

BULGARIA TO HOLD FIFTH ELECTIONS IN TWO YEARS

Short-term risks, long-term implications & scenarios as Bulgaria's unwanted electoral cycle continues

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Following three unsuccessful attempts from the country's leading political parties to form a governing coalition, Bulgaria is yet again heading for snap elections. The next elections will be held on 2nd April and will be the fifth parliamentary elections in just two years. Given the limited amount of time left for campaigning, the centre-right GERB party of former Prime Minister Boyko Borissov and the reformist We Continue the Change (PP) party, led by fellow ex-PM Kiril Petkov (combined with the liberal Democratic Bulgaria coalition), are best placed to battle it out at the polls this time around. However, a number of domestic factors could still influence the result of the parliamentary vote, meaning multiple possible outcomes are possible.

As occurred following each successive snap election, the political deadlock significantly elevates the position of the country's President and caretaker government. Appointed by Bulgarian President Rumen Radev and led by Caretaker PM Galab Donev, the current caretaker cabinet officially has a limited mandate but de facto acts as a "regular" government, focusing on pressing issues such as the economic fallout from Russia's war against Ukraine, tackling the cost-of-living and energy crises, the implementation of the EU's post-pandemic recovery plan, attracting foreign investment, as well as advancing the country's push to adopt the Euro and join the EU's Schengen Area.

Below, Aretera provides further insight into Bulgaria's current political landscape and an outlook on the country, with a focus on the next snap elections, political risks and implications for investors.

This memo will cover:

-  a recap of Bulgaria's latest snap election and its consequences,
-  the key takeaways from the country's unwanted cycle of snap elections,
-  the prospects of a new government & additional scenarios.
-  short-term risks and long-term implications for international businesses.

POST-ELECTION LANDSCAPE

On 24th January, Bulgarian President Rumen Radev announced snap parliamentary elections to be organized on 2nd April. The president also announced that the country's National Assembly will be dissolved on 3rd February. His announcement comes after three failed attempts from the Bulgarian parliamentary parties to form a governing coalition and a functioning government since the country's inconclusive parliamentary elections held last October.

The latest snap parliamentary elections¹ produced another hung parliament with seven ideologically and politically diverse parties. The centre-right GERB party of former longtime Prime Minister Boyko Borissov came in first during the last election, securing 25.3% of the popular vote. Borissov's party overtook the centrist We Continue the Change (PP) party (20%) of former reformist PM Kiril Petkov, GERB's main electoral rival. Five other parties also made it into parliament: the Turkish ethnic Movement for Rights and Freedoms (DPS), followed by the far-right, pro-Kremlin and anti-vaccination Revival, the Bulgarian Socialist Party (BSP for Bulgaria), the pro-EU Democratic Bulgaria coalition and the recently founded Bulgarian Rise party of former caretaker Prime Minister Stefan Yanev.

While both Borissov's GERB and the Petkov-led PP aimed to garner a functioning governing majority in Bulgaria's multi-party National Assembly, neither succeeded, leading to two unsuccessful attempts to form a coalition government. Under the Bulgarian constitution, the country's president can issue a maximum of three consecutive invitations to parties to form a government. On 16th January, President Radev handed the third mandate to BSP for Bulgaria leader Kornelia Ninova. However this mandate was also returned, leading to yet another snap election.

AN UNWANTED ELECTORAL CYCLE

Bulgaria's underlying political instability comes after a series of inconclusive parliamentary elections in April 2021 and three consecutive snap elections, none of which were able to produce a governing coalition. While GERB came first in the last constitutionally scheduled parliamentary elections in April 2021, Borissov's longtime rule as PM came to an end, as those elections produced a multi-party parliament and all other parties refused Borissov's coalition overtures. Strong ideological differences and deep divisions between newly founded and "establishment" parties then led to the July 2021 snap elections, in which the populist There is Such a Nation party (ITN) of Bulgarian singer Slavii Trifonov unexpectedly finished first, overtaking GERB as the most popular party.

Trifonov's movement, however, also failed to secure a governing coalition with other parties in summer 2021, resulting in a huge loss of support and yet another snap election. This election in November 2021 saw the rapid emergence of the centrist We Continue the Change (PP) party. Led by former caretaker Economy Minister Kiril Petkov, the PP rode to power on a surge of support for its anti-corruption agenda and won the next snap elections in November 2021. In December 2021, the PP formed a coalition with the longtime GERB rival BSP for Bulgaria, the Democratic Bulgaria coalition and Trifonov's ITN. However, this four-party coalition proved to be short-lived. A number of policy disagreements and ITN's withdrawal from the coalition led to its collapse² last June, the formation of the country's current (caretaker) government – led by Galab Donev³ – a month later and the latest (and again) inconclusive snap parliamentary vote held on 2nd October 2022.

¹ See [here](#) for Aretera's overview of Bulgaria's latest snap elections from October 2022

² See [here](#) for Aretera's overview of the collapse of the Petkov Government from June 2022

³ See [here](#) for Aretera's overview of the Donev Government from August 2022

LATEST ELECTION RESULTS & POST-ELECTION POLLING

Party/Alliance	Popular Vote – October 2022 (%)	Polling Average – January 2023 (%)
Citizens for the European Development of Bulgaria – GERB-SDS (centre-right, pro-EU)	25.3	25
We Continue the Change – PP (centrist-reformist, pro-EU)	20.2	18
Movement for Rights and Freedoms – DPS (ethnic Turkish, centrist)	13.6	12
Revival – Vazrazhdane (nationalist, pro-Kremlin, anti-vaccination)	10.2	11
Bulgarian Socialist Party – BSP for Bulgaria (centre-left coalition)	9.3	10
Democratic Bulgaria – DB (liberal, anti-corruption, three-party coalition)	7.4	8
Bulgarian Rise (Russia-leaning, centre-left, led by former caretaker PM Stefan Yanev)	4.6	3
There Is Such a Nation – ITN (big-tent, populist, anti-establishment)	3.8	2

(Source: CEC of Bulgaria, [POLITICO Poll of Polls](#))

SHORT-TERM SCENARIOS

With all three attempts to form a government having failed, Bulgarian parties are preparing for a short but intensive election campaign. However, given the limited time between the latest and the upcoming snap election, most parties will have a difficult task attracting new voters, suggesting significant movements in voter sentiments are unlikely.

While the Borissov-led GERB has been tarnished over a series of corruption scandals, ex-PM Borissov has maintained his core support, with his party currently polling at around 25%, making GERB one of the parties with a chance to win the next snap elections. At the same time, the Petkov-led We Continue the Change – GERB's main electoral rival – is now in talks with the liberal Democratic Bulgaria coalition to run on a joint ticket in April. Taking current polling into account, such an alliance also stands good chances of coming in first at the polls. However, even with a GERB victory or a win by a prospective alliance between Petkov's PP and Democratic Bulgaria, the chances of a stable governing coalition remain slim and entail the possibility of yet another snap election – likely to be held in September when Bulgaria will organize local elections.

Regardless of the outcome of the next snap election, divisions among political parties will remain, which include entrenched dividing lines between recently founded and “establishment parties”, as well as policy differences on the Bulgarian response to Russia's war against Ukraine. Chances for an agreement between otherwise firmly pro-EU/NATO parties – GERB, PP and DB – are also slim due to Borissov's tarnished reputation over corruption scandals and his party's refusal to judicial reforms demanded by the rest of the pro-European bloc.

Recent changes to Bulgaria's election system might also influence the outcome of the next snap elections. Last December, the Bulgarian parliament – with support from GERB, BSP for Bulgaria and the ethnic Turkish DPS – voted to restore a combined election system that offers voters a choice between using paper ballots or voting machines at polling stations. This amendment is likely to support the electoral chances of the three parties that voted for the amendments.

An additional factor likely to influence the outcome of the snap elections in April is the increasing public dissatisfaction with the current parliamentary parties that could significantly reduce voter turnout, thus undermining confidence in public institutions. The latest snap elections held on 2nd October 2022 also saw the lowest voter turnout in the country's democratic history, pointing to already visible election fatigue among the Bulgarian population.

As the new election campaign begins, President Radev is likely to re-appoint Prime Minister Galab Donev's caretaker government for a limited mandate. Past experience from recent caretaker governments and the limited time left for the election campaign both suggest that this will mean minimal changes to the structure and composition of the caretaker cabinet.

IMPLICATIONS FOR INVESTORS

A key task of the next government will be to draft the country's new budget for 2023 amidst a rising cost-of-living and energy crisis. In view of the political instability, the chances of a fiscally conservative government seem very low. Still, the next government will have to work in a situation of increasing budget costs and a high deficit and will probably have to resort to debt markets due to social spending commitments already made by previous governments.

The main economic messages of the leading parties are based on preserving tax policy without significant changes, reducing the administrative burden, and – in case of centre-right and right-wing parties – preserving the role of the state as a regulator without interfering in the economy. These commitments will likely be observed, regardless of the composition of the next government. An additional prospective development to watch on the economy is the expected election of the new Governor and Deputy Governors of the Bulgarian National Bank. If the country's parliament continues working, this topic may come to the forefront of the political agenda, as the mandates of the central bank's management team expired in 2021, however due to a lack of agreement on new nominations, their election was postponed.

Bulgaria's planned accession to the Eurozone on 1st January 2024 will also be at serious risk if negotiations to form a government fail. The Galab Donev-led caretaker government is nonetheless continuing to work towards achieving this target and is preparing the needed legislative reforms. The country's efforts to finally join the Schengen Area, allowing borderless travel between a subset of EU members, will also continue, regardless of which parties form the next government. Sweden, which currently presides over the Council of the EU⁴, has assured Sofia that they will also work in this direction at the European level.

As during the aftermath of past snap parliamentary elections, the current political crisis significantly elevates the position of President Radev and the country's caretaker government. Appointed by Radev and led by Caretaker PM Galab Donev, the country's current cabinet officially has a limited mandate but de facto acts as a "regular" government, focusing on pressing issues such as the economic fallout from Russia's war against Ukraine, tackling the cost-of-living and energy crisis,

⁴ See [here](#) for Aretera's overview of the Swedish Presidency of the Council of the EU from January 2023

attracting foreign investors, as well as advancing the country's adoption of the EU's common currency and preparing for joining the Schengen Area.

Despite the lack of a regular government, policy work, where applicable, can also be successfully carried out on the municipal level, as well. Local governments will be particularly active in the next months in preparation for the upcoming local elections and will remain open to business projects that could positively affect their image. Given the lack of an elected government and in view of yet another potential snap election, international businesses are advised to place emphasis on building and/or maintaining relationships with the Donev Government as the current political deadlock could likely result in its re-appointment.

LOOKING AHEAD: BULGARIA IN THE CONTEXT OF RUSSIA'S WAR

Bulgaria's political crisis continues as Russia's war against Ukraine – resulting from its severe consequences for European and global security – will remain the top political risk for Central and Eastern Europe in 2023⁵, driving fears of a potential military escalation. While Russian threats to the countries of the region will remain, along with Vladimir Putin's nuclear saber-rattling, our baseline scenario assumes that the war will not reach the borders of NATO countries. At the same time, CEE countries, particularly those on NATO's eastern flank, including Bulgaria, must actively and continuously calculate on a number of hybrid security threats, including the Kremlin's cyberattacks and influencing efforts to undermine regional support to Ukraine.

Sofia started experiencing cyberattacks as early as last May, most likely as the Russian response to Bulgaria's clandestine support to Ukraine in the early stages of Russia's invasion – as revealed by [a landmark investigation from German daily WELT](#) that has rocked Bulgarian politics. Moscow also tried to bribe Bulgarian MPs, to which the since fallen pro-EU government of ex-PM Kiril Petkov responded by expelling 70 Russian diplomats for spying.

Russia attempted to retaliate on the energy front, calculating on Bulgaria's dependence on Russian fossil fuel imports and ceasing its gas imports. However, while this has led to severe challenges for Bulgaria to ensure its energy supplies, the country's energy outlook now remains rather optimistic. Last October saw the inauguration of a long-awaited interconnector that started flowing Azeri gas into Bulgaria. This was followed by Bulgaria recently gaining access to Turkish gas terminals, which is seen as a serious breakthrough in energy supply diversification and in cutting Russian dependence. The caretaker government also relaunched the Burgas-Alexandropouli pipeline project, only this time with oil will coming from Greece and not from Russia. These developments were largely prompted by the changed geopolitical situation in Europe following the war but are ultimately seen as crucial steps to ensure the country's economic stability and energy security.

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⁵ See [here](#) for Aretera's 2023 Regional Outlook on Central & Eastern Europe