

Republic of Bulgaria

October 2024

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SOVEREIGN RATING*	Initial Rating	Review	Review
Date of Rating Committee:	05.09.2014	04.04.2024	03.10.2024
Date of rating publication:	12.09.2014	05.04.2024	04.10.2024
Long-term rating:	BBB- (ns)	BBB (ns)	BBB (ns)
Outlook:	negative	stable	stable
Short-term rating:	A-3 (ns)	A-3 (ns)	A-3 (ns)

• (ns) – not solicited rating

*The full rating history is available at: <https://bcra.eu/en/ratings/bulgaria-rating>

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The report has been prepared and the rating – assigned, based on public information, made available by the National Statistical Institute, Bulgarian National Bank, Ministry of Finance, the World Bank, the International Monetary Fund, the European Commission, BCRA's database etc. BCRA uses sources of information, which it considers reliable, however, it cannot guarantee the accuracy, adequacy and completeness of the information used.

BCRA - CREDIT RATING AGENCY **affirms** the **unsolicited** long-term and short-term sovereign rating of the Republic of Bulgaria and **maintains** the outlook related to them:

Long-term rating: **BBB (ns)**
Short-term rating: **A-3 (ns)**
Outlook: **Stable**

BCRA's officially adopted **Sovereign Rating Methodology** has been applied:
https://bcra.eu/files/sovereign_methodology_2019_en.pdf

*Notes:

- 1) Prior to the present publication, the credit rating and the rating outlook were disclosed to the rated entity. Following those disclosure amendments in the credit rating and the rating outlook have not been executed;
- 2) During the last two years, BCRA Credit Rating Agency EAD has not provided ancillary services to the rated entity or a related third party;
- 3) The users of the rating can find information on the meaning of each rating category in the Global Scale (https://bcra.eu/files/global_scale_en.pdf). The definition of default can be found in the Sovereign rating Methodology (https://bcra.eu/files/sovereign_methodology_2019_en.pdf).

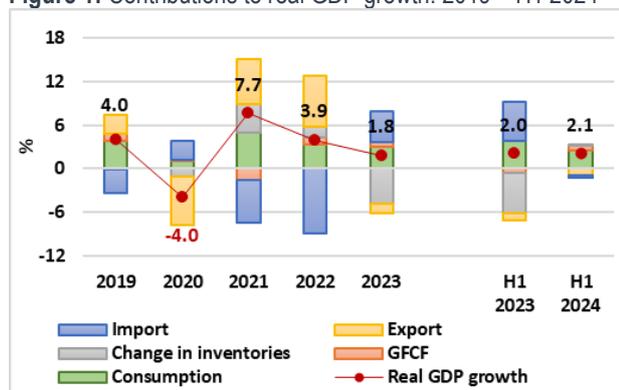
Rating Rationale:

Political instability in Bulgaria persists as six parliamentary elections were held in the last three years. The results of the last early vote, held on June 9, 2024, at a low turnout (34.41%), slightly changed the positions of the parties in the National Assembly, which again failed to form a governing majority. Thus, the next parliamentary vote will take place in the country on October 27, 2024.

The uncertain internal situation limits Bulgaria's progress on its foreign policy priorities, the implementation of which has been postponed to 2025-2026. The country joined the Schengen area by air and sea on March 31, 2024, and continues negotiations for full membership to the agreement. Currently, the topic is again on the agenda of the EU. Besides, Bulgaria plans to join the euro area, once the inflation target is achieved.

The lack of a regular government contributes to the significant delay in the implementation of the EU Recovery and Resilience Mechanism. Bulgaria remains the only member state that has received only one payment so far, as three of the objectives set for the second payment have not yet been met. According to the Plan, Bulgaria has a total of EUR 5.7 bln in grants, which should be allocated by the end of 2028. In September 2024, the National Assembly gave a mandate to the caretaker government to continue the negotiations and agreed on the adoption of a Repower chapter until the end of the year.

Figure 1: Contributions to real GDP growth: 2019 – H1 2024

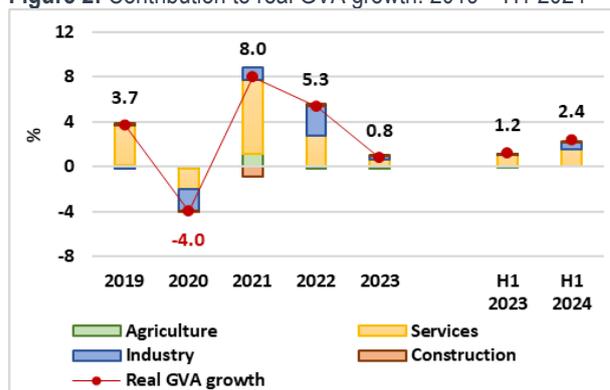


Source: National Statistical Institute

The growth of the Bulgarian **economy** remained positive over the last year, although it significantly slowed down (from 3.9% to 1.8%) due to the contraction of exports and the negative change in

stocks. In H1 2024, GDP growth averaged 2.1% YoY, slightly accelerating compared to 2% in the same period of 2023. Growth was driven by domestic demand, while net exports returned to a negative contribution. While private savings continued to rise dynamically, growth in final consumption slowed, with household consumer spending rising by 3.5% in real terms, down from 7.2% a year earlier. Concurrently, gross fixed capital investments increased by 4.5%, and the change in inventories overcame its strongly negative trend from the previous year, reporting a small positive contribution to GDP growth in H1 2024. In the external sector, however, the decline in exports persisted during the analysed period, against the backdrop of slowly recovering positive dynamics in imports. Accordingly, real exports of goods and services decreased by 1.4% on an annual basis, and real imports increased by 0.4% (compared to a decrease of 7% in the same period of 2023).

Figure 2: Contribution to real GVA growth: 2019 – H1 2024



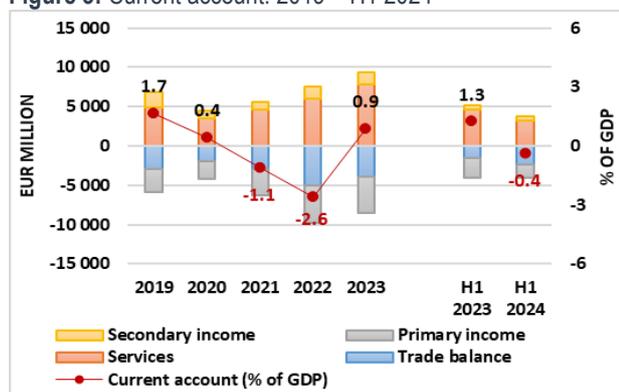
Source: National Statistical Institute

On the supply side, the **gross added value** growth accelerated to 2.4% on average in H1 2024 compared to 1.2% in the same prior-year period, with the services and industry contributing the most to the positive dynamics. The GVA in the services sector marked an annual growth of 2.2%, attributable mainly to trade, tourism and public services. After a weak performance in 2023, the industry regained a positive trajectory with a growth of 2.3%. Construction saw an annual acceleration as well – from 0.9% to 2.1% in H1 2024.

In line with lower commodity prices and the slow recovery of external demand, the **merchandise export** of Bulgaria recorded an accelerated nominal decline of 4.7% in the period January-June 2024, while the decline in imports slowed to 1.3% YoY. The negative changes in both exports and imports have

been determined by energy resources and the group of raw materials, while a positive contribution came from the investment goods dynamics.

Figure 3: Current account: 2019 – H1 2024



Source: Bulgarian National Bank

The dynamics of international trade flows determine the change in the country's **current account** balance. The narrowing of the deficit in trade in goods and the increase in the surplus in services resulted in a significant improvement in the balance in 2023 - a surplus of 0.9% of GDP against a 2.6% deficit a year earlier. In H1 2024, however, the change was in the opposite direction and the current account registered a deficit of EUR 352 mln, in contrast to the surplus of BGN 347 million in the same period of 2023. With an almost unchanged balance in trade in services (-0.6%) the worsening of the current account fully reflected the 61.7% increase in the goods deficit, caused by the outpacing decline of exports compared to imports of goods. On the other hand, a positive contribution was made by the 12% contraction of the primary income deficit, while the secondary income surplus remained unchanged on an annual basis.

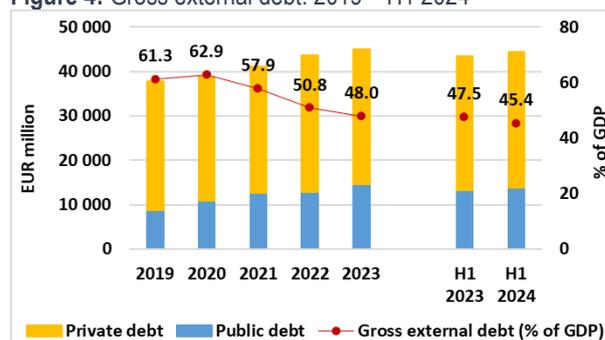
The net inflow of **foreign direct investment** (reported in accordance with the directional principle) amounted to EUR 433 mln¹ in H1 2024, which represented a decrease of 77.7% YoY. The decrease owed to the significantly lower reinvested profit, as well as the outflow of investments in the form of debt instruments of foreign companies.

As of the end of June 2024, Bulgaria's **gross external debt** stood at EUR 44 397 mln or 45.4% of GDP². In absolute terms, the debt recorded a decrease of 1.5% compared to the end of 2023, and

¹ Data is preliminary and subject to revision.

its ratio to GDP shrank by 2.6 pp. A reduction in external liabilities was observed in all institutional sectors except for banking, which reported a slight growth of 2%. The external debt with a residual maturity of more than one year amounted to 59.5%.

Figure 4: Gross external debt: 2019 – H1 2024

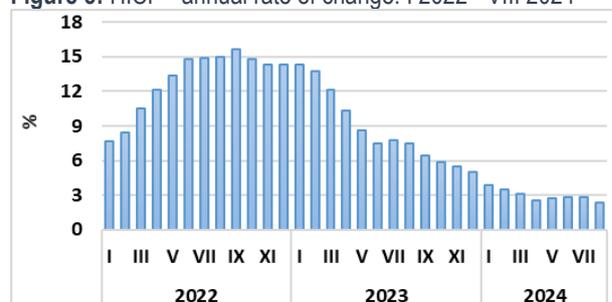


Source: Bulgarian National Bank

The **BNB's international reserves** amounted to EUR 37 705 mln as of the end of June 2024. This represented a decrease of 10.1% compared to the end of 2023 and was mainly owed to a reduction of excess reserves in the banking system. On an annual basis, however, a growth of 7% was reported as a result of the introduced higher minimum reserve requirements ratio. Concurrently, adequacy indicators of international reserves retain their traditionally high levels, with the reserve coverage of average imports of goods and non-factor services exceeding 8 months and the coverage of the short-term external debt amounting to 450%.

Due to the outpacing growth of gross external assets compared to the increase in liabilities, the negative balance of the **net international investment position** of Bulgaria continued rapidly shrinking and by the end of June 2024, it reached -7.6% of GDP.

Figure 5: HICP - annual rate of change: I 2022 - VIII 2024



Source: National Statistical Institute

² GDP ratios for the external sector are calculated using the sum of GDP in the four preceding quarters.

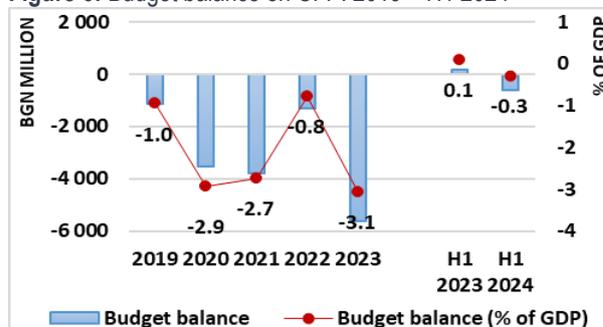
The rate of **inflation** in Bulgaria significantly decreased, yet, the country failed to meet the price stability criterion during the convergent reviews by the European institutions, which delayed the process of joining the euro area. In August 2024, annual HICP further declined, reaching 2.4% (compared to 7.5% a year earlier and 5.0% in December 2023). The base effect as well as the drop in the prices of key commodities on the global markets were the main contributors, while the high growth of labour income in the country continues to exert a moderate pro-inflationary pressure.

Key **labour market** indicators remained relatively stable in H1 2024 around the levels reported for 2023, with registered unemployment continuing to move higher than a year earlier. The LFS unemployed were 4.7% of the labour force on average, and employment by economic sector showed diverse dynamics.

Labour **incomes** keep accelerating with the growth in most of the economic sectors exceeding those of the HICP, the sectors of tourism, construction and real estate activities and public sector services taking the lead. The monthly gross salary amounted to an average of BGN 2 247 in H1 2024. Based on its growth since mid-2023 (15.5%), the minimum wage should grow at the same rate from the beginning of 2025, in case the country does not change the rules for its determination, taking into account the requirements of the directive on the adequate minimum wage in the EU (Directive (EU) 2022/2041). However, the purchasing power of the population remains the lowest within the European Union at 63.7% and 61.1% of the EU and EA average, measured by GDP in PPP per capita.

Bulgaria's fiscal policy in recent years has been aimed at maintaining the stability of **public finances**, combined with social support and stimulating economic growth. Amid political instability, the 2023 calendar year began without an adopted budget. Accordingly, the provisions of the extension law remained in force until August 2023, which, however, did not prevent the growth in costs as legislative changes regarding pensions, some public sector wages and compensation schemes approved in 2022 applied. Concurrently, the growth of budget revenues slowed down, in line with the dynamics of economic activity over the past year. As a result, the cash deficit under the Consolidated Fiscal Program (CFP) rose to 3.1% of GDP from 0.8% of GDP in 2022.

Figure 6: Budget balance on CFP: 2019 – H1 2024



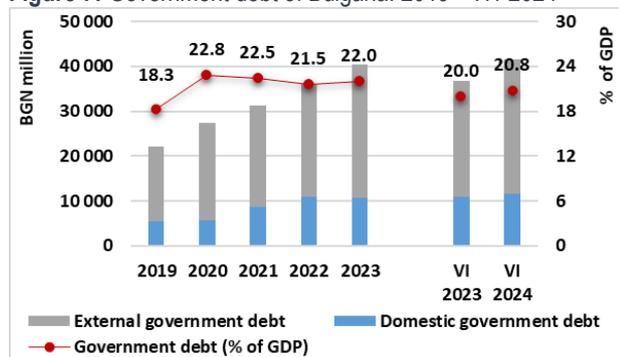
Source: Ministry of Finance

The total CFP revenues grew at an accelerated rate of 9.8% YoY in H1 2024. The reported rise in tax revenues reached 10.7%, largely driven by social security contributions and VAT. Non-tax revenues decreased by 5.9% compared to the same period of the previous year, while in grants and donations - including grants under EU programs and funds - the nominal increase amounted to 66.2%, but their implementation reached a low level of 28.2% of the annual estimate. Total expenditures in H1 2024 grew at an annual rate of 12.5%, thus, outpacing revenues. The social and personnel expenses contributed most significantly to this, increasing by 18.2% and 24.5%, respectively, on an annual basis, while a decrease of 1.7% was recorded in the subsidies. The excess of expenses over revenues as of June 2024 resulted in a cash deficit of BGN 636 mln (-0.3% of the GDP projected) compared to a surplus of BGN 174 mln (0.1% of GDP) a year earlier.

The budget for 2024, as well as the medium-term budget forecast, are calculated with a cash deficit of 3% of GDP per year in the period 2024-2026. The accrual General Government deficit is projected at 2.9% in 2024, 3% in 2025 and 2.5% of GDP in 2026, respectively, in line with the fiscal sustainability criterion. However, an important factor for the implementation of fiscal estimates remains the successful absorption of funds from European funds and EU programs, including the Recovery and Resilience Plan.

The government debt of the Republic of Bulgaria reached BGN 41 491 mln as of the end of June 2024. This represented an absolute increase of BGN 977 mln compared to the end of 2023, while the country's debt-to-GDP ratio returned to a downward trend, falling by 1.2 pp. to 20.8% of the GDP projected.

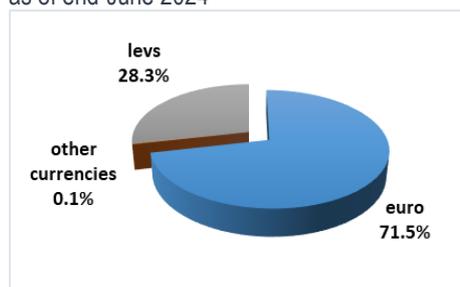
Figure 7: Government debt of Bulgaria: 2019 – H1 2024



Source: Ministry of Finance

Displacing Estonia from first place in Q1 2024, Bulgaria became the country with the lowest ratio of consolidated public debt to GDP³ in the EU. Concurrently, the interest rate and maturity structure minimise market risks. The relative share of debt with floating interest amounted to only 1.6% of the total debt of the Central Government sub-sector as of the end of June 2024, and euro-denominated debt predominated in the currency structure with a share of 71.5%, followed by debt in national currency with a share of 28.3%. This determines a low currency risk in the context of the fixed exchange rate of the lev to the euro and the expectations of the country's recent accession to the euro area.

Figure 8: Currency structure of Central Government sector debt as of end-June 2024



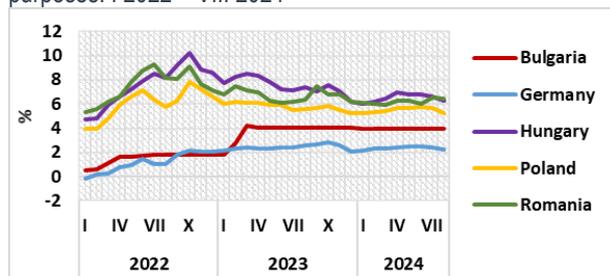
Source: Ministry of Finance

In addition to the H1 data, at the end of August 2024, Bulgaria successfully placed three new tranches of Eurobonds on the international capital markets. The first tranche is denominated in euros, amounting to EUR 1.75 bln, with an 8-year maturity, and an interest rate coupon of 3.625%. The second tranche amounts to EUR 1.25 bln, has a 20-year maturity, and an interest rate coupon of 4.25%. The third tranche is denominated in US dollars, amounts to

³ 22.6% as of Q1 2024, Eurostat data.

USD 1.5 bln, has a 12.5-year maturity, and a 5% coupon. The operation falls within the limits of the maximum permissible amount of debt financing envisaged for the year (BGN 11.7 bln). With the dollar issue, which is the first since 2002, the circle of investors was successfully expanded, despite the unstable situation at the international capital markets.

Figure 9: Long-term interest rate for convergence assessment purposes: I 2022 – VIII 2024



Source: Eurostat

The long-term interest rate for convergence assessment purposes of Bulgaria has stabilised at around 4% since April 2023, and as of August 2024, it stood at 3.9%. Bulgarian government securities continue to report significantly lower yields as compared to the other non-euro area countries from the CEE, which is explained by the relatively low debt burden and the accession of the Bulgarian lev to the Exchange Rate Mechanism II (ERM II).

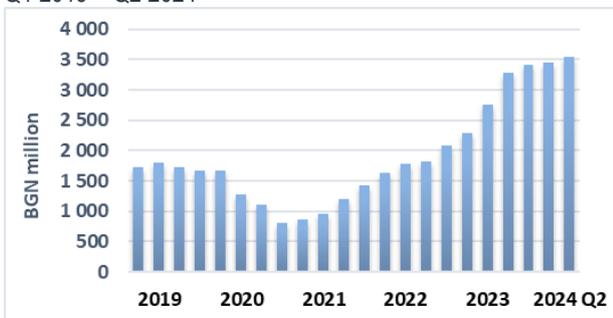
Having met the commitments undertaken upon entering ERM II (including the adoption of the new Law on the Bulgarian National Bank and the Law on the Introduction of the Euro in the Republic of Bulgaria, which received a positive assessment from the Governing Council of the ECB), the **Bulgarian banking system** is prepared for the replacement of the lev with the euro as the official currency. Concurrently, the sector remains stable and highly profitable.

Credit growth in the non-financial sector is strong (13.5% as of June 2024), largely driven by household demand and, in particular, for housing loans (with a share of 23.5% as of mid-2024, up from 18.8% in 2019). The non-financial corporations posted a single-digit rise reflecting faster transmission of interest rate hikes from the euro area to this segment. The increase in credit risk in the system is balanced by the simultaneously decreasing NPL ratio (to 4%) and the high NPL

coverage by impairments and specific provisions. Concurrently, the BNB recommended that Bulgarian banks should take additional measures to safeguard the stability of the financial system by adhering to a series of lending standards when granting mortgage loans, and set threshold levels for some of them from October 1, 2024.

On the liabilities side, the sustained rise of the deposit base supports the solvency of the banking system, which maintained high levels of total capital adequacy (22.5%) and liquidity (LCR of 246.7%) as of mid-2024.

Figure 10: TTM profit in the banking system: Q1 2019 – Q2 2024



Source: Bulgarian National Bank

Accordingly, the financial results of the banks remain record-high, being based on the growing interest income, and determining high profitability indicators, respectively, ROA of 2.07% and ROE – 17.78% as of mid-2024.

Outlook

The **stable outlook** reflects BCRA’s opinion that risks to Bulgaria’s sovereign rating are balanced. Albeit expectedly decelerating in 2023, the Bulgarian economy maintains upward momentum, supported by strong domestic demand. The imports have been gradually recovering and the exports continued declining, yet, the dynamics of the balance of payments suggest maintaining a sustainable external position and maintaining high levels of reserve adequacy. With the resignation of the government of Nikolay Denkov in early 2024, political instability deepened. Citizens are once again facing another early parliamentary election, and progress on the country’s foreign policy priorities is somewhat delayed. However, expectations are that the next regular government will stick to the commitment to joining the euro area. The achievement of this goal requires the pursuit of a prudent fiscal policy and maintenance of the budget deficit below 3% of GDP, which is also included in the medium-term fiscal estimates. On the brink of euro area membership, the country’s banking sector remains liquid, well-capitalised and generating record profits.

Factors that could lead to **positive** pressure on the Sovereign Rating and/or the Outlook include:

- Progress in anti-corruption, rule of law and political stability assessments;
- Acceleration of the real convergence to the EU average income level;
- Joining the euro area.

The Sovereign Rating and/or the Outlook would be **negatively** affected in case of:

- Fiscal loosening, leading to a new postponement for the euro area accession date;
- Renewal of external imbalances.

Regulatory announcements

Rating initiative:

This rating is unsolicited

Unsolicited sovereign rating	
With Rated Entity or Related Third Party Participation	NO
Access to Internal Documents	NO
With Access to Management	NO

The complete version of BCRA's policy on unsolicited credit/sovereign ratings can be downloaded through the following link:

https://bcra.eu/files/policy_unsolicited_rating_sep_2022_en.pdf

Summary minutes of the Rating Committee:

On the 3rd of October 2024, the Rating Committee of BCRA – CREDIT RATING AGENCY (BCRA) had a session at which the **Report regarding the affirmation of the unsolicited sovereign rating of the Republic of Bulgaria** was discussed. Dr. Kiril Grigorov ran the session, in his capacity as the chairman of the Rating Committee.

The members of the Rating Committee discussed the grades of numerous credit rating factors included in the **Sovereign Rating Model** according to the **Sovereign Rating Methodology**. Key points discussed included:

- The uncertain political situation in the country and its effects on economic activity;
- GDP dynamics and growth prospectus;
- The changes in external balances;
- The fiscal policy and the sustainability of the government debt;
- The current condition of the banking sector.

The current sovereign rating and the related outlook have been affirmed based on the above discussion.

Tables:

Country	Development classification
Republic of Bulgaria	Developing economy (IMF classification)

MAIN MACROECONOMIC INDICATORS							
	H1 2024	H1 2023	2023	2022	2021	2020	2019
Gross domestic product (million BGN)	90 955	83 429	183 743	167 809	138 979	120 492	120 342
Final consumption (million BGN)	72 154	65 760	143 292	128 237	107 144	93 648	91 208
Gross capital formation (million BGN)	16 721	14 908	34 636	39 228	29 296	24 515	25 280
Exports of goods and services (million BGN)	54 260	55 073	111 868	116 114	85 335	67 633	76 953
Imports of goods and services (million BGN)	52 180	52 311	106 052	115 769	82 795	65 304	73 100
GDP (annual real growth rate, %)	2.1	2.0	1.8	3.9	7.7	-4.0	4.0
GDP per capita (BGN)	-	-	28 502	25 956	20 207	17 377	17 251
Average gross monthly wages and salaries (BGN)	2 247	1 920	2 012	1 770	1 561	1 391	1 267
Unemployment rate ¹ (population aged 15+; %)	4.7	4.5	4.3	4.1	5.3	5.1	4.2
HICP – annual average rate of change ² (%)	4.7	12.9	8.6	13.0	2.8	1.2	2.5
Exchange rate BGN/EUR	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Exchange rate BGN/USD	1.81	1.81	1.81	1.86	1.65	1.72	1.75
EXTERNAL SECTOR							
in million EUR	H1 2024	H1 2023	2023	2022	2021	2020	2019
Current account	-352	1 142	839	-2 232	-768	274	1 019
Trade balance	-2 386	-1 476	-3 927	-5 084	-2 887	-1 941	-2 909
Services	3 241	4 632	7 812	6 043	4 660	3 504	4 953
Primary income	-1 694	-2 595	-4 535	-4 650	-3 452	-2 301	-2 954
Secondary income	487	582	1 488	1 458	910	1 013	1 929
Capital account	957	827	1 473	796	491	889	892
Foreign direct investment ³	433	1 391	3 284	4 023	1 436	2 761	1 639
Gross external debt	44 397	43 355	45 080	43 617	41 160	38 756	37 716
International investment position, net	-6 209	-7 891	-6 447	-8 755	-11 108	-14 460	-18 911
BNB reserve assets	37 705	35 233	41 926	38 424	34 597	30 848	24 836
% of GDP ⁴							
Current account	-0.4	1.3	0.9	-2.6	-1.1	0.4	1.7
Trade balance	-2.4	-1.6	-4.2	-5.9	-4.1	-3.2	-4.7
Services	3.3	5.1	8.3	7.0	6.6	5.7	8.0
Primary income	-1.7	-2.8	-4.8	-5.4	-4.9	-3.7	-4.8
Secondary income	0.5	0.6	1.6	1.7	1.3	1.6	3.1
Capital account	1.0	0.9	1.6	0.9	0.7	1.4	1.4
Foreign direct investment ³	0.4	1.5	3.5	4.7	2.0	4.5	2.7
Gross external debt	45.4	47.5	48.0	50.8	57.9	62.9	61.3
International investment position, net	-6.3	-8.6	-6.9	-10.2	-15.6	-23.5	-30.7
BNB reserve assets	38.6	38.6	44.6	44.8	48.7	50.1	40.4

PUBLIC FINANCE							
in million BGN	H1 2024	H1 2023	2023	2022	2021	2020	2019
Revenue and grants	34 494	31 405	67 041	64 789	52 459	44 318	44 049
Total expenditures	35 130	31 231	72 658	66 112	56 253	47 850	45 201
Budget balance	-636	174	-5 617	-1 324	-3 794	-3 533	-1 152
Government debt ⁵	41 491	36 697	40 514	36 126	31 218	27 505	22 023
Domestic government debt	11 715	10 965	10 615	10 965	8 637	5 644	5 480
External government debt	29 776	25 731	29 899	25 160	22 581	21 861	16 544
Government guaranteed debt	1 471	1 583	1 583	1 701	1 939	1 743	1 732
Fiscal reserve	11 303	12 940	13 397	13 417	10 750	8 645	8 768
% of GDP ⁶							
Revenue and grants	17.3	17.1	36.5	38.6	37.7	36.8	36.6
Total expenditures	17.6	17.0	39.5	39.4	40.5	39.7	37.6
Budget balance	-0.3	0.1	-3.1	-0.8	-2.7	-2.9	-1.0
Government debt ⁵	20.8	20.0	22.0	21.5	22.5	22.8	18.3
Domestic government debt	5.9	6.0	5.8	6.5	6.2	4.7	4.6
External government debt	14.9	14.0	16.3	15.0	16.2	18.1	13.7
Government guaranteed debt	0.7	0.9	0.9	1.0	1.4	1.4	1.4
Fiscal reserve	5.7	7.0	7.3	8.0	7.7	7.2	7.3
BANKING SYSTEM							
in million BGN	H1 2024	H1 2023	2023	2022	2021	2020	2019
Total assets	178 426	161 086	172 075	155 406	135 410	124 006	114 201
Loans and advances (regardless credit institutions)	104 133	91 713	97 394	86 081	75 875	69 500	66 297
Non-performing loans (NPLs)	4 151	4 101	3 853	4 447	4 969	5 711	6 120
NPL ratio (%)	4.0	4.5	4.0	5.2	6.5	8.2	9.2
Deposits (regardless credit institutions)	141 212	128 486	136 768	126 197	109 356	100 671	91 853
ratios in %							
Total capital adequacy	22.5	21.4	21.6	20.9	22.6	22.7	20.2
Liquidity coverage ratio (LCR)	246.7	225.6	246.7	235.0	274.1	279.0	269.9
Return on assets (ROA) ⁷	2.07	1.79	2.10	1.44	1.09	0.69	1.53
Return on equity (ROE) ⁷	17.78	15.99	18.49	12.44	8.86	5.49	11.81

[1] The data from 2021 onwards is not fully comparable with the previous years due to changes in the Labour Force Survey methodology. The data from 2022 onwards is not fully comparable with previous periods, as they are calculated based on the results of the 2021 Census of Population.

[2] Average annual data, previous 12 months = 100;

[3] According to the directional principle;

[4] GDP ratios in the first two columns are calculated using the sum of GDP for the four preceding quarters;

[5] *Government Debt* is the debt assumed under the Law on Government Debt;

[6] The ratios for 2024 are calculated on the basis of GDP amounting to BGN 199 759 million (Ministry of Finance forecast);

[7] The coefficient is calculated using the Trailing twelve months (TTM) method.

Sources: Bulgarian National Bank; National Statistical Institute; Ministry of Finance; World Bank; International Monetary Fund; European Commission; Eurostat