

Republic of Bulgaria

Rating report

Rating rationale

Progress on euro-area entrance. Bulgaria may join the euro area as early as 2026. The nation should be able to meet the core euro convergence criteria in the very near term. The price-stability criterion remains the core hurdle, but the gap between Bulgaria’s harmonised inflation and the reference rate is seen closing early 2025 although the rises of prices of certain goods this year such as on electricity and bread presents a moderate challenge. The opposition of specific political groups within the ruling coalition to fast accession to the euro has presented risks – as has parliamentary rejection of a law ensuring the independence of the Bulgarian National Bank and some risks surrounding the performance of the budget. Adopting the euro would strengthen the sovereign’s credit profile by eliminating foreign-exchange risks outstanding within an euroised economy, increasing monetary-policy flexibility and adding the lender of last resort functionalities of the European Central Bank, alongside strengthening sovereign market access.

Credit strengths. Bulgaria’s credit ratings are supported by the inclusion of the Bulgarian lev into the Exchange Rate Mechanism II (ERM II) since July 2020. This inclusion has reinforced a roadmap to the adoption of the euro. In addition, the ratings consider the reduction of financial-system risks and significant reforms made in banking-system governance over the recent years. Finally, the credit ratings are anchored by low levels of government debt and a credible record of prudent budgetary policy making.

Rating challenges: i) institutional weaknesses and political instability; ii) the economy’s vulnerabilities to shocks as a small, open economy; iii) the limited lender of last resort functionalities of the Bulgarian National Bank (BNB) given the fixed exchange rate, alongside past financial-stability challenges; and iv) demographic challenges.

Figure 1: Bulgaria’s sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency*	Political risk**	Qualitative ***	Final rating	
	Weight	Indicative rating	Notches	Notches	Notches		
Domestic economic risk	35%	a	BGN [+0]	Bulgaria [-0]	- 1/3	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%			bbb		0
	Social factors	7.5%			ccc		- 1/3
	Governance factors	12.5%			bb		- 1/3
Sovereign Quantitative Model			a-	-1			
Additional considerations					0		

*The reserve-currency quantitative adjustment applies to currencies in the IMF’s Special Drawing Rights (SDR) basket.

**The political-risk quantitative adjustment is based on the World Bank’s Political Stability & Absence of Violence/Terrorism index.

***The qualitative scorecard analyst 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.

Foreign currency

Long-term issuer rating/Outlook

BBB+/Positive

Senior unsecured debt

BBB+/Positive

Short-term issuer rating/Outlook

S-2/Positive

Local currency

Long-term issuer rating/Outlook

BBB+/Positive

Senior unsecured debt

BBB+/Positive

Short-term issuer rating/Outlook

S-2/Positive

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Credit strengths and challenges

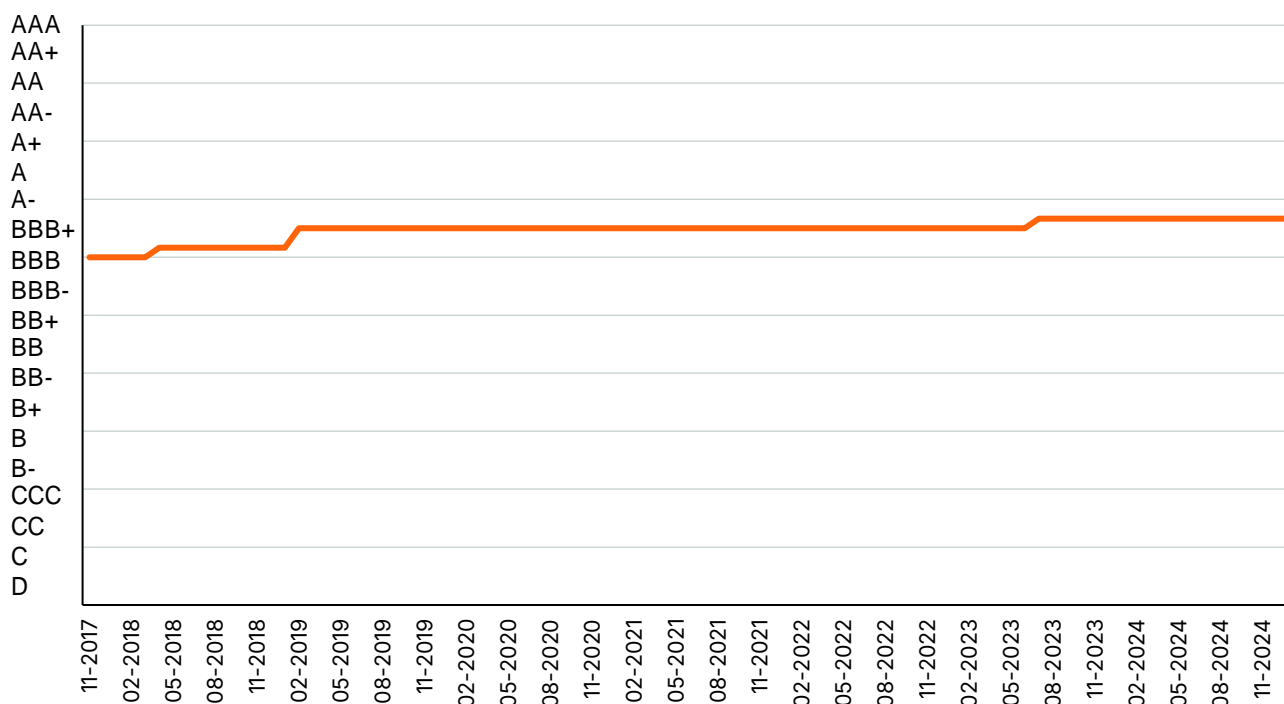
Credit strengths	Credit challenges
<ul style="list-style-type: none"> ERM II and European Banking Union memberships, and the expectation of near-term euro-area entrance The low level of government debt, and a constructive government debt structure A record of prudent budgetary policy making 	<ul style="list-style-type: none"> Institutional weaknesses; political instability Vulnerabilities to shocks as a small, open economy The limited lender of last resort capacities under the currency board; past financial-stability challenges Demographic decline

Outlook and rating triggers

The Positive Outlook represents the view that risks for the ratings remain skewed to the upside.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> The formalisation of euro-area accession Progress in addressing outstanding institutional challenges and risks for political stability A sustainable rise of the trend rate of output growth 	<ul style="list-style-type: none"> Cancellation or significant postponement of euro-area accession The escalation of institutional challenges and/or of political instability Any material weakening of the fiscal outlook A severe economic or banking crisis and/or weakening of external-sector resilience

Figure 2: Rating history



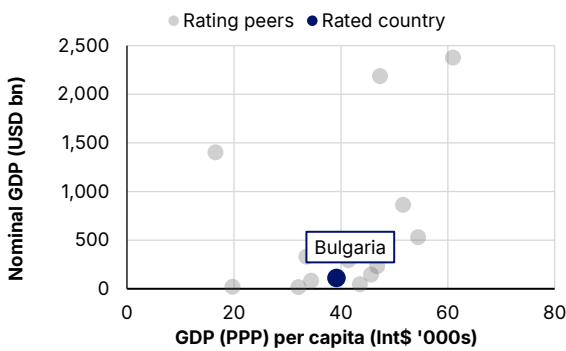
Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

Overview of Scope's assessments of Bulgaria's Domestic Economic Risk

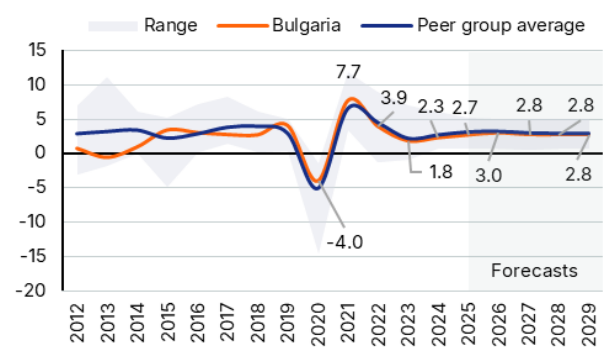
SQM ¹ indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Growth potential and outlook	Neutral	0	Robust trend growth, in line with that of the economies of sovereign peers
	Monetary policy framework	Weak	-1/3	Limited monetary-policy flexibility currently due to the outstanding currency board
	Macroeconomic stability and sustainability	Neutral	0	Exposures to global and idiosyncratic shocks as a small and open economy; a favourable performance of the labour market

Figure 3: Nominal GDP and GDP per capita (2024E)



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

Figure 4: Real GDP growth, %



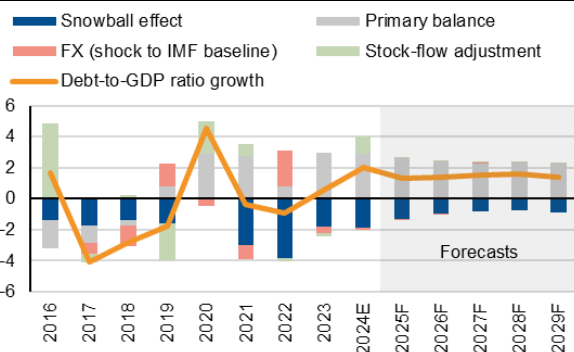
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

Overview of Scope's assessments of Bulgaria's Public Finance Risk

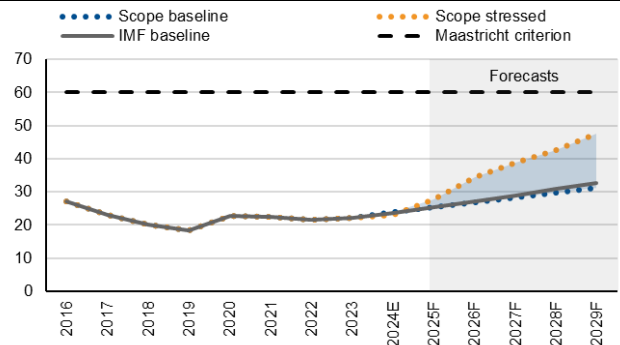
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Fiscal policy framework	Neutral	0	A record of prudent budgetary policies, anchored by euro-area convergence requirements; even though recurrent episodes of political instability cloud the budgetary outlook; recent pressures on 2024 and 2025 budget balances
	Long-term debt trajectory	Neutral	0	Sound levels of government debt, although a rising trajectory; the trajectory of sovereign debt more worrisome under adverse economic scenarios
	Debt profile and market access	Neutral	0	More-restricted access to lenders of last resort given the outstanding currency board; a high forex denomination of the government debt mitigated by the credible currency regime

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

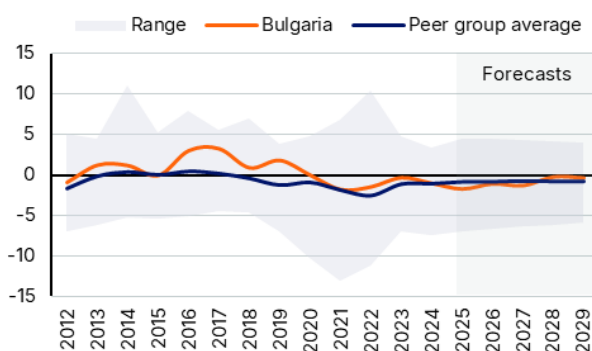
¹ Sovereign Quantitative Model

External economic risk

Overview of Scope's assessments of Bulgaria's External Economic Risk

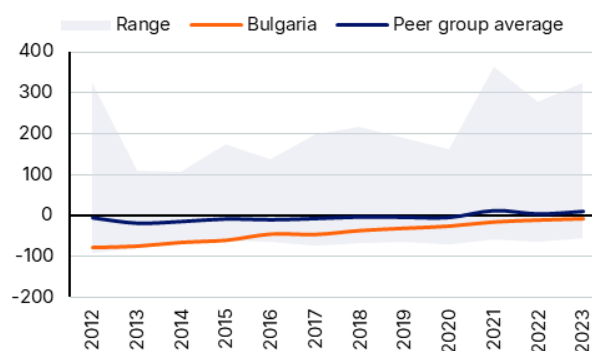
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb	Current account resilience	Neutral	0	Modest current-account surpluses most recently; meaningful EU-fund and foreign-direct-investment inflows
	External debt structure	Strong	+1/3	A low and declining level of external debt; over a quarter of external debt is inter-company lending; most external debt is long-term
	Resilience to short-term external shocks	Neutral	0	Very-strong reserve adequacy; a credible exchange-rate regime further anchored by ERM II and the expectation of euro-area accession

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



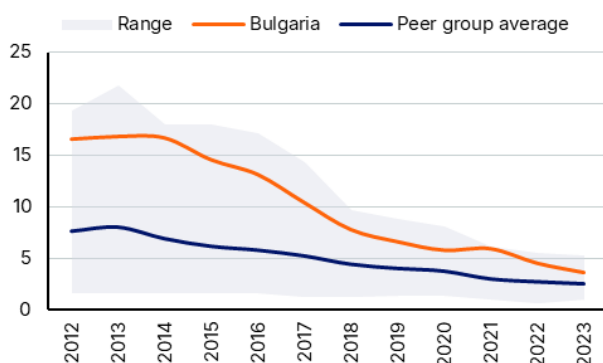
Source: IMF, Scope Ratings

Financial stability risk

Overview of Scope's assessments of Bulgaria's Financial Stability Risk

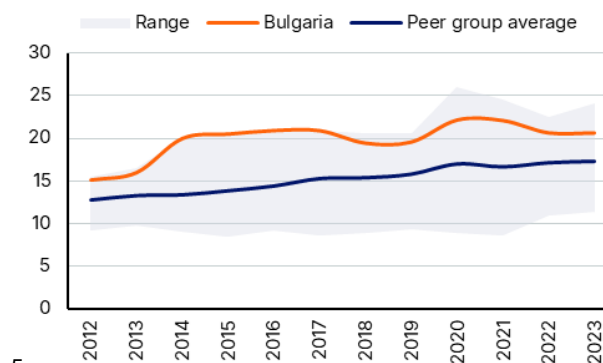
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	A well-capitalised, profitable and liquid banking system
	Financial sector oversight and governance	Neutral	0	Enhanced financial-system supervision supported by entering European Banking Union since 2020
	Financial imbalances	Neutral	0	Comparatively-high private-sector debt for the level of economic development, although significant deleveraging over the past years

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



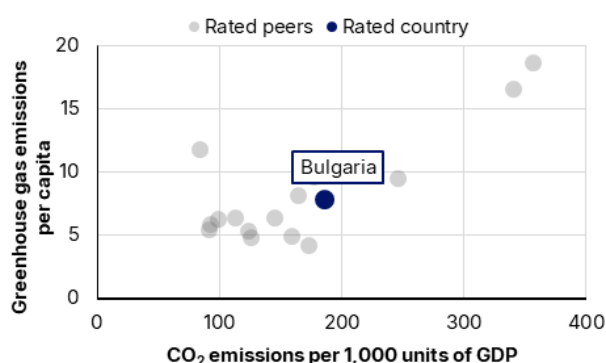
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

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

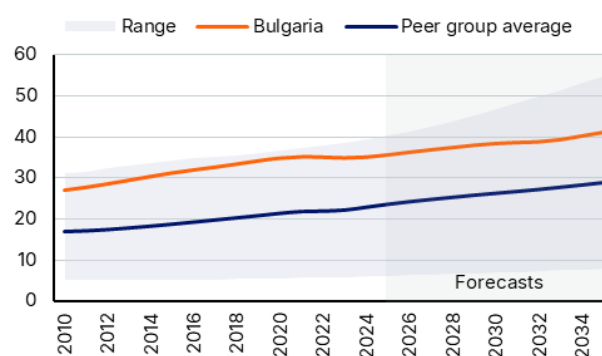
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb-	Environmental factors	Neutral	0	An improving track record on environment, but significant challenges remain for reducing greenhouse gas emissions
	Social factors	Weak	-1/3	Emigration challenges and high income inequalities; average to below-average performance on education and health indices
	Governance factors	Weak	-1/3	A history of unstable governments and institutional challenges

Figure 11: CO₂ emissions per GDP, mtCO₂e (2023)



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

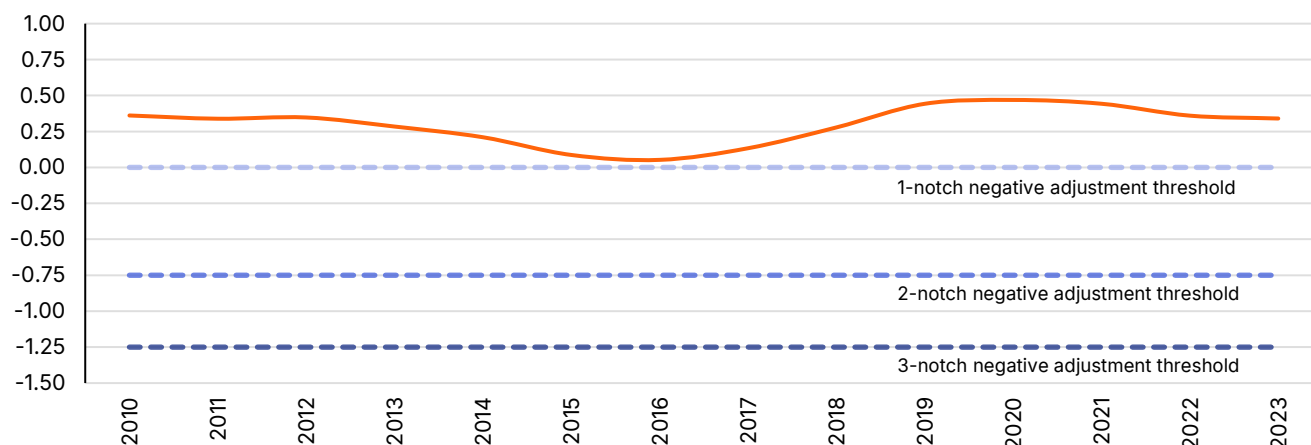
IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

Political-risk adjustment

Figure 13: WB Political Stability & Absence of Violence/Terrorism index, Bulgaria, three-year moving average



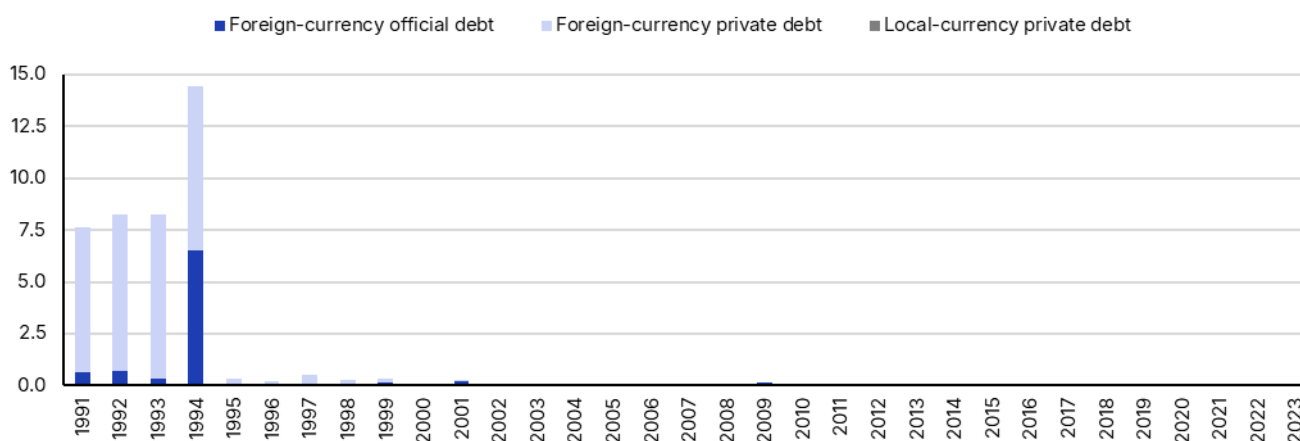
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to this credit rating from additional considerations.

Appendix 1. Sovereign default history

Sovereign default history, USD bn



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).
 Source: [Bank of Canada–Bank of England Sovereign Default Database](#), Scope Ratings.

Appendix 2. 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 sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Hungary
Italy
Latvia
Poland
Romania
Slovak Republic

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

Appendix 3. Economic development and default indicators

IMF Development Classification	Emerging market and developing economy
5y USD CDS spread (bps) as of 22 January 2025	88.8

Appendix 4. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, 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	2019	2020	2021	2022	2023	2024E
Domestic Economic	GDP per capita (PPP), Int\$ '000s	IMF	25.6	25.8	29.6	34.9	36.9	39.2
	Nominal GDP, USD bn	IMF	69	70	84	90	102	108
	Real growth, %	IMF	4.0	-4.0	7.7	3.9	1.8	2.3
	CPI inflation, %	IMF	2.5	1.2	2.8	13.0	8.6	2.8
	Unemployment rate, %	WB	4.2	5.1	5.3	4.3	4.3	-
Public Finance	Public debt, % of GDP	Ministry of Finance (Bulgaria)	18.4	22.7	22.4	21.5	21.9	-
	Net interest payments, % of government revenue	IMF	0.4	0.3	0.2	0.0	0.2	0.4
	Primary balance, % of GDP	IMF	-0.8	-2.8	-2.8	-0.8	-3.0	-2.8
External Economic	Current-account balance, % of GDP	IMF	1.9	0.0	-1.7	-1.4	-0.3	-1.0
	Total reserves, months of imports	WB	7.2	10.7	8.3	7.5	-	-
	NIIP, % of GDP	IMF	-30.8	-25.2	-15.0	-10.3	-	-
Financial Stability	NPL ratio, % of total loans	IMF	6.6	5.8	5.9	4.5	3.6	-
	Tier 1 ratio, % of risk-weighted assets	IMF	18.3	19.8	21.9	21.2	20.4	20.2
	Credit to the private sector, % of GDP	WB	49.6	51.5	48.3	44.9	45.6	-
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	227.9	210.2	226.4	238.2	185.9	-
	Income share of bottom 50%, %	WID	16.5	16.4	16.3	16.3	-	-
	Labour-force participation rate, %	WB	73.7	72.6	72.6	74.1	-	-
	Old-age dependency ratio, %	UN	34.3	34.9	35.3	35.2	35.0	35.2
	Composite governance indicators*	WB	0.2	0.0	0.0	0.0	0.1	-
	Political stability, index	WB	0.3	0.4	0.5	0.4	0.4	0.3

*Average of the following five World Bank Worldwide Governance Indicators: Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality.

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Applied methodologies

[Sovereign Rating Methodology](#), January 2024

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