

BULGARIA FORMS NEW CARETAKER GOVERNMENT AND HEADS FOR YET ANOTHER SNAP ELECTION

Implications for International Investors

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SUMMARY

Bulgaria is set to hold its fifth consecutive snap parliamentary election in just three years, with severe implications for the country's political stability, its planned adoption of the Euro, as well as for its longstanding ambition of becoming a full member of the EU's Schengen Area. The next snap election is scheduled for 9th June, together with the EU parliamentary elections, further complicating the upcoming election campaign in an ideologically and structurally diverse political environment.

Plagued with political instability and short-term governments throughout its recent history, Bulgaria heads into this crucial vote hoping to move towards a firmer political footing. However, with most observers predicting little change in the distribution of parliamentary seats, the election could result in another hung parliament and further political instability.

The snap election follows the collapse of the planned government reshuffle between the informal coalition partners, the centre-right GERB-SDS and the centrist-liberal We Continue the Change-Democratic Bulgaria (PP-DB) alliance. This resulted in a new caretaker government from 9th April, led by Dimitar Glavchev. Under Aretera's assessment, the upcoming snap elections will likely delay Bulgaria's accession to the Eurozone and the Schengen Area, while the Parliament's legislative agenda could also face interruptions. However, if the election does produce a stable government, its expected priorities are likely to include formalizing Bulgaria's full Eurozone and Schengen Area memberships. In addition to easier business operations, reduced costs and increased efficiency, this would also provide foreign investors in Bulgaria with an assurance regarding economic stability and compliance with EU regulations.

A recent constitutional change means parliament is no longer dissolved when an interim cabinet takes office. As a result, there will likely be firm parliamentary control under the executive branch in the short term, indicating that Bulgaria's European integration objectives will also be on the top of the short-term political agenda.

 **Below, Aretera takes a deeper look at the upcoming snap elections in Bulgaria, the possible forward scenarios, as well as its implications for international investors.**

HEADING TOWARDS SNAP ELECTIONS (AGAIN)

After talks between Bulgaria's informal coalition partners – the center-right GERB-SDS of longtime ex-PM Boyko Borissov and the centrist-liberal We Continue the Change-Democratic Bulgaria (PP-DB) alliance – collapsed following weeks of intense negotiations, new snap elections were scheduled for 9th June, to be held together with the European parliamentary elections.

Bulgaria's last general election in April 2023 came after four inconclusive parliamentary elections in just two years and brought a narrow victory for GERB (25.4% of the vote) over the PP-DB coalition (23.5%). While the two blocs were considered fierce rivals in Bulgarian politics for years, the hung parliament forced them to work together to break Bulgaria's snap election cycle.

PP-DB eventually joined GERB in forming a government, resulting in the formation of the Nikolay Denkov Cabinet last June. However, the centrist-liberal bloc was keen to keep as much distance from GERB as possible, particularly due to systemic corruption allegations around GERB. This was one of the main reasons why the Denkov Government was mandated for nine months with a rotation to follow, as well as why the two sides chose not to sign a formal coalition agreement, refraining from using the term “coalition” at all.

Shortly after the formation of the Denkov Government, the importance of the lack of a formal coalition agreement became clear for both sides. Disagreements between GERB and the PP-DB bloc pushed GERB to search for alternative majorities in parliament to pass laws not supported by PP-DB, causing high tension in the past nine months.

In an effort to stabilize the informal coalition, both GERB and the PP-DB bloc unilaterally proposed coalition deals before the start of the failed negotiations for the government rotation, however each was flatly rejected by the opposite party.

The tension between the reluctant allies culminated in March, when according to the planned rotation, PP-DB's Denkov was due to be replaced as Prime Minister by (now former) Foreign Minister and GERB ally Mariya Gabriel. Multiple disagreements came to light between GERB and PP-DB, including over how to distribute a number of ministerial seats, appoint heads of regulators and introduce judicial reforms.

Borissov's party says the alleged ongoing demands of its coalition partners to renegotiate the proposed cabinet set-up were the main reason talks collapsed. However, the PP-DB bloc blamed GERB's alleged refusal to introduce measures aimed at reforming the country's judiciary system, secret services and the election of the heads of public authorities.

Consequently, GERB-nominated PM-designate Gabriel returned her party's mandate to form a government, which was followed by a similar move from PP-DB on March 27. President Rumen Radev then gave the third constitutionally allowed mandate to form a government to the parliament's smallest party, the populist There Is Such a People (ITN), which also immediately returned it, leading to a caretaker government and a need for yet another snap election.

THE COMPLICATING ROLE OF THE DPS

A major reason behind the uncertainty surrounding the failed government reshuffle was the informal coalition's relationship with the Turkish-minority Movement for Rights and Freedoms (DPS). Led by former media mogul Delyan Peevski, who has been sanctioned by the US Government for corruption under the Global Magnitsky Act, the DPS, although not part of the informal governing bloc, became involved in the coalition talks, reportedly to establish a two-thirds majority in Bulgaria's fragmented parliament. This was needed to enforce constitutional changes to reform the country's judiciary, which has been a longstanding priority for the vocally anti-corruption PP-DB. These constitutional changes were subsequently adopted by parliament in December 2023.

While both GERB and PP-DB welcomed support from the DPS on reforming the Constitution, the party's growing influence in parliament has over time turned into a catalyst for conflict between the governing parties. During the nine months of the Denkov Government, the DPS – joining forces with GERB and smaller parliamentary groups – created an alternative parliamentary majority that bypassed the fellow ruling PP-DB on several occasions.

An alleged attempt to institutionalize the DPS' role in decision making through the procedure of electing the heads of public authorities and state agencies turned out to be the ultimate point of conflict between PP-DB and GERB. While the former tried to prevent the Turkish minority party from gaining a greater role in the process (since they feared DPS would be an extension of GERB's influence), GERB supported greater involvement from DPS. This impasse between the two coalitions was the final straw that ultimately led to the failure of the government rotation.

NEW CARETAKER GOVERNMENT TAKES OFFICE

According to Bulgaria's recently amended constitution, the head of state can choose from a limited list of people when naming a caretaker Prime Minister, namely the Speaker of the National Assembly, the Governor and deputy governors of the central Bulgarian National Bank (BNB), the Ombudsman and Deputy Ombudsman, and the Chairperson and deputy chairs of the Audit Office. Following consultation with all possible candidates, President Rumen Radev appointed the head of the Audit office Dimitar Glavchev as caretaker PM and handed him a mandate to propose a government. According to Radev, Glavchev, a former speaker of parliament and six-time MP from GERB, was the only eligible candidate who agreed to assume the PM's office.

PM-designate Glavchev had a free hand at selecting ministers for the interim government, which he presented to the President on 5th April. According to Glavchev, when choosing his Cabinet, he tried to include "experts who would provide continuity and a politically balanced government." While some of the new ministers have held various positions in the executive branch, both during previous caretaker cabinets and during GERB-led governments, there are four who were considered close to PP-DB and held ministerial positions in the Denkov-Gabriel cabinet: Agriculture and Food, Interior, Education and Transport and Communications. Three deputy ministers from the outgoing regular Cabinet are also set to remain as ministers: e-Government, Defence, and Environment and Water.

While the main task of the caretaker government will be to guarantee fair elections, newly appointed PM Glavchev has already stated that this does not mean the Cabinet will stop working in other areas, adding that the "European path of Bulgaria" will be followed.

This possibly indicates that the caretaker government will be rather proactive, much like the previous ones that were appointed by President Rumen Radev.

POSSIBLE FORWARD SCENARIOS

Under Aretera's assessment, the upcoming snap elections are likely to cause delays to Bulgaria's accession to the Eurozone and the Schengen Area, while the parliament's legislative agenda could also face interruptions. Furthermore, the two former ruling blocs (GERB-SDS and PP-DB) may find themselves in a similar situation following the election, since public support for Bulgaria's various political parties remains largely unchanged. However, in the long run, a perpetuating series of snap elections and hung parliaments could lead to the formation of new parties and might even impact Bulgaria's pro-European trajectory.

A possible early indication of this is the emergence of "Third of March", a pro-Russian conservative party unofficially supported by President Radev (also a longtime opponent of GERB). Should the pro-EU GERB-PP-DB-DPS bloc prove unable to govern, voters may turn to other parties that may result in a pro-Russian governing majority in the long term.

If the snap elections bring about a stable government, its expected priorities are likely to include formalizing Bulgaria's full membership in the Eurozone and the Schengen Area. In addition to easier business operations, reduced costs and increased efficiency, this would also provide foreign investors in Bulgaria with an assurance regarding economic stability and compliance with EU regulations. Bulgaria was accepted into the "sea and air" Schengen at the end of March and the new government will have to continue negotiations for 'land accession' this summer. Eurozone accession is expected for January 1 2025, however it is contingent on political stability and compliance with the EU's Maastricht Criteria, particularly regarding inflation and the State deficit.

Under this scenario, the new government is expected to prioritize further anti-corruption legislation and reform of the judiciary, following up on the constitutional amendments approved by parliament last December. This could also be accompanied by electing the new heads of more than 50 state regulatory bodies and reforming Bulgaria's security and intelligence sector. However, much of this will depend on how the governing bloc cooperates with the DPS.


If conducted in a transparent manner, a positive outcome could reduce foreign malign influence, strengthen the rule of law and prevent the threats of monopolization. On the policy level, further priorities are likely to include new e-Government measures, cutting down on bureaucracy, fostering a better operational environment for businesses, stimulating economic growth and new measures on digitalization.

LOOKING AHEAD

Due to recent constitutional changes, Bulgaria's National Assembly is not dissolved with the inauguration of a caretaker cabinet and, instead, will continue to work until the new parliament is inaugurated. This will allow for the adoption of legislative changes, some of which are key to access the country's post-pandemic EU recovery funds. In addition, there will be firm parliamentary control under the executive branch, which was largely missing under previous caretaker cabinets. The main priorities for the country remain Bulgaria's accession to the Eurozone and the inclusion of the country's land borders in the Schengen Zone.

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