

# NEW ANTI-CORRUPTION PARTY WINS RE-RUN ELECTIONS IN BULGARIA

## Opportunities and risks for investors after the second snap parliamentary elections and the Presidential vote

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<b>Issues &amp; Sectors</b>	Parliamentary Elections, Presidential Elections, Government Relations
<b>Stakeholders</b>	National Assembly, Presidential Administration, Kirill Petkov, Rumen Radev

Bulgaria's third general election of 2021 has been won by the newly formed We Continue the Change (PP) party, a new centrist and anti-corruption party led by former ministers Kirill Petkov and Assen Vassilev. PP's surprising victory (securing nearly 26% of the vote) is the latest twist in a period of political instability that has gripped the country since the scheduled elections in April and a prior snap election in July, neither of which resulted in a viable governing coalition. Public pressure is now mounting on PP to negotiate a workable coalition with three other parties in the upcoming weeks, however the road to a governing majority is far from certain.

The re-run parliamentary vote was held simultaneously with the first round of the country's Presidential elections in which Rumen Radev, Bulgaria's incumbent independent President, came first with more than 48% against multiple challengers and seems on course for re-election.

Below, Aretera offers further insight into the aftermath of Bulgaria's second snap parliamentary elections, the prospects of political stability and headline implications for international investors.

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## AN UNEXPECTED ELECTORAL CYCLE

Bulgaria has been mired in political uncertainty since both the long-awaited parliamentary elections in April and the ensuing snap parliamentary vote in July failed to produce a stable governing majority in the National Assembly. April's election saw a narrow win for incumbent governing centre-right party GERB of the then-incumbent Prime Minister Boyko Borissov (who had been tarnished by a spate of corruption allegations), but the highly fragmented parliament made it impossible for GERB (or others) to form a governing coalition. Alongside established parties GERB, the Bulgarian Socialist Party (BSP) and the ethnic Turkish Movement for Rights and Freedoms (DPS), the April vote saw three new entrants to the parliament, including the populist There is Such a People movement (ITN), led by singer and TV personality Stanislav Trifonov, the liberal Democratic Bulgaria, an alliance of centrist and pro-Western formations, and fellow populist Stand Up Bulgaria movement of former BSP MP Maya Manolova.

Since the April vote resulted in a multi-party, ideologically diverse parliament, it was followed by three failed attempts – by GERB, the ITN and the BSP – to form a government, leading to the dissolution of parliament in May. With no governing majority, Bulgarian President Rumen Radev, an independent supported by the BSP, who also ran for second term in last week's presidential elections, installed a Caretaker Government led by Stefan Yanev, his chief security and defence advisor, and announced snap parliamentary elections for July.

The April-July period saw a major shift in public opinion towards Trifonov's ITN party, while also proving detrimental to GERB. Alongside domestic events such as the Yanev Government's endorsement of official probes into misconduct during the Borissov era, the US Government in early July imposed sanctions on three Bulgarian individuals with ties to the ex-PM over allegations of corruption – widely seen as a signal that GERB had lost US political support.

Due to the limited campaigning time and the lower turnout, the first re-run parliamentary vote in July produced another six-party parliament with the same parties but this time with different positions in terms of popular support. All three anti-establishment parties emerged stronger than in April, however still lacked the numbers needed for a parliamentary majority. Subsequently, ITN, which also faced a backlash over its nominees for government, failed to form a cabinet. Realizing its lack of allies, GERB then returned its own mandate to do so, leaving the BSP to make a last-gasp but unsuccessful attempt to form a government.

As a result, on 16 September President Radev dissolved parliament again and installed another Caretaker Government, also led by PM Yanev, with a mandate until the second snap parliamentary elections on 14 November, scheduled to coincide with the first round of the Presidential election. The composition of the Yanev Cabinet remained largely unchanged, however two of its earlier members – former Economy Minister Kirill Petkov and former Finance Minister Assen Vassilev – stepped down to create a new political party, We Continue the Change (PP). As the party was created after the deadline for registrations for the November vote, the movement nominally ran on a platform of an electoral coalition between existing political formations, including Volt, a socio-liberal party and former member of the Stand up Bulgaria movement, the social democratic PDS and the centre-right

Middle European Class (SEC). Meanwhile, Borissov's GERB, though weakened, was eyeing an electoral comeback and led the pre-election polls.

## A SEVEN-PARTY PARLIAMENT

As widely expected, the second re-run vote has reflected the general dissatisfaction of the Bulgarian public, not only with the scandal-hit established parties but also with the new entrants of the National Assembly who were unable to form a government and thus prolonged the political uncertainty. This resulted in a lower voter turnout than in April or July and a markedly different composition of the country's parliament. Below we outline the election results and their implications for Bulgarian politics:

- Beating all expectations, the newly formed We Continue the Change (PP) won the second re-run elections, securing close to 26% of the popular vote. The party of the two former ministers capitalized heavily on the activities of the first Yanev Cabinet in which both served and enjoyed public approval. While in government, Petkov, the former Economy Minister, initiated a revision of the activities of the Bulgarian Bank of Development that appeared to confirm the results of previous investigations about unlawful loans given to a GERB-linked businessman. As Finance Minister, Vassilev proposed a revision of the state budget to improve the use of EU funds and support businesses hit by the COVID-19 pandemic (although his plan failed to receive approval from parliament). The two former Caretaker Government Ministers were enthusiastic about combatting corruption and supporting reforms welcomed by the Bulgarian society, quickly increasing their popularity. Although Petkov faced controversy over his dual Canadian citizenship<sup>1</sup>, this has not had an impact on his approval ratings.
- The other anti-corruption movements turned out to be the main losers of these elections. Widely seen as an electoral punishment for failing to form a government, Trifonov's ITN, which received close to 24% five months ago, this time garnered just 9.5%. Support for the liberal Democratic Bulgaria coalition was down from 12.6% to slightly above 6%, while the Stand up Bulgaria movement collapsed before the November vote and failed to enter parliament. The former supporters of these three formations have most likely favoured PP, being the newest anti-graft formation.
- There was a mixed electoral performance by the so-called establishment parties this time. Despite enjoying strong momentum in the polls prior to the November vote, GERB eventually came in second with almost 23% compared to PP's 26%. The social democratic BSP also performed worse, losing a third of its supporters from April. However, the ethnic Turkish DPS managed to slightly increase the number of its supporters, largely down to its strong diaspora support.
- Following a brief absence this year, as reflected by the results of the previous two parliamentary votes, the Bulgarian far-right has returned to the country's parliament. Besides the unexpected results of We Continue the Change, the other surprise of the November vote is the performance of the ultra-nationalist, pro-Kremlin and anti-vaccination Revival Party. The party seized the COVID-19- and vaccine-sceptic sentiment in certain layers of Bulgarian society and secured above 4%, enough to enter parliament.

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<sup>1</sup> In late October, the country's Constitutional Court ruled that Petkov violated Bulgarian law when he served in the first Yanev Cabinet with a dual citizenship. He resigned his Canadian citizenship prior to becoming Economy Minister but the documentation from Canada approving his resignation came only in August.

- ✚ Unlike the parliamentary vote, the country's Presidential elections, which were held together with the second re-run vote, did not throw up a surprise. Widely expected to win by a high margin, President Radev, who is an ideological rival to Borissov's GERB and has been serving as President since 2013, gathered 48.6% and is expected to win the second round of the Presidential elections, scheduled for 21 November. Radev will face the GERB-backed Anastas Gerdjikov who garnered 21% of the vote.

## ELECTION RESULTS COUNT

Political Party	Popular Vote – April 2021 (%)	Popular Vote – July 2021 (%)	Popular Vote – November 2021 (%)
We Continue the Change – PP (anti-corruption, centrist, four-party coalition set up after the July vote)	did not run	did not run	25.65
Citizens for the European Development of Bulgaria – GERB-SDS (centre-right)	26.2	23.7	22.8
There Is Such People – ITN (big-tent, populist, anti-establishment)	17.7	23.9	9.5
Bulgarian Socialist Party – BSP (centre-left)	15	13.5	10.3
Movement for Rights and Freedoms – DPS (ethnic Turkish, centrist)	10.5	10.7	12.9
Democratic Bulgaria – DB (liberal, anti-corruption, three-party coalition)	9.5	12.6	6.3
Stand Up! Thugs Out! / Standup Bulgaria (populist, anti-corruption)	4.7	5	2.3
Bulgarian National Movement/Bulgarian Patriots (ultra-nationalist)	3.6	3.1	1.1
Revival – Vazrazhdane (nationalist, pro-Russian, anti-vaccination)	2.4	3	4.9
<b>Turnout (%)</b>	49.1	40.4	39.1

(Source: Central Election Commission of Bulgaria, Threshold: 4%, Results Count: 99.5%)

## IMPLICATIONS FOR INTERNATIONAL INVESTORS

With the We Continue the Change (PP) party of the former Caretaker Cabinet Ministers clearly aiming to lead the country's next government, the upcoming weeks will be characterized by intense efforts to form a governing majority in a parliament of seven parties. Although other parties have expressed interest in an alliance with PP and public pressure is mounting on the Bulgarian parliament to produce a functioning coalition, the road to a stable government nevertheless still faces several obstacles. Below we outline a number of scenarios and policy implications for international investors present in or following the local market:

- **Our baseline scenario suggests a four-party coalition led by Kirill Petkov's party.** Prior to the November vote, We Continue the Change (PP) expressed its willingness to work with Trifonov's ITN and the liberal Democratic Bulgaria. Accordingly, the PP is expected pursue a governing coalition of what many in Bulgaria see as a natural alliance of like-minded anti-corruption formations. Nonetheless, such a coalition would need additional support from one other party to secure a majority of more than 121 of the 240 MPs, which is expected to be the BPS since Stand up Bulgaria, the only remaining natural partner, failed to enter parliament. Combined, the four parties would hold 133 seats in the country's National Assembly. Although the ITN was reluctant to enter government after the April and July votes, the party now seems committed to be part of a potential parliamentary majority.
- **Instability will continue to overshadow Bulgarian politics.** Despite the public pressure facing PP, ITN, Democratic Bulgaria and the BSP, tough coalition talks are expected due to a number of factors, including ITN's and DB's underperformance in the November vote, as well as the leadership crisis within the BSP (whose leader Kornelia Ninova resigned on 16<sup>th</sup> November after a disastrous result for the party). Considering the events of the past seven months, investors are also advised to be prepared for a hung parliament and the continuation of an unpredictable political environment. Theoretically, other possible scenarios include a minority government led by PP if the four-party talks prove unsuccessful, coalition turmoil over structural changes and the question of reforms, as well as an inconclusive coalition that could leave space for future policy disagreements or power struggles. Previously, We Continue the Change hinted at working even with GERB and DPS on the condition that they support the removal of Ivan Greshnev, the country's much criticized lead prosecutor, and drop their connections with Delyan Peevski, a former media mogul and former MP of the DPS who is among the three Bulgarians sanctioned by the US Government. However, taking the results of the November vote into account, this scenario has become highly unlikely.
- **Petkov is the top contender for Prime Minister.** In the upcoming coalition talks, PP, as promised during the election campaign, will put forward one of its co-leaders, former Economy Minister Kirill Petkov, for the position of Prime Minister, while co-leader Assen Vassilev is the party's candidate for Finance Minister. However, both Petkov and Vassilev indicated that their candidacy is subject to negotiations with the other potential coalition parties. Should they manage to form a governing majority, We Continue the Change is likely to push for reforming the country's judiciary and public administration and working together with President Radev, provided he wins re-election in the second round. Another likely priority in the short-term is tackling the fourth wave of the COVID-19 pandemic since Bulgaria is among the most unvaccinated countries in the European Union.
- Commonly known as the Harvard Tandem due to their education, the two PP leaders have extensive business and leadership experience. Petkov holds a degree in Economics

and Finance from the University of British Columbia in Vancouver and an MBA from Harvard University. He was the co-founder of Yes Bulgaria, one of the parties in the Democratic Bulgaria alliance, and an active player in anti-corruption and environmentalist protests. He is also known as the Founder and CEO of ProViotik, a Bulgarian company producing probiotics that has several patents in biotechnology in the US.

➤ Prior to becoming Finance Minister in the Yanev Cabinet, Assen Vassilev briefly served as Minister of Economy, Energy and Tourism in 2013. He was the Founder and President of Everbread, one of the top airline ticket pricing companies. He holds a degree in Economics from Harvard University where he went on to specialize in Business Administration and Law. Together with Petkov, he is the co-founder of the Center for Economic Strategies and Competitiveness at Sofia University, a Harvard-affiliated research hub.

➤ **Should no coalition agreement be reached, the Yanev Caretaker Government is set to continue.** Installed in May, the Yanev Government officially stepped in to ensure a smooth transition, as well as the conduct of a free and fair snap parliamentary elections back in July. At the same time, Yanev's appointment as PM and the composition of his interim Cabinet led to speculation that President Radev was using the opportunity to impede the electoral chances of his long-time rival Borissov and that the Caretaker Cabinet might last beyond its mandate. Among other measures, the first Yanev Government implemented critical replacements in the country's public administration, government and law enforcement agencies, and was actively working on Bulgaria's National Recovery and Resilience Plan, a national-level proposal needed to utilize the European Union's recovery funds in wake of the COVID-19 crisis. Furthermore, the second Yanev Cabinet expressed strong interest to advance Bulgaria's membership talks with the OECD. Most recently, Environment Minister Assen Lichev submitted the country's request in October to join 13 OECD recommendations in the field of environment and chemicals. The anti-corruption efforts of the past few months and its projected capability to govern in the midst of a major political crisis proved beneficial for the Yanev Cabinet, with the majority of Bulgarians supportive. Given Petkov's and Vassilev's roles in its activities, involving members of the Caretaker Government in the future cabinet remains a possibility (Yanev himself expressed political support for We Continue the Change.) However, the inability of the parliamentary parties to form a government and the continuation of the Yanev Government would subsequently mean another snap parliamentary vote in early 2022.

➤ **The composition of the new government could prove decisive for EU enlargement.** In November 2020, the Borissov Government refused to endorse a general negotiation framework between the Council of the EU and North Macedonia over issues of history, language and national identity, essentially vetoing the start of long-awaited accession talks between Brussels and Skopje. Most recently, President Radev, who faces pressure from the EU to settle Bulgaria's ties with North Macedonia, set conditions for the North Macedonian Government to reach an agreement. The Yanev Government has largely avoided the issue, claiming that such a decision falls beyond its mandate and that the move would need popular support. Petkov has pledged a new approach should he be in office, however this also remains subject to future coalition talks.

## LOOKING AHEAD

As the winner of the second snap parliamentary elections, We Continue to Change (PP) will be tasked to start coalition talks with the aim of ensuring a governing majority in the National Assembly. Alongside natural partners such as the ITN and Democratic Bulgaria, PP also needs the support of the centre-left BSP to do so. Combined, the four parties would have a comfortable majority in parliament, with PP co-leader Kirill Petkov being the most likely to succeed Stefan Yanev as Prime Minister. The political differences between the four parties could lead to lengthy and tough coalition talks, however pressure is high to end the political deadlock. With a lack of a coalition agreement, the Caretaker Government is likely to stay in place until another snap parliamentary vote. Taking the events of the past seven months into account, political stability remains a key risk in Bulgaria, with investors advised to carefully monitor the events of the upcoming weeks.

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