S&P Global Ratings

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Research Update:

Bulgaria 'BBB/A-2' Ratings Affirmed; Outlook Remains Positive

May 23, 2025

(Editor's note: S&P Global Ratings believes there is a high degree of unpredictability around policy implementation by the U.S. administration and possible responses--specifically with regard to tariffs--and the potential effect on economies, supply chains, and credit conditions around the world. As a result, our baseline forecasts carry a significant amount of uncertainty. As situations evolve, we will gauge the macro and credit materiality of potential and actual policy shifts and reassess our guidance accordingly (see our research here: spglobal.com/ratings).)

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Overview

- As a small open European economy with a longstanding currency board, Bulgaria's expected entry into Europe's Economic and Monetary Union (EMU) as soon as next year will benefit from access to euro area capital markets and promote monetary stability. However, recent surveys indicate mixed public support for euro adoption.
- After a series of elections, a new government was formed in January 2025.
- Economic growth remains solid despite a few structural reforms and the challenging external environment. At 7.5% of GDP in 2024, Bulgaria's services surplus is one of the largest in an emerging market, and an indicator of the economy's resilience.
- We affirmed our 'BBB/A-2' sovereign credit ratings on Bulgaria. The outlook remains positive.

Rating Action

On May 23, 2025, S&P Global Ratings affirmed its 'BBB/A-2' long- and short-term foreign and local currency ratings on Bulgaria. The outlook remains positive.

Outlook

The positive outlook reflects our view that there is at least a one-in-three likelihood that Bulgaria will join the eurozone over the next year.

Upside scenario

We could raise the ratings if Bulgaria becomes a eurozone member. In our view, membership would benefit Bulgaria's access to capital markets and monetary policy effectiveness. With or without eurozone accession, we could raise the ratings if sustained growth led to a lasting increase in wealth levels, as indicated by GDP per capita.

Downside scenario

We could revise the outlook to stable if the prospect of Bulgaria joining the eurozone becomes remote. This could occur if there is another lengthy period of political gridlock or if, for example, inflationary pressures re-emerged.

Rationale

We think that Bulgaria is on track to join the eurozone early next year. As of April, the 12-month average inflation stood at 2.7%, implying that Bulgaria will meet the price stability criterion for eurozone accession. An official assessment of alignment will be included in the European Commission's European Central Bank (ECB) convergence reports, due to be published on June 4, 2025. The ultimate decision on membership then lies with the Eurogroup and the EU Council, which we expect to be announced in July. Renewed domestic political instability could delay the process, but we think that such risks have decreased. Recent surveys indicate mixed public support for euro area entry. This is in line with previous member states--including Croatia--where public support post EMU entry has generally exceeded support in the run-up to euro accession.

In late October 2024, Bulgaria held snap elections, marking the seventh general election in less than four years. Following a prolonged period of political deadlock, a new government was formed in January 2025. The new government is led by Prime Minister Rosen Zhelyazkov of the Citizens for European Development of Bulgaria (GERB) party and includes members from GERB, the Bulgarian Socialist Party, and There Is Such a People, with external support from the Movement for Rights and Freedoms party. We think that the stability of this coalition hinges on their shared objective of eurozone accession and the prevailing election fatigue; however, we see risks of another election round in 2026.

Despite these risks, Bulgaria's economy has shown relative resilience, with its services sector continuing to post external surpluses in excess of 7% of GDP. Direct trade exposure to the U.S. is less than 4%, therefore, we think that U.S. tariffs on Europe will primarily affect Bulgaria indirectly through reduced demand from its largest trading partners--particularly Germany and Romania. In addition, the lack of structural reforms and weak absorption of EU funds have resulted in significant missed opportunities. Following the revision of Bulgaria's National Recovery and Resilience Plan (NRRP) and the formation of the new government, we anticipate the potential for an increase in Recovery and Resilience Facility (RRF) disbursements to Bulgaria in 2025-2026. Nonetheless, we still anticipate that about half of the allocated amount may be permanently lost, given constraints on Bulgaria's absorption capacity (as is also observable in Romania).

Institutional and economic profile: Political instability and weak absorption of EU funds reduce growth potential

- Prime Minister Rosen Zhelyazkov took office in January 2025 and his stated aims are to focus on expediting EU fund disbursements and steering Bulgaria into the EMU early next year.
- Strong domestic consumption should underpin growth, despite economic uncertainty in key trading partners.
- We forecast real GDP growth of 2.4% in 2025, followed by a gradual increase to 3.0% in 2028 on the back of a rebound in external demand.

After a prolonged period of political deadlock, a government was formed in January 2025. We think this will lead to temporary political stability, primarily due to the shared goal of eurozone accession among both the coalition government and its parliamentary supporters. However, we recognize the risk that political uncertainty may reemerge following potential approval to join the eurozone. That said, even in the event of a government collapse, we understand that a caretaker government would have a similar mandate to proceed with the accession process.

In our view, Bulgaria's EU membership and eurozone accession aspirations continue to provide important policy anchors for the country. We think some EU institutions could continue to highlight their view on the necessity for structural reforms related to specific deficiencies regarding the rule of law, particularly because these assessments can be tied to the transfer of EU funds. The country has a record of adhering to the EU's recommendations and uncontentious relations with the European community.

We expect Bulgaria will face policy challenges in addressing weak demographic trends. The working-age population is shrinking due to aging and previously high emigration. Left unchecked, the declining labor force could become a bigger drag on growth, in our view. Bulgaria's working-age population has been decreasing by about 1% on average annually and we do not anticipate any material change in this trend in the near future. This highlights the need for continued reform efforts through measures that address skill mismatches, improve the business environment, and stimulate income growth.

Despite the long-term structural challenges, the near-term outlook for Bulgaria's economy remains steady. We forecast the economy will increase by 2.4% in real terms in 2025, and average 2.8% through 2028. Private domestic consumption will be the key driver of growth, supported by a tight labor market, and high real wage growth. While we anticipate a pickup in public investments due to increased military spending and EU-funded projects, we think this will be largely neutral to overall growth, as it will also drive imports. At the same time, external demand faces pressure from general economic uncertainty stemming from geopolitical tensions and U.S. tariffs.

Trade exposure to the U.S. accounts for approximately 4.0% of Bulgaria's total value-added exports. The automotive sector is relatively significant for Bulgaria; however, the euro area remains its primary export market. We think that Bulgaria will primarily experience the indirect effects of U.S. tariffs due to weaker demand from its main trading partners; S&P Global Ratings forecasts growth in the eurozone of 0.8% in 2025 and 1.2% in 2026, compared to our previous estimates of 0.9% and 1.4%, respectively.

While Bulgaria remains one of the beneficiaries that is allocated the highest amount of EU funds per capita, absorption of RRF funds is among the lowest (less than 20%). We think this is largely attributable to the recent period of political deadlock and expect some progress following the formation of the new government and revised NRRP. However, total absorption is unlikely to materially exceed 50% of the allocated amount (leading to about €3 billion), given the relatively short time frame until August 2026. Acceleration in EU fund reception will have a positive effect on growth in the near term, however, we think that lost funds mean lost growth opportunities.

Bulgaria fully joined the Schengen area on Jan. 1, 2025, when internal border controls were removed at the country's land border. We think this could support international tourism and trade with neighboring countries in the medium to long term as administrative hinderances are reduced. In the near term, we think that the deficiencies in physical infrastructure prevent the country's full potential from being reached.

Flexibility and performance profile: Eurozone accession would reduce foreign exchange risk and improve monetary policy flexibility

- Despite the policy driven increase in inflation, Bulgaria's prospects of becoming a eurozone member by 2026 look favorable.
- We expect fiscal deficits will be contained at an average 3% of GDP, however, debt will also build on capitalization of state-owned enterprises (SOEs).
- Import-heavy public investment and weaker external demand will contribute to a widening of the current account deficit.

Inflation increased in the beginning of 2025, following a period of rapid disinflation in 2024. This rise is partly attributable to the increases in regulated utility prices and value-added tax rates implemented as part of the 2025 budget. While we understand that these revenue-raising policy changes were important for meeting budgetary targets, we think that the changes complicate Bulgaria's efforts to meet the price stability criterion necessary for entering the eurozone. That said, our base case remains that inflation will meet the convergence criterion and Bulgaria will join the eurozone by 2026.

Bulgaria has requested an out-of-cycle review by the ECB and the European authorities, and we expect the assessment to be published on June 4, 2025. When evaluating the viability of candidate countries, European authorities apply the convergence criteria, with the price stability criterion posing the greatest challenge for Bulgaria. This criterion requires that average inflation will not be more than 1.5 percentage points higher than that of the three best-performing EU member states over the year preceding the assessment, which is anticipated to occur in June 2025. As of April, Bulgaria's 12-month average inflation rate stood at 2.7%, which we estimate is just below the reference rate for meeting the price stability convergence criterion (2.8%). Legislative preparations have largely concluded, and with the 2024 fiscal result and the budget for 2025, Bulgaria meets the public finance criterion. The ultimate decision on membership lies with the eurozone's finance ministers--known as the Eurogroup--and the EU Council.

We think that potential accession to the eurozone would enhance Bulgaria's monetary policy effectiveness, reduce foreign exchange risk, and provide better access to the eurozone's deep and liquid capital markets. Bulgaria has been running a currency board with a fixed exchange rate of the Bulgarian lev to the euro for over 25 years. The lev was included in the European Exchange Rate Mechanism (ERM II), effectively the waiting room for eurozone membership, in July 2020 and Bulgaria simultaneously joined the European Banking Union. Although this arrangement provides macroeconomic stability, we view it as effectively limiting the Bulgarian National Bank (BNB)'s monetary policy flexibility, particularly regarding inflation control. Under the currency board, the BNB guarantees the lev's convertibility into euros and vice versa at a fixed exchange rate. Therefore, for our measure of usable reserves, we subtract the country's monetary base. Over the past two decades, authorities have accumulated fiscal and external buffers to underpin their commitment to the fixed exchange rate regime. That commitment has not wavered despite a series of external and domestic political shocks.

The ambition for eurozone accession has provided an important policy anchor for tight fiscal management, especially in times of political instability. The current budget and fiscal plans target deficits remaining at about 3% of GDP on average over the next three years, which seems achievable. However, we anticipate downside risks due to increased defense spending from 2027 and potentially weaker revenue growth. In addition to budget financing, planned recapitalization of SOEs will drive government debt accumulation at a higher pace than the past decade. Nevertheless, general government debt remains modest with debt net of liquid assets below 30% of GDP through 2028.

We expect weaker external demand and import-heavy public investments will drive a widening of the current account, averaging 2.2% of GDP through 2028. However, Bulgaria's robust services balance, which stands at about 7.0% of GDP and is bolstered by its thriving tourism sector and growing computer and IT services exports, will help mitigate some of the effects of this widening. The current account deficit will be financed with a mix of capital transfers from the EU, net foreign direct investment flows, and external borrowing. We think that government debt will be financed roughly equally between the domestic and external market, leading to a gradual increase in external debt. That said, we expect Bulgaria will retain its strong external position, which was characterized by significant net external deleveraging in the years before the COVID-19 pandemic.

Bulgaria's banking sector is profitable, liquid, and adequately capitalized. High liquidity has partly prevented the pass-through of the eurozone's higher interest rates to domestic loans, especially household loans, with private sector credit growth reaching a high 15% year on year in March 2025. We think this is partly driven by the anticipation of eurozone accession, but we see a risk of economic imbalance building if this trend does not slow in the coming one-to-two years. The BNB has introduced measures to increase the resilience of the banking system, for example by raising the minimum reserve requirement rate, the countercyclical buffer rate, and most recently by introducing borrower-based macroprudential measures since October 2024. Asset quality has continuously improved and gross nonperforming loans are low.

Key Statistics

Table 1

Bulgaria Selected Indicators

BGN mil.	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Economic indicators (%)										
Nominal GDP (bil. LC)	120	121	140	168	185	203	215	227	240	254
Nominal GDP (bil. $)	69	71	84	91	102	112	120	130	142	155
GDP per capita (000s $)	9.8	10.1	12.2	13.2	15.9	17.4	18.8	20.5	22.5	24.6
Real GDP growth	3.8	(3.2)	7.8	4.0	1.9	2.8	2.4	2.7	2.8	3.0
Real GDP per capita growth	4.5	(2.5)	8.3	5.2	8.1	2.8	3.0	3.3	3.4	3.6
Real investment growth	4.5	0.6	(8.3)	6.5	10.2	(1.1)	7.2	1.3	7.1	3.0
Investment/GDP	20.7	20.1	20.7	22.7	19.7	20.4	21.4	21.1	21.9	21.9
Savings/GDP	22.4	20.6	19.6	20.0	18.9	18.5	19.0	19.1	19.5	19.9

Table 1

Bulgaria Selected Indicators (cont.)

BGN mil.	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Exports/GDP	64.2	56.4	61.8	70.0	61.9	55.8	54.8	54.6	54.2	53.8
Real exports growth	4.0	(9.6)	11.6	12.1	0.0	(0.8)	2.0	3.3	3.2	3.0
Unemployment rate	5.2	6.1	5.3	4.2	4.3	4.2	4.2	4.0	4.0	4.0
External indicators (%)										
Current account balance/GDP	1.7	0.4	(1.1)	(2.7)	(0.9)	(1.8)	(2.5)	(2.0)	(2.4)	(1.9)
Current account balance/CARs	2.3	0.7	(1.6)	(3.5)	(1.3)	(3.0)	(4.0)	(3.4)	(3.9)	(3.3)
CARs/GDP	71.1	62.9	68.3	76.6	68.2	61.3	60.7	60.1	59.8	59.0
Trade balance/GDP	(4.7)	(3.1)	(4.0)	(5.9)	(4.2)	(5.2)	(6.5)	(6.1)	(6.8)	(6.7)
Net FDI/GDP	2.0	4.1	1.6	4.2	4.2	2.2	2.1	2.2	2.6	2.5
Net portfolio equity inflow/GDP	0.7	(1.7)	(1.8)	(0.8)	(0.3)	(0.8)	(0.5)	(0.5)	(0.5)	(0.5)
Gross external financing needs/CARs plus usable reserves	102.1	104.3	104.9	105.4	104.2	105.2	107.1	109.9	112.2	113.1
Narrow net external debt/CARs	(28.6)	(42.8)	(35.3)	(33.8)	(38.4)	(34.4)	(30.0)	(26.9)	(23.4)	(20.9)
Narrow net external debt/CAPs	(29.3)	(43.1)	(34.7)	(32.6)	(37.9)	(33.4)	(28.9)	(26.0)	(22.5)	(20.2)
Net external liabilities/CARs	41.8	38.0	18.3	9.2	7.2	3.5	3.8	3.7	4.6	4.8
Net external liabilities/CAPs	42.8	38.3	18.1	8.9	7.1	3.4	3.6	3.6	4.4	4.6
Short-term external debt by remaining maturity/CARs	23.3	25.8	20.9	17.9	20.0	21.0	20.9	20.9	20.5	20.0
Usable reserves/CAPs (months)	2.3	2.4	2.0	1.7	1.9	2.1	1.9	1.5	1.3	1.0
Usable reserves (mil. $)	8,846	9,680	10,455	11,451	12,329	12,176	10,262	9,223	8,189	7,872
Fiscal indicators (general government; %)										
Balance/GDP	2.2	(3.8)	(3.9)	(2.9)	(2.0)	(3.0)	-3	(2.9)	(2.9)	(2.8)
Change in net debt/GDP	0.3	4.7	2.2	0.4	3.1	4.1	6.3	2.9	2.9	2.8
Primary balance/GDP	2.7	(3.3)	(3.4)	(2.5)	(1.5)	(2.5)	(2.4)	(2.2)	(2.1)	(2.0)
Revenue/GDP	38.6	37.5	37.5	38.3	36.8	36.7	38.0	38.0	38.0	38.0
Expenditures/GDP	36.4	41.3	41.5	41.2	38.8	39.8	41.0	40.9	40.9	40.8
Interest/revenues	1.4	1.4	1.3	1.0	1.3	1.5	1.6	2.0	2.0	2.1
Debt/GDP	20.1	24.4	23.8	22.5	22.9	24.1	29.2	30.7	32.2	33.4
Debt/revenues	52.0	65.1	63.5	58.6	62.2	65.6	76.8	80.8	84.7	88.0
Net debt/GDP	10.4	15.1	15.2	13.1	15.0	17.8	23.1	24.7	26.3	27.7
Liquid assets/GDP	9.6	9.4	8.6	9.4	7.9	6.3	6.1	6.0	5.9	5.8

Table 1

Bulgaria Selected Indicators (cont.)

BGN mil.	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Monetary indicators (%)										
CPI growth	2.4	1.2	2.9	13.0	8.6	2.6	3.3	3.0	2.8	2.5
GDP deflator growth	5.2	4.3	7.0	15.9	8.0	6.5	3.4	3.0	2.8	2.6
Exchange rate, year-end (LC/$)	1.74	1.59	1.73	1.83	1.77	1.88	1.78	1.72	1.66	1.63
Banks' claims on resident non-gov't sector growth	7.8	4.1	8.3	12.1	11.3	15.0	9.0	9.0	9.0	9.0
Banks' claims on resident non-gov't sector/GDP	49.7	51.2	48.1	44.7	45.2	47.5	48.9	50.4	51.9	53.6
Foreign currency share of claims by banks on residents	35.7	34.3	31.7	28.5	25.7	22.5	25.0	25.0	25.0	25.0
Foreign currency share of residents' bank deposits	34.6	36.1	34.1	33.9	31.8	31.4	30.0	30.0	30.0	30.0
Real effective exchange rate growth	0.5	2.9	1.3	4.9	5.3	(0.2)	N/A	N/A	N/A	N/A

Sources: Eurostat (Economic Indicators), Bulgarian National Bank (External Indicators), Eurostat (Fiscal Indicators), and Bulgarian National Bank, IMF (Monetary Indicators).
Adjustments: Usable reserves adjusted by subtracting monetary base from reported international reserves.
Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Bulgaria Ratings Score Snapshot

Key rating factors	Score	Explanation
Institutional assessment	4	Reduced predictability of policy responses, for example, in episodes of heightened political volatility. Transparency and checks and balances can at times be hampered.
Economic assessment	4	Based on GDP per capita (US$) and growth trends as per Selected Indicators in Table 1.
External assessment	2	Based on narrow net external debt and gross external financing needs/(CAR + usable reserves) as per Selected Indicators in Table 1.
Fiscal assessment: flexibility and performance	3	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1.
Fiscal assessment: debt burden	1	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) as per Selected Indicators in Table 1.

Table 2

Bulgaria Ratings Score Snapshot (cont.)

Key rating factors	Score	Explanation
		Over 70% of gross government debt is denominated in foreign currency
Monetary assessment	5	The lev has been fixed to the euro via a currency board. The Bulgarian National Bank (BNB) has been successful in maintaining a currency board, supported by political commitment to prudent fiscal policies. As per its charter--and according to the currency board regime under which it operates--the BNB's ability to act as a lender of last resort is limited.
Indicative rating	bbb-	As per Table 1 of "Sovereign Rating Methodology.
Notches of supplemental adjustments and flexibility	1	Nominal growth rates above peers could lead to higher GDP per capita than indicated by current assessment. A change in the economic assessment could lead to a multi notch change in the indicative rating, as per Table 1 of our "Sovereign Rating Methodology" .
Final rating		
Foreign currency	BBB	
Notches of uplift	0	Default risks do not apply differently to foreign and local currency debt.
Local currency	BBB	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings List, May 22, 2025
- Sovereign Ratings History, May 22, 2025
- Sovereign Ratings Score Snapshot, May 6, 2025
- Sovereign Risk Indicators, April 10, 2025
- Bulgaria, Nov. 25, 2024
- Research Update: Bulgaria 'BBB/A-2' Ratings Affirmed; Outlook Remains Positive, May 24,

2024

- Bulletin: Bulgaria's Eurozone Entry's Still Likely Despite Government Collapse, April 3, 2024

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed	
Bulgaria	
Sovereign Credit Rating	BBB/Positive/A-2
Transfer & Convertibility Assessment	
Local Currency	A
Bulgaria	
Senior Unsecured	BBB

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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