

BULGARIA'S GRAND COALITION GOVERNMENT ENTERS INTO OFFICE

Implications of the Denkov Government for Investors

7 June 2023





Bulgaria's parliament has voted the country's new government into office. Led by former Education Minister Nikolay Denkov, the new government is the result of a surprise coalition agreement between the two largest political formations of the country – the centre-right GERB-SDS party of ex-PM Boyko Borissov and its former rival, the centrist We Continue the Change-Democratic Bulgaria (PP-DB) alliance.

Under its legislative program, the Denkov Government will aim to implement sweeping constitutional and judicial reform, ensure the flow of EU recovery funds, as well as to support the country's aspirations to join the Euro and the Schengen Zone. Despite their numerous disagreements, the informal alliance of the two largest political blocs also means a pro-Western majority in parliament.

The formation of the Denkov Cabinet is seen as a major step towards resolving the country's long-running political crisis, after a series of inconclusive parliamentary elections since April 2021. However, political stability will remain one of the key issues to monitor, given Bulgaria's highly fragmented parliament and history of short-lived governments.

Below, Aretera provides further insight into the formation of the country's new government.

This memo will cover:

-  key takeaways from the formation of the Denkov Government,
-  Bulgaria's post-election landscape,
-  short-term political and policy implications,
-  implications for international investors.

POST-ELECTION LANDSCAPE

On 6th June, Bulgaria's National Assembly voted the country's new government into office. Led by former Education Minister Nikolay Denkov, the new government, which comes two months after the country's latest snap parliamentary election, is the result of a surprise coalition deal between the two largest formations (and subsequent rivals) of the Bulgarian parliament: the centre-right GERB-SDS party of ex-Prime Minister Boyko Borissov and the centrist We Continue the Change-Democratic Bulgaria (PP-DB) bloc.

GERB narrowly won the country's latest snap elections¹ on 2nd April (with 26.5%) against the PP-DB alliance that secured 24.5%. The elections, similar to all the four elections held since 2021, produced a hung parliament, this time with four additional parties. These include the far-right and pro-Russian Revival, the ethnic Turkish Movement for Rights and Freedoms (DPS), the longtime GERB rival Bulgarian Socialist Party (BSP) and the populist There is Such a Nation (ITN).

As in the case of the previous snap election held last October, the PP-DB bloc had vowed not to enter a coalition with the election winner GERB over ex-PM Borissov's tarnished reputation due to a series of corruption scandals during his time in office. However, pressure has mounted on the Bulgarian parliament to finally produce a democratically mandated government, particularly in light of the unwanted snap electoral cycle that has overshadowed the country's politics since April 2021.

KEY TAKEAWAYS FROM THE COALITION DEAL

Following the elections in April, Borissov's GERB received the first mandate to form a government. Borissov himself had ruled out becoming head of government again in order to boost the chances of a GERB-led majority in parliament, so the party instead nominated former EU Commissioner Mariya Gabriel, who resigned from her job specifically to become PM. While Gabriel failed to secure a coalition majority, she and GERB eventually managed to strike a surprise agreement with their main electoral rival, the PP-DB.

Under the agreement, which the two blocs regard as a "management declaration" since no coalition deal was signed, PP-DB's Nikolay Denkov will lead the coalition government, with Mariya Gabriel serving as his deputy and Foreign Minister for nine months, after which the two will swap seats as part of a government reshuffle projected for the end of 2024.

Politically, the formation of the Denkov Government is a major win for GERB, which fell out of power in 2021 due to multiple allegations of institutional corruption. Following three subsequent elections in 2021, GERB managed to (slightly) overtake its main electoral rival, the PP-DB, last October during the previous snap election. While the results from the April election largely resemble those from October, GERB this time managed to agree on a majority, and subsequently return to power.

Simultaneously, the deal may also hit the PP-DB coalition in the polls, at least in the short term, given their longstanding opposition to entering an alliance with Borissov. This has also been echoed by Bulgaria's President and longstanding Borissov critic Rumen Radev, who said that the PP-DB had "betrayed their voters."

¹ See [here](#) for Aretera's overview of Bulgaria's latest snap elections from April 2023

Of the 240 MPs of the Bulgarian parliament, 200 were present during the vote on the Denkov Cabinet, which was confirmed with 131 votes in favour, 69 against and 0 abstentions. One GERB MP and three PP-DB MPs voted against, while the two leaders of the ethnic Turkish DPS, believed to be informal allies of GERB, also voted in favour.

THE COMPOSITION OF THE DENKOV GOVERNMENT

Composition of the Cabinet of Ministers		
Member	Position	Portfolio
Nikolay Denkov	Prime Minister	-
Mariya Gabriel	Deputy PM & Minister	Foreign Affairs
Asen Vasilev	Minister	Finance
Atanas Slavov	Minister	Justice
Bogdan Bogdanov	Minister	Economy & Industry
Kalin Stoyanov	Minister	Interior
Todor Tagarev	Minister	Defense
Julian Popov	Minister	Environment & Water Management
Milena Stoycheva	Minister	Innovation & Growth
Rumen Radev*	Minister	Energy
Georgi Gvozdeikov	Minister	Transport & Communications
Hristo Hinkov	Minister	Health
Galina Tsokova	Minister	Education & Science
Zaritsa Dinkova	Minister	Tourism
Ivanka Shalapatova	Minister	Labour & Social Affairs
Kiril Marinov Vatev	Minister	Agriculture & Food
Andrey Tsekov	Minister	Regional Development
Alexander Iolovski	Minister	E-Government
Krastyu Krastev	Minister	Culture
Dimitar Iliev	Minister	Youth & Sports

*Energy Minister Rumen Radev is not to be confused with Bulgaria's President, who bears the same name.

SHORT-TERM POLITICAL & POLICY IMPLICATIONS

Prime Minister Denkov enters office with political, scientific and academic experience. A physicist and physical chemist by profession, Denkov is a member of the Bulgarian Academy of Sciences and a lecturer at the University of Sofia. After serving as a member of various working groups in the Ministry of Education, he became Deputy Education Minister in 2014 and served in this role until 2016. He briefly served in the same capacity in the short-lived caretaker government of Ognyan Gerdzhikov (2017).

Denkov re-entered government in 2021 when he joined the two Caretaker Cabinets of Stefan Yanev. Following the general election in November 2021, he remained in his position in Kiril Petkov's government until its collapse in August 2022.

Based on its legislative program, the Denkov Government will aim to implement sweeping constitutional reforms to clean up Bulgaria's judiciary and tackle corruption within the branches of power. The immediate priorities of the new cabinet also include introducing an emergency budget with a 3% budget deficit and no major tax increases, as well as working towards Bulgaria's entry to the Schengen Zone and the Eurozone. A plan to join the EU's common currency bloc in January 2024 was already postponed (in February) due to the parliament's failure to agree on corresponding laws.

Based on Denkov's first speech to parliament, among the cabinet's priorities of the new PM is to ensure the accessibility and transparency of electricity prices. Denkov also promised to support Bulgarian businesses and to strengthen the state's control over the spending of subsidies. The government will also aim to receive the second tranche of EU funds under the bloc's post-pandemic recovery and resilience plan, which is focused on supporting economic growth, as well as enhancing the green and digital transformation.

The formation of the Denkov Cabinet also means a pro-EU majority behind the country's new government. The last election saw the rise of pro-Russian sentiment, particularly in the third-place result of the far-right and pro-Kremlin Revival. Despite their numerous disagreements, however, the GERB and PP-DB blocs are geopolitically like-minded, together controlling 132 of the 240 seats in the country's National Assembly. In addition, the new cabinet also vowed to eliminate Russian influence in Bulgaria's security sector.

COMPOSITION OF THE BULGARIAN NATIONAL ASSEMBLY

Party/Alliance	Affiliation	Number of MPs
Citizens for the European Development of Bulgaria – GERB-SDS (two-party alliance, centre-right, pro-EU)	Government	69
We Continue the Change & Democratic Bulgaria – PP-DB (multi-party alliance, reformist, pro-EU)	Government	63
Revival – Vazrazhdane (nationalist, pro-Kremlin, anti-vaccination)	Opposition	37
Movement for Rights and Freedoms – DPS (ethnic Turkish, centrist)	Opposition	34
Bulgarian Socialist Party – BSP for Bulgaria (centre-left coalition)	Opposition	23
There is Such a Nation – ITN (populist, social conservative)	Opposition	11
Independents*	Opposition	1
Total		240

*The sole independent MP in parliament is Radostin Vassilev who recently left the PP-DB bloc.

INSTABILITY REMAINS A KEY CONCERN

Bulgaria's underlying political fragility was on full display throughout a series of inconclusive parliamentary elections since April 2021, none of which were able to produce a lasting governing coalition. This has led to three caretaker governments and a protracted political crisis. Only the second snap election – held in November 2021 – managed to produce a coalition government, led by PP co-chair Kiril Petkov, however this government also collapsed due to multiple disagreements last July.

While the formation of the Denkov Cabinet is seen as a major step towards resolving the country's uncertainties, political stability will remain one of the key issues to monitor, given Bulgaria's highly fragmented parliament and history of short-lived governments. Most importantly, a failure to push anti-corruption and judicial reforms through parliament could cause disagreement within the multi-party PP-DB bloc, endangering the stability of the coalition behind Denkov's cabinet.

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