

BULGARIA'S NEW CARETAKER GOVERNMENT

Analysis & implications of the recent change of government and the country's upcoming snap parliamentary elections

3 August 2022

Issues & Sectors	Political Stability, Bulgarian Snap Parliamentary Elections 2022
Stakeholders	Parliament of Bulgaria, Government of Bulgaria, Rumen Radev, Galab Donev

Following three consecutive parliamentary elections last year, Bulgaria is yet again heading towards a snap parliamentary vote after the country's four-party coalition government – led by now ex-Prime Minister Kiril Petkov and his centrist We Continue the Change (PP) movement – collapsed in a no-confidence vote on 22nd June. With no parties having since been able to secure a parliamentary majority, a new election has become unavoidable under the Bulgarian constitution.

On calling for new snap elections scheduled for 2nd October, Bulgarian President Rumen Radev has simultaneously appointed a new caretaker cabinet, with a limited mandate to lead the country until the upcoming parliamentary vote. Led by Galab Donev as Acting Prime Minister, the President's former Social Policy Advisor, the main task of the new caretaker government will be to organize the forthcoming elections, however must also deal with a number of significant immediate challenges, including the energy crisis looming over Europe and a worsening economic climate.

Below, Aretera takes a look at the Bulgarian political landscape, the new caretaker government and its priorities, the likely impact of the current crisis and the possible directions Bulgaria could take after the October elections.

This memo will cover:

-  the causes leading to Bulgaria's new caretaker government and the new snap elections,
-  an introduction to the Donev Government & its priorities,
-  the composition of the new interim cabinet,
-  the political and economic implications of the current political stalemate,
-  the possible scenarios of and beyond the October snap elections.

THE CONTINUATION OF AN UNWANTED ELECTORAL CYCLE

On 1st August, Bulgarian President Rumen Radev scheduled snap parliamentary elections for 2nd October and subsequently announced the appointment of the country's new, caretaker government, led by former Social Affairs and Labour Minister Galab Donev. This followed the toppling of the multi-party coalition government of former centrist Prime Minister Kiril Petkov in a vote of no confidence on 22nd June.

President Radev's announcement followed three unsuccessful attempts to form a governing majority in Bulgaria's fragmented parliament in July, by Petkov's We Continue the Change (PP) movement, the leading opposition GERB party of ex-PM Boyko Borissov (which immediately returned the presidential mandate) and the minor ruling centre-left BSP for Bulgaria alliance.

The original four-party coalition, which – alongside Petkov's PP movement and the BSP for Bulgaria – also included the centrist-liberal Democratic Bulgaria bloc and the populist There is Such a Nation (ITN) party, had existed on shaky ground from the very beginning of its formation last December. A series of disagreements led to ITN's exit from the coalition and the eventual collapse of the Petkov Cabinet in late June¹.

The October election will be Bulgaria's fourth parliamentary electoral contest in 18 months. Last year alone saw three parliamentary elections and two caretaker governments, with only the third parliamentary vote, held last October, producing a governing majority in the country's multi-party legislation, which currently includes seven parliamentary groups and independent MPs.

THE DONEV GOVERNMENT & ITS PRIORITIES

Sworn into office on 2nd August and modelled after the composition of the previous cabinet in its structure, the Caretaker Government of Acting PM Donev consists of 20 ministers, including four Deputy PMs, responsible for the prioritized areas of social policy, economy, security and EU funds management.

Acting PM Donev takes office with vast political experience. An economist and lawyer by profession and specialized in social policy and labour issues, he has served most recently as Social Policy Advisor to President Radev, having previously been Social Policies and Labour Minister between 2014 and 2016, after holding multiple roles in Bulgaria's public administration and the private sector.

Donev has served in all three of Bulgaria's previous caretaker governments – as Labour and Social Policy Minister in the 2017 Caretaker Government of Ognyan Gerdzhikov and as Deputy PM and Economic and Social Policies and Acting Labour and Social Policy Minister in the two Caretaker Governments of former Acting PM Stefan Yanev in 2021.

According to the Acting PM, the primary responsibilities of the new caretaker government include organizing fair elections in October, restoring trust between the people and the state, finding a way out of the current economic crisis, easing political tension and continuing to work on the implementation of Bulgaria's National Recovery and Resilience Plan (NRRP), under which the country is set to receive €6.3 billion in post-pandemic recovery funding from Brussels during the current EU budgetary cycle.

¹ See [here](#) for our overview of the collapse of the Petkov Government from 24 June

THE COMPOSITION OF THE NEW CARETAKER GOVERNMENT

Cabinet Member	Position	Responsibility
Galab Donev	PM	-
Lazar Lazarov	Deputy PM & Minister	Social Policies & Labour
Hristo Alexiev	Deputy PM & Minister	Economic Policy, Transport & Communications
Ivan Demerdzhiev	Deputy PM & Minister	Security & Interior Affairs
Atanas Pekanov	Deputy PM	EU Funds Management
Rositsa Velkova-Zheleva	Minister	Finance
Dimitar Stoyanov	Minister	Defence
Asen Medzhidiev	Minister	Health
Ivan Shishkov	Minister	Regional Development & Public Works
Sasho Penov	Minister	Education & Science
Nikolay Milkov	Minister	Foreign Affairs
Krum Zarkov	Minister	Justice
Velislav Minekov	Minister	Culture
Rositsa Karamfilova-Blagova	Minister	Environment & Water Management
Yavor Gechev	Minister	Agriculture
Nikola Stoyanov	Minister	Industry & Economy
Rosen Hristov	Minister	Energy
Alexander Pulev	Minister	Innovation & Growth
Ilin Dimitrov	Minister	Tourism
Vesela Lecheva	Minister	Youth & Sports
Georgi Todorov	Minister	E-Government

POLITICAL & ECONOMIC IMPACT

The situation leaves President Radev as a strongly empowered stakeholder. In addition to Acting PM Donev, several ministers in the new caretaker government are believed to be Radev's close allies. A number of ministers in the current caretaker cabinet also served in the two Interim Governments of former Acting PM Stefan Yanev, Radev's former Defence Advisor who led the country between May and December last year. Interestingly, however, Rositsa Velkova-Zheleva, the newly appointed Finance Minister, is considered close to the main rival GERB, given her previous deputy ministerial role in the third Borissov Government between 2017 and 2021. This composition will elevate the role of the Presidential Administration in political decision-making until a new government is formed, signalling that the Donev Government will address the priorities set by President Radev – unlike the former Petkov Cabinet that disagreed with him on major political issues.

The performance of the Donev Government could shape the results of the October elections. In 2021, the political stalemate produced by the snap elections cycle was eventually broken by the then-newly emerged We Continue the Change (PP) movement of Kiril Petkov and Assen Vassilev, who served as Ministers in Stefan Yanev's two Caretaker Governments. Public support for their reformist agenda has grown to an extent that the PP movement became the most popular party at the time, propelling Petkov to becoming PM last December. Whether Bulgaria will see a similarly rapid rise of new political projects is yet to be seen, however the performance of the Donev Government is highly likely to impact the results of the upcoming snap elections and shape Bulgaria's multi-party politics. In this regard, it is noteworthy that President Radev appointed Krum Zarkov as Justice Minister; an internal opponent of the leadership of the BSP for Bulgaria who has traditionally stood close to the President but recently diverged on policy issues. Other members in the new caretaker cabinet are also seen as internal critics of the BSP leadership and the previous, Petkov-led government.

The new government is likely to be softer on Russia. Although initially supporting Petkov's We Continue the Change movement, President Radev, who is often regarded as a moderate on Russia, increasingly found himself at odds with the previous government. Former PM Petkov took a strong stance against Moscow, even visiting Kyiv to ensure Ukraine of Bulgaria's support and expelling 70 Russian diplomats accused of espionage. The Donev Government is expected to reset its relations with the Kremlin and may even move to increase Russian gas imports, thus deviating from the European mainstream.

Tackling economic hardships could take priority. Appointing a longtime social policy specialist as Acting Prime Minister indicates that President Radev expects the new government to shield the population from the worsening economic climate caused by Russia's war against Ukraine. The Donev Cabinet, therefore, despite its limited mandate, is expected to address key socio-economic concerns that include rapidly increasing inflation, rising energy costs and worsening living standards, as well as taking steps to tackle the energy crisis and secure post-pandemic EU recovery funding².

LOOKING AHEAD

As Bulgaria heads towards its fourth parliamentary election in 18 months, political instability will become an even more concerning issue for the country. The recently appointed caretaker government, led by Acting PM Donev, is expected to try and reassure both the public and markets that Sofia will address the most important domestic challenges, including the economic difficulties brought upon by Moscow's actions in Ukraine. However, with the country seemingly locked into a cycle of political instability and short-term governments, the long-term outlook remains difficult to predict.

As for the outcome of the next snap elections in October, multiple scenarios remain possible at the time of writing, including majority and minority governments, as well as a hung parliament, due to the multi-party nature of Bulgarian politics.

Provided that ex-PM Kiril Petkov is able to maintain public support and preserve his PP movement as a credible political party, the PP could be the main force behind forming a new governing majority after the elections. While Petkov can count on the centre-left BSP for Bulgaria and the liberal-centrist Democratic Bulgaria blocs, any potential new coalition could again face stability issues. Petkov is now taking aim at the ITN for leaving the coalition government and campaigning on a pro-EU and anti-corruption platform.

² See [here](#) for our overview of post-pandemic EU recovery funding in CEE markets from 9 June

Petkov's PP movement is currently running neck-and-neck in the polls with the centre-right GERB party of ex-PM Boyko Borissov. GERB fell out of government after the first of the recent three parliamentary elections in April 2021, largely due to allegations of institutional corruption, which provoked nationwide protests. A longtime opponent of President Radev and the BSP for Bulgaria, Borissov hopes to make a comeback and benefit from the disintegration of the Petkov-led four-party coalition. Such a comeback, however, would need the support of the far-right, pro-Kremlin and anti-Covid vaccination Vazrazhdane (Revival) party to secure a parliamentary majority, which could again easily prove unstable.

As in 2021, the outcome of the upcoming snap parliamentary vote could easily be influenced by rapid changes in the popularity of certain political parties and the emergence of new political forces. These include the far-right Vazrazhdane, which surprisingly entered parliament last November, almost doubling its support which currently stands at 9-10%. Critics argue that the formerly ruling ITN party, currently losing popular support, is also undergoing a political shift that could result in a closer relationship with the Bulgarian far-right, while the recently formed centre-left Bulgarian Rise party of former Caretaker PM Stefan Yanev (May-December 2021) could be the newest party in Bulgaria's parliament. Yanev also served as Defence Minister in the Petkov Government but was sacked in late February over his reluctance to call Russia's actions in Ukraine a war.

Given the constant state of flux across the Bulgarian political landscape, our baseline scenario assumes a hung parliament, with no political parties being able to form a governing majority. This includes the possibility of yet another snap parliamentary election and that the Caretaker Government of Galab Donev will stay in office well beyond October, reinforcing the need for investors in Bulgaria to establish and/or strengthen their relationship with the new caretaker government.

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