

# Republic of Bulgaria

## Rating report

### Rating rationale

**Euro area accession:** The rating upgrade reflects Bulgaria's recently formalised entry into the euro area on 1 January 2026 and adoption of the euro as local currency, with multiple credit-positive implications through the use of a global reserve currency, and stronger governance and flexibility of monetary policy. The replacement of the Bulgarian lev with the euro will effectively eliminate foreign-currency risks in the economy.

**Low public debt:** The credit ratings are anchored by low levels of government debt and a credible record of prudent budgetary policy making. After widening to 3.0% of GDP in 2024, the fiscal deficit is forecast to decline slightly to 2.9% of GDP this year and the next. Public debt as a share of GDP is set to rise from 23.4% in 2024 to around 34% by 2030, thus remaining among the lowest in the euro area.

**Robust growth prospects:** After expanding by 2.8% in 2024, the Bulgarian economy is forecast to grow by 2.6% in 2025 and 2.9% in 2026, reflecting the positive impact of euro area accession on investment, an acceleration in EU funds absorption and a pickup in private consumption, which should largely outweigh external headwinds. The medium-term growth potential remains robust, estimated at 2.75% annually, underpinned by sizable EU fund allocations, though delays in absorption add downside risks to the outlook.

**Rating challenges:** i) institutional weaknesses and political instability, which have weighed on the reform momentum and led to delays in the implementation of Bulgaria's Recovery and Resilience Plan; ii) moderate income levels and exposure to external shocks, given the Bulgarian economy's small size and openness; and iii) unfavourable demographic trends and persistent labour shortages, weighing on the long-term macro-fiscal outlook.

Figure 1: Bulgaria's sovereign-rating drivers

Risk pillars		Quantitative		Reserve currency*	Political risk**	Qualitative****	Final rating
		Weight	Indicative rating	Notches	Notches	Notches	
Domestic economic risk		35%	a+	BGN	Bulgaria	-1/3	A-
Public finance risk		20%	aa			0	
External economic risk		10%	bbb+			+1/3	
Financial stability risk		10%	aaa			0	
ESG risk	Environmental factors	5%	bbb	[+0]	[-0]	0	
	Social factors	7.5%	ccc			- 1/3	
	Governance factors	12.5%	bb			- 1/3	
Sovereign Quantitative Model***		a-				-1	
Additional considerations						+1	

\*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket. The benefit of adopting the euro per 1 January 2026 is captured under the 'additional considerations' until then.

\*\*The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.

\*\*\*The rating committee approved an indicative SQM rating of 'a-'.

\*\*\*\*The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#).

### Foreign currency

Long-term issuer rating/Outlook

A-/Stable

Senior unsecured debt

A-/Stable

Short-term issuer rating/Outlook

S-1/Stable

### Local currency

Long-term issuer rating/Outlook

A-/Stable

Senior unsecured debt

A-/Stable

Short-term issuer rating/Outlook

S-1/Stable

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## Credit strengths and challenges

### Credit strengths

- Euro area membership from 1 January 2026
- Low indebtedness, favourable debt structure
- Robust medium-term growth prospects

### Credit challenges

- Institutional weaknesses; political instability
- Vulnerabilities to shocks as a small, open economy
- Adverse demographic trends

## Outlook and rating triggers

The Stable Outlook reflects the view that risks for the ratings are balanced.

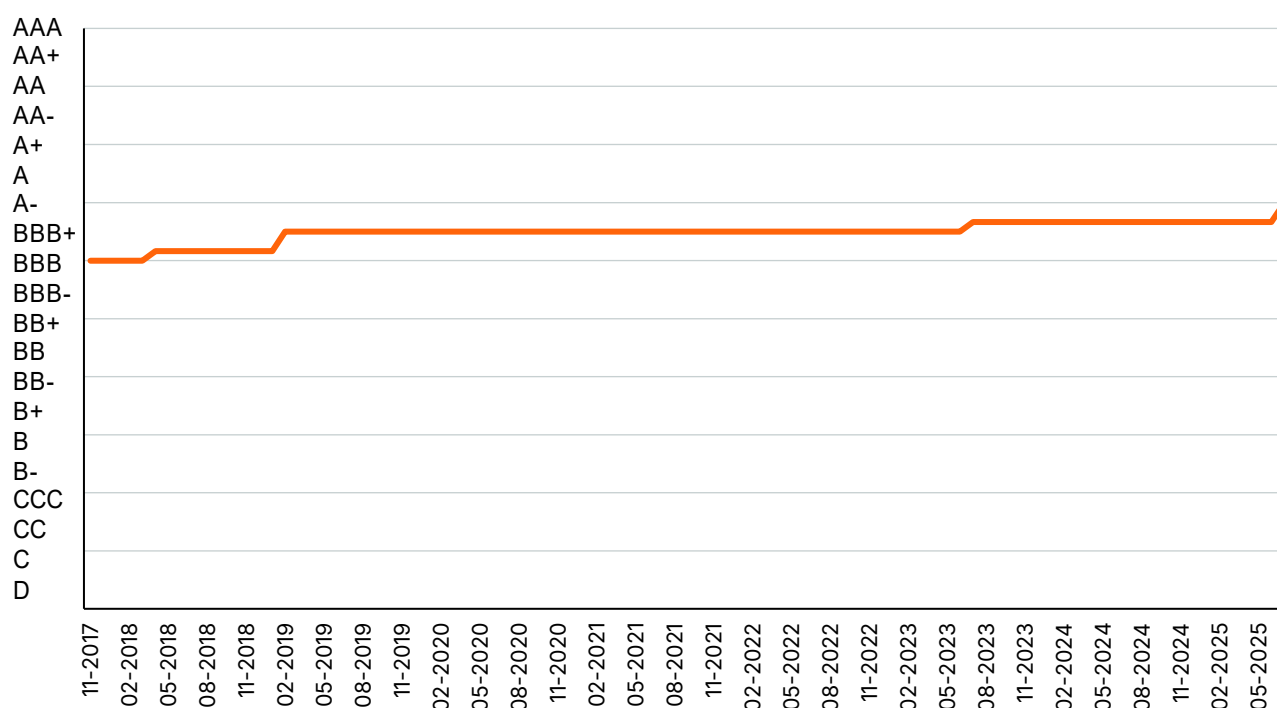
### Positive rating-change drivers

- Sustained growth, economic diversification, convergence with EU income levels
- Progress in addressing outstanding institutional challenges

### Negative rating-change drivers

- Weaker fiscal outlook
- Weaker economic outlook
- The escalation of institutional challenges and/or of political instability

Figure 2: Rating history



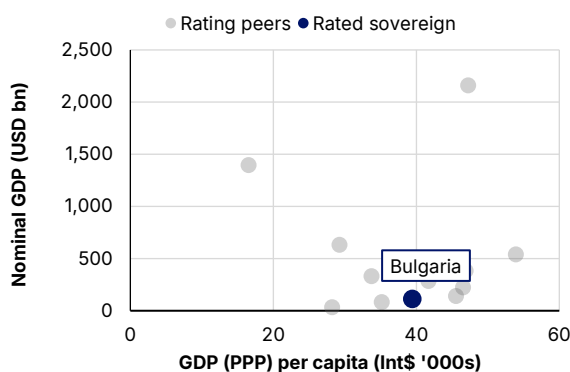
Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

## Domestic economic risk

### Overview of Scope's assessments of Bulgaria's Domestic Economic Risk

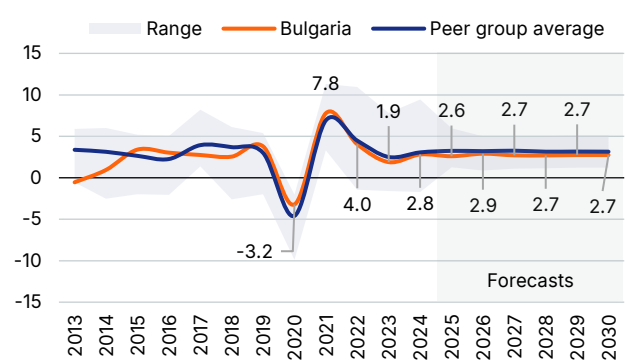
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a+	Growth potential and outlook	Neutral	0	Robust trend growth, in line with that of the economies of sovereign peers
	Monetary policy framework	Neutral	0	Limited monetary-policy flexibility currently due to the outstanding currency board; entry into the eurosystem from 1 January 2026
	Macroeconomic stability and sustainability	Weak	-1/3	Exposures to global and idiosyncratic shocks as a small and open economy; a favourable labour market; still-moderate economic diversification

Figure 3: Nominal GDP and GDP per capita (2024E)



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



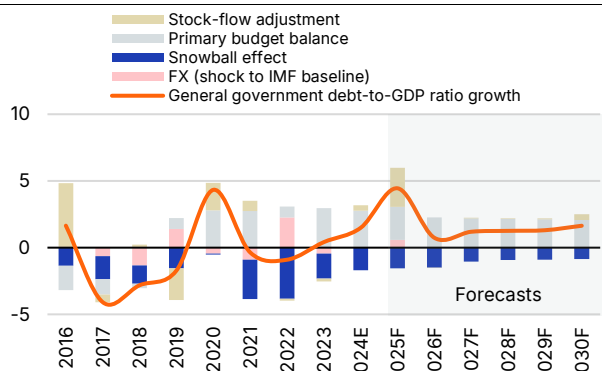
Source: IMF WEO, Scope Ratings forecasts

## Public finance risk

### Overview of Scope's assessments of Bulgaria's Public Finance Risk

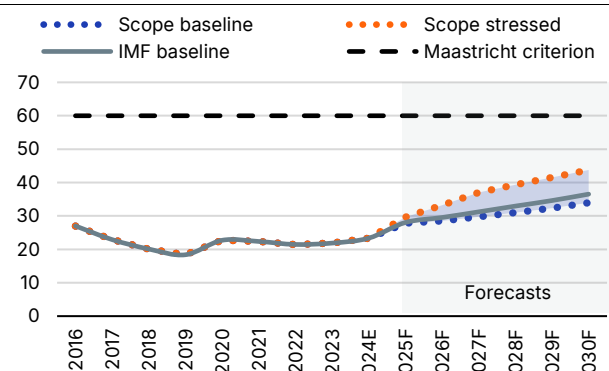
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Fiscal policy framework	Neutral	0	A record of prudent budgetary policies, anchored by euro-area convergence requirements; even though recurrent episodes of political instability add uncertainty to the budgetary outlook
	Long-term debt trajectory	Neutral	0	Sound levels of government debt, although expected to remain on a steady upwards trajectory
	Debt profile and market access	Neutral	0	Favourable financing conditions, foreign-exchange risks in the public debt stock to be mitigated by euro adoption

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



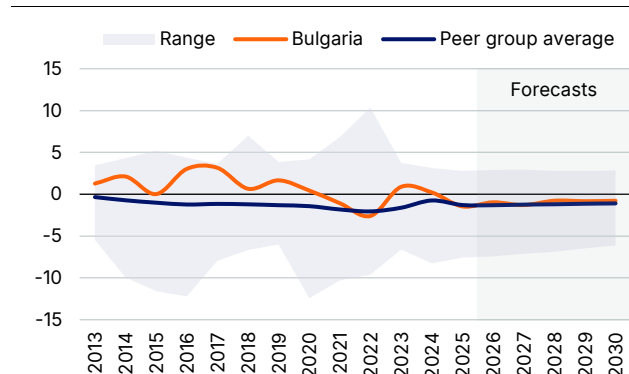
Source: IMF WEO, Scope Ratings forecasts

## External economic risk

### Overview of Scope's assessments of Bulgaria's External Economic Risk

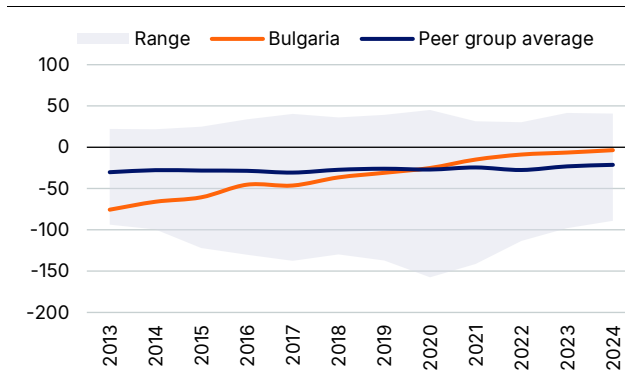
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb+	Current account resilience	Neutral	0	Modest current-account surpluses most recently; meaningful EU-fund and foreign-direct-investment inflows
	External debt structure	Strong	1/3	A low and declining level of external debt; over a quarter of external debt is inter-company lending; most external debt is long-term
	Resilience to short-term external shocks	Neutral	0	Small and open economy, exposed to ongoing uncertainty on global trade; euro-area accession partly mitigates exposure to external developments

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



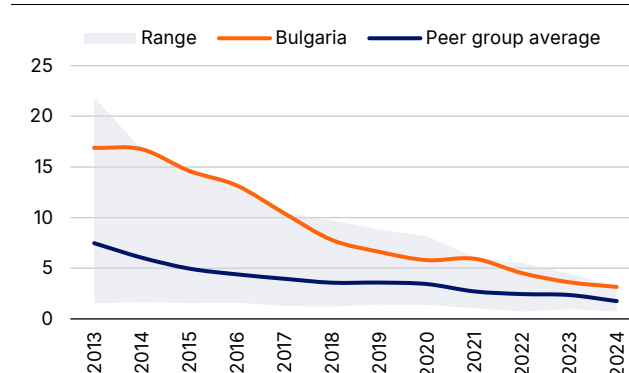
Source: IMF, Scope Ratings

## Financial stability risk

### Overview of Scope's assessments of Bulgaria's Financial Stability Risk

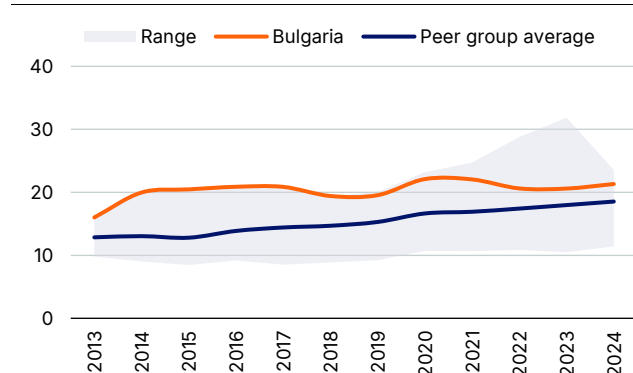
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	A well-capitalised, profitable and liquid banking system
	Financial sector oversight and governance	Neutral	0	Enhanced financial-system supervision supported by entering European Banking Union since 2020
	Financial imbalances	Neutral	0	Comparatively-high private-sector debt for the level of economic development, although significant deleveraging over the past years

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



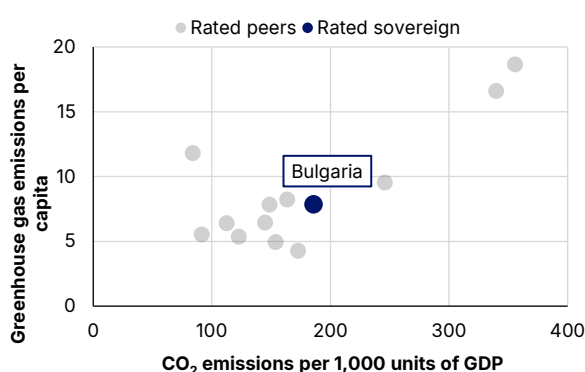
Source: IMF, Scope Ratings

## Environmental, Social and Governance (ESG) risk

### Overview of Scope's assessments of Bulgaria's ESG Risk

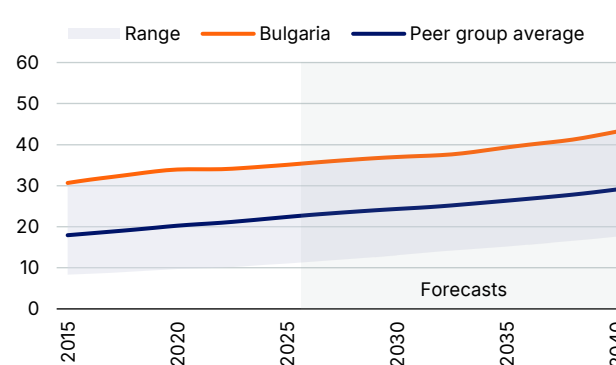
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb-	Environmental factors	Neutral	0	An improving track record on environmental policy, but significant challenges remain for reducing greenhouse gas emissions
	Social factors	Weak	- 1/3	Emigration challenges and high income inequalities; average to below-average performance on education and health indices
	Governance factors	Weak	- 1/3	A history of unstable governments and institutional challenges

Figure 11: CO<sub>2</sub> emissions per capita/GDP (2023), mtCO<sub>2</sub>e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

## Reserve-currency adjustment

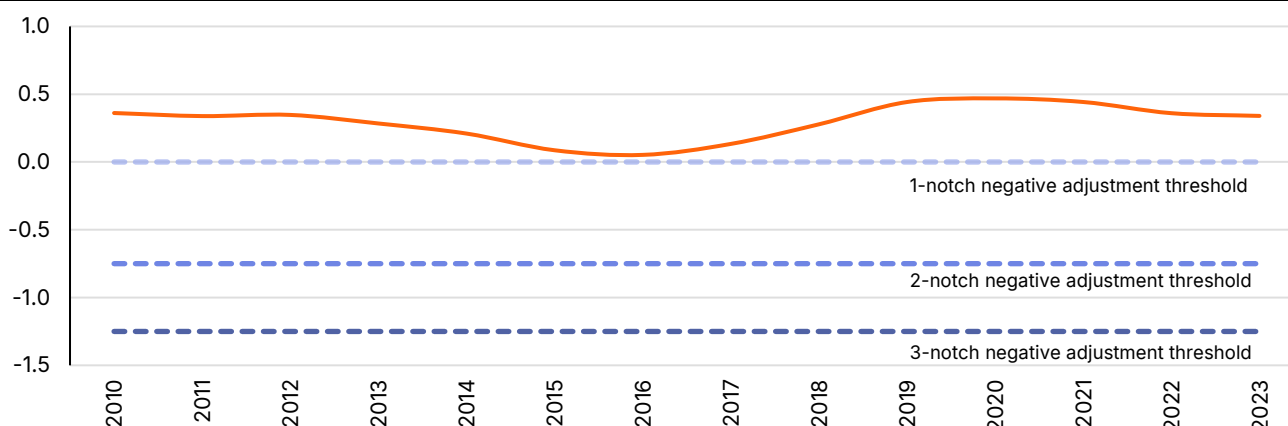
### IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

## Political-risk adjustment

Figure 13: WB Political Stability & Absence of Violence/Terrorism index, Bulgaria, three-year moving average



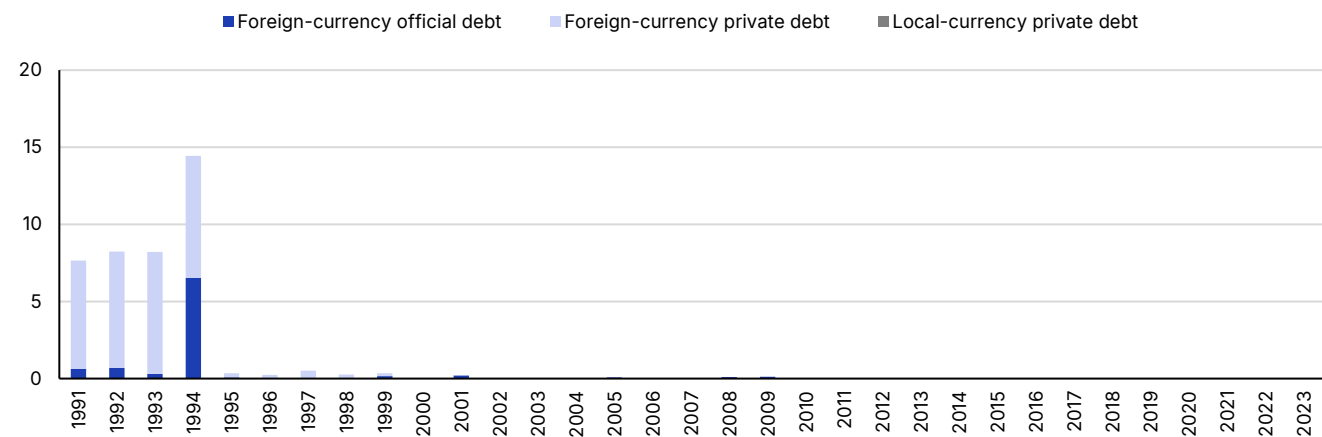
Source: WB, Scope Ratings

Additional considerations

A one-notch extraordinary upside adjustment is applied to the long-term issuer ratings to account for Bulgaria’s planned entry into the euro area from 1 January 2026. The Bulgarian government will be issuing its local-currency debt in euros from 1 January 2026 and therefore benefits from a one-notch reserve currency adjustment to its indicative ratings per Scope’s sovereign ratings methodology.

Appendix 1. Sovereign default history

Sovereign default history, USD bn



Depicted private-debt defaults may not always constitute a credit event under [Scope’s credit-rating definitions](#).  
Source: [Bank of Canada–Bank of England Sovereign Default Database](#), Scope Ratings.

Appendix 2. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope’s sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Georgia
Hungary
Romania
Slovakia

\*Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix 3. Economic development and default indicators

IMF Development Classification	Emerging market and developing economy
5-year USD CDS spread (bps) as of 10 July 2025	84.8

#### Appendix 4. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2019	2020	2021	2022	2023	2024E
Domestic Economic	GDP per capita (PPP), Int\$ '000s	IMF	25.5	25.9	29.7	35.1	37.1	39.4
	Nominal GDP, USD bn	IMF	69	71	84	91	102	112
	Real growth, %	IMF	3.8	-3.2	7.8	4.0	1.9	2.8
	CPI inflation, %	IMF	2.5	1.2	2.8	13.0	8.6	2.6
	Unemployment rate, %	WB	4.2	5.1	5.3	4.3	4.3	-
Public Finance	Public debt, % of GDP	IMF	18.4	22.7	22.4	21.5	21.9	23.4
	Net interest payment, % of government revenue	IMF	0.4	0.3	0.2	0.0	0.2	0.7
	Primary balance, % of GDP	IMF	-0.8	-2.8	-2.7	-0.8	-3.0	-2.8
External Economic	Current-account balance, % of GDP	IMF	1.7	0.4	-1.1	-2.6	0.9	0.2
	Total reserves, months of imports	WB	7.2	10.7	8.3	7.5	-	-
	NIIP, % of GDP	IMF	-31.0	-25.1	-14.9	-8.8	-6.4	-3.5
Financial Stability	NPL ratio, % of total loans	IMF	6.6	5.8	5.9	4.5	3.6	3.2
	Tier 1 ratio, % of risk-weighted assets	IMF	18.3	19.8	21.9	21.2	20.4	19.8
	Credit to the private sector, % of GDP	WB	49.7	51.3	48.1	44.7	45.2	-
ESG	CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e	EC	227.9	210.2	226.4	238.2	185.9	-
	Income share of bottom 50%, %	WID	17.4	17.4	18.4	18.4	18.4	-
	Labour-force participation rate, %	WB	73.3	72.3	71.9	73.7	73.8	73.7
	Old-age dependency ratio, %	UN	33.5	33.9	34.0	34.0	34.3	34.7
	Composite governance indicators*	WB	0.2	0.0	0.0	0.0	0.1	-
	Political stability, index	WB	0.4	0.5	0.4	0.4	0.3	-

\*Average of the following five World Bank Worldwide Governance Indicators: Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality.

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## Related research

[CEE Sovereign Outlook: Recovering growth, diverging fiscal paths, and persistent geopolitical risks](#), January 2025

## Applied methodology

[Sovereign Rating Methodology](#), January 2025

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