

Republic of Bulgaria

Rating report

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 under 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 relatively high 12-month HICP inflation rate of 7.8% in January 2024. Adopting the euro would strengthen Bulgaria's credit profile by eliminating foreign-exchange risk in an euroised economy, increasing monetary policy flexibility and strengthening market access.

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%	bbb+	BGN	Bulgaria	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%	[+0]	[-0]	0	
	Social factors	7.5%			- 1/3	
	Governance factors	12.5%			- 1/3	
Sovereign Quantitative Model	bbb+			0		
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

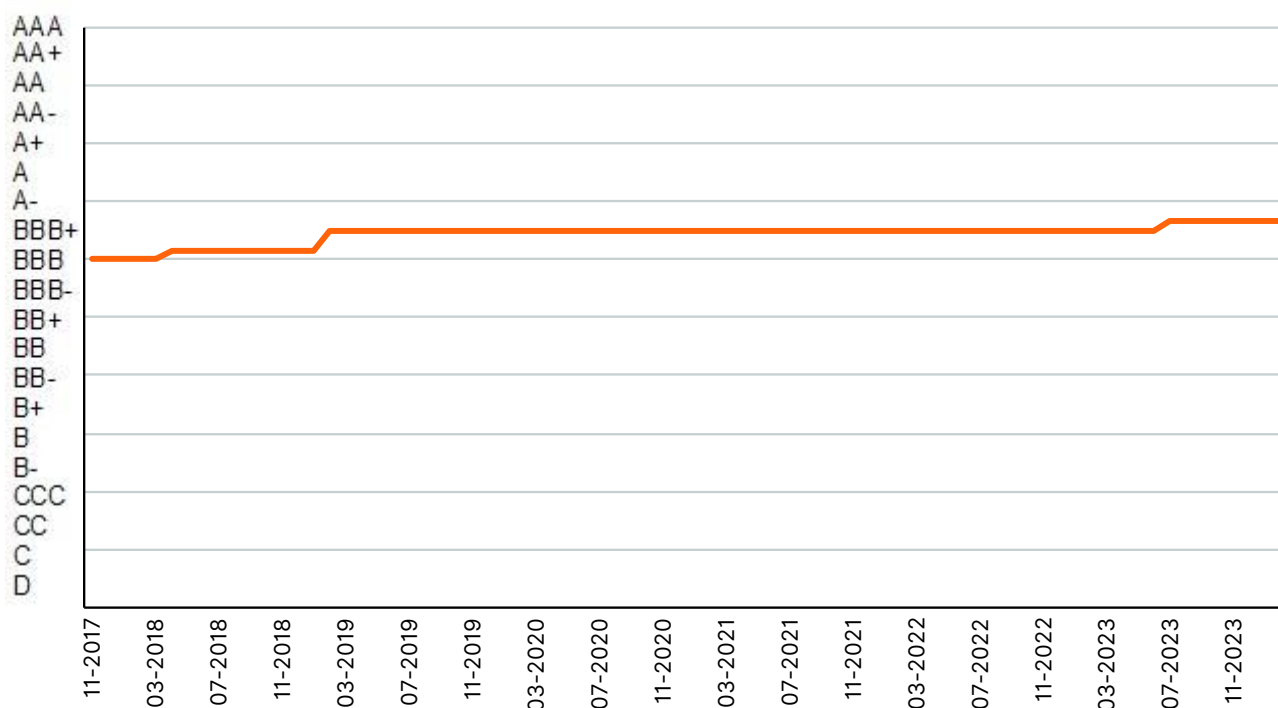
Credit strengths	Credit challenges
<ul style="list-style-type: none"> ERM II and Banking Union memberships, prospect of euro area entry Low government debt, favourable debt profile Record of prudent fiscal policies 	<ul style="list-style-type: none"> Vulnerability to shocks as a small, open economy Institutional weaknesses, political instability Limited lender of last resort function of the central bank Demographic pressures

Outlook and rating triggers

The Positive Outlook reflects Scope's view that risks to the ratings are tilted to the upside over the next 12 to 18 months.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> Formalisation of euro area accession Sustainable increase in economic growth potential Progress in addressing institutional challenges 	<ul style="list-style-type: none"> Escalation in institutional challenges and/or political instability Weaker economic prospects Significant deterioration in fiscal outlook Weakening banking-system or external-sector resilience

Figure 2: Rating history¹



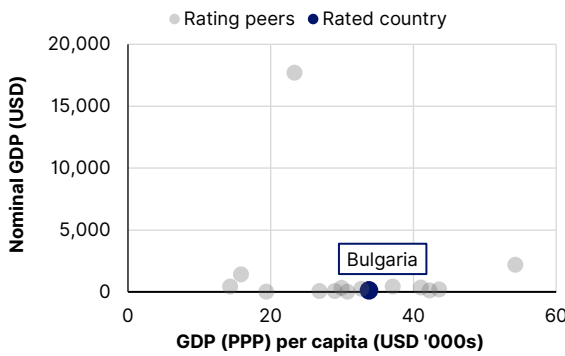
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

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

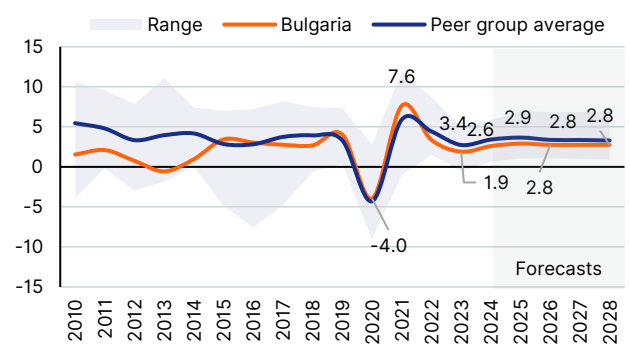
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb+	Growth potential and outlook	Strong	+1/3	Solid medium-run growth potential despite declining working-age population
	Monetary policy framework	Weak	-1/3	Limited monetary-policy flexibility due to currency board system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

Figure 3: Nominal GDP and GDP per capita



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

Figure 4: Real GDP growth, %



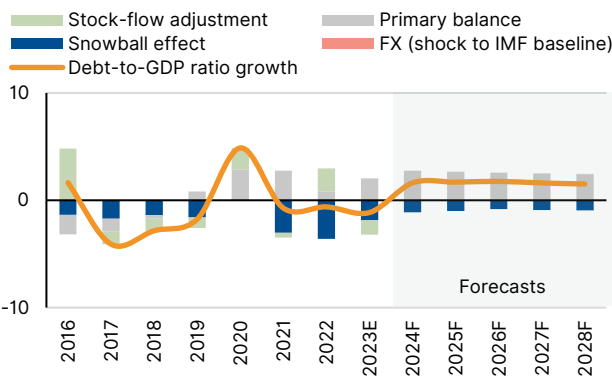
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

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

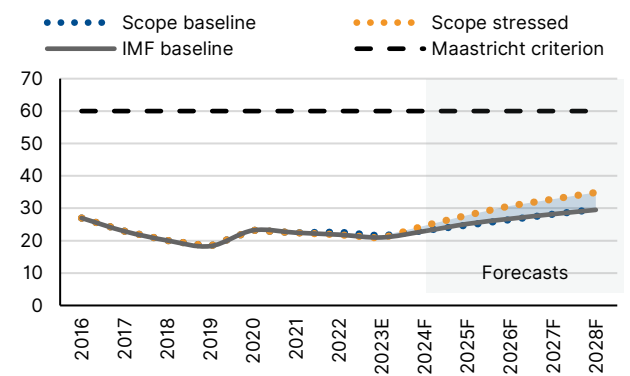
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Fiscal policy framework	Neutral	0	Record of prudent fiscal policy, anchored by euro-area convergence requirements; recurrent episodes of political instability cloud the fiscal outlook
	Long-term debt trajectory	Neutral	0	Sound, albeit slightly rising, 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

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

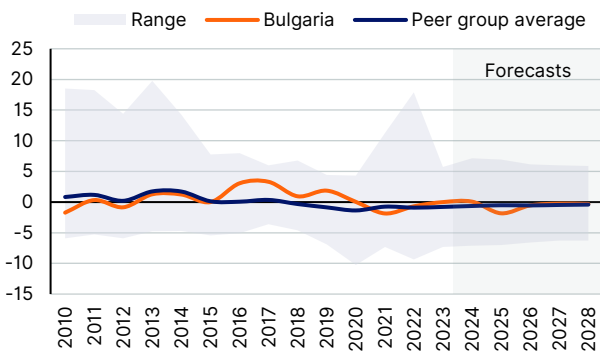
*Sovereign Quantitative Model.

External economic risk

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

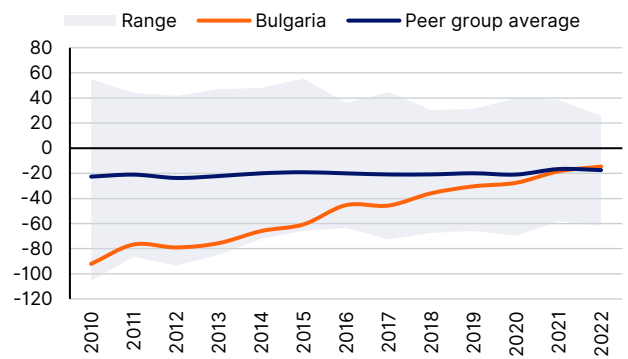
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb	Current account resilience	Neutral	0	Broadly balanced current account, overfunded via EU funds and FDI inflows
	External debt structure	Strong	+1/3	Low level of external debt, having been reduced over past years; a significant share of FDI in external liabilities
	Resilience to short-term external shocks	Neutral	0	Strong reserve adequacy and credible exchange-rate regime

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

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



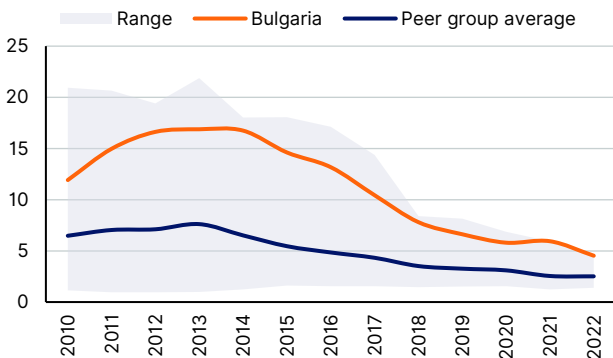
Source: IMF, Scope Ratings

Financial stability risk

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

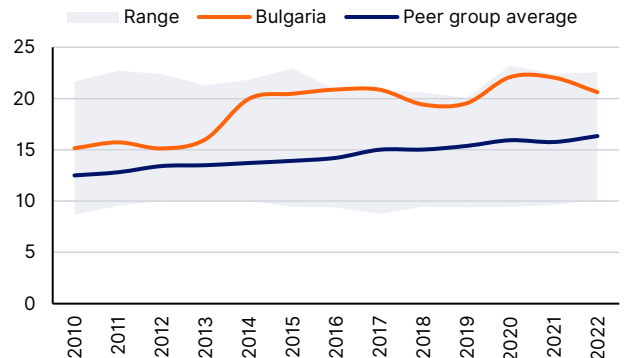
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Well-capitalised, profitable and liquid banking system
	Financial sector oversight and governance	Neutral	0	Enhanced financial-system supervision supported by Banking Union membership since 2020
	Financial imbalances	Neutral	0	Relatively high private-sector debt levels, although significant deleveraging over past years

Figure 9: Non-performing loans, % of total loans



Source: World Bank (WB), Scope Ratings

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



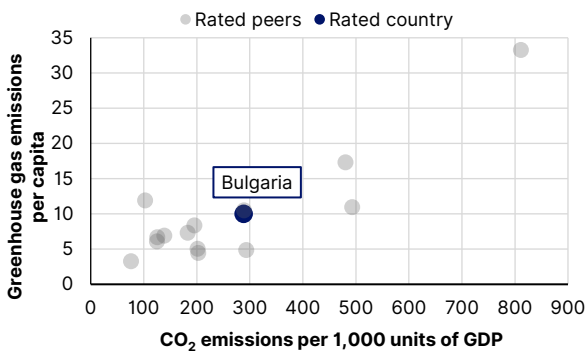
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

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

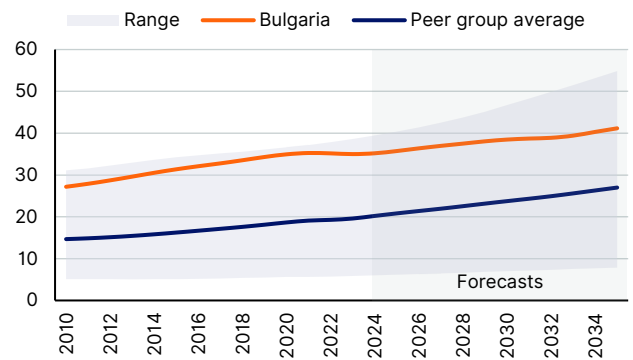
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b	Environmental factors	Neutral	0	Improving environmental track record, but significant challenges remain to reduce greenhouse gas emissions
	Social factors	Weak	-1/3	Emigration challenges and high-income inequality; average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

Figure 11: CO₂ emissions per GDP, mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

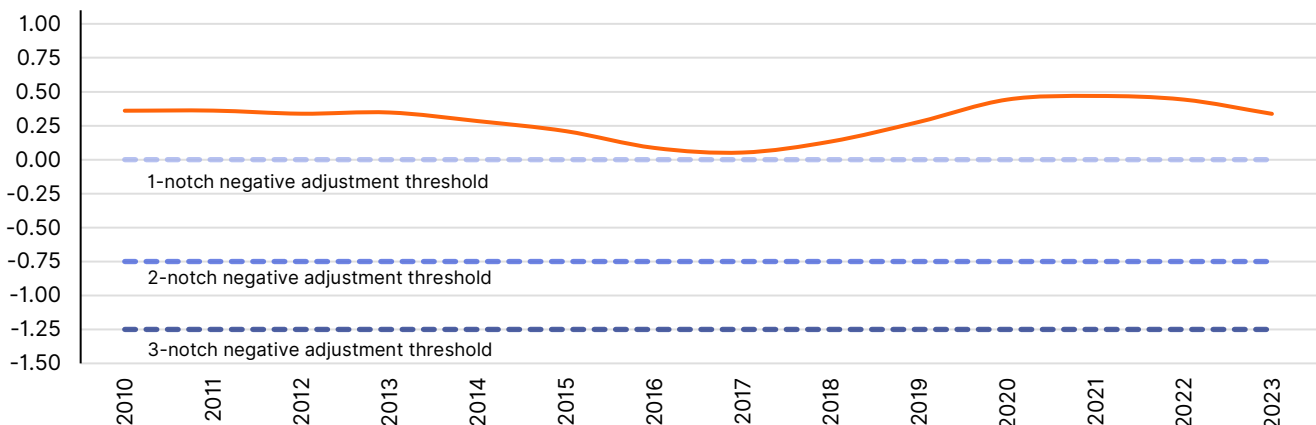
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

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 14: WB Political Stability & Absence of Violence/Terrorism index, Bulgaria, 3-year moving average



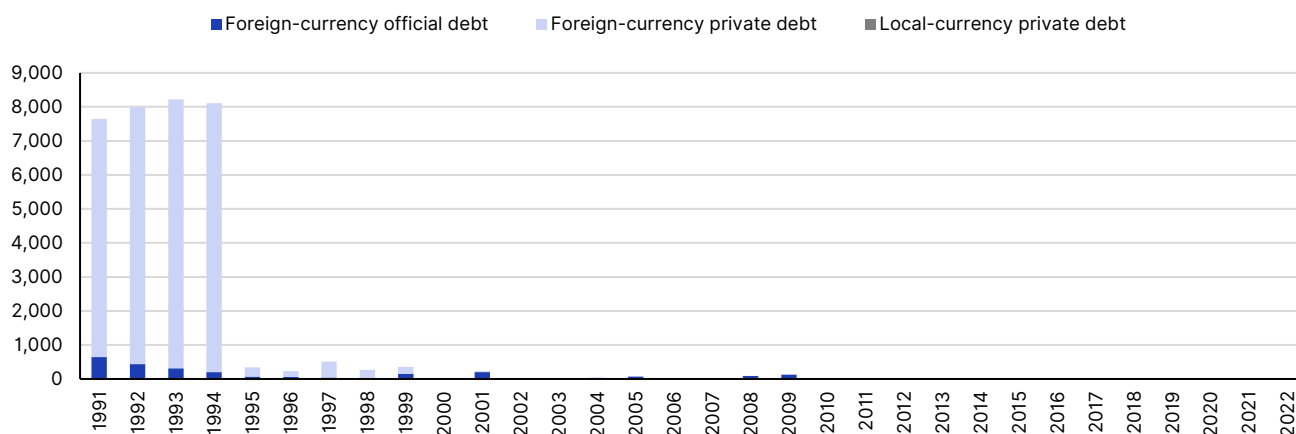
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



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

Peer group*
China
Hungary
Italy
Romania
Slovakia

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

Appendix III. Economic development and default indicators

IMF Development Classification	Emerging market and developing economy
5y USD CDS spread (bp) as of 6 March 2024	84

Appendix IV. 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	2018	2019	2020	2021	2022	2023
Domestic Economic	GDP per capita (PPP), USD '000s	IMF	22.9	24.4	23.9	27.2	31.9	33.8
	Nominal GDP, USD bn	IMF	66	69	70	84	89	103
	Real growth, %	IMF	2.7	4.0	-4.0	7.6	3.4	1.7
	CPI inflation, %	IMF	2.6	2.5	1.2	2.8	13.0	8.5
	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	21.0
	Net interest payment, % of government revenue	IMF	0.6	0.4	0.3	0.2	0.0	0.2
	Primary balance, % of GDP	IMF	0.3	-0.8	-2.8	-2.8	-0.8	-2.8
External Economic	Current-account balance, % of GDP	IMF	0.9	1.9	0.0	-1.9	-0.7	0.0
	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	20.4
	Credit to the private sector, % of GDP	WB	50.4	49.6	51.5	48.3	44.9	-
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	296.6	274.6	252.5	273.0	288.9	-
	Income share of bottom 50%, %	WID	15.5	15.9	15.8	15.7	15.7	-
	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	35.0
	Composite governance indicators*	WB	0.2	0.2	0.0	0.0	0.0	-
	Political stability, index	WB	0.4	0.6	0.4	0.4	0.2	-

*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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