

Republic of Bulgaria

Rating Report



POSITIVE
OUTLOOK
BBB+

Credit strengths

- ERM II and Banking Union memberships, prospect of euro area entry
- Low government debt, favourable debt profile
- Record of prudent fiscal policies

Credit challenges

- Vulnerability to shocks as a small, open economy
- Institutional weaknesses, political instability
- Limited lender of last resort function of the central bank
- Demographic pressures

Rating rationale:

Credit strengths: Bulgaria's ratings are supported by the inclusion of the Bulgarian lev into the Exchange Rate Mechanism II (ERM II) in July 2020. The inclusion reinforced a roadmap to adoption of the euro in the medium-term. In addition, the ratings reflect reduction of financial-system risk and significant reforms made in banking-system governance in recent years. Finally, Bulgaria's ratings are supported by low government debt levels and a credible record of prudent fiscal policy.

Credit challenges: Bulgaria's ratings remain constrained by challenges related to i) the economy's vulnerability to shocks as a small, open economy; ii) institutional weaknesses and political instability; iii) limited lender of last resort function of the Bulgarian National Bank (BNB); and iv) demographic challenges.

Progress on euro area entry: Despite recent episodes of protracted political instability, we believe Bulgaria will be able to meet the public finances, interest rate and exchange-rate convergence criteria in the European Commission's and ECB's mid-2024 Convergence Reports. The price stability criterion remains a key risk factor for the planned euro adoption by 2025, given Bulgaria's still-elevated inflation rate. Adopting the euro would support Bulgaria's ratings, as it would provide the sovereign with the ability to issue debt in a reserve-currency, among other credit-positive factors.

Bulgaria's sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency*	Qualitative**	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	bbb-	BGN [+0]	0	BBB+	
Public Finance Risk	20%	aa		0		
External Economic Risk	10%	bbb+		+1/3		
Financial Stability Risk	10%	aaa		0		
ESG Risk	Environmental Factors	5%		a		0
	Social Factors	7.5%		ccc		-1/3
	Governance Factors	12.5%		ccc		-1/3
Indicative outcome	bbb+		0			
Additional considerations			0			

Note: *The reserve-currency adjustment applies to currencies in the IMF's SDR basket. **The qualitative-scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are skewed to the upside.

Positive rating-change drivers

- Formalisation of euro area accession
- Sustainable increase in economic growth potential
- Progress in addressing institutional challenges

Negative rating-change drivers

- Escalation in institutional challenges and/or political instability
- Weaker economic prospects
- Deterioration in public finance outlook
- Stress in the banking system or weakening external-sector resilience

Ratings and Outlook

Foreign currency

Long-term issuer rating BBB+/Positive
Senior unsecured debt BBB+/Positive
Short-term issuer rating S-2/Positive

Local currency

Long-term issuer rating BBB+/Positive
Senior unsecured debt BBB+/Positive
Short-term issuer rating S-2/Positive

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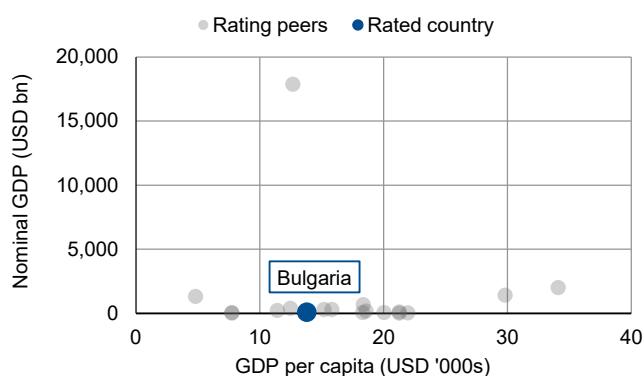
Bloomberg: RESP SCOP

Domestic Economic Risk

Overview of Scope's qualitative assessments for Bulgaria's *Domestic Economic Risk*

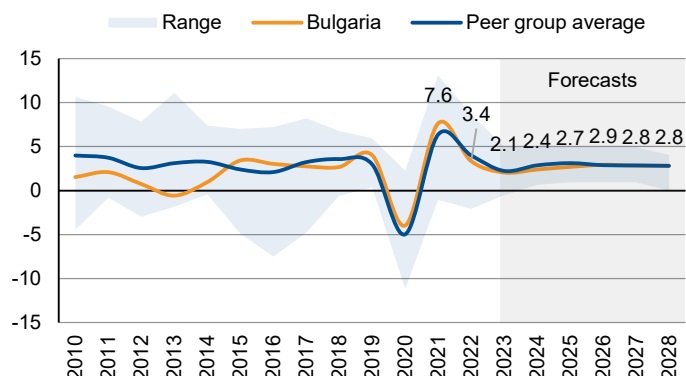
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb-	Growth potential of the economy	Strong	+1/3	Solid medium-run growth potential despite declining working-age population
	Monetary policy framework	Weak	-1/3	Limited monetary-policy flexibility due to currency board system
	Macro-economic stability and sustainability	Neutral	0	Exposure to global and idiosyncratic shocks as a small-open economy, but good labour-market performance

Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Real GDP growth, %



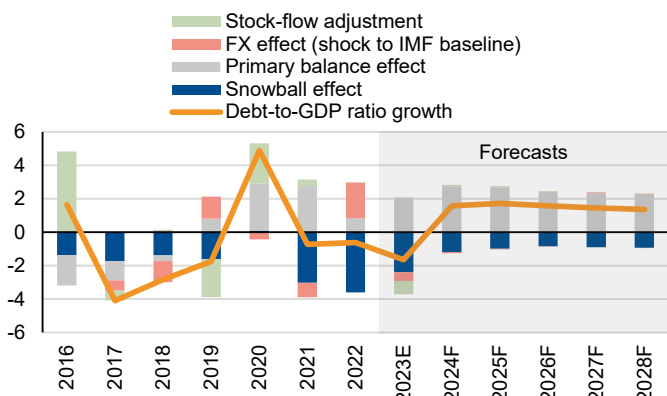
Source: IMF WEO, Scope Ratings forecasts

Public Finance Risk

Overview of Scope's qualitative assessments for Bulgaria's *Public Finance Risk*

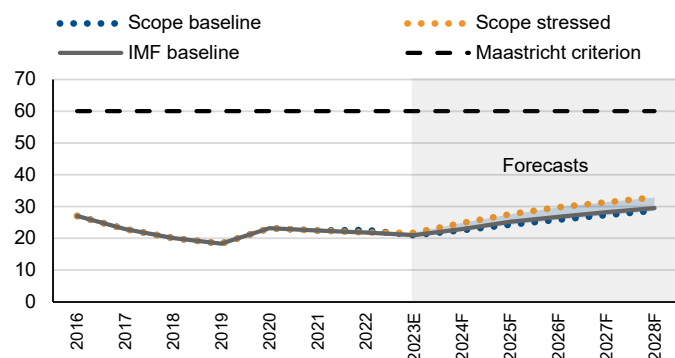
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Fiscal policy framework	Neutral	0	Record of prudent fiscal policy, anchored by euro-area convergence requirements; recurrent episodes of political instability cloud the fiscal outlook
	Debt sustainability	Neutral	0	Sound public debt trajectory including under adverse scenarios
	Debt profile and market access	Neutral	0	More restricted access to lenders of last resort, high FX denomination of public debt mitigated by the credible currency board

Contributions to changes in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



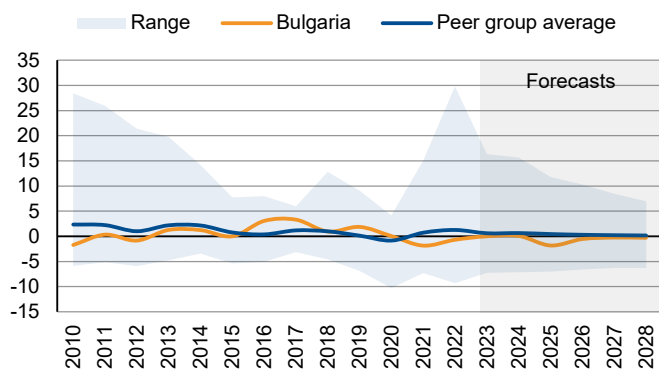
Source: IMF WEO, Scope Ratings forecasts

External Economic Risk

Overview of Scope's qualitative assessments for Bulgaria's *External Economic Risk*

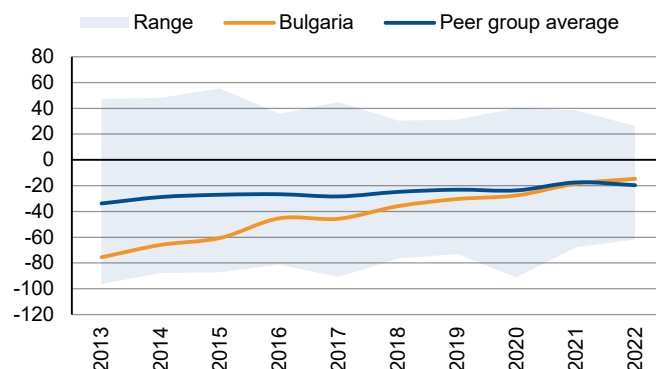
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb+	Current account resilience	Neutral	0	Lesser terms-of-trade deterioration from global shocks due to Russia-Ukraine conflict compared to EU peers
	External debt structure	Strong	+1/3	Low level of external debt, having been reduced over past years; a significant share of FDI in external liabilities
	Resilience to short-term external shocks	Neutral	0	Strengthened reserve adequacy and credible exchange-rate regime, but many sovereign peers issue in reserve currencies

Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



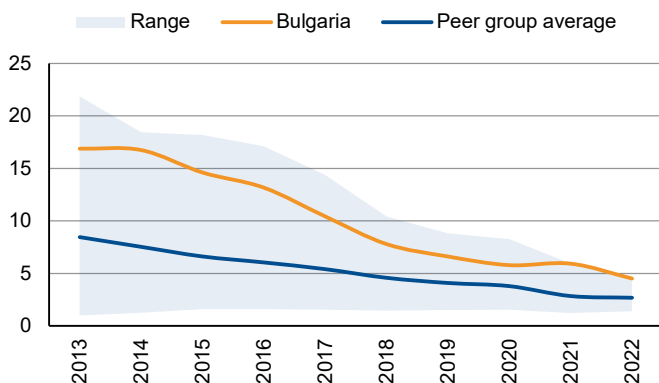
Source: IMF, Scope Ratings

Financial Stability Risk

Overview of Scope's qualitative assessments for Bulgaria's *Financial Stability Risk*

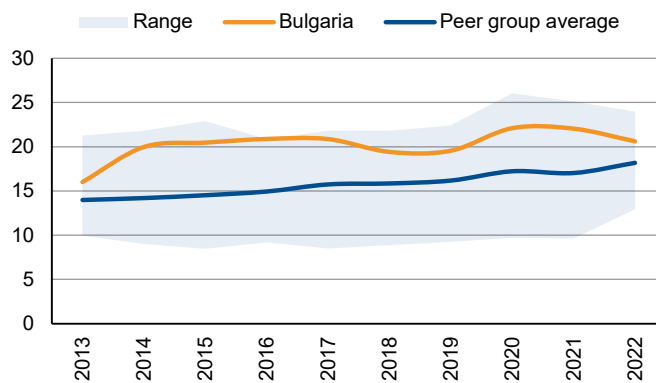
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Well-capitalised and profitable banking system
	Banking sector oversight	Neutral	0	Significant steps taken to enhance financial-system supervision supported by 2020 entry to Banking Union
	Financial imbalances	Neutral	0	Relatively high private-sector debt levels, although significant deleveraging over past years

Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

Tier 1 capital, % of risk-weighted assets



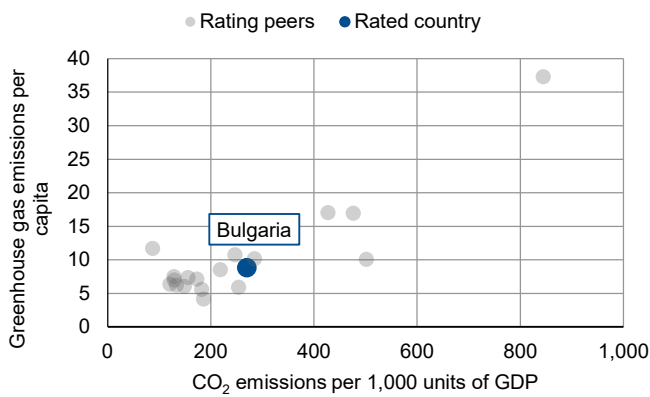
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) Risk

Overview of Scope's qualitative assessments for Bulgaria's ESG Risk

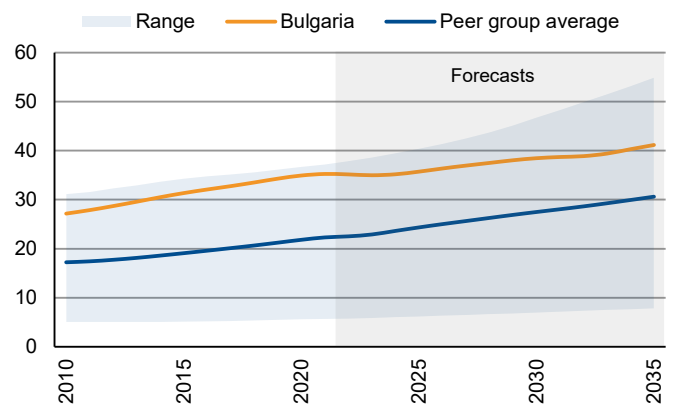
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b	Environmental factors	Neutral	0	Improving environmental track record, but significant challenges remain to reduce greenhouse gas emissions
	Social factors	Weak	-1/3	Emigration challenges and high income inequality; average to below-average performance on education indicators and health
	Governance factors	Weak	-1/3	History of unstable governments and institutional challenges

CO₂ emissions per GDP, mtCO₂e



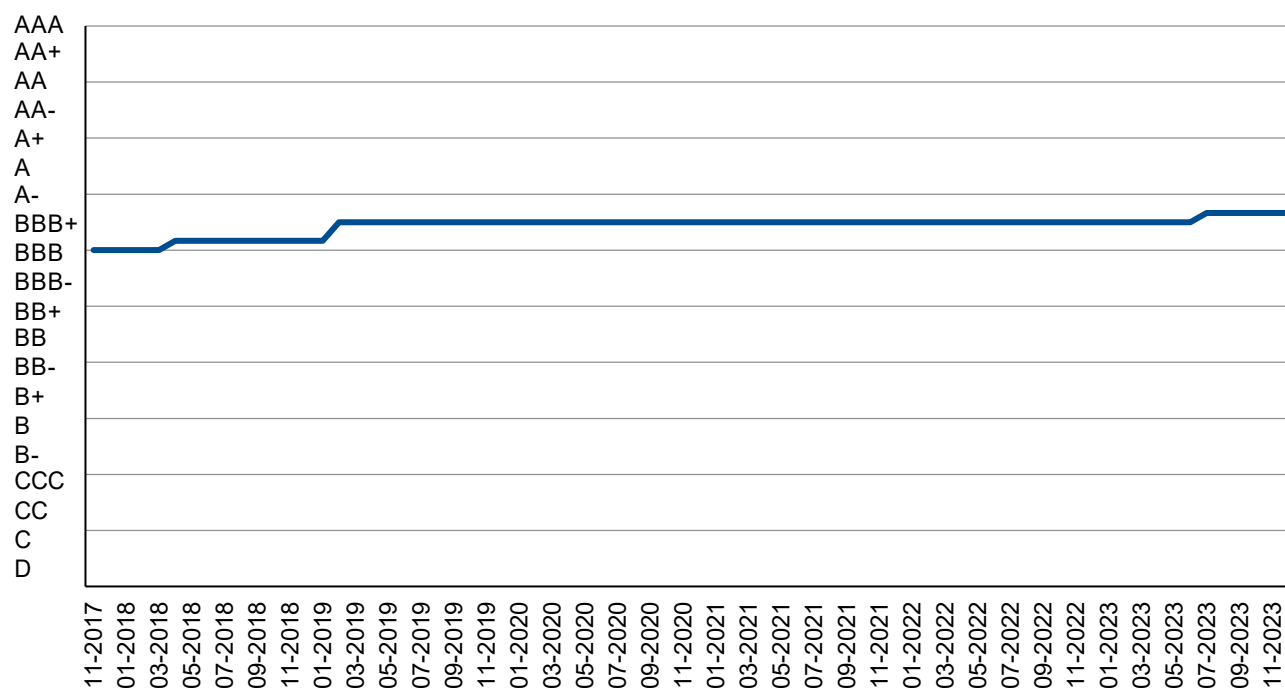
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history (foreign-currency long-term issuer rating)



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's core variable scorecard after accounting for a methodological reserve-currency adjustment.

Peer group*
China
Croatia
Hungary
Italy
Latvia
Poland
Romania
Slovakia
Spain

Publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, in line with Scope's [Sovereign Rating Methodology](#). The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022
Domestic Economic	GDP per capita, USD '000s	IMF	9.5	9.9	10.2	12.3	13.8
	Nominal GDP, USD bn	IMF	66.4	68.9	70.3	84.1	89.1
	Real growth, %	IMF	2.7	4.0	-4.0	7.6	3.4
	CPI inflation, %	IMF	2.6	2.5	1.2	2.8	13.0
	Unemployment rate, %	WB	5.2	4.2	5.1	5.3	4.4
Public Finance	Public debt, % of GDP	IMF	20.1	18.3	23.2	22.5	21.8
	Net interest payment, % of revenue	IMF	0.6	0.4	0.3	0.2	0.0
	Primary balance, % of GDP	IMF	0.3	-0.8	-2.8	-2.8	-0.8
External Economic	Current-account balance, % of GDP	IMF	0.9	1.9	0.0	-1.9	-0.7
	Total reserves, months of imports	WB	7.4	7.2	10.7	8.3	7.5
	NIIP, % of GDP	IMF	-35.9	-30.3	-27.5	-18.4	-14.6
Financial Stability	NPL ratio, % of total loans	IMF	7.8	6.6	5.8	5.9	4.5
	Tier 1 ratio, % of risk-weighted assets	IMF	19.8	18.3	19.8	21.9	21.2
	Credit to the private sector, % of GDP	WB	50.3	49.5	51.5	48.3	-
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	287.9	265.3	243.6	270.0	-
	Income share of bottom 50%, %	WID	16.2	16.8	16.7	16.7	-
	Labour-force participation rate, %	WB	71.9	73.7	72.6	72.6	-
	Old-age dependency ratio, %	UN	33.5	34.3	34.9	35.3	35.2
	Composite governance indicators*	WB	0.2	0.2	0.1	0.1	0.1

* Average of the six World Bank Worldwide Governance Indicators.

Appendix IV. Economic development and default indicators

IMF Development Classification

5y USD CDS spread (bps) as of 11 January 2024

Emerging market and developing economy

97



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