggested by the opinion polls available at the time of writing. However, the situation is very dynamic and could change in the run-up to elections, especially when one considers the scandals accompanying failed negotiations to form a government, which could trigger an increase in the protest vote.

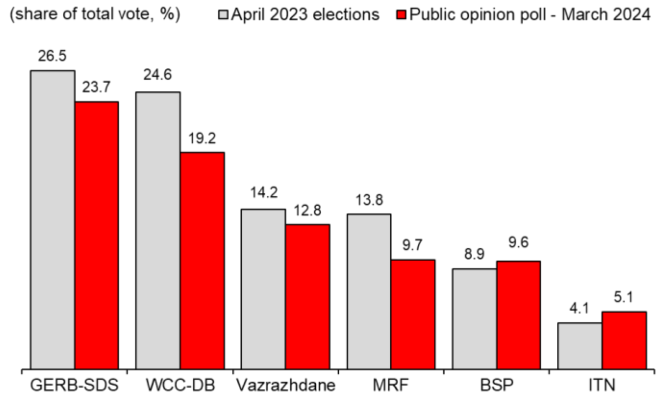
**We see limited chances for a government to form with populist and nationalists parties involved**

The next snap election is likely to produce another fragmented parliament. Our baseline scenario is that the parties with a pro-European geopolitical orientation will put aside their differences and form a new government. We think these parties not only have identical geopolitical orientation but also share similar views regarding reforms that are needed to reduce corruption and complete accession into the Schengen zone and the eurozone. While personal antipathy among the leaders of these parties has repeatedly proved to be a major stumbling block in the past, we think that the path to restoring cooperation and trust could be reopened if leaders step down in case their parties perform poorly in the election.

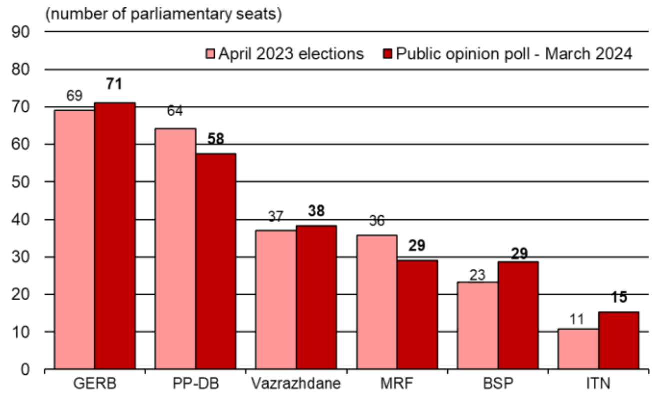
**The transition to a new government will slow reform momentum**

The transition to a new government will slow decision making in public administration. Further delays to infrastructure projects and to the implementation of reforms should be expected. This would negatively affect not only GDP growth this year but also the country's chance to address

**NO MAJOR CHAGES IN APPROVAL RATINGS OF KEY PARTIES…**




**…AND NO MAJOR CHANGES IN PARLIAMENTARY SEATS**




Source: Alpha Research Agency (this public-opinion poll is conducted in the period 27 Feb 2024 – 3 Mar 2024), UniCredit Research the structural weaknesses holding back its long-term social and economic development. More specifically, we think Bulgaria is set to receive only one of the tranches of EU funds from its Recovery and Resilience Plan this year, while the absorption of money from the multiannual financial framework will likewise slow temporarily. This is because attention is expected to shift to the snap parliamentary election and related campaigning, leaving less time for other priorities, including the implementation of measures needed to unlock EU funding.

**Bulgaria's accession to the euro area is likely to be postponed**

In addition, we think Bulgaria's accession to the euro area will be postponed to 2026. This is not because we have become more skeptical about country's ability to meet Maastricht criteria. On the contrary, we think that slower growth and snap elections are set to make it easier for the country to pass the numerical part of the EU's price-stability assessment, because weaker growth also means weaker inflation. However, we think that euro-area accession will require a regular government that is actively working to achieve its strategic priorities rather than a caretaker government whose mandate is limited to the organization of an yet another snap election, which would be the sixth in a row in slightly more than two years.

**We have downwardly revised our growth projections for 2024**

Against this backdrop, we have downwardly revised our GDP-growth forecast to 2.5% in 2024, from 3% before, as we now expect weaker investment growth. We think that political uncertainty could force some investors to take a wait-and-see approach, which would negatively affect private capex, while the transition to a new government will slow decision making in the public administration, which would weigh on public capex, including EU-funds-related capex.

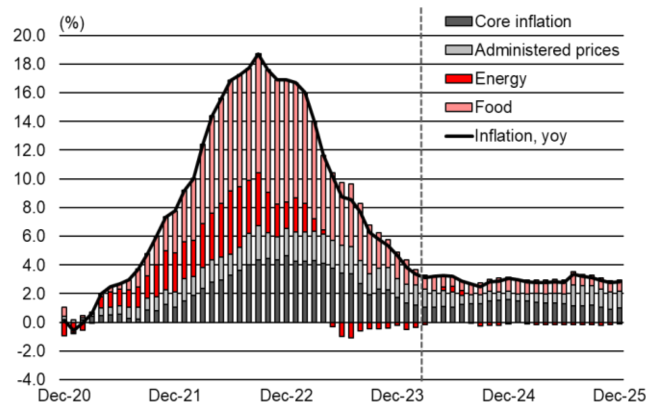
**Disinflation dynamics have gained solid momentum**

We have revised down further our projection for inflation. We now expect average consumer price inflation to go down to 3.1% in 2024 and further to 2.9% in 2025 (see chart). If our forecast proves broadly right, CPI, as calculated according to Bulgaria's national methodology, will soon go down below 3%, which we view as being close to the highest possible level that is harmless for the local economy. Lower food and energy prices envisaged in the global scenario accounted for a large part of the downward revision of our inflation forecast. The trajectory of core inflation was downwardly revised as well, because we now see more evidence that wage growth has entered a downward trajectory in many service sectors (see chart).

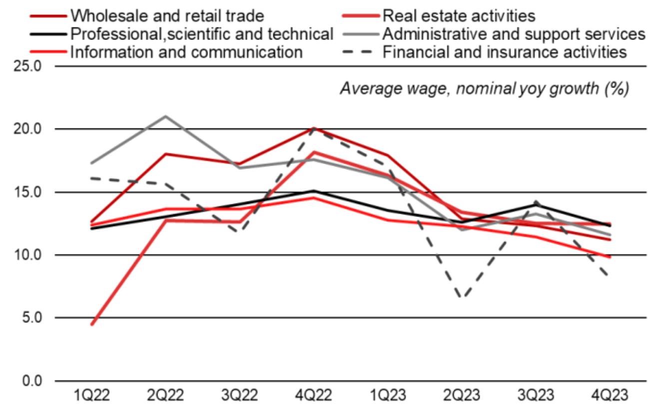
**Bulgaria has scaled down further its ties with Russia in the energy sector**

Bulgarian parliament terminated the country's exemption from the EU embargo on imports of Russian crude oil. In response, Russian crude oil was replaced with more-expensive supplies from Kazakhstan, Iraq and Tunisia. However, the move has had no major impact on fuel prices for the local market because, last year, Bulgarian authorities introduced a special tax on Lukoil's operations to make up the gap between the price of Russian Urals, which was traded with an EU-set cap, and that of Brent crude. A major increase in fuel prices is unlikely from here because local fuel prices are already close to those of imports. In a worst-case scenario, where fuel prices eventually rise, the increase should be limited, in our view, because the gap between the price of Urals and the price of Brent has dropped to around USD 15/bbl recently.

**CONSUMER PRICE INFLATION HAS FALLEN SHARPLY**




**WAGE GROWTH IN SERVICES IS TRENDING DOWNWARD**




Source: Eurostat, National Statistical Institute, UniCredit Research

## No major changes in sovereign funding needs forecast

**More data are needed to assess budget execution at the beginning of the year**

The state budget posted a surplus equivalent to 0.5% of GDP for the first two months of the current year, compared to a deficit equivalent to 0.1% of GDP one year ago. However, a large part of this better-than-expected revenue performance reflects a transfer back into the budget of BGN 1.2bn that had been set aside from last year's budget overperformance to finance municipal investment projects. When the latter is taken out, the budget position turns to a deficit of 0.1% of GDP. We think that more time and data are needed before we can draw a conclusion as to the execution of the budget plan so far this year, since, at the time of writing, breakdown data for fiscal revenues and expenditures were available only for the first month of 2024.

**We have kept our budget-deficit projection little-changed**

Downside risks to fiscal revenue targets have increased because the lack of a stable government is likely to encourage tax-evasion. This situation has been further aggravated by the fact that the merger between the National Revenue Agency and the National Customs Agency was far from complete when the government resigned. Nevertheless, we think that the snap election is unlikely to add significantly to execution risks for the budget-deficit target this year. Some decline in fiscal revenues relative to the targets envisaged in the budget looks likely to us. The latter would be entirely offset, however, by lower public capex on top of some savings in terms of maintenance costs, which could prove likely in the context of stronger-than-expected disinflation dynamics in the course of the current year.

**No major changes in sovereign funding needs forecast**

We have kept our assessment about sovereign funding needs for 2024 little-changed compared to the forecast we published three months ago. This is because our budget-balance forecast was little-changed, while maturing debt this year is practically fixed. More precisely, we estimate gross funding needs of the sovereign at EUR 5.0bn (EUR 5.2bn in our projection prepared in January 2024).

**Only a small amount of domestic borrowing is likely this year**

To meet its funding needs, we expect the Bulgarian government to issue domestic bonds worth only BGN 500mn this year. On top of that, we expect EUR 4.75bn worth to be issued externally. We see the end of the year as the most likely time when the sovereign could tap the Eurobond market. Such timing would help the Bulgarian government benefit from the end of a period of political uncertainty, which our forecast envisages happening with the formation of a new pro-European and reforms-oriented government after the snap election in June.

**GROSS GOVERNMENTAL FINANCING REQUIREMENTS**

| EUR bn | 2023 | 2024F | 2025F |
|---|---|---|---|
| **Gross financing requirement** | **4.4** | **5.0** | **5.6** |
| Budget deficit | 2.8 | 3.0 | 3.2 |
| Amortization of public debt | 1.6 | 2.0 | 2.4 |
| Domestic | 0.2 | 0.3 | 2.2 |
| Bonds | 0.2 | 0.3 | 2.2 |
| Bills | 0.0 | 0.0 | 0.0 |
| Loans/other | 0.0 | 0.0 | 0.0 |
| External | 1.4 | 1.7 | 0.2 |
| Bonds and loans | 1.2 | 1.5 | 0.0 |
| IMF/EU/other IFIs | 0.2 | 0.2 | 0.2 |
| **Financing** | **4.4** | **5.0** | **5.6** |
| Domestic borrowing | 0.0 | 0.3 | 1.3 |
| Bonds | 0.0 | 0.3 | 1.3 |
| Bills | 0.0 | 0.0 | 0.0 |
| Loans/other | 0.0 | 0.0 | 0.0 |
| External borrowing | 4.4 | 4.8 | 4.5 |
| Bonds and loans | 3.8 | 4.8 | 4.5 |
| IMF/EU/other IFIs | 0.6 | 0.0 | 0.0 |
| Privatization/other | 0.0 | 0.0 | 0.0 |
| Change in fiscal reserves (- =increase) | 0.0 | 0.0 | -0.1 |

**GROSS EXTERNAL FINANCING REQUIREMENTS**

| EUR bn | 2023 | 2024F | 2025F |
|---|---|---|---|
| **Gross financing requirement** | **23.0** | **23.4** | **22.5** |
| C/A deficit | -0.3 | 0.2 | 0.3 |
| Amortization of medium- and long-term debt | 6.1 | 5.9 | 4.2 |
| Government/central bank | 1.4 | 1.7 | 0.2 |
| Banks | 1.1 | 1.4 | 1.4 |
| Corporates/other | 3.6 | 2.8 | 2.5 |
| Amortization of short-term debt | 17.2 | 17.3 | 18.0 |
| **Financing** | **23.0** | **23.4** | **22.5** |
| FDI (net) | 2.9 | 3.3 | 3.9 |
| Portfolio equity, net | -1.3 | -2.2 | -2.0 |
| Medium and long-term borrowing | 8.8 | 7.1 | 5.9 |
| Government/central bank | 4.4 | 4.8 | 4.5 |
| Banks | 1.8 | 1.5 | 1.5 |
| Corporates/other | 2.6 | 0.9 | -0.1 |
| Short-term borrowing | 17.3 | 18.0 | 18.8 |
| EU structural and cohesion funds | 1.2 | 1.8 | 2.1 |
| Other | -2.4 | -2.2 | -3.4 |
| Change in FX reserves (- = increase) | -3.5 | -2.4 | -2.8 |
| Memorandums: | | | |
| Non-resident purchases of LC gov't bonds | 0.0 | 0.0 | 0.0 |
| International bond issuance, net | 2.6 | 3.3 | 4.5 |

Source: Bulgarian National Bank, Bulgarian Ministry of Finance, UniCredit Research

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