

FOUR-PARTY COALITION FORMS BULGARIA'S NEW GOVERNMENT

What can international investors expect from the Government of Kiril Petkov?

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After more than seven months of political uncertainty and three parliamentary elections in less than a year, Bulgaria finally has a new government. After both April's original parliamentary elections and a snap parliamentary vote in July failed to produce a governing majority, the third Bulgarian election of 2021, in November, has eventually seen the emergence and subsequent victory of a new political force, the anti-corruption and centrist We Continue the Change party (PP), which has finally secured a coalition deal with three other parties to step into government.

On 13th December, this new and ideologically diverse parliamentary majority installed a new Cabinet, incorporating members of Bulgaria's Caretaker Government, which led the country in the wake of the hung parliaments produced by the two previous elections. Led by former Caretaker Economy Minister Kiril Petkov, the new four-party Cabinet offers hopes of political stability for the short term, however the unity of the coalition could be seriously tested as Bulgaria heads into the next legislative cycle.

With Bulgaria facing a number of significant challenges, including the fourth wave of the COVID-19 pandemic, a surge in energy prices and efforts to ensure the country's post-pandemic recovery, Aretera offers further insight into the composition and priorities of the newly installed Petkov Government, the coalition agreement of the four governing parties, as well as implications for international investors.

This memo will cover:

A Potential End To A Major Political Impasse	2
The Composition Of The National Assembly	3
The Petkov Government And Its Likely Priorities	4
The Composition Of The New Government	6
Instability Will Overshadow Bulgarian Politics	7
Conclusions	7

A POTENTIAL END TO A MAJOR POLITICAL IMPASSE

The installation of Bulgaria's new Government – led by newly appointed Prime Minister Kiril Petkov – on 13th December could potentially mean the end of a major political crisis that has undermined political stability in the country and brought three general elections in less than a year.

Uncertainty has loomed large in Bulgaria as neither the country's long-awaited parliamentary elections in April, nor a snap parliamentary vote held three months later, produced a stable coalition in the country's multi-party National Assembly. The first parliamentary vote in April¹ saw six parties entering the Bulgarian parliament. Alongside the so-called establishment parties such as the former ruling centre-right GERB party of ex-PM Boyko Borissov, the long-time GERB-rival Bulgarian Socialist Party (BSP) and the ethnic Turkish Movement for Rights and Freedoms (DPS), the new parliament included three new entrants. Capitalizing on the anti-corruption sentiment as Borissov's party was tarnished by a row of corruption scandals, these included the populist There is Such a People movement (ITN), led by singer and TV personality Stanislav Trifonov, the liberal Democratic Bulgaria (DB), an alliance of centrist and pro-Western formations, and the fellow populist Stand Up Bulgaria movement of former BSP MP Maya Manolova.

Although the first election in April was narrowly won by the former governing and centre-right GERB party of ex-Prime Minister Boyko Borissov, the country's fragmented parliament and the mutual refusal from most parties to create parliamentary alliances made it impossible for GERB or any other party to form a coalition. After three failed attempts to form a government, Bulgaria's independent President (and longtime GERB rival) Rumen Radev dissolved parliament, called (the first) snap elections for July and installed a Caretaker Government in May², led by his former chief security and defence advisor, Stefan Yanev.

While the April-July period shifted public opinion towards Trifonov's ITN, which had won the first snap parliamentary vote in July, the re-run election produced³ another six-party parliament with the same parties but, this time, with different political positions. Trifonov's populist movement subsequently failed to form a cabinet, while GERB, which came second in the July vote, also returned its mandate to do so, due to a lack of alliances. The third-largest party, BSP, made a last-ditch attempt to form a government in August but also failed to secure a parliamentary majority.

As a result, President Radev dissolved parliament again on 16th September and called for another snap election, scheduled to coincide with the first round of the presidential elections on 14th November, in which he ran for re-election. The Yanev Cabinet was subsequently re-installed, however two of its ministers – former Economy Minister Kiril Petkov and former Finance Minister Assen Vassilev – left government to launch their own anti-corruption party, We Continue the Change (PP), and run for office.

Given the favourable approval ratings of the Caretaker Government and the popularity of the two former Caretaker Ministers, We Continue the Change quickly became one of Bulgaria's most popular political parties, running neck-and-neck with GERB ahead of the November vote. Beating all expectations, PP came first in the polls in November⁴, securing 26% of the popular vote and 3% more

than the main rival GERB. Following his defeat, ex-PM Borissov decided not to take up his seat in parliament.

The second re-run vote not only brought We Continue the Change's victory, but also resulted in a seven-party fragmented parliament with a different breakdown to the earlier results. Of the three "original" anti-corruption parties, the Stand up Bulgaria movement gradually lost popular support and eventually fell out of the National Assembly, unlike the far-right and anti-vax Revival, which became the seventh party of the Bulgarian parliament.

With We Continue the Change clearly aiming to lead the country's next government, the party repeatedly expressed its willingness to form a governing coalition with the two other anti-corruption formations (Trifonov's ITN and Democratic Bulgaria). Still lacking a parliamentary majority, however Petkov's party also reached out to the BSP to secure a sufficient number of mandates for the next legislative term.

While the second re-run parliamentary vote brought considerable changes to the National Assembly, the Presidential elections, which were held together with the November vote, did not bring major surprises. Widely expected to win a second term in office, President Radev secured close to half of the vote in the first round and defeated GERB-backed candidate Anastas Gerdjikov by receiving two thirds of the popular vote in the run-offs on 21st November.

THE COMPOSITION OF THE NATIONAL ASSEMBLY

Political Party/Alliance	Number of MPs	Affiliation
We Continue the Change – PP (anti-corruption, centrist, four-party coalition)	67	government
Citizens for the European Development of Bulgaria – GERB-SDS (centre-right)	59	opposition
Movement for Rights and Freedoms – DPS (ethnic Turkish, centrist)	34	opposition
Bulgarian Socialist Party – BSP (centre-left)	26	government
There Is Such People – ITN (big-tent, populist, anti-establishment)	25	government
Democratic Bulgaria – DB (liberal, anticorruption, three-party coalition)	16	government
Revival – Vazrazhdane (nationalist, pro-Kremlin, anti-vaccination)	13	opposition
Total	240	

(Source: Central Election Commission of Bulgaria)

THE PETKOV GOVERNMENT AND ITS LIKELY PRIORITIES

Following a month of intense but productive coalition talks, Petkov's We Continue the Change party has agreed a coalition deal with Trifonov's ITN movement, the liberal Democratic Bulgaria and the Bulgarian Socialist Party. Ten days after the new National Assembly held its first sitting, the Bulgarian parliament voted the country's new government – led by PP co-leader Kiril Petkov as Prime Minister – into office on 13th December.

Petkov brings extensive business and leadership experience to the office of PM. Bulgaria's new Prime Minister 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 biotechnology patents in the US.

Known as the Harvard Tandem, Petkov and his co-leader Assen Vassilev gained widespread popularity over their role in the Caretaker Government and their determination to bring in anti-corruption reforms. While in government, Petkov, the former Economy Minister, initiated a revision of the activities of the Bulgarian Bank of Development which appeared to confirm the results of previous investigations about unlawful loans given to a GERB-linked businessman.

The new PM will have five deputies and 15 additional ministers in his Cabinet. Reflecting the diversity of the new governing coalition, as well as the balance of power between the four ruling parties, the new government includes two deputy PMs from the senior ruling We Continue the Change (Assen Vassilev as Deputy PM and Finance Minister and Kalina Konstantinova as Deputy PM for Effective Governance), as well as one deputy PM from each fellow coalition partner. These include BSP leader Kornelia Ninova (appointed as Economy and Industry Minister), ITN politician Grozdan Karadjov (also Regional Development Minister) and Borislav Sandov, the co-founder of the Green Movement party, one of the three formations behind Democratic Bulgaria (as Environment Minister). Taking the number of the parties in the coalition into account, deputy Prime Ministers could emerge as major stakeholders in decision-making within the Petkov Cabinet.

- The senior ruling PP will control seven of the remaining 15 ministries, including the portfolios of interior affairs, defence, health, growth and innovation, transport, culture and education.
- BSP and ITN will oversee three ministries each. The former will be in charge of labour and social policies, agriculture and tourism, while Trifonov's party has secured foreign affairs, energy and sports. The junior coalition Democratic Bulgaria will control two ministries: the Justice Ministry and the newly formed Ministry of E-Government.
- Although the new cabinet will operate with an increased number of ministries, the new PM says the public administration will be reshuffled rather than expanded. Accordingly, it will take time for the Petkov Cabinet to settle in and properly start its work.
- In line with our post-election forecast from November, the Petkov Government includes members who also served in the Yanev Cabinet. The now former Caretaker PM, who previously expressed political support for We Continue the Change ahead of the second re-run vote, was appointed as Defence Minister. Boyko Rashkov has stayed on as Interior Minister, while Nikolay Denkov remains Education Minister.

While tackling corruption is the natural focus, COVID-19 and the economy are the immediate priorities. Petkov has vowed to make vaccinations certificate compulsory for workers of government institutions to set an example to the wider population. While the new PM considers boosting Bulgaria's vaccination rates a priority to fight the fourth wave of the pandemic, he hopes to do so by stepping up voluntary vaccination. Almost a year after the start of the EU vaccination rollout, Bulgaria remains the least vaccinated member state, with only 27% of the population having received two doses.

Concerning the healthcare system, launching a digital, nationwide healthcare information system and electronic patient files for all Bulgarians by the end of 2022 are also among the Government's plans. Also in relation to the pandemic, next year the Petkov Cabinet will consider cutting VAT on food products, essential services and medicine, and has subsequently pledged not to increase VAT in 2022.

In line with the profile of the new Government, We Continue the Change hopes to implement anti-corruption and judicial reforms, including the overhaul of the country's top anti-corruption agency. As part of its future anti-corruption efforts, the Petkov Government is almost certain to clash with Ivan Geshev, Bulgaria's prosecutor general, whom the new Cabinet wants to resign over allegations of corruption and his connections to the former ruling GERB party.

The Petkov Cabinet has also promised to initiate steps against what it regards as a price shock in the Bulgarian energy market and to develop a new strategy for the country's energy sector, likely to include efforts to diversify energy resources. Besides hoping to attract new investments to the Bulgaria economy, the new Cabinet is aiming for at least 5% of GDP growth in the coming years after a 4.4% economic downturn last year. In a recent forecast, the European Commission significantly lowered its economic growth projection for this year to 3.8% from 4.6% expected in July, while it expects Bulgaria's GDP to grow by 4.1% in 2022. The outgoing Finance Ministry aimed for a 3.6% budget deficit for 2021, while next year's budget will be decided by the country's new parliament that could very well go into 2022.

Securing EU recovery funds could prove crucial for the economy. The likely priorities also include Bulgaria's National Recovery and Resilience Plan (NRRP), a multiannual financial plan to utilize €6.5 billion in grants provided under the EU's COVID-19 recovery package⁵. In October, the second Yanev Government formally submitted the country's NRRP to the Commission, however it was recently returned for further considerations about the plan's segments related to the rule of law and energy. The new Government is likely to prioritize swift amendments to the NRRP, which, if approved and implemented, could become a significant contributor to the country's post-pandemic economic recovery and Petkov's 5% GDP growth target.

Digitalization is a key component in the new government structure. The establishment of a separate E-Government Ministry indicates a higher focus on improving public services through digitalization. As part of the proposed e-government changes, the Petkov Cabinet is preparing for improving the country's ID card system by introducing new types of cards suitable for e-identification and e-signature, with the project set to launch in the next six months. The future plans also include reducing the administrative burden on citizens via the digitalization of 20 certification services.

⁵ Please see [here](#) for our recent overview of the EU's recovery funding package

While this will likely create opportunities for businesses to engage and/or cooperate with the new Government, some of its future proposals could create tensions with businesses in the IT sector. In early December, new Finance Minister Assen Vassilev announced that We Continue the Change would increase the so-called maximum insurance income in the country. Currently, insurance in Bulgaria is only due on salaries up to €1,500 per month, with no taxes above this amount. While Assilev claimed this was necessary since the maximum insurance income is at its lowest level since 2007, business associations in the IT sector issued a joined protest statement, claiming that raising taxes would drive IT specialists abroad.

EU enlargement will be Petkov's first major foreign policy test. An additional uneasy task for the Petkov Cabinet will be to settle his country's differences with North Macedonia. 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. The outgoing Yanev Government largely avoided the issue, claiming that such a decision was outside its mandate and that the move would need popular support. Petkov has said that Bulgaria's position will remain unchanged but promised a new approach from his Government.

THE COMPOSITION OF THE NEW GOVERNMENT

Cabinet Member	Portfolio/Responsibility	Party Affiliation
Kirill Petkov	Prime Minister	PP
Assen Vassilev	Finance	PP
Kalina Konstantinova	Government Efficiency	PP
Kornelia Ninova	Economy and Industry	BSP
Grozdan Karadjov	Regional Development	ITN
Borislav Sandov	Environment and Waters	DB
Boyko Rashkov	Interior	PP
Teodora Genchovska	Foreign Affairs	ITN
Stefan Yanev	Defence	PP
Nadezhda Yordanova	Justice	DB
Georgi Gyokov	Labour and Social Policies	BSP
Assena Serbezova	Health	PP
Alexander Nikolov	Energy	ITN
Ivan Ivanov	Agriculture	BSP
Nikolay Subev	Transport	PP
Daniel Lorér	Growth and Innovation	PP
Bozhidar Bozhanov	E-Government	DB
Nikolay Denkov	Education	PP

Hristo Prodanov	Tourism	BSP
Atanas Atanasov	Culture	PP
Radostin Vassilev	Sports	ITN

INSTABILITY WILL OVERSHADOW BULGARIAN POLITICS

Bulgaria's new governing coalition holds 134 of the 240 seats in the country's unicameral National Assembly, allowing the ruling parties to comfortably pass new laws and regulations during the coming legislative period. The coalition deal provides agreements in 18 policy areas, with legislative initiatives to be discussed in 18 intra-coalition expert councils to avoid legislative competition between the four ruling parties. While this initiative gives reason for optimism, political instability remains a key concern in Bulgarian politics.

Combined with the energy crisis, the resurging COVID-19 pandemic and hopes to support post-pandemic recovery, the events of the past eight months will undoubtedly push the parties behind the Petkov Government to maintain the coalition and honor its agreements. At the same time, policy disagreements, whether covered by the coalition deal or not, personal disputes within the ranks of the new Cabinet and the inexperience of three of the four governing parties in government could all become destabilizing factors as the legislative cycle proceeds.

Although the Cabinet is planning to leave the country's taxation system largely unchanged, Vassilev's aforementioned proposal concerning the maximum insurance income has already caused frustration not only with IT business associations but also within the coalition parties. While the PP co-leader is supportive of the idea, Bojidar Bojanov, an MP from Democratic Bulgaria and a prominent IT expert, stated this would be a negative sign for foreign investors and shows a lack of predictability in the country.

Furthermore, the new parliamentary majority provided by the four ruling parties adds up to an experimental coalition of unlikely partners. While Trifonov's ITN and the Democratic Bulgaria movement seem natural allies, several of the anti-establishment formations have previously ruled out working with the fourth member, the centre-left BSP. Additionally, both ITN and DB were seriously weakened in terms of popular support and the number of MPs during the November vote, leaving the two parties more likely to initiate debates about the program or the composition of the governing coalition.

CONCLUSIONS

The upcoming period will prove crucial for Bulgaria's political stability as the new governing coalition of four parties – led by Petkov's We Continue the Change movement – faces up to a number of serious challenges, ranging from public expectations to respond to high energy prices to plans to boost the country's post-pandemic recovery.

The multiple challenges ahead, as well as the lingering memory of the past months, will likely push the new coalition to stay together for the short term. This year's crisis has led to a general public dissatisfaction with a number of the governing parties, all of which could improve their political positions if the Petkov Cabinet proves stable and successful. At the same time, the unity of this ideologically diverse four-party coalition could be seriously tested, particularly alongside policy issues

– as indicated, for instance, by the debate between Finance Minister Vassilev and the IT sector about maximum insurance incomes.

Coalition fractures could also very well emerge in political disputes, with We Continue the Change standing on the one side and minor coalition parties on the other. While public pressure will mount on the coalition to deliver and stay united to do so, coalition crises and a minority government in the face of escalating political tensions remain among the possibilities.

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