



**European Bank**  
for Reconstruction and Development

# Bulgaria diagnostic

September 2025

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Country diagnostics are a European Bank for Reconstruction and Development (EBRD) tool for identifying the main obstacles to entrepreneurship and private-sector development in the economies where it operates. They also help to shape the Bank's priorities and project selection when it formulates new country strategies. Each diagnostic informs the EBRD's policy engagement with the authorities in that country.

**Country diagnostics assess national progress and challenges in developing a sustainable market economy.** Private-sector development and entrepreneurship are at the heart of the Bank's mandate, but the private sector faces a range of problems and obstacles in all of the Bank's investee economies. The diagnostics highlight the main challenges facing private companies and show where each country stands in relation to its peers in terms of the six key qualities of a sustainable market economy – looking at whether economies are competitive, well governed, resilient, integrated, green and inclusive – and point out the main deficiencies and gaps in each area.

The diagnostics draw on a range of methodologies and best practices in assessing how big obstacles are. Extensive use is made of in-house expertise across the EBRD, along with surveys such as the Business Environment and Enterprise Performance Survey (BEEPS) and the Life in Transition Survey (LiTS), as well as other cross-country surveys and reports by institutions such as the World Bank, the World Economic Forum and the Organisation for Economic Co-operation and Development (OECD). For some larger countries, the diagnostics also draw on specially commissioned studies looking at selected issues that are critical for private sector development in the relevant country.

**The diagnostics are led by the EBRD's Regional Policy and Strategy team,** drawing substantially on the expertise of sector, governance and political experts in the Policy, Strategy and Delivery (PSD) Department and consulting widely with relevant experts across the EBRD when preparing the final product. The diagnostics are shared with the EBRD's Board of Directors during the country strategy process and published during the public consultation period.

**The views expressed in the diagnostic papers are those of the authors only and not necessarily those of the EBRD.**

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## Executive summary

The Bulgarian economy has grown steadily since the global financial crisis, but its gross domestic product (GDP) per capita remains the lowest in the European Union (EU). A major obstacle to higher growth over the past decade has been the modest level of investment, limiting potential productivity gains and exacerbating existing infrastructure and regional development gaps. Currently, Bulgaria's economy benefits from ample financial resources, including access to significant EU funding, as well as fiscal space, which should be better channelled in the real economy. The private sector's main development challenges in respect of the six transition qualities are as follows:

**Competitive:** Bulgaria's economic complexity is slightly below that of peer countries, reflected in a less advanced export profile and lower labour productivity. The country maintains a competitive tax regime, but the business environment presents barriers to increased dynamism and competition. Innovation rates are modest, and the research ecosystem has not achieved performance benchmarks. Still, recent improvements have been made, particularly in the information and communications technology (ICT) sector, and startup activity is dynamic.

**Well governed:** Since joining the EU in 2007, Bulgaria has been subject to greater scrutiny regarding its rule of law and governance standards. In 2019 it met the final outstanding requirement in the European Commission's Cooperation and Verification Mechanism (CVM), demonstrating progress. Nonetheless, assessments by the EU and other organisations indicate continued governance and rule of law gaps relative to other member states. Legislative standards on corporate governance remain below those of EU counterparts, but have shown improvement in recent years, including as regards the governance of state-owned enterprises (SOEs).

**Green:** Bulgaria is one of the most carbon-intensive economies in Europe and has an urgent need to decarbonise the energy sector, improve energy efficiency, address just transition concerns and advance climate adaptation. The waste management sector also needs to improve in order to comply with EU commitments. On a positive note, investment in renewables has increased significantly, supporting the country's transition to greener energy sources.

**Inclusive:** Inclusion gaps and demographic issues persist in Bulgaria, though there have been some structural improvements in the labour market over the past five years, including higher labour force participation, wage growth and stable unemployment rates. Nevertheless, Bulgaria faces persistent regional inequalities, labour market disparities, and relatively high rates of poverty and social exclusion. Youth unemployment remains high. Skills mismatches and staff shortages are challenging for businesses. Efforts are needed to attract and retain skilled labour, especially for young people and women and workers in less developed regions.

**Resilient:** Energy connectivity is improving, with recent electricity and gas projects strengthening energy security – a process that has been accelerated by the energy crisis and Russia's war on Ukraine. The financial sector is stable and in line with central European peers in terms of its size, thanks to a deep and resilient banking sector that benefits from eurozone standards and favourable market conditions. However, capital markets remain largely dormant.

**Integrated:** After a strong boost from EU accession and the economic boom that preceded the global financial crisis, trade and global value chain (GVC) integration has stagnated since around 2013. While membership of the Schengen area and the eurozone should enhance integration, opportunities will probably reside in value-adding activities, which will require better connectivity and infrastructure. Upgrades to internal and regional transport infrastructure are thus needed, which will be dependent on the availability of EU funding.

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# 1. Political and economic overview

## 1.1. Political economy

**Bulgaria has undergone a significant transformation since the beginning of the transition process**, moving from a highly centralised and planned economy to an upper-middle-income open market economy at the heart of the EU. Nonetheless, the pace of reform has been uneven. Political support for reforms has been hampered by three factors: (i) a lack of certainty about short-term gains; (ii) a polarised political system, especially in the first two decades of the transition; and (iii) the short lifespans of governments, which have led to frequent policy changes.

**Bulgaria joined the Schengen area in 2025 and is set to adopt the euro in 2026.** Further integration in the EU architecture took place in January 2025, when Bulgaria became a full member of the Schengen area. Eurozone accession was confirmed in July 2025, with Bulgaria set to adopt the euro in January 2026.

**The country has experienced considerable political instability recently, with seven parliamentary elections between 2021 and 2024 – which, in turn, has increased voter fatigue.** The last elections in October 2024 produced another fragmented parliament, with nine political groupings. A new coalition government led by the centre-right GERB party and Prime Minister Rosen Zhelyazkov was formed in January 2025. Political instability and the absence of regular governments in recent years have caused delays in the disbursement of EU funds, as well as hindering efforts to diversify energy sources, improve governance and implement anti-corruption policies. However, the country's pro-EU orientation has been maintained. Despite religious, cultural and historical ties with Russia, the Bulgarian authorities have taken several steps to limit Russian influence in the country's energy sector.

**In 2023 the European Commission formally closed the Cooperation and Verification Mechanism for Bulgaria.** The CVM had initially been introduced at the time of Bulgaria's accession to the EU as a transitional measure to assess and facilitate progress in the fields of judicial reform and anti-corruption. Monitoring continues under the EU's Rule of Law cycle, as with all EU member states. The 2025 Rule of Law Report acknowledges further progress in some areas; however, it also notes that little or no progress has been made in some

others, including as regards the effectiveness of investigations in high-level corruption cases. According to Transparency International's Corruption Perceptions Index for 2024, Bulgaria's score and position have both fallen relative to previous years, with the country remaining one of the poorest performers in the EU and being ranked 76th globally.

## 1.2. Macroeconomic context

In 2024 Bulgaria's average output per capita was the lowest in the EU at 66 per cent of the adjusted EU average. Between 2010 and 2023 income convergence in Bulgaria increased by 19 percentage points, marginally exceeding the EU-11 average.<sup>1</sup> Following the Covid-19 pandemic, the Bulgarian economy experienced a robust recovery; however, the economic impact of the war in Ukraine resulted in growth falling to 1.9 per cent in 2023 (which was still markedly higher than the EU average), and it then rebounded in 2024.

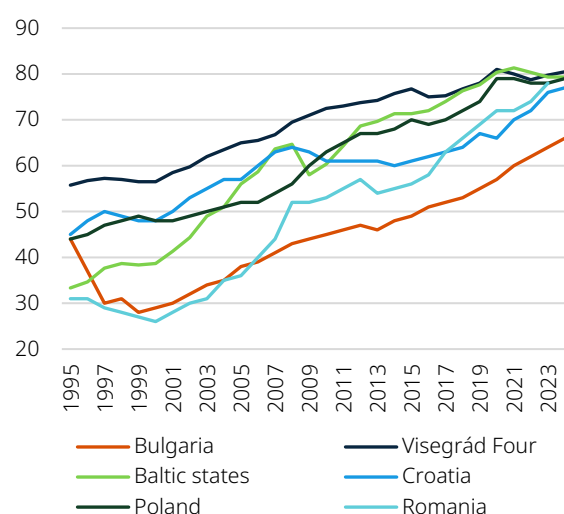
In recent years, economic expansion has been driven primarily by private consumption, underpinned by rising incomes and a tightening labour market. Nevertheless, investment activity has remained subdued. On a positive note, productivity growth has been satisfactory. Aligning income growth with higher levels of productive investment would contribute to a more sustainable long-term growth model.

### Recent macroeconomic developments

#### **Bulgaria has made notable progress in achieving convergence with EU standards of living in recent years.**

Since 2015 the Bulgarian economy has grown at an average annual rate of 2.8 per cent – significantly higher than the EU average of 1.2 per cent, particularly following the Covid crisis.<sup>2</sup> This robust growth has enabled Bulgaria to advance its convergence efforts, although some disparity remains compared with regional peers (see Chart 1). The lingering gap is primarily attributable to crises experienced during the 1990s, with the gap between Bulgarian GDP per capita and the EU average not returning to 1995 levels until 2010. Since then, Bulgaria's convergence has been the fifth strongest in the EU-11.

**Chart 1. GDP per capita at purchasing power parity (EU-27=100)**



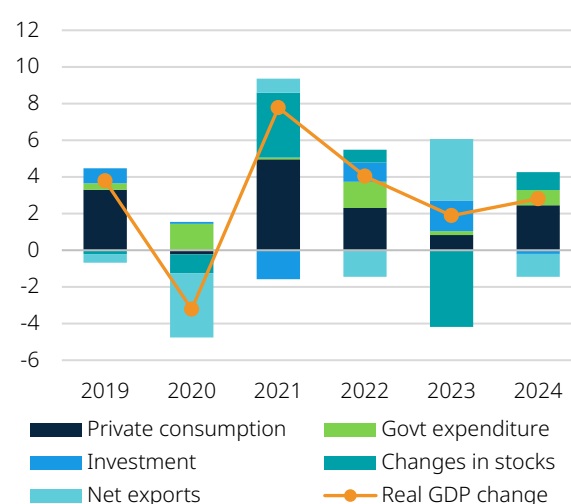
Source: Eurostat (2024b) and authors' calculations.

Note: The Visegrád Four are Czechia, Hungary, Poland and the Slovak Republic.

#### **Bulgaria's post-Covid recovery has been stronger than those of most regional peers.**

Prior to the Covid crisis, growth was robust, although Bulgaria was one of the weakest performers in the EU-11. Since 2021 the economy has shown greater resilience and the country's growth rate has been one of the highest in the region (see Chart 2). This performance has been underpinned by resilient private consumption, despite the inflationary environment, while investment and net exports have been more volatile.

**Chart 2. Breakdown of real GDP growth (per cent)**



Source: Eurostat (2024c) and authors' calculations.

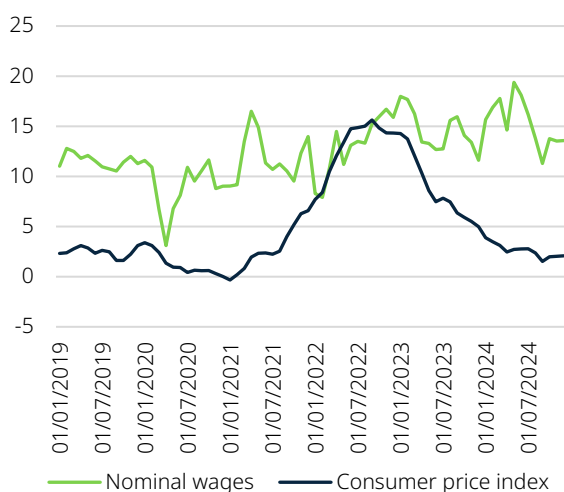
1 The term "EU-11" refers to the 11 EU member states in central and eastern Europe that joined most recently: Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.

2 See Eurostat (2024a).

### Wage policy and a tight labour market have supported demand against the backdrop of surging inflation.

Cyclical supply and demand factors, along with the effects of the war in Ukraine, contributed to increased inflation from 2021 onwards (see Chart 3). The negative impact on income and consumption was largely offset by strong wage dynamics in the private sector and several wage hikes in the public sector in 2021, 2023 and 2024. Real wage growth was negative for only a short period in 2022 – much less than in other countries in the region. In 2024 the minimum wage was raised by nearly 20 per cent, contributing to overall wage growth of 13 per cent.

**Chart 3. Inflation and nominal wage growth, year on year (per cent)**



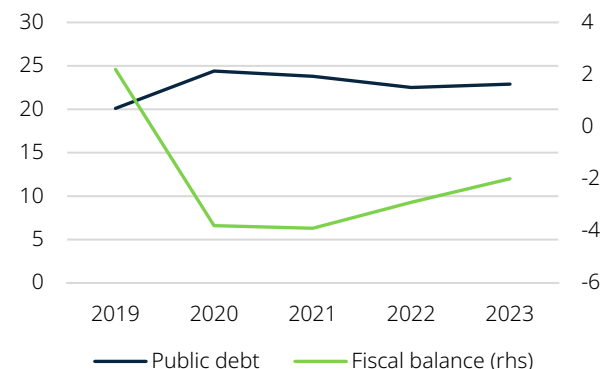
Source: CEIC (2024a) and authors' calculations.

**Commodity exports performed well in 2021 and 2022 as global prices rose**, with food and energy commodity prices increasing following the Covid-19 pandemic. Between early 2021 and late 2022 raw materials contributed an average of 13 percentage points to export growth, while fuels and electricity accounted for 11 percentage points, as nominal export growth reached 36 per cent in 2022. In 2023 lower commodity prices led to a reversal of this trend, with the value of mineral fuel exports decreasing by 35 per cent, before falling by an additional 8 per cent in 2024. This change has also been associated with Bulgaria's provision of fuel and defence support to Ukraine.

**Fiscal policy has historically been very disciplined, but there was a shift to a more expansionary approach following Covid-19.** Following the establishment of a currency board in 1997, Bulgaria had a culture of fiscal discipline, which kept public debt low and allowed for the accumulation of fiscal reserves. After the Covid crisis, governments resorted to a more expansionary fiscal regime through cuts to value-added tax (VAT)

and other taxes and permanent increases in social spending. According to the International Monetary Fund (IMF), fiscal reforms are needed to ensure sustainable deficits while putting more emphasis on investment.<sup>3</sup> The 2025 budget foresees a further potential increase in the fiscal deficit due to higher expenditure.

**Chart 4. Key fiscal indicators (per cent of GDP)**



Source: Eurostat (2024d) and authors' calculations.

### Domestic demand will support growth in the short term.

After solid growth in 2024, domestic demand components all accelerated in early 2025, implying a strong contribution to overall growth in 2025. Growth should remain above 2.5 per cent in 2026, contingent on the stronger absorption of EU funds. In the medium term, growth needs to be supported by higher investment targeting the structural challenges facing the economy, which could raise potential growth towards 3 per cent.

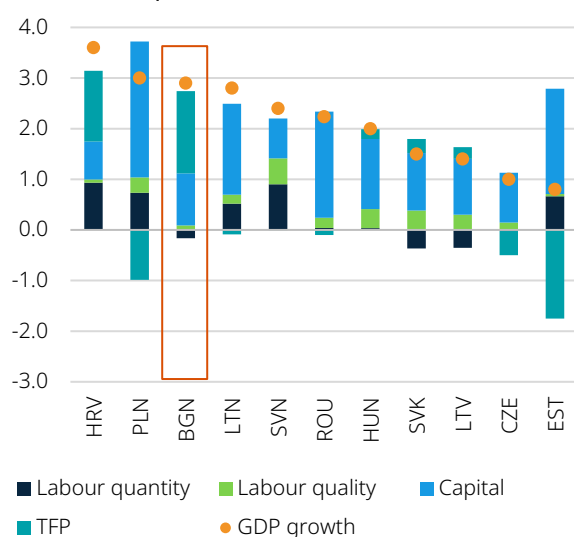
## Growth performance

### Growth accounting estimates suggest that productivity growth has made a strong contribution since 2019.

Estimates made by Total Economy Database (TED) suggest that Bulgaria's growth has been supported by total factor productivity (TFP) growth in recent years (with Bulgaria recording the highest growth rate in the region), as well as investment (which remains relatively modest compared with key peers and existing needs; see Chart 5).

3 See IMF (2024a).

Chart 5. Average annual contributions to GDP growth, 2019 to 2024 (per cent)



Source: The Conference Board (2024) and authors' calculations.

Note: The TED figures used here are not fully consistent with Eurostat data or official national statistics.

**Labour's contribution to economic growth has remained modest in recent years.** Following the Covid-19 crisis, both employment and unemployment rates have stabilised (see Chart 6). TED estimates indicate that, since 2015, the labour quality component of labour's contribution to growth has been the lowest in the EU-11, reflecting the fact that only marginal improvements have been made to human capital. Looking ahead, demographic trends and skill-related challenges are expected to constrain labour's positive impact on growth over the medium term.

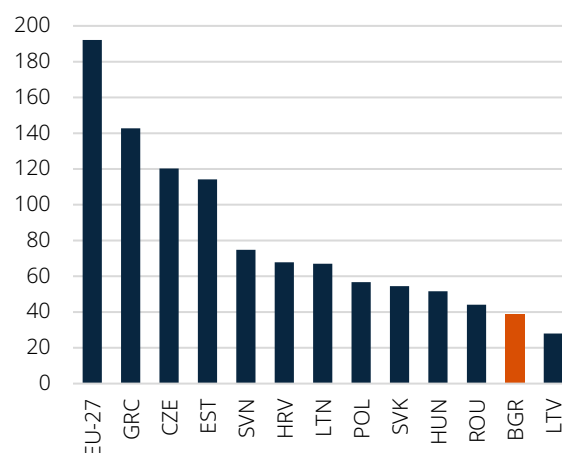
Chart 6. Key labour market indicators (per cent)



Source: CEIC (2024b).

Bulgaria has consistently been one of the poorest performers in the EU in terms of investment as a percentage of GDP. Following the global financial crisis, Bulgaria suffered a banking-sector shock that negatively impacted business confidence and curtailed investment activity. Over the past five years, total fixed capital formation has averaged just 17.9 per cent of GDP – approximately 5 percentage points below the EU-11 average.<sup>4</sup> This disparity is largely attributable to significantly lower levels of infrastructure investment in Bulgaria (see Box 1 for details). Eurostat data indicate that net fixed assets per employed individual declined by nearly 10 per cent between 2015 and 2021, compared with an average increase of 6.5 per cent in the EU-11 during the same period. That gap becomes even more pronounced when it is adjusted for working hours, highlighting labour's increasing contribution to total output and underscoring the subdued investment trends observed in recent years.

Chart 7. Net capital stock per employee, 2022 (€)

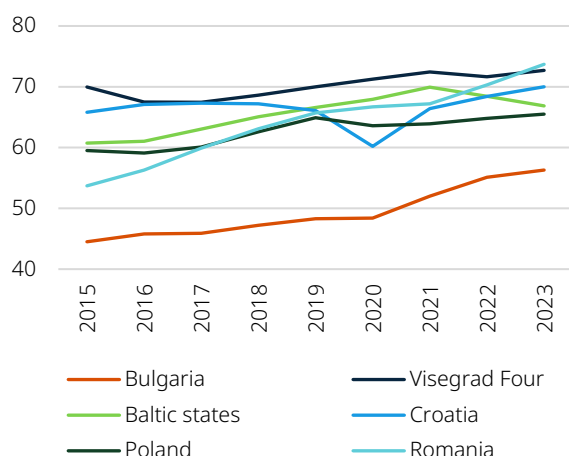


Source: European Commission (2024a) and authors' calculations.

**Despite subdued capital investment, productivity growth has accelerated, contributing to overall economic expansion.** Labour productivity has increased as a proportion of the EU-27 average in recent years, reaching 56.3 per cent of the EU average in 2023 (see Chart 8). Since 2015 real productivity per hour worked has increased by 25 per cent – the third highest growth rate in the EU. However, Bulgaria continues to face a productivity gap of nearly 15 percentage points relative to the EU-11 average. From a growth standpoint, it is essential to address this gap by implementing effective investments and comprehensive reforms.

4 See Eurostat (2024e).

**Chart 8. Nominal labour productivity per hour worked (EU-27=100)**

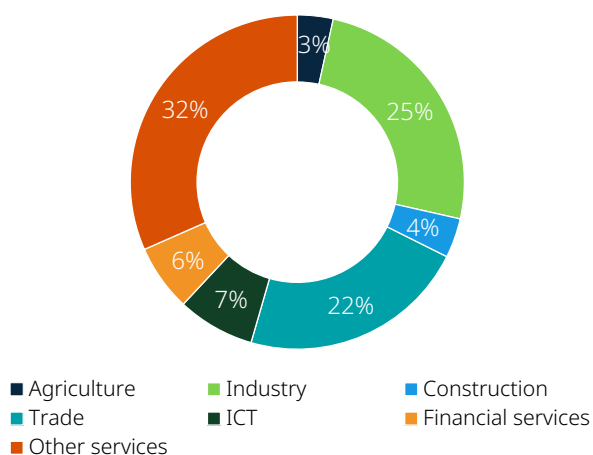


Source: Eurostat (2024f) and authors' calculations.

## Overview of economic structure and private sector

**Bulgaria's economic structure mirrors that of regional peers.** Industry makes up 25 per cent of the economy, in line with levels observed in comparable countries, with manufacturing accounting for 16 per cent of total gross value added in 2023 (see Chart 9). While the construction sector makes up a smaller proportion than in EU peers, the ICT sector has gained in prominence, supported by consistent growth in recent years.

**Chart 9. Gross value added by sector, 2023**



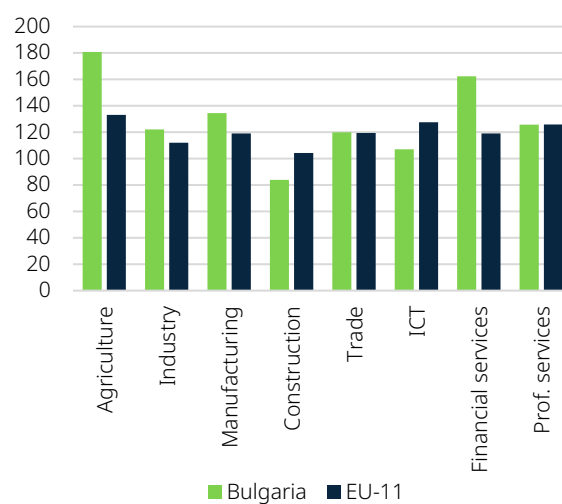
Source: Eurostat (2024c) and authors' calculations.

Note: "Industry" includes manufacturing, which accounted for 16 per cent of gross value added in 2023.

**Bulgaria is an important producer of commodities such as energy, metals, fuels and grains.** Bulgaria's biggest companies are large industrial players concentrated in metal and energy production. Amid global price surges after the Covid-19 crisis, key companies in these sectors

benefited heavily, with turnover rising strongly in 2022. However, price normalisation in 2023 drove business back to historical averages, with a leading aluminium producer's revenues falling by 40 per cent in 2023. Bulgaria's agriculture sector has also expanded strongly in recent years, partially thanks to rising food prices but also as a result of productivity growth (see Chart 10). This dependence on global commodity markets and prices can result in volatile growth at domestic level, affecting the resilience of the economy.

**Chart 10. Real labour productivity per hour worked, 2023 (2015=100)**

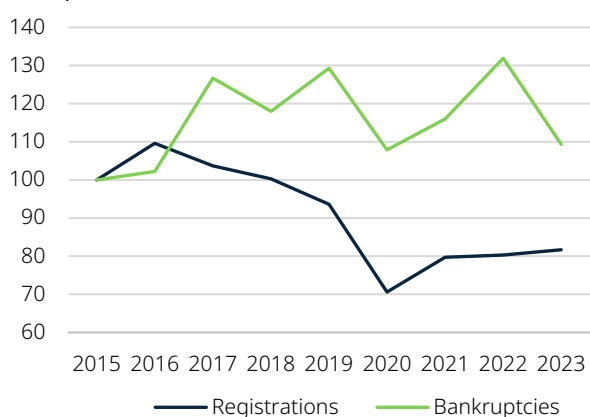


Source: Eurostat (2024f) and authors' calculations.

**Bulgaria's private sector demonstrates considerable dynamism, although bankruptcies have outpaced the creation of new firms in recent years.** Business demography data indicate that the country's economy maintains a relatively high level of activity, with a business churn rate of approximately 23 per cent in recent years, rising to 28 per cent in 2021 – the second highest rate in the EU in that year.<sup>5</sup> Business registrations experienced a decline following the onset of the Covid pandemic and have yet to return to pre-2015 levels, whereas bankruptcies peaked in 2022, standing 30 per cent above figures recorded in 2015 (see Chart 11). Since 2019 the number of bankruptcies has consistently surpassed the number of newly established firms, particularly in the trade and industrial sectors. While a high churn rate may facilitate more efficient labour allocation in a constrained market by releasing resources to more competitive enterprises, it also poses challenges. In 2021 Bulgaria had the third highest firm death rate in the EU (at 18 per cent of active firms), as well as the highest percentage of employees affected by firm deaths (at 7.6 per cent).

<sup>5</sup> See Eurostat (2024g).

Chart 11. Numbers of firm registrations and bankruptcies (2015=100)



Source: Eurostat (2024g).

**The distribution of employment in Bulgaria is influenced by the prevalence of agricultural activity.**

In 2023, 15 per cent of total employment was in agriculture – the second highest percentage in the EU after Romania – with many individuals involved in subsistence farming. In the absence of urban migration or reskilling, these labour resources remain underutilised, although opportunities for change may be limited. Looking at sectors outside of agriculture, construction accounted for about 6 per cent of total employment in 2023, slightly below the EU-11 average, while the ICT sector accounted for 4 per cent, also marginally lower than in most regional peers.

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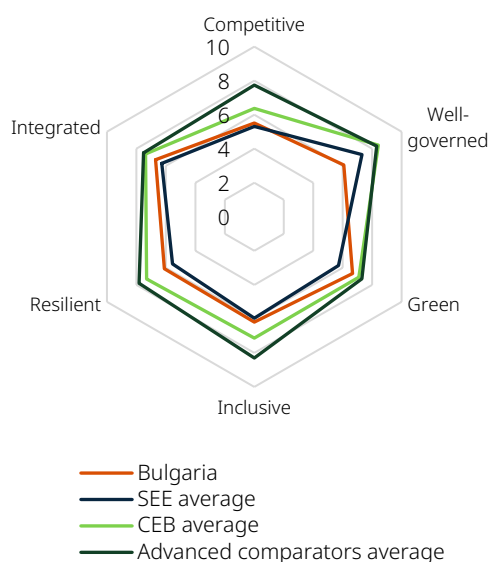
## 2. Assessment of the market economy

In the EBRD's 2024 assessment of transition quality (ATQ) scores, Bulgaria outperformed the regional average for south-eastern Europe (SEE), but continues to fall short of the average for central Europe and the Baltic states (CEB).

ATQ scores are derived from composite indices assessing six desirable qualities of a sustainable market economy – competitive, well governed, green, inclusive, resilient and integrated. They are obtained by combining information from an extensive number of indicators and assessments.

**Bulgaria is greener, better governed, more integrated and more resilient than the SEE average, but has similar scores for inclusive and competitive.** The country performs better than the rest of the region for all transition qualities but scores slightly weaker on competitive (see Chart 12). Relative to the CEB region, the smallest gaps can be observed for green (0.4 points), integrated (0.7 points), and competitive and inclusive (0.9 points), with larger differences for well governed and resilient (1.2 points).

Chart 12. 2024 ATQ scores

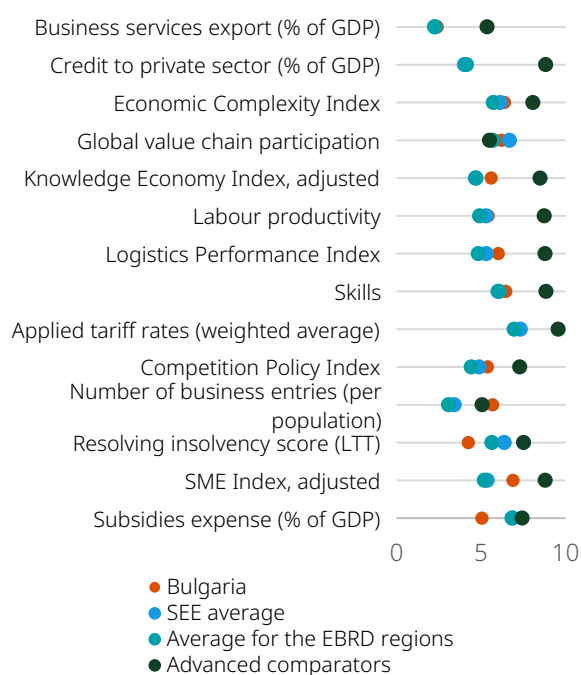


Source: EBRD calculations.

## 2.1. Competitive

Despite a very competitive tax regime, Bulgaria's business environment remains less conducive to business dynamism and competition. This is largely the case in sectors that are less exposed to international competition, sectors where the state maintains a significant presence and those where informality is still more prevalent. At the same time, insolvency proceedings could be streamlined. Bulgaria's private-sector firms are modest innovators, although innovation activity has increased in recent years against the backdrop of a developing ICT sector and a growing startup scene. Commodity goods account for a considerable share of exports, which exposes the economy to global price swings. Still, economic complexity has improved as the country's export structure has shifted towards more complex goods in recent years.

**Chart 13. Competitive ATQ indicators**



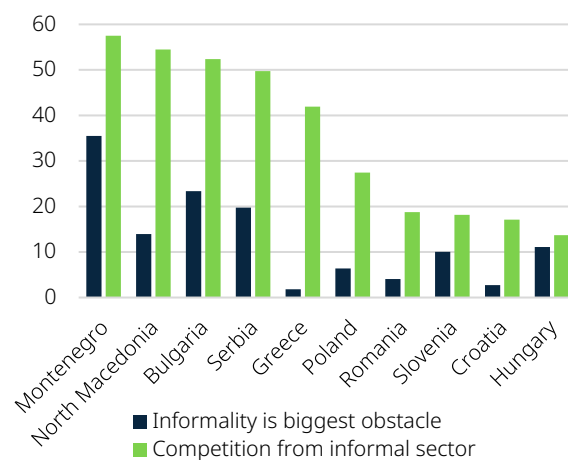
Source: EBRD calculations.

## Market structures and the business environment

**Bulgaria offers one of the most favourable tax structures in Europe.** Its business environment is underpinned by a competitive tax system featuring a flat corporate income tax rate of 10 per cent – the lowest in the EU. With a tax wedge of 35 per cent, Bulgaria stands out as one of the most tax-attractive jurisdictions in the EU.

**Levels of informality continue to be relatively high, despite notable progress in this area.** According to some estimates, Bulgaria has achieved a reduction in the size of its grey economy, reducing it from approximately 30 per cent of GDP in 2010 to around 20 per cent by 2019.<sup>6</sup> However, other estimates indicate that informality continues to account for more than 33 per cent of GDP, making Bulgaria one of the poorest performers in the EU – though not substantially worse than Croatia and Romania.<sup>7</sup> This is supported by survey data showing that Bulgarian firms regard informal competition as a greater obstacle to business than their counterparts in other EU member states (see Chart 14). Nonetheless, the EU estimated Bulgaria's VAT reporting gap at 7.7 per cent – near the EU median – in 2022, despite these figures being subject to cyclical fluctuations. Meanwhile, a bottom-up analysis estimated that gap at nearly 10 per cent in 2019, with heightened compliance risks identified in the service and construction sectors in particular.<sup>8</sup>

**Chart 14. Obstacles cited by firms (percentage of reporting firms)**



Source: EBRD, EIB and World Bank (2020).

6 See Petranov et al. (2022).

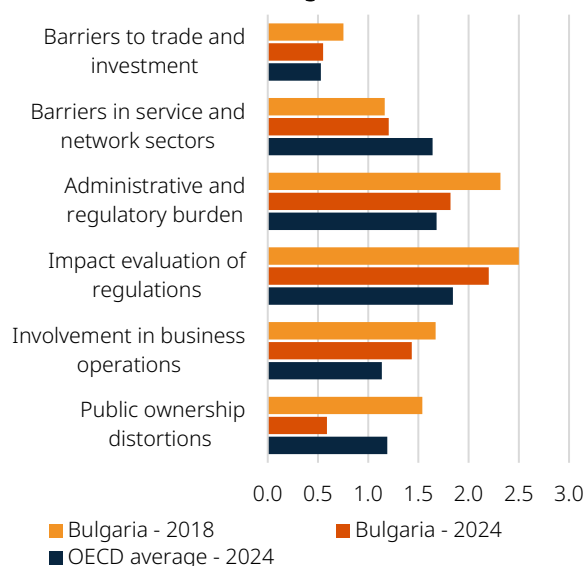
7 See Schneider (2022).

8 See Erard (2023).

**Bulgarian firms do not report significant administrative barriers to doing business.** In the BEEPS VI survey, which covered the period 2018-20, Bulgarian firms reported relatively fast permitting procedures, including for construction-related permits, although business licensing was cited as the biggest obstacle by almost 10 per cent of Bulgarian respondents (compared with an average of 3 per cent for the other countries in Chart 14).<sup>9</sup> Another key obstacle was inadequate workforce skills (cited by 22 per cent of Bulgarian respondents, compared with an average of 17 per cent for the same sample of countries). This is confirmed by the EIB Investment Survey 2023, where the availability of skilled staff was the most frequently mentioned long-term barrier to investment, while complaints about regulations and access to finance were lower than the EU average.<sup>10</sup> One exception here was the service sector, where 73 per cent reported that business regulations were an obstacle (compared with 58 per cent on average) – probably in response to restrictions on regulated professions.

**However, some administrative barriers could still be eased.** The OECD's Product Market Regulation (PMR) indicators for 2018 showed that the administrative burden on startups was higher in Bulgaria than in any other country covered by the indicators, while restrictions on professional services were onerous.<sup>11</sup> When it updated this assessment in 2024, the OECD noted that decent progress had been made in easing these barriers, most notably as regards public ownership distortions and administrative burdens (see Chart 15).<sup>12</sup>

**Chart 15. Product Market Regulation scores**



Source: OECD (2024a).

**Competition in key sectors is limited.** While productivity growth in Bulgaria has strengthened in recent years, research by the World Bank indicates that market inefficiencies in the allocation of resources among firms have affected overall productivity, with less-productive companies increasing their market share over the past decade.<sup>13</sup> In addition to regulated sectors such as utilities, between-firm productivity changes have also contributed negatively to overall productivity growth in manufacturing and knowledge-intensive services. Research also shows that politically connected firms report higher profits while exhibiting lower productivity than other firms, for example as a result of preferential access to public procurement contracts.<sup>14</sup> The presence of SOEs in key sectors may also influence allocative efficiency and business dynamism.

**As such, competition policy and enforcement could be further enhanced.** The adoption of EU directives (such as ECN+) and the reinforcement of the Commission for the Protection of Competition (CPC) should lead to an improvement in the state's oversight over uncompetitive practices. Enforcement has been inconsistent in the past, particularly in sectors like energy and telecommunications, where market concentration is high. The number of cases investigated by the CPC declined

<sup>9</sup> Same country group as in Chart 14.

<sup>10</sup> See European Investment Bank (2024).

<sup>11</sup> See OECD (2023).

<sup>12</sup> See OECD (2024).

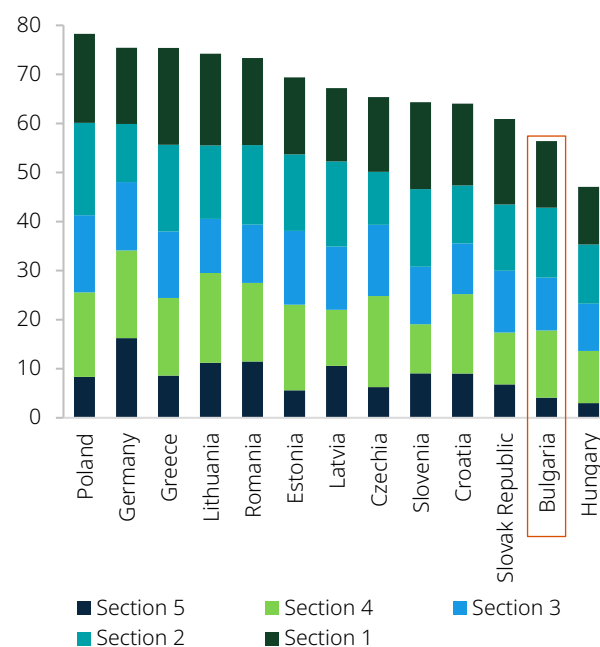
<sup>13</sup> See World Bank (2022).

<sup>14</sup> Ibid.

after 2019, before increasing again in 2023. According to CPC reports, over 70 per cent of investigations in 2023 focused on abuse of dominant positions and cartel agreements, reflecting persistent issues in these areas. Of the 28 cartel-related investigations that were carried out in 2023, 12 ended with a sanction, representing an improvement on the period prior to 2019.<sup>15</sup> Still, the average size of fines remains modest, and the CPC is not empowered to impose criminal sanctions, as cartel activity is not a criminal offence.<sup>16</sup>

**There is potential to enhance the efficiency of insolvency proceedings.** In the EBRD's 2022 business reorganisation assessment, Bulgaria was ranked fairly low down among EU countries as regards the effectiveness of its insolvency procedures, while the OECD has identified Bulgaria as having the most restrictive insolvency framework in the EU.<sup>17</sup> This is primarily due to relatively low scores for the regulatory framework and data transparency (see Sections 1 and 5, respectively, in Chart 16). In 2020 the average duration of insolvency processes in Bulgaria was 3.3 years, compared with an EU average of 2 years. In addition, Bulgaria does not currently have a pre-insolvency regime outside of formal, court-based restructuring. In 2023 the government approved legislative amendments in this area pursuant to a roadmap established in 2019.

**Chart 16. EBRD assessment of insolvency procedures (points)**



Source: EBRD (2022).

## Capacity to generate value added and innovate

**In most sectors, labour cost growth has outstripped productivity improvements relative to peers, affecting cost competitiveness.** Reflecting long-term trends in terms of accelerated wage growth, key sectors of the economy have seen a deterioration in price competitiveness as measured by nominal unit labour costs per hour worked.<sup>18</sup> With the exception of agriculture and financial services, where cumulative productivity growth since 2015 has almost equalled compensation growth, wages have risen faster than productivity in all sectors. At the same time, Bulgaria has seen stronger labour cost growth than its peers in all sectors except agriculture and financial services, which have experienced significant improvements in productivity, as mentioned above (see Chart 17).

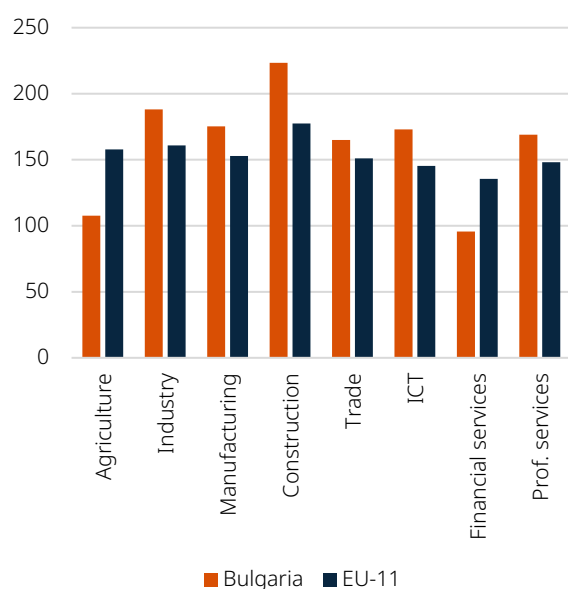
15 See Institute for Market Economics (2024).

16 See World Bank (2022).

17 See OECD (2023).

18 Ratio of total compensation to real labour productivity per hour worked.

**Chart 17. Nominal unit labour costs per hour worked: 2023 versus 2015 (per cent)**



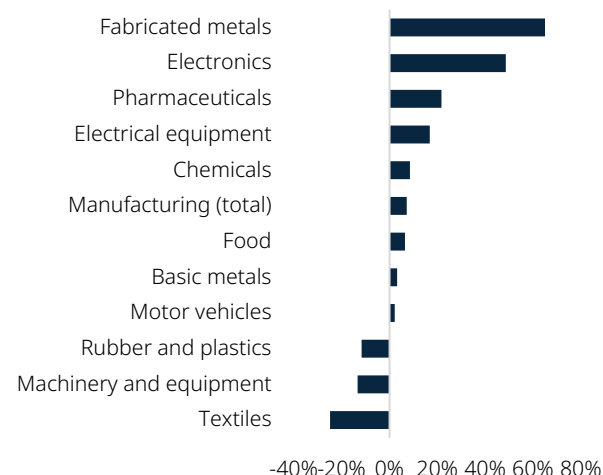
Source: Eurostat (2024d) and authors' calculations.

**Economic complexity has increased.** Bulgaria has gained six positions in the Economic Complexity Index rankings over the past decade, sitting in 41st position in 2023 (out of 145 countries in total) – albeit below most regional peers.<sup>19</sup> This is a result of the diversification of the country's export basket, although less complex product categories continue to account for a substantial share of exports. In 2023, almost 24 per cent of Bulgaria's exports were in services (business, ICT, tourism and transport), with metals (mainly copper), agriculture and textiles worth a combined 20 per cent. Almost 10 per cent of all exports were copper products. Bulgaria's global market shares in metals, agriculture, electronics and machinery have improved over the past two decades, albeit from a very low base.

**Reflecting developments in exports, the structure of industrial production has shifted towards more complex goods in recent years.** Compared with the average production recorded in 2019, Bulgaria's mining industry was smaller in 2024, driven by a 50 per cent drop in coal and lignite mining. At the same time, driven by greater integration into global value chains and increased cost pressures post-2020, manufacturing has shifted towards the structure of a more typical central European

economy (see Chart 18). As such, high- and medium-tech industrial production accounted for 36 per cent of total manufacturing output in 2022, up from 25 per cent in 2016.

**Chart 18. Industrial production index: 2024 vs 2019 (seasonally adjusted)**

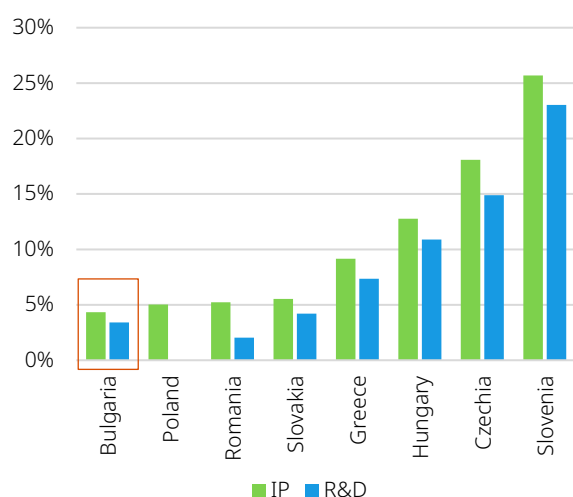


Source: CEIC (2025) and authors' calculations.

**Still, the intensity of knowledge-based assets in manufacturing remains modest.** If we look at Bulgaria's intellectual property (IP) rights as a share of fixed assets, using it as a proxy for the knowledge-intensiveness of economic sectors, the innovative capacity of Bulgaria's manufacturing sector appears modest, although key peers such as Romania and Poland are similar (see Chart 19). Gaps are also recorded for gross research and development assets.

19 See Growth Lab (2024).

**Chart 19. Ratio of the nominal value of IP and R&D assets to machinery assets in manufacturing sector, 2021**



Source: Eurostat (2024i) and authors' calculations.  
Note: R&D data are missing for Poland.

### The business service sector has expanded strongly.

Similar to other countries in the region, Bulgaria has benefited from a relatively skilled workforce concentrated in its major cities and has attracted significant investment in the business outsourcing sector. Still, at end-2024, 49 per cent of firms operating in this sector were domestically owned. More than 104,000 full-time employees were employed in the industry in 2023.<sup>20</sup>

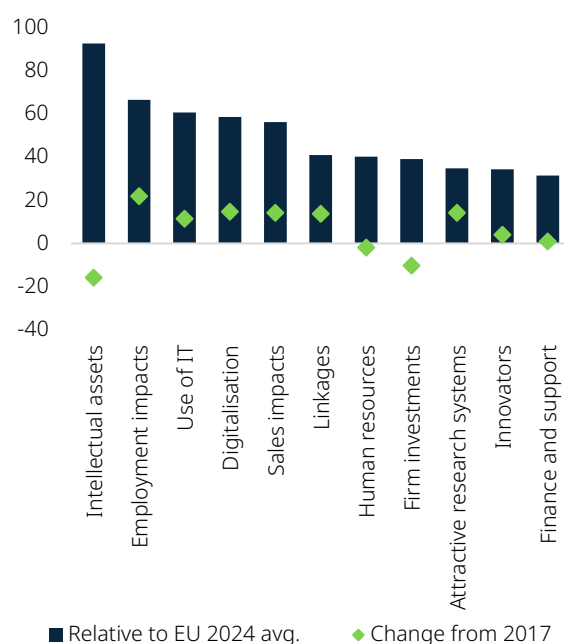
### The innovation ecosystem has improved in recent years, albeit from a very low base.

According to the European Innovation Scoreboard for 2024, Bulgaria has made progress compared with 2023 following a period of stagnation post-2020. Key areas with significant improvements over the past seven years include employment within innovative firms, digitalisation, the development of an enhanced research system and the strengthening of linkages (see Chart 20). Bulgaria outperforms the EU average when it comes to broadband penetration, as well as trademark and design applications classified under intellectual assets. Nevertheless, there are persistent weaknesses when it comes to participation in lifelong learning, public support for business R&D, advanced digital skills and overall innovation intensity.

**Bulgarian firms could benefit from greater spending on innovation.** While more companies are innovating,

private-sector performance in frontier innovation lags behind the EU average (albeit Bulgaria is outperforming some peers). In 2022 R&D spending totalled 0.77 per cent of GDP (compared with an EU average of 2.2 per cent), higher than just three other EU member states. Business R&D totalled 0.52 per cent of GDP, above six EU peers, with 40 per cent of that coming from foreign sources.<sup>21</sup> Patent applications in Bulgaria have declined slightly over the past decade, but applications by Bulgarian citizens resident abroad – over half of them in the United States – increased at an annual rate of 8.2 per cent over the period 2010-21.<sup>22</sup> Since 2018, more patents have been filed abroad than domestically, with the number of foreign patentees in Bulgaria dropping to just 13 in 2021.

**Chart 20. European Innovation Scoreboard, normalised scores, EU-27 2024=100**



Source: European Commission (2024a).

### Although progress has been made, the research ecosystem has scope for further improvement.

The Bulgarian research system continues to produce outputs that are relatively low in quality, as evidenced by the country's scientific publications ranking lowest in the EU for representation in the 10 per cent of works that are most cited worldwide. Furthermore, the proportion of international co-publications is limited: in 2021,

20 See AIBEST (2024).

21 See Eurostat (2024j).

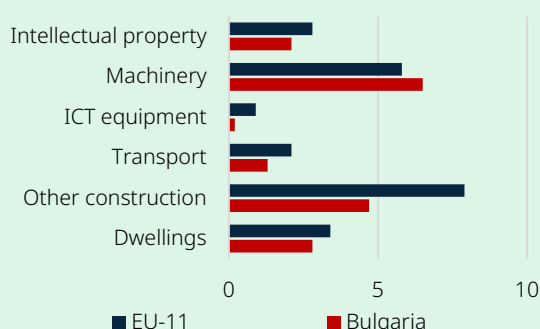
22 See Nikolova-Minkova (2023).

40 per cent of Bulgarian publications involved international collaboration, compared with an EU average of 55.4 per cent. Enhancing cooperation with the private sector and considering structural reforms to public-sector research institutes could contribute to higher-quality and more efficient research outcomes.

### Box 1. Explaining Bulgaria's investment gap in relation to its peers

Investment as a percentage of output has been lower in Bulgaria than in other countries in recent years. From 2010 to 2022 the value of fixed assets in Bulgaria rose by 8.4 per cent, while the average for the EU-11 was 53.2 per cent. Analysis by asset type indicates that this stems mainly from investment in other buildings and structures (see chart below), which relates to levels of infrastructure and construction investment. Between 2010 and 2018 infrastructure investment in Bulgaria averaged 8.4 per cent of GDP, whereas from 2019 onwards this figure was just 4.7 per cent.

#### Gross fixed capital formation by asset type, 2019-23 average (per cent of GDP)



Source: Eurostat (2024i) and authors' calculations.

Another point is the relatively low level of investment in ICT equipment, which in 2023 stood at just 36 per cent of 2010 levels (0.3 per cent of GDP, compared with 1.1 per cent). This level of investment may affect the pace of digital transformation.

Investment in machinery as a proportion of GDP has demonstrated robust performance since 2019, following a period of underwhelming growth (see chart above). However, between 2010 and 2021, machinery assets within the manufacturing sector rose by 12 per cent, far below the EU-11 average of 48.5 per cent. This comparatively modest increase probably limited gains in industrial productivity.

### Barriers to public-sector investment

Government investment in Bulgaria has declined post-pandemic compared with the period before 2020. Between 2014 and 2020 capital expenditure consistently accounted for approximately 14 per cent of total consolidated expenditure. However, since 2021 this figure has declined to nearly 8 per cent (equivalent to around 3 per cent of GDP), although in nominal terms it remains close to the long-term average.

Recent analyses and evaluations indicate that public investment has demonstrated limited effectiveness. In 2022 less than half of the projected €4 billion of investment was implemented, while in 2021 execution amounted to less than one-third of the planned €6 billion programme. In addition to political instability, challenges related to public procurement have also been identified as significant factors constraining the efficiency of public investment. According to World Bank (2022), 49 per cent of contracts between 2007 and 2019 were awarded under conditions suggesting a high risk of collusion.

### Barriers to private-sector investment

In the private sector, slower investment growth may be attributable to both demand and supply factors. On the demand side, 82 per cent of respondents to the EIB Investment Survey 2023 identified uncertainty about the future as a long-term barrier, which was slightly above the EU average.

On the supply side, the availability of skilled workers has consistently been cited as a barrier to investment, including for foreign companies. Additional reasons raised in interviews pertain to broader aspects of the business environment, such as administrative procedures, levels of competition, insolvency processes and informality.

**The startup ecosystem has experienced significant growth in recent years.** Driven by rising global demand for IT services, a substantial number of new startups have been established, predominantly in Sofia. Indeed, the Bulgarian capital is one of the leading cities in central and eastern Europe for venture capital (VC) funding. In 2023 Sofia was ranked fourth in the region, attracting €170 million in VC investment – on a par with Warsaw and higher than Prague. Bulgaria's VC investment has grown strongly, rising from just €65 million in 2019 to €264 million in 2023. In terms of the density of funded startups, Bulgaria was one of the top performers in south-eastern Europe between 2019 and 2023.<sup>23</sup> Despite these achievements, the total cumulative value of all Bulgarian startups stands at just €9 billion or so, lower than all regional peers except Croatia, primarily due to a

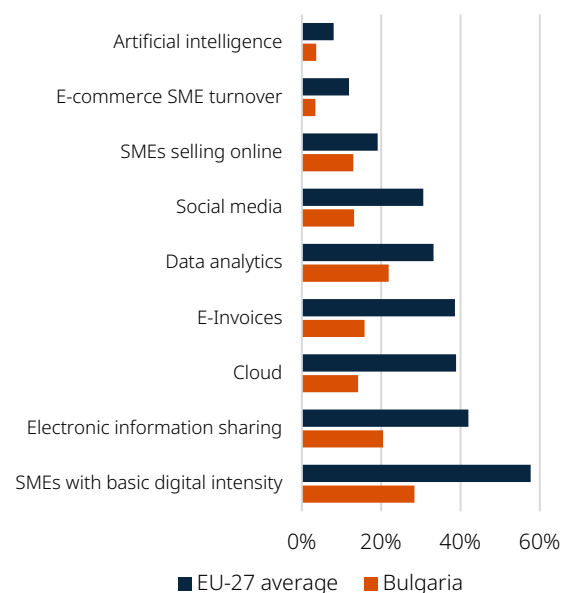
23 See BVCA (2024).

relatively low number of unicorns capable of significantly increasing their total valuation. Nevertheless, at least four companies in Bulgaria are rumoured to be unicorns.<sup>24</sup>

**Public funding will support the further growth of the ecosystem.** Around €500 million of public funding will be channelled to the VC/startup ecosystem over the next four years, including via the publicly owned Fund of Funds. This should support the further expansion of the ecosystem, although more financing is needed (especially at later growth stages). Besides public and EU funding, institutional resources (especially pension funds) should be incentivised to support the private equity ecosystem.

**The digitalisation of Bulgarian firms is still below the EU average.** According to European Commission data from 2021, about 47 per cent of surveyed small and medium-sized enterprises (SMEs) reported at least a basic level of digital intensity, the second lowest level in the EU (see Chart 21). For most indicators, Bulgarian firms are unfortunately at the lower end of the EU rankings, reflecting their urgent need for progress in terms of digital transformation.

**Chart 21. Digital Economy and Society Index indicators for digital transformation of businesses (share of reporting firms)**



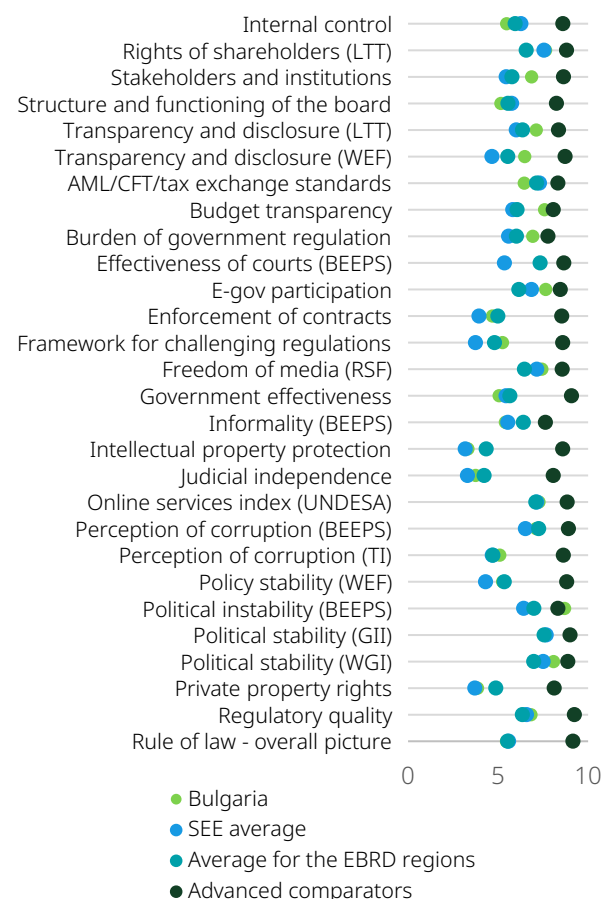
Source: European Commission (2024c).

## 2.2. Well governed

Since joining the EU, Bulgaria has faced heightened scrutiny concerning its rule of law and governance standards. In 2019 Bulgaria satisfied its final obligations under the Cooperation and Verification Mechanism, which had been established at the time of its accession, thereby demonstrating substantial progress. Nonetheless, evaluations by the EU and other bodies continue to highlight disparities compared with peers, especially as regards the public sector and anti-corruption efforts. Recent reform efforts have been patchy.

Bulgaria's legislative framework for corporate governance could be strengthened further to match the standards of its regional counterparts. In addition to establishing a clear rationale for SOE ownership, it is essential to ensure more rigorous and professional enforcement of the existing regulatory framework for the SOE sector.

Chart 22. Well governed ATQ indicators

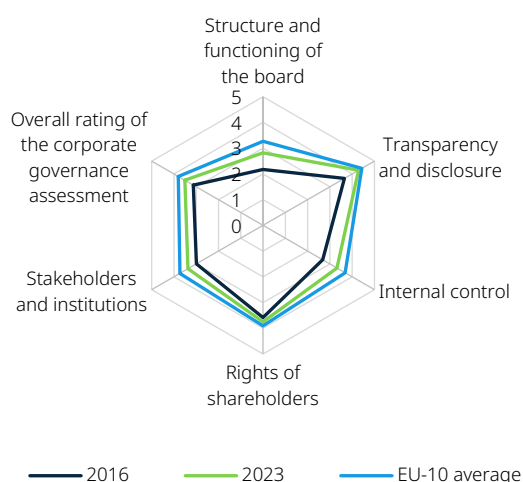


Source: EBRD calculations.

## Corporate and SOE governance

**Corporate governance guidelines and practices have changed, but further alignment with OECD standards is required.** A 2023 assessment of the 10 largest listed companies in Bulgaria, conducted across five dimensions, identified changes in corporate governance since a 2016 evaluation (see Chart 23). The greatest improvements were observed in respect of transparency, the implementation of internal controls (particularly audit committees) and adjustments to board structures.

**Chart 23. Corporate governance legislation and practices in Bulgaria**



Source: EBRD (2025).<sup>25</sup>

**The legislative framework governing corporate governance has undergone recent revisions.** In addition to the Bulgarian Commerce Act and the implementation of the new Accountancy Law introducing Regulation 2017/2402, the National Corporate Governance Code was revised in 2021. Those amendments included a recommendation that issuers of securities whose shares are listed on a regulated market provide a corporate governance statement. Further progress in this domain can be seen in the adoption of the Public Enterprises Act 2019 and its Implementing Rules for State-Owned Enterprises, which ensure alignment with the OECD Guidelines for Corporate Governance of State-Owned Enterprises. Moreover, the Public Enterprise Control Agency (PECA), created to coordinate and supervise SOEs, has formulated a policy regarding state participation in public enterprises.

**There is scope for further improvement as regards the structure and effectiveness of boards.** Substantial progress has been made since 2017 in the area of board governance, with increased gender diversity, improved disclosure of board members' qualifications and a higher proportion of companies appointing independent directors. Nevertheless, legislation does not explicitly delineate key responsibilities for company boards, such as management oversight, budget approval and risk

management. The Corporate Governance Code merely suggests that supervisory boards undertake evaluations of the board and senior management. There is little evidence of a systematic approach to board evaluation, and related disclosures remain limited.

**Internal control has also improved, but autonomy is not fully safeguarded.** Recent progress includes the 2018 Independent Financial Audit Act. All of Bulgaria's 10 largest listed companies now report having internal audits, audit committees and independent external auditors – a notable advance relative to the previous assessment, when only two banks had such functions. While the law requires most audit committee members to be independent, independence is defined only as a lack of affiliation with the entity – not its shareholders – and committees continue to be appointed by and accountable to shareholders.

**SOEs have a considerable footprint in critical sectors of the economy.** Despite mass privatisation in the early transition years, SOEs continue to play a significant role in the economy, with 311 SOEs under central government ownership holding assets equivalent to about 37 per cent of GDP in 2019 and employing 4 per cent of the total workforce.<sup>26</sup> In addition, municipalities have ownership stakes in around 600 SOEs. However, Bulgaria is not an outlier in the region in terms of SOEs' employment and contribution to total value added. Approximately two-thirds of SOE assets are concentrated in the energy and transport sectors, with the 10 largest SOEs generating nearly 90 per cent of total net profits, highlighting a high degree of concentration. These large SOEs are incorporated under a special holding status (namely, EAD status) covering energy, railways, water and sewage, and industrial zones. The largest loss-making SOE is the coal-based Maritsa thermal power plant, primarily due to the impact of carbon emissions.

**Bulgaria continues to face several challenges in the area of SOE management.** The SOE law enacted in 2019 marked an initial but significant step towards improving SOE governance. While the regulatory framework is generally in line with the OECD guidelines, except as regards a clear ownership policy (with some ministries both owners and regulators of SOEs), the SOE sector would benefit from better enforcement and oversight.

25 Based on draft report.

26 See World Bank (2021).

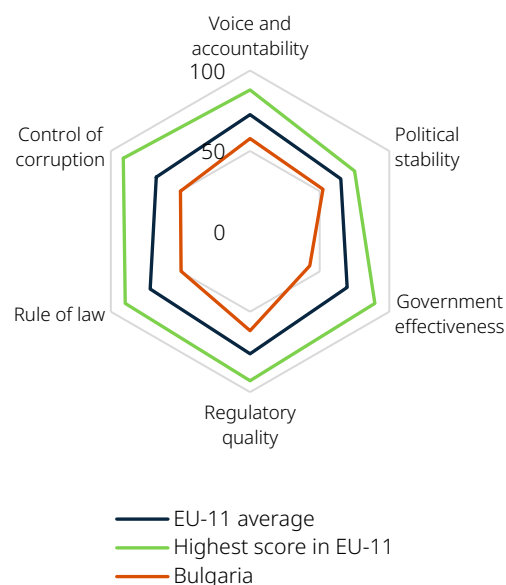
For instance, PECA's primary task is to monitor, benchmark and enhance transparency regarding SOEs' performance, yet its capacity and resources are still constrained when it comes to enforcing better reporting. More broadly, practical adherence to established guidelines remains inconsistent, as government-led changes to management teams and boards persist within key SOEs. In 2021 only 37 of 311 SOEs had completed the competitive board member selection process that was stipulated by the new regulatory framework. Moreover, insolvency rules for the private sector do not apply to all commercial SOEs in Bulgaria, while some SOEs operate with preferential treatment from the state, affecting market competition.<sup>27</sup>

## Governance at national level

### Bulgaria is ranked low down among European countries when it comes to the rule of law.

In the World Justice Project's 2024 Rule of Law Index, Bulgaria was ranked below nearly all EU member states – with the sole exception of Hungary – at 59th out of 142 countries globally. This ranking stemmed primarily from sub-scores for constraints on government powers (71st), absence of corruption (74th) and criminal justice (71st).<sup>28</sup> Nonetheless, Bulgaria was one of the few EU countries to register an improvement in its overall score relative to 2016. Similar trends can be observed for other benchmarks, such as the Worldwide Governance Indicators or the Corruption Perceptions Index. These assessments indicate that Bulgaria's largest disparities relative to EU peers are in government effectiveness and the rule of law (see Chart 24). In terms of regulatory quality and control of corruption, Bulgaria's performance is closely aligned with that of Romania.

Chart 24. Worldwide Governance Indicators, 2023



Source: World Bank (2023b).

### Recent initiatives aimed at implementing judicial reforms have not been successful.

The EU Justice Scoreboard indicates that Bulgaria's judiciary demonstrates relative efficiency in handling administrative cases compared with other EU member states; however, data regarding criminal and commercial cases are unavailable. In 2021 Bulgaria had the highest proportion of public expenditure on law courts in the EU, as well as a comparatively high number of judges and prosecutors per capita. Nonetheless, recent efforts – including constitutional amendments intended to reform anti-corruption bodies, reduce the authority of the Prosecutor General and reorganise the Supreme Judicial Council – have either been found to be unconstitutional or failed to improve delivery.

### Perceptions of corruption remain unfavourable.

In Transparency International's Corruption Perceptions Index for 2024, Bulgaria was ranked 76th out of 180 countries, falling nine positions relative to 2023.<sup>29</sup> While citizens' perception of corruption in Bulgaria is not significantly higher than in peers (80 per cent, versus an EU average of 70 per cent), the difference is more significant at firm level. Indeed, 78 per cent of Bulgarian companies consider that corruption is widespread

27 See OECD (2024d).

28 See World Justice Project (2024).

29 See Transparency International (2024).

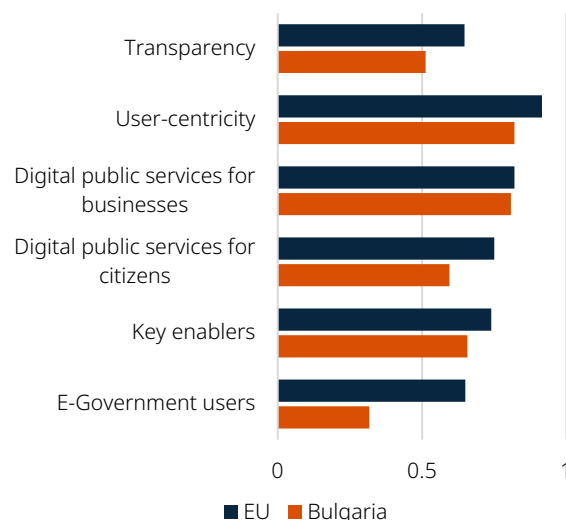
(compared with an EU average of 65 per cent) and 59 per cent consider that corruption is a problem when doing business (versus an EU average of 35 per cent), pointing to a stronger drag on the business environment than in other countries.<sup>30</sup> The overall public perception of judicial independence remains poor.<sup>31</sup>

**Public procurement has historically presented opportunities for collusion.** According to World Bank analysis, a lack of competition in public procurement processes increases the risk of both collusion and corruption. This risk is reflected in the rise in single-bid contracts and other non-competitive procedures that has been observed since 2016, which has coincided with an increase in contracts awarded to politically affiliated firms.<sup>32</sup> In response, the government has amended public procurement legislation to tackle discrimination and make competition in tender procedures fairer, in line with EU standards.

**Government effectiveness and regulatory quality have been affected by the recent political instability, but there have been some improvements over time.** New regulations require that all draft legislation proposed by members of parliament includes reasoning and an impact assessment. In addition, a summary of stakeholders' opinions is to be included with draft laws as part of the parliamentary committee report. According to the Centre for Regulatory Impact Assessment's analysis, progress remains limited, as implementation of the impact assessment requirement is inconsistent, and mandatory public consultations for draft laws introduced by members of parliament are often bypassed.

**E-governance services have seen significant expansion; however, user adoption remains limited.** According to European Commission data, Bulgaria performs comparatively well in the provision of digital public services. The primary challenge, however, lies in the utilisation rates, which are substantially below the EU average (see Chart 25). This gap is primarily attributable to the relatively low proportion of the population that possesses basic digital skills, currently estimated at approximately 30 per cent.

**Chart 25. Digital Economy and Society Index indicators for digital public services, 2023, normalised scores**



Source: European Commission (2024c).

30 See European Union (2024a) and (2024b).

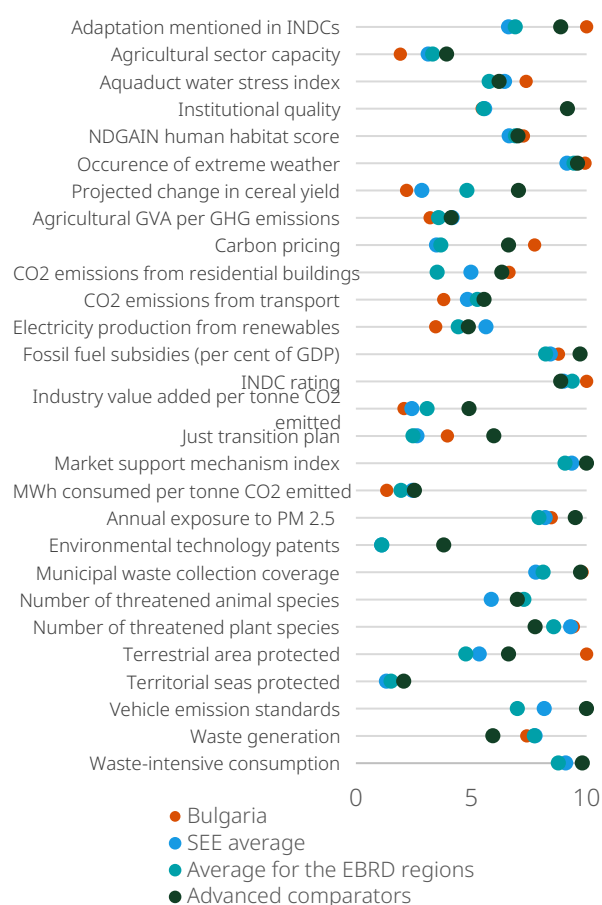
31 See European Commission (2025c).

32 See World Bank (2023).

## 2.3. Green

As the most carbon-intensive economy in the EU, Bulgaria faces significant pressure to decarbonise its energy sector, enhance energy efficiency, address just transition challenges and strengthen climate adaptation measures. In addition, the waste management sector requires modernisation to align it with EU commitments. On the plus side, Bulgaria is currently experiencing substantial growth in renewable energy investment, which should help expedite the energy transition; however, it is essential that corresponding investments in grid infrastructure and storage solutions progress at a comparable pace.

Chart 26. Green ATQ indicators



Source: EBRD calculations.

## Climate and energy policy

### Bulgaria has aligned its climate policies with EU targets.

Consistent with the EU's "Fit for 55" initiative and the commitment to achieve carbon neutrality by 2050, Bulgaria adopted its Long-term Strategy for Climate Change Mitigation in 2022 and released an updated National Energy and Climate Plan (NECP) in 2024. Key drivers of long-term decarbonisation include increasing renewable sources' share of the energy supply, enhancing energy efficiency, making progress with the electrification of transport and advancing new energy carriers such as hydrogen. Nevertheless, the strategy currently lacks detailed sectoral emission reduction pathways, as well as comprehensive information on financing, governance, and technological measures required to accomplish complete decarbonisation.<sup>33</sup> To address these gaps, parliament was expected to approve a Climate Neutrality Roadmap under Bulgaria's Recovery and Resilience Plan (RRP); however, voting was postponed due to pressure from the mining sector.

**The updated NECP is more ambitious than the initial proposal.** The final updated NECP, submitted in early 2025 and assessed by the European Commission in May 2025, includes more ambitious targets than the first version of the document (see Table 1).

Table 1. Key NECP targets

| Sector   | 2030 target   |
|--|---------------|
| Renewables' share of gross final energy consumption              | 34.96%        |
| Renewables' share of electricity generation                      | 55.5%         |
| Reduction in primary energy consumption (relative to 2007)       | -27.9%        |
| Reduction in final energy consumption (relative to 2007)         | -31.7%        |
| Reduction in non-ETS greenhouse gas emissions (relative to 2005) | -10%          |
| Total investment needs 2021-30                                   | €42.7 billion |

Source: European Commission (2025a).

**Bulgaria's long-term energy strategy envisages more renewable and nuclear capacity.** Published in 2023, the energy strategy outlines long-term shifts in energy production in Bulgaria, setting targets to be achieved by 2053. As coal-based power plants, which account for a

33 See EPG (2024).

significant share of Bulgaria's energy supply, are due to be closed by around 2038, Bulgaria will need to invest significantly in replacing this lost capacity. The plan envisages significant increases in renewables, hydropower and nuclear capacity (see Table 2). The 30-year plan also includes upgrades to existing power transmission lines, digitalisation of the distribution network, and the installation of 1,000 charging stations for electric vehicles by 2030.

**Table 2. Planned additional production capacity**

| Energy production type | 2030 target         | 2050 target |
|------------------------|---------------------|-------------|
| Nuclear                | 1.9 GW              | 4 GW        |
| Solar                  | 7 GW                | 12 GW       |
| Wind                   | 2 GW                | 4 GW        |
| Hydropower             | 0.87 GW             | 1.27 GW     |
| Hydrogen               | 1 GW                | 5 GW        |
| Pumped/battery storage | 1.6 GW<br>(by 2035) | 3.1 GW      |

Source: Ministry of Energy (2023).

Bulgaria has had significant EU funding earmarked for its green transition efforts, but some funds are currently at risk. The Bulgarian RRP is ambitious, with 62 per cent (€2.9 billion) of the plan's investments and reforms contributing to climate objectives. Energy efficiency measures worth about €1 billion aim to target renovation of the country's building stock, while €660 million has been earmarked for the transport sector to decarbonise road transport (which will include electric mobility). Bulgaria has also been allocated €480 million through the REPowerEU plan. The European Commission approved a budget of €1.2 billion for Bulgaria's just transition programme at the end of 2023. However, Bulgaria had managed to attract only €197 million from the Modernisation Fund by early 2025.

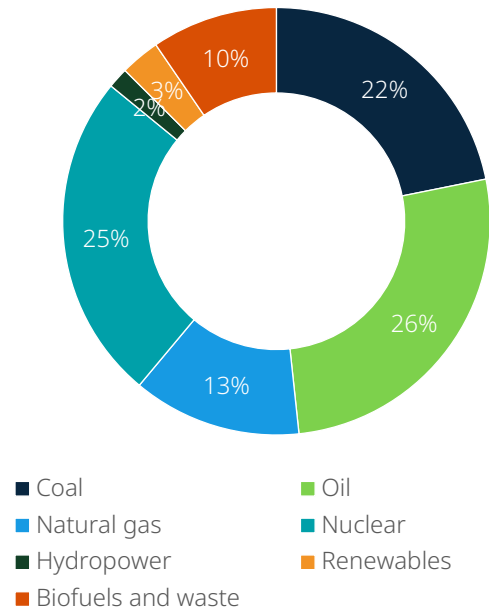
## Energy supply mix

**Bulgaria continues to be one of the most carbon-intensive economies in the EU.** In 2023 the greenhouse gas (GHG) intensity of its GDP was 795 g of CO<sub>2</sub> per euro – more than 3.5 times the EU average of 225 g – despite a declining trend.<sup>34</sup> Bulgaria's emissions have declined by 54 per cent since 1990, with the majority of this reduction occurring during the early years of the transition process.

Between 2015 and 2022 emissions fell by 6 per cent – below the EU average of 11 per cent. However, in 2023 emissions fell significantly relative to 2022, largely due to a reduction in coal-based energy production.

**The high GHG intensity is driven by the structure of the energy supply.** In 2022 around 47 per cent of Bulgaria's CO<sub>2</sub> emissions came from the energy sector, followed by transport (18 per cent) and industry (15 per cent), with 4 per cent coming from residential buildings.<sup>35</sup> Most of the decline in emissions relative to 2015 was accounted for by the energy sector, where they fell by 13 per cent.<sup>36</sup> Nevertheless, coal, oil and natural gas continue to dominate Bulgaria's energy mix.

**Chart 27. Total energy supply by source, 2023**



Source: IEA (2024) and authors' calculations.

**Electricity generation in Bulgaria is moving towards reduced reliance on fossil fuels.** Historically, the country has played a significant role in regional electricity production due to its nuclear and thermal power capacity. In 2023 Bulgaria had the fifth most carbon-intensive electricity generation in the EU, even though nuclear energy accounted for 40 per cent of total output. Fossil fuels supplied approximately 34 per cent of electricity in 2023, compared with 48 per cent in 2022 (when thermal power plants operated at nearly full capacity due to high

34 See European Commission (2024d).

35 Ibid.

36 Ibid.

regional electricity prices). Coal-based generation accounted for 28.9 per cent of production – the third highest figure in the EU. Renewable energy sources, especially solar power, have seen strong growth in the past three years. By early 2024 about €5.6 billion had been invested in various green projects, indicating an increased focus on the green transition.<sup>37</sup>

**Coal-based power plants are expected to be phased out of the market under moderate price conditions and in the absence of public subsidies.**

In 2023 coal-generated electricity production stood at its lowest level since 2000, indicating that this energy source is becoming increasingly uncompetitive.<sup>38</sup> Generation has dropped substantially following the energy crisis, declining from 22 TWh in 2022 and 11.5 TWh in 2023 to 8 TWh in 2024. This reduction follows the expiry of a major thermal power plant's 15-year delivery contract with the state in February 2024; the plant has remained non-operational since then, given its cost structure requires at least €125/MWh. The regulator set a price of €88.5/MWh from July 2024, but agreed to fully contract the Maritsa Iztok 2 plant (300 MW) at approximately €138/MWh. During this period, the plant is projected to incur around €700 million in carbon allowance costs. Official statements indicate that these thermal power plants may become economically unviable by 2030, ahead of the pledged closure date of 2038. Despite these developments, the scale of the required transition means that Bulgaria could still possess the third most carbon-intensive electricity sector in the EU in 2030, behind Poland and Czechia. The updated NECP does not include a clear roadmap for the decommissioning of coal-powered capacity.

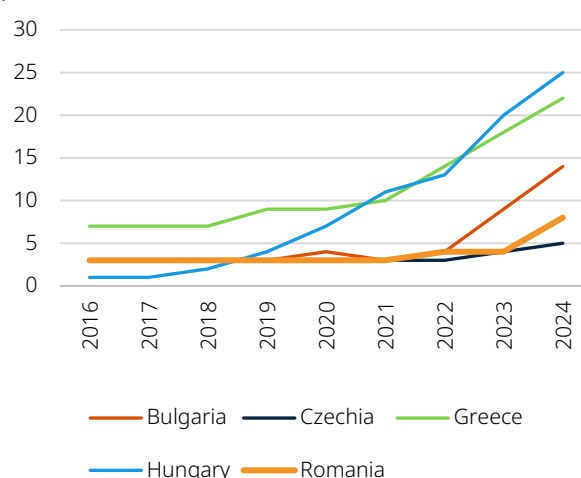
**A just transition is critical in Bulgaria.** Considering the footprint of coal mining and coal-based electricity production, Bulgaria faces a significant economic, environmental, social and political problem. Around 43,000 people still work in the coal industry. The European Commission approved a just transition fund of €1.2 billion for Bulgaria in late 2023 to support the reskilling of 15,000 workers from the Stara Zagora, Kyustendil and Pernik regions. This plan includes the rehabilitation of land, support for SMEs, R&D supporting a shift to a circular and climate-neutral economy, and measures to lift households out of energy poverty. However, as recent protests have shown, this process will

be politically and socially difficult to navigate and implement.

**Solar capacity has surged amid the energy crisis.**

Power generated by solar panels has increased strongly, rising from 1.47 TWh in 2021 to 5.34 TWh in 2023 (see Chart 28). Foreign developers and local investors have established a strong pipeline of solar projects, and ESO expects to see almost 15 GW of solar power by 2033 – above the long-term target for 2050. In 2024 ESO connected 938 MW of renewable energy capacity, while a total of 4.1 GW was in the pipeline at the start of 2025, limited by grid capacity. Multiple funding sources, including the Recovery and Resilience Facility (RRF) and the Modernisation Fund, are being used to support investment in renewables. The main programmes are the two support schemes under the RRF – two grant schemes for renewable energy sources with storage worth €268 million. The first tender procedure for smaller-scale projects approved 435 MW of production and 176 MW of storage, while the second for larger projects approved 940 MW of capacity with at least 200 MW of storage despite 2.66 GW worth of applications. Another €581 million support scheme will be dedicated to standalone battery projects, as the total cost of all proposals was 4.3 times the budget. The main risk around these schemes is that public support comes from the RRF, which has stalled (as at early 2025), as well as the tight deadline of March 2026 for operationalisation.

**Chart 28. Solar's share of total electricity generation (per cent)**



Source: Ember (2024) and authors' calculations.

37 See Balkan Green Energy News (2024).

38 See Ember (2024).

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**Conversely, wind capacity has experienced only minimal growth since 2012.** The development of wind infrastructure has not kept pace with the solar sector, with installed capacity rising from 677 MW in 2012 to just 706 MW by 2022, largely due to challenges related to permitting processes and land use restrictions. Offshore wind development has also encountered significant opposition from agricultural stakeholders and the tourism sector. Nevertheless, Bulgaria possesses substantial potential, with estimates indicating that approximately 5 GW of high-potential onshore and offshore wind installations could be deployed by 2030, particularly in the north-east of the country. Bulgaria's overall offshore wind potential is considerable at an estimated 176 GW; however, realising this will require the implementation of a comprehensive regulatory framework and a maritime spatial plan. Furthermore, the cost of offshore wind along the Black Sea coast will be significant due to the requirement for floating installations.<sup>39</sup> Without social, regulatory and political advances, Bulgaria is expected to depend predominantly on solar energy for the expansion of renewable energy sources, underscoring the need for substantial investment in balancing solutions such as battery storage.

**Grid capacity is a significant factor affecting the expansion of renewable energy sources.** As in many other countries, Bulgaria's transmission and distribution network currently lacks the infrastructure required for rapid growth in renewables. Applications to connect renewable projects to the grid in recent years have had a combined capacity of approximately 40 GW, although a significant percentage of these have been speculative or inactive projects. To address this, the transmission system operator (TSO) has introduced a €25,000/MW booking fee to streamline the application process. In 2022 the energy regulator released a transmission network development plan covering the period up to 2031, outlining €945 million of investment aimed at modernising the grid. The plan emphasises the importance of digitalising the grid to support more flexible and detailed capacity management. The Bulgarian authorities are also considering new hydropower projects, including some on the Danube, to meet balancing requirements, although these projects are still at a preliminary stage.

**In parallel, the authorities have started preparing for the expansion of nuclear capacity.** Following the energy crisis, Bulgarian authorities have proceeded with a plan to build two new units at the Kozloduy Nuclear Power Plant using US technology. In February 2024, the government selected Hyundai Engineering and Construction to prepare a bid for the project. With an estimated cost of between US\$ 15 billion and US\$ 20 billion, the government will need to attract significant funding, as it is committed to covering just 30 per cent using the state budget. While nuclear plants provide stability when there is a shortage of renewable energy, the technical impossibility of reducing their output sufficiently during periods of peak renewable output highlights the need for international connectivity and energy storage.

**Bulgaria does not have a comprehensive strategy for the decarbonisation of district heating.** Although there are proposals to encourage the adoption of renewable energy sources in buildings, as well as the integration of heat pumps, biomass and geothermal solutions, no concrete targets or specific measures have been established to date. This situation can be attributed to the limited capacity of municipalities and the absence of legally binding directives from central authorities requiring municipalities to formulate robust heating, cooling and energy efficiency plans.<sup>40</sup> The majority of Bulgaria's district heating systems are still dependent on natural gas power plants.

## Energy efficiency

**Transport, industry and residential buildings account for the majority of energy consumption in Bulgaria.** With the exception of transport, the country's overall energy usage has remained relatively stable over the past decade. Final energy intensity has declined by 39 per cent since 2000, driven primarily by a 53 per cent reduction in the industrial sector (see Chart 30). Nevertheless, Bulgaria's industrial sector is still one of the most energy-intensive in the EU, even when accounting for differences in the production structure.<sup>41</sup> At the very least, energy efficiency measures and decarbonisation plans are needed in the most energy-intensive parts of the industrial sector. Several initiatives are already under way. For example, the

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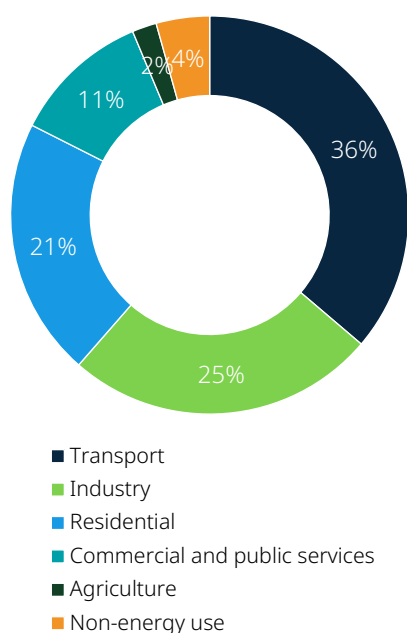
39 See Balkan Green Energy News (2023).

40 See Energy Cities (2024).

41 See Odyssey-Mure (2024).

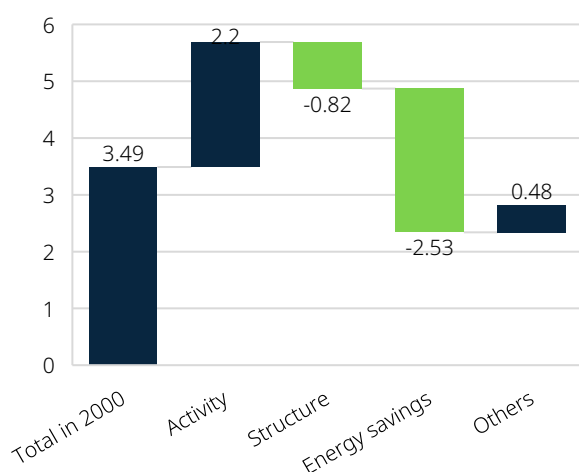
copper smelter Aurubis has invested €115 million in improving efficiency and environmental sustainability.

**Chart 29. Breakdown of final energy consumption by sector, 2023**



Source: IEA (2024) and authors' calculations.

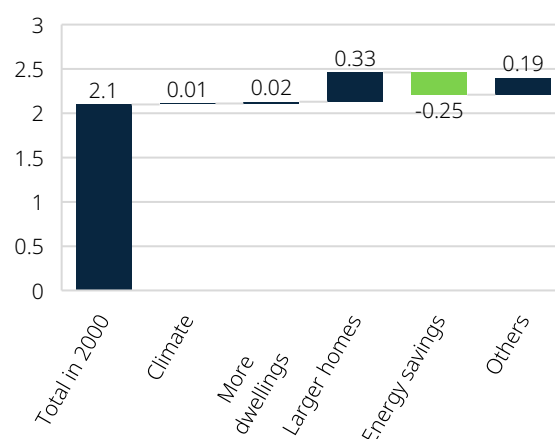
**Chart 30. Drivers of changes in energy consumption in industry post-2000 (Mtoe)**



Source: Odyssee-Mure (2024).

**In contrast to the industrial sector, energy consumption in buildings remains low; however, progress in reducing this usage has been modest.** Odyssee-Mure estimates indicate that Bulgarian households have achieved a 12 per cent improvement in energy efficiency since 2000 – the second lowest figure in the EU (see Chart 31).<sup>42</sup> Nonetheless, Bulgarian households currently have the third lowest energy consumption per dwelling in the EU when adjusted for climate conditions, and their heating efficiency surpasses that of many other EU member states.<sup>43</sup> Despite these positive aspects, there is a clear need for Bulgaria to proceed more quickly with the comprehensive renovation of both public and residential buildings. The majority of multi-family apartment buildings have not yet undergone renovation, and energy upgrades for single-family homes are notably absent from current government initiatives. The existing strategy aims to renovate approximately 8 per cent of the building stock during the period 2021-30 and 45 per cent between 2021 and 2050.<sup>44</sup> Moreover, Bulgaria does not yet possess a national registry of building characteristics, which would facilitate a more effective prioritisation of renovation efforts.<sup>45</sup>

**Chart 31. Drivers of changes in energy consumption of residential buildings post-2000 (Mtoe)**



Source: Odyssee-Mure (2024).

**Energy poverty remains considerable.** Amid the required liberalisation of retail energy prices, energy affordability remains a major concern. Around 19 per cent of households struggle to keep their home adequately warm

42 Ibid.

43 Ibid.

44 See European Commission (2025a).

45 See European Commission (2023a).

– the highest figure in the EU.<sup>46</sup> Moreover, arrears on utility bills are the second highest in the EU at close to 20 per cent.

## Climate adaptation and circular economy

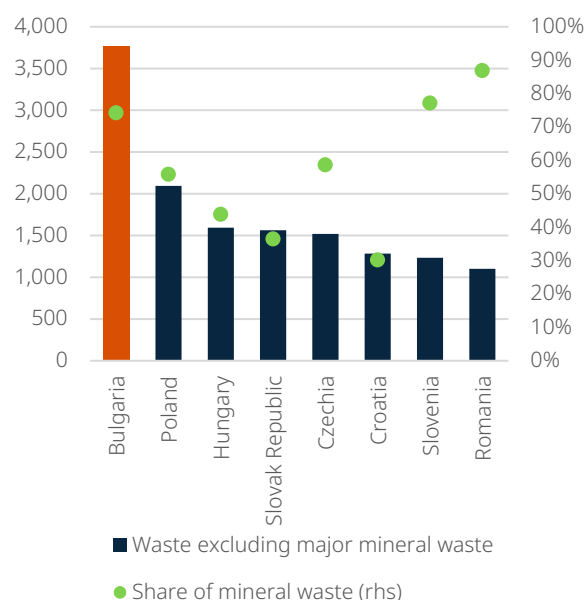
### Bulgaria is exposed to climate variability and change.

Heavy rain, flooding and soil erosion pose risks to both urban and rural infrastructure, especially for groups with limited resources. The frequency, intensity and impact of droughts are all projected to increase in the course of the century. Areas with low soil moisture retention, such as the south-east of the country, are particularly susceptible to these changes. In addition, more frequent aridity and drought conditions may affect agriculture, food security, energy generation and human health.

**Air quality is a significant issue in Bulgaria.** The annual concentration of PM 2.5 is 3.5 times the norm of 5 µg/m<sup>3</sup> set by the World Health Organization (WHO). According to WHO data, 155 deaths per 100,000 people were caused by air pollution in 2019, the highest level in the EBRD regions. The population exposed to concentration of air pollutants above EU standards is also very high in Bulgaria.

**Waste generation in Bulgaria remains significant, primarily due to the mining industry.** In 2022 Bulgaria recorded the second highest waste production per capita in the EU, with the mining sector accounting for around 80 per cent of total waste (see Chart 32). Even excluding major mineral waste, Bulgaria was still ranked third in the EU for overall waste generation, highlighting the critical need for circular economy initiatives. In addition, hazardous waste made up 12 per cent of total waste, making Bulgaria the second largest producer of such waste in the EU. The country also had the second highest rates of landfilling and alternative disposal methods, while recycling and energy recovery remained noticeably low.

Chart 32. Waste generation, 2022 (kg per capita)



Source: Eurostat (2024k).

**Municipal waste generation remains comparatively low; however, improvements to treatment processes are necessary.** In 2021 Bulgarian municipalities generated 445 kg of waste per capita, among the lowest amounts recorded in EU member states. However, as regards waste management, 67 per cent was disposed of in landfills in 2020, while 35 per cent was recycled, in line with the regional average. Bulgaria does not currently possess energy recovery or incineration facilities, consistent with trends observed in many neighbouring countries. A proposed waste-to-energy plant in Sofia, which had secured €90 million of EU funding, was recently rejected by a court due to concerns about the potential impact on air quality.<sup>47</sup>

**Bulgaria has lower material productivity than many of its peers, meaning that the economy is less efficient in using its raw materials.** In 2022 the circularity rate in Bulgaria was 4.8 per cent – an improvement on the level seen in 2010, but lower than the EU average of 11.5 per cent. Bulgaria has drawn up a Strategy and Action Plan for the transition to a circular economy for the period 2022-27, aiming to increase resource efficiency.

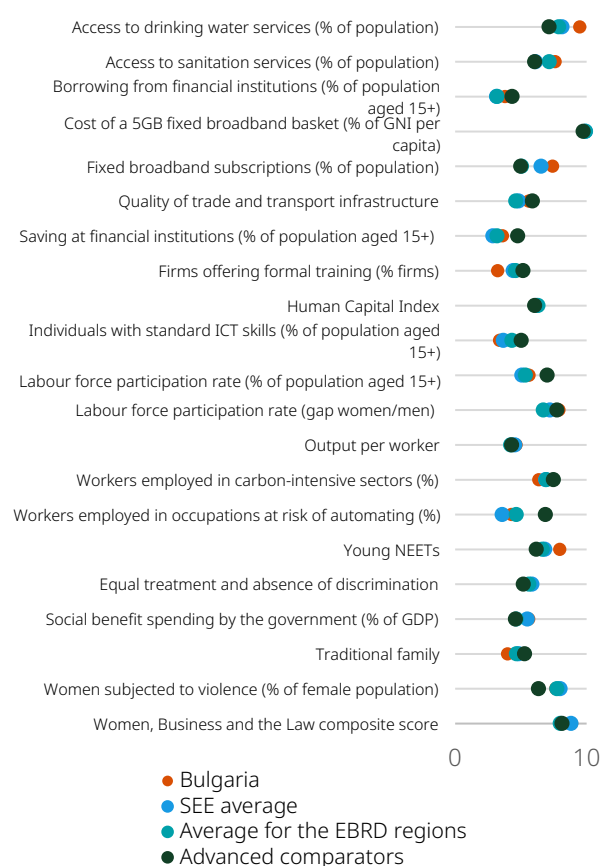
46 See European Commission (2025b).

47 See Euractiv (2024).

## 2.4. Inclusive

Bulgaria faces persistent inclusion gaps, including regional inequalities, labour market disparities, and relatively high rates of poverty and social exclusion. While labour market indicators such as participation and wages have improved in recent years, men still participate more than women, and youth unemployment has risen since 2019. Skills mismatches and staff shortages are obstacles to private-sector growth, particularly given the declining numbers of young people. It is thus essential to attract and retain qualified workers, especially young people, women and workers in less developed areas.

Chart 33. Inclusive ATQ indicators

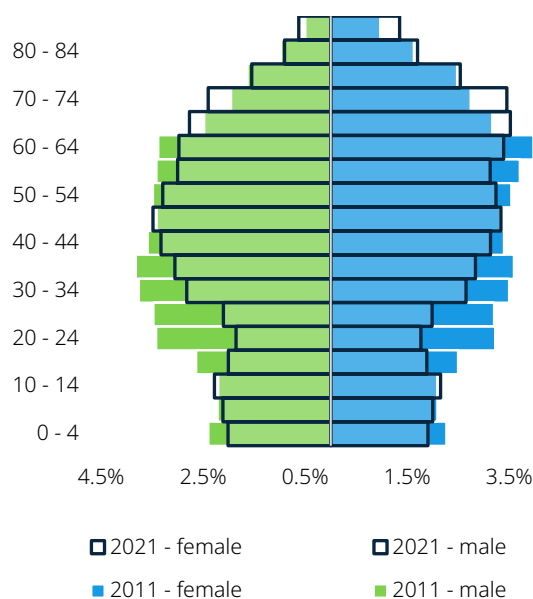


Source: EBRD calculations.

## Demography, labour supply and skills

**Bulgaria's demographic trajectory has had a pronounced effect on its labour market.** The country's population has declined substantially since the early 1990s, falling from nearly 9 million in 1989 to under 7 million by 2019. Data from the 2021 population census indicate a 13.6 per cent decrease in the number of economically active individuals compared with 2011, with more pronounced drops in the 20-30 age category (see Chart 34).<sup>48</sup> Consequently, the total labour force contracted by 9.3 per cent between 2019 and 2023 – a reduction of more than 300,000 people – with projections indicating continued declines in the working-age population (15-64) until at least 2030 due to elevated retirement rates.

Chart 34. Men and women as a share of total population, by age group, 2011 vs 2021 census



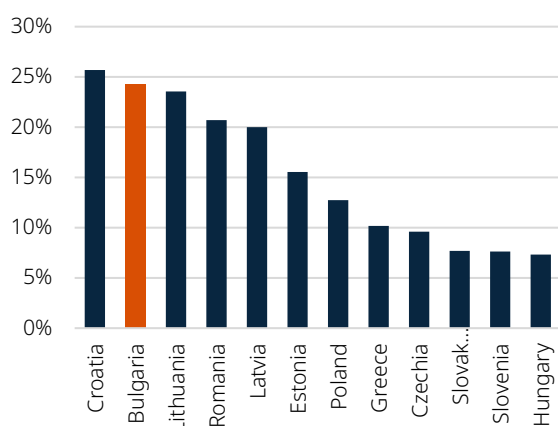
Source: NSI (2021).

48 See NSI (2021).

On the plus side, the country has seen an increase in its **fertility rate in recent years**. The fertility rate jumped to 1.78 in 2022, compared with a 10-year average of 1.53 – higher than the EU average of 1.46. However, population ageing over the years has resulted in an increase in the average age of the population, rising from 40.6 years in 2002 to 45.2 years by the end of 2023.<sup>49</sup> Population ageing may impact the overall quality of human capital in Bulgaria as total working hours and labour productivity decline, exacerbated by the low incidence of lifelong learning in the country.

**Labour supply is being limited in part by the country's comparatively stringent immigration policies.** Historically, the country has faced significant emigration, resulting in outflows of skilled professionals across various economic sectors – often referred to as a “brain drain”. Since 2020, however, Bulgaria has recorded net immigration. While the authorities acknowledge the potential economic benefits associated with increased immigration, the current policy continues to prioritise encouraging Bulgarian nationals abroad to return. Indeed, Bulgaria has one of the largest emigrant populations in the EU, with approximately 1.7 million citizens residing overseas as at 2020 (see Chart 35). Nevertheless, employers and recruitment agencies have increased their hiring of seasonal workers from Central Asia to address labour shortages.<sup>50</sup>

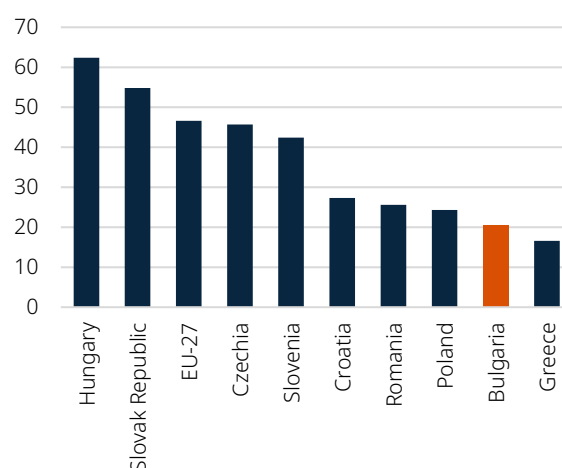
**Chart 35. Emigrants as a percentage of total population, 2020**



Source: UNDESA (2024).

**Skills gaps and mismatches present significant challenges in Bulgaria.** The inadequately trained workforce continues to be a major obstacle for businesses operating in the country. Adult participation in formal education and training remains infrequent: in 2020, only 41.1 per cent of enterprises in Bulgaria reported offering continuing vocational training (CVT), compared with an EU average of 67.4 per cent. Participation in adult learning also remains limited (see Chart 36). In addition to adult training initiatives, Bulgaria needs to enhance youth skills and overall educational quality, particularly in light of the country's comparatively low PISA test scores and ongoing mismatches between vocational education and labour market demands.<sup>51</sup>

**Chart 36. Participation in adult learning in the past 12 months, 2022 (per cent)**



Source: Eurostat (2024).

**Digital literacy levels among Bulgarian adults remain comparatively low.** In 2023 only 7.7 per cent of the population reported possessing more than basic digital skills, significantly below the EU average of 26 per cent. Similarly, just 31 per cent had basic digital skills, compared with an EU average of 54 per cent.<sup>52</sup> Enhancing digital competencies and strengthening the workforce's digital capabilities are essential in order to fully benefit from digital transformation. Only 43 per cent of employed individuals report using the internet, and just 9.1 per cent of enterprises offer ICT training to their employees. Notably, companies vary substantially by size, with only

49 See NSI (2023).

50 See BTA (2023).

51 See CEDEFOP (2023).

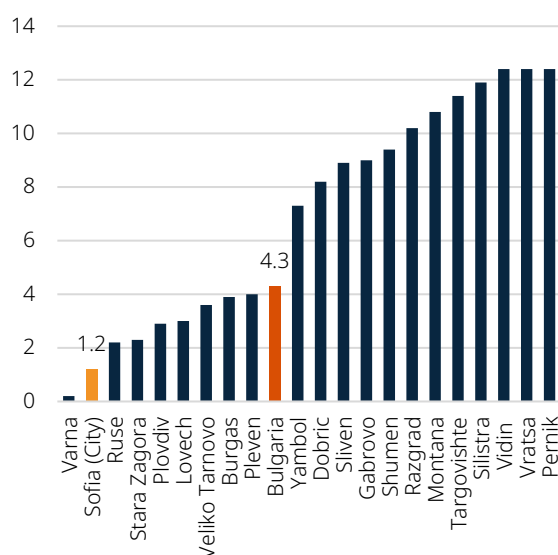
52 See CEDEFOP (2024).

6.7 per cent of small enterprises providing such training, compared with 43 per cent of larger firms.<sup>53</sup>

## Inclusion gaps

**Labour market disparities across regions are very pronounced, reflecting the significant disparities between regions in terms of living conditions.** While large cities like Varna and Sofia have near-full employment, Pernik, Vratsa and Vidin report unemployment levels in excess of 12 per cent, reflecting large disparities in labour market outcomes (see Chart 37).

Chart 37. Unemployment rates across cities (per cent)



Source: NSI (2024b).

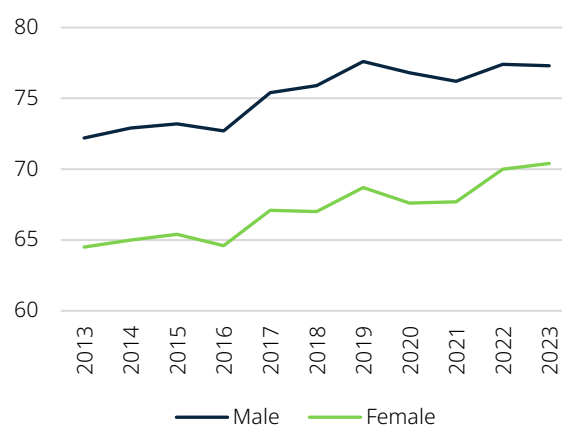
**Rapid depopulation and population ageing are particularly evident in rural areas outside the Sofia City region.** From 2020 to 2023, Sofia's population grew by more than 5 per cent, reaching 1,286,965 residents and accounting for approximately 20 per cent of Bulgaria's total population.<sup>54</sup> Furthermore, Sofia demonstrates more favourable demographic trends: the proportion of individuals aged 65 and above is highest in Vidin (31.3 per cent) and Gabrovo (30.3 per cent), whereas it is lowest in Sofia (19.2 per cent) and Varna (21.5 per cent).<sup>55</sup>

**While overall poverty levels are the highest in the EU, living standards vary considerably across ethnic groups.**

In 2024, 30 per cent of people in Bulgaria were at risk of poverty or social exclusion, the highest figure in the EU. Nevertheless, poverty levels vary significantly between ethnic groups. The country's Roma population had the highest at-risk-of-poverty rate at 65 per cent, while the Bulgarian ethnic group had the lowest rate at 14.3 per cent. Better integration of the Roma population into the labour market would help tackle labour shortages and foster economic and social inclusion, while investment in infrastructure would enhance mobility.

**Although gender disparities persist, improvement has been seen in the area of labour force participation.** Both women and men have experienced increased participation rates, with the gap between their rates narrowing slightly from 8.9 percentage points in 2019 to 6.9 percentage points in 2023 (see Chart 38). The gender pay gap stood at 12.6 per cent in 2022, close to the EU average of 12.7 per cent. The most significant gender pay disparities were observed in the financial services (30.2 per cent), manufacturing (22.8 per cent), and information and communication (19.9 per cent) sectors.<sup>56</sup> Nevertheless, female business ownership in Bulgaria was notably high at 41.7 per cent in 2019, and the proportion of firms with a female top manager – 28.8 per cent – was among the highest in the EU.<sup>57</sup>

Chart 38. Labour force participation (per cent)



Source: NSI (2024d).

53 See NSI (2024a).

54 See NSI (2023).

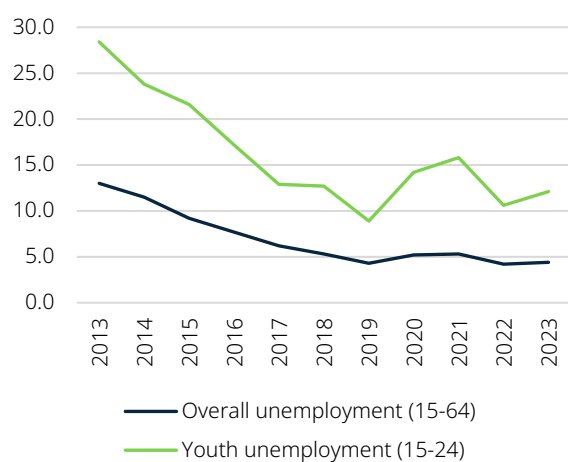
55 Ibid.

56 See NSI (2024c).

57 See EBRD, EIB and World Bank (2020).

**Youth unemployment remains a persistent challenge and has shown an upward trend in recent years.** Although youth unemployment has declined significantly overall since 2013, there has been an upward trend since 2019 (see Chart 39). Individuals under the age of 25 make up approximately 16 per cent of all registered unemployed persons in Bulgaria. In addition, 16.9 per cent of young adults aged 18-24 are not in education, employment or training (NEET) – slightly above the OECD average of 14.7 per cent.<sup>58</sup> Unemployment and lack of training are particularly pronounced in young segments of the Roma and Turkish populations. The development of appealing employment opportunities is essential to retain skilled young workers and mitigate brain drain.

**Chart 39. Youth unemployment rate and overall unemployment rate (per cent)**



Source: NSI (2024b).

58 See OECD (2023).

## 2.5. Resilient

Bulgaria's EU membership has contributed to reforms in the energy sector, although certain reforms – such as liberalisation of the electricity market – remain incomplete. The state maintains a significant role in the energy market, despite increasing private-sector involvement in the sector through growth in renewable capacity. Recent events, including the energy crisis and the war in Ukraine, have led to improvements in energy connectivity, with new electricity and gas projects aimed at enhancing energy security.

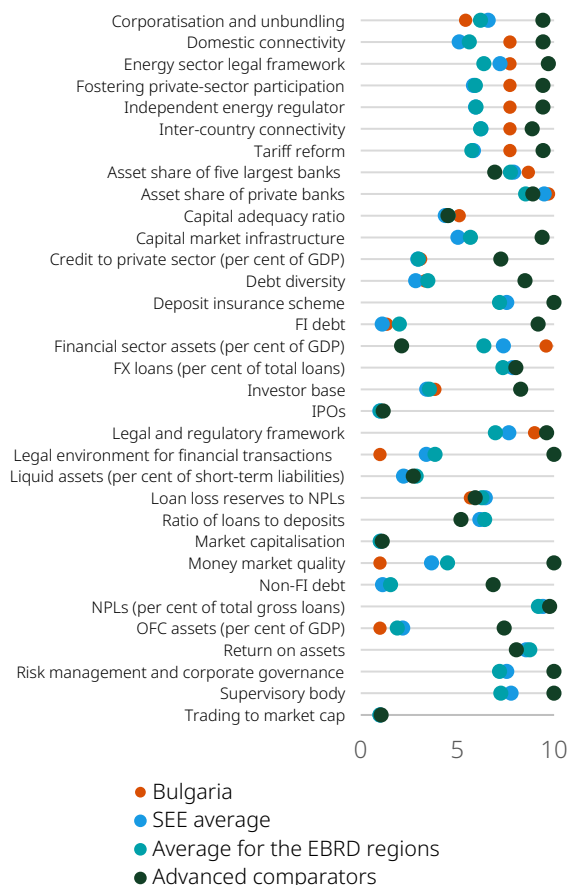
Bulgaria's financial sector is stable, supported by a robust banking system operating under eurozone standards and market conditions. The capital market, however, remains relatively inactive, though it is larger overall than those of some smaller economies in central and eastern Europe. Opportunities exist for further improvements in market conditions.

### Energy resilience

**The regulatory framework has undergone revisions; however, critical reforms have yet to be enacted into law.**

The Bulgarian parliament has approved amendments to the Energy from Renewable Sources Act, which have streamlined the permit process, introduced guarantees of origin and established regulations for prosumers. In 2023 the government drafted a new Law on Energy, designed to achieve full liberalisation of the wholesale electricity market by 2024 and the retail market by 2026. The proposed legislation also provides for the creation of energy communities and aggregators, and clearly defines criteria for energy poverty. However, owing to the recent political instability, the bill remains pending, resulting in the postponement of wholesale market liberalisation and placing the implementation of the RRP at risk, since adoption of this law is a designated milestone.

Chart 40. Resilient ATQ indicators



Source: EBRD calculations.

**The state continues to exercise considerable oversight over the energy sector.** In addition to ongoing regulatory reforms, regulated electricity tariffs effectively act as public subsidies, supporting costlier and higher-emission sources such as coal. Within the gas market, Bulgargaz maintains pricing and market influence in the absence of a market-based pricing system. The EU's proposed electricity market regulation reform of late 2023 extended the exemption allowing public subsidies for coal under the capacity mechanism until 2025; however, this measure does not resolve the long-term issue of transitioning away from coal towards more sustainable energy sources.

**Regional gas connectivity has improved, positioning Bulgaria as an increasingly important transit country.** Gas interconnectors with Greece and Serbia were completed in 2022 and 2023, respectively, enhancing regional interconnectivity. The larger Balkan Stream pipeline, which links Türkiye and Bulgaria, has been operational since 2021. In addition, Bulgaria has begun operating the

Trans-Balkan pipeline in reverse flow to supply Moldova, Ukraine and Romania within the framework of the Vertical Gas Corridor project. Bulgartransgaz has initiated a €300 million expansion of the pipeline, further strengthening infrastructure. In 2023 Bulgargaz entered into an agreement with Türkiye's BOTAŞ to reserve liquid natural gas (LNG) capacity at Turkish terminals; however, utilisation has remained limited and the contract has resulted in considerable costs for Bulgargaz. This arrangement is currently under investigation by the EU for potential anti-competitive behaviour. Following Russia's cessation of gas supplies to Bulgaria in 2022, the country diversified its sources, replacing approximately 40 per cent of its supply with Azeri gas and supplementing it with LNG deliveries from Greece.

**Power connectivity has improved with the introduction of a new interconnector between Bulgaria and Greece.** In operation since summer 2023, this 400 kV ultra-high-voltage transmission line with capacity of 2 GW is intended to enhance regional connectivity. With increased green energy production in both countries, the interconnector is designed to support cross-border electricity exchange and grid stabilisation. Bulgaria is also involved in an interconnector project under the Black Sea that seeks to link the region with the Caucasus.

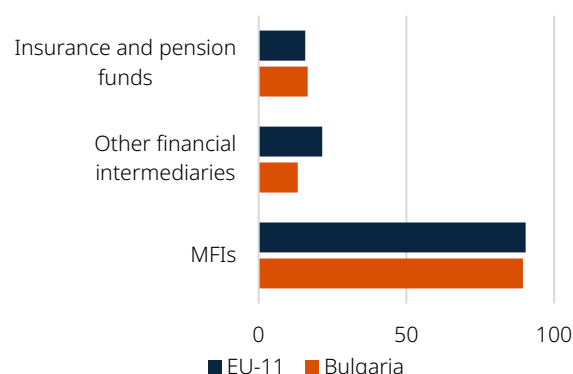
**Domestic connectivity will require significant grid upgrades.** As mentioned previously, Bulgaria will need to increase its domestic grid capacity to accommodate the connection of new renewable energy projects, particularly solar power projects.

## Banking sector resilience

**The banking sector is the largest segment in Bulgaria's financial system.** Bulgaria has the lowest market funding ratio in the EU, indicating a smaller role for capital markets relative to bank financing. Bulgaria's main financial sectors are similar to those of peer countries in terms of their depth as a share of GDP (see Chart 41). At the end of 2024 the total assets of the banking sector were equivalent to 95 per cent of GDP, accounting for over 67 per cent of all financial assets held by financial corporations. At end-2024, 23 banks were active in Bulgaria, six of which were foreign-owned. Collectively, those six banks held around 75 per cent of total bank

assets. Projections suggest that the sector may experience consolidation in the coming years, as smaller banks have been losing market share and face challenges in raising capital to cover minimum requirements for own funds and eligible liabilities (MREL) and meet minimum reserve requirements.

**Chart 41. Total financial assets, 2022 (per cent of GDP)**

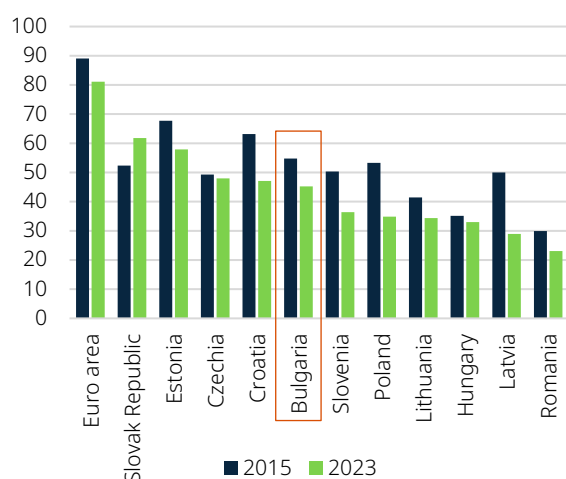


Source: Eurostat (2024m).

**The structure of Bulgarian banks' balance sheets is broadly consistent with those seen in peer countries.** In 2023 loans and advances made up 60 per cent of total banking sector assets, securities comprised 15 per cent, and cash holdings accounted for 21 per cent. Bulgaria is around the median for the EU-11 in terms of credit extended to the private sector (see Chart 42). Bulgarian banks' aggregate loan portfolio is predominantly oriented towards non-financial corporations (NFCs; 49 per cent as at end-2023), although consumer credit accounts for a significant share at 20 per cent (see Chart 43). Bulgarian companies report that a considerable share of their working capital requirements – 13 per cent – is financed by banks, while bank funding supports up to 41 per cent of fixed asset acquisitions, the highest proportion in the EU-11.<sup>59</sup> Between early 2020 and end-2023 corporate lending grew by 28 per cent, close to the EU-11 average of 26 per cent. As regards funding sources, deposits from retail clients form the majority of the funding base (56 per cent, compared with an EU average of 31 per cent), while corporate deposits account for 28 per cent. Debt securities remain minimal at 1.6 per cent (versus 20 per cent in the EU), mirroring levels observed in regional peers due to underdeveloped capital markets.

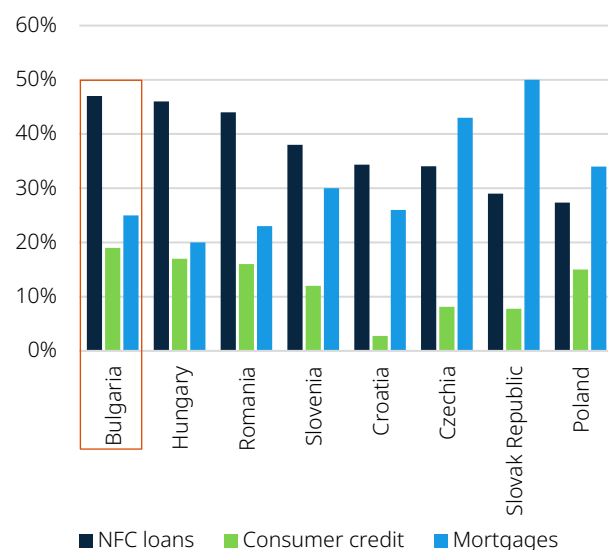
59 See EBRD, EIB and World Bank (2020).

Chart 42. Domestic bank credit to the private sector (per cent of GDP)



Source: World Bank (2024a) and authors' calculations.

Chart 43. Outstanding loans by sector, December 2024



Source: ECB (2024) and authors' calculations.

Growth in loans to firms moderated somewhat in 2023, while growth in loans to households continued to strengthen, driven by mortgage lending. Growth in bank loans has accelerated in the past three years, supported by loose financing conditions and – more importantly – a recovery in demand (see Chart 44). The rising interest rates as of the second half of 2022 depressed loans to firms, but a recovery started to be observed in 2024. Household credit has been much stronger, driven by

mortgage loans. Between the beginning of 2020 and end-2024 mortgage lending increased by 137 per cent, compared with a regional average of 36 per cent, with growth strengthening further in 2024. By early 2025, mortgage lending accounted for 25 per cent of banks' aggregate loan book, up from 17 per cent in early 2020 (but still lower than in some other countries in the region). This was driven by very affordable rates for mortgage loans, with average interest rates in Bulgarian leva remaining stable over this period at around 2.9 per cent (compared with an average of 4 per cent in the eurozone in December 2023).<sup>60</sup>

**Robust lending activity has prompted the central bank to tighten monetary policy.** Operating within the constraints of the currency board regime, the Bulgarian National Bank (BNB) raised the minimum reserve requirement from 5 to 10 per cent in 2023 to dampen credit growth. In May 2024 the BNB also enhanced mortgage lending standards by requiring banks to monitor and report on six specific credit quality indicators, driven by the strong growth of mortgage lending in recent years.

Chart 44. Year-on-year change in loan stock (per cent)



Source: BNB (2024) and authors' calculations.

**The record profitability seen in 2023 was underpinned by increases in volume.** Despite ample liquidity, the transmission of eurozone monetary policy into Bulgaria has been limited. After reaching their lowest point in mid-2022, average interest rates on outstanding loans rose more substantially for corporate loans; however, deposit rates also increased, resulting in largely stable interest margins. A gradual increase in margins remains possible. Net interest income grew by 50 per cent in 2023, driven

60 See ECB (2024).

by higher volumes, which in turn led to a 64 per cent rise in net profit. Return on equity (ROE) rebounded from 5.2 per cent in 2020 to stand at 18.2 per cent in 2023, while return on assets (ROA) was, at 2.3 per cent, among the highest in the EU.<sup>61</sup> Bulgarian banks reported a cost-to-income ratio of 36 per cent, significantly lower than the EU average of 55 per cent, highlighting greater operational efficiency.

**Capital adequacy and liquidity coverage ratios have also improved.** The banking sector has a solid capital position, maintaining capital adequacy and liquidity coverage ratios that are well above systemic and local regulatory requirements, as well as the European average. Bulgarian banks' aggregate capital ratio stood at 22.7 per cent at end-2024, while their CET 1 ratio was 21 per cent, compared with a eurozone average of 15.9 per cent. Their liquidity coverage ratio was 241 per cent, slightly higher than the EU-11 average.<sup>62</sup>

**Bulgarian banks' non-performing loan (NPL) ratio has continued declining at a fast pace.** By December 2024, their NPL ratio stood at 1.8 per cent, lower than the EU average. Major progress has been made since 2017, when the NPL ratio was above 10 per cent.

**The fact that the Financial Action Task Force (FATF) added Bulgaria to its Grey List in October 2023 has the potential to worsen banks' operating environment.** Bulgarian banks could face greater scrutiny and higher costs as a result. This decision was taken because of strategic deficiencies in the country's ability to counter money laundering and terrorist financing, as mentioned above. At the same time, the FATF took note of progress in this area in its 2024 assessment.<sup>63</sup>

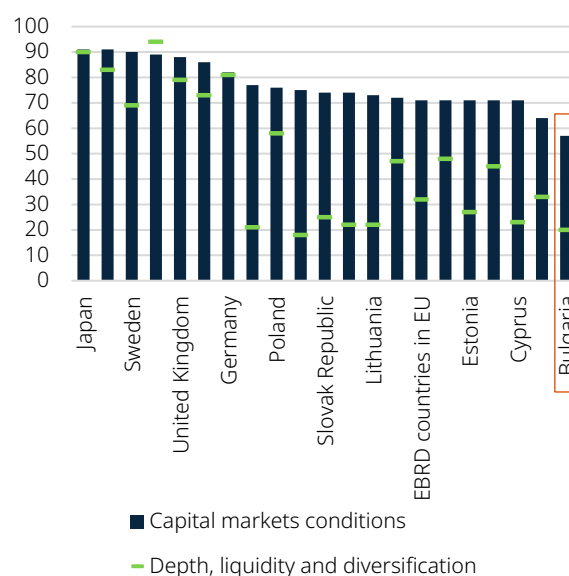
**Adoption of the euro will have multiple implications for the banking sector.** Given the current eurozone interest rates, Bulgaria's adoption of the euro will affect the cost of funding, as the deposit facility will become more expensive. However, the significant liquidity in the sector will offset this, while banks will also benefit from higher rates. In this sense, the minimum reserve requirement will fall, releasing a substantial amount of liquidity into the system. Nevertheless, the BNB does not expect a significant credit boom on top of the current dynamics,

given the limited absorption capacity of the real economy, on the basis of the trends observed in recent years.

## Capital market development

**Bulgaria's capital markets continue to exhibit signs of underdevelopment, although their overall performance is in line with that of comparable economies.** According to the EBRD's financial market development index, Bulgaria has the lowest ranking for enabling conditions – including regulatory framework and infrastructure – in the EU-11 (see Chart 45). Nevertheless, in terms of actual market outcomes, Bulgarian capital markets are on a par with those of other smaller regional economies. The Bulgarian Stock Exchange (BSE) has yet to return to its pre-2008 levels, when market capitalisation was approaching 50 per cent of GDP; in 2023 this figure stood at approximately 18 per cent.

Chart 45. Financial market development index (2023)



Source: EBRD (2024).

**Bulgaria's legal and regulatory framework is largely in line with that of the EU; however, challenges remain as regards proportionality.** The primary obstacle to capital market development stems from the lack of proportionality in EU measures, which tend to be better suited to larger, more advanced markets. In addition, an assessment of Bulgaria's capital markets has identified instances where Bulgarian authorities have transformed

61 See IMF (2024b).

62 Ibid.

63 See FATF (2024).

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aspects of EU “soft law” into binding requirements.<sup>64</sup> Other conclusions of that study include a need to increase market participants’ trust, a requirement to increase the supply of investable assets, and a need to make markets cheaper and more efficient. Further impediments include slow regulatory processes, as evidenced by companies reporting extended approval times for prospectuses – approximately six months, compared with one month in Romania – for local exchange listings.

**Bulgaria’s equity market structure is indicative of its broader challenges.** The market comprises (i) a premium segment, characterised by the highest admission standards, (ii) a standard segment, serving as the initial listing platform and (iii) a special-purpose investment vehicles segment, which currently centres mainly on real estate investment trusts (REITs). Alongside these primary segments, the BSE also features the BaSE segment for equities or special-purpose vehicles that are illiquid, inactive or undergoing liquidation processes. Securities generally transition to the BaSE segment from other categories upon reaching specific inactivity thresholds or following the commencement of liquidation or bankruptcy proceedings. At present, BaSE is the largest segment of the BSE – a sign of the prevailing market conditions. The recent launch of the BEAM market, targeting small and medium-sized growth companies, has been well received.

**A significant proportion of dormant accounts and a limited degree of trust are reducing the appeal of the equity market.** Over time, shares in companies listed during the mass-privatisation programme have transitioned into holding companies in the standard equities segment. According to a 2017 study conducted by the EBRD, dormant accounts account for between 18 and 60 per cent of shareholders in certain companies. This restricts market liquidity and may weaken corporate accountability, as dominant shareholders can capitalise on the large numbers of inactive shareholders. Although a robust corporate governance code exists, enforcement remains incomplete, which ultimately affects investors’ confidence in public companies and the market as a whole.<sup>65</sup>

**The limited availability of investable assets is further exacerbated by weak supply.** The largest companies in Bulgaria are relatively small by international standards, and the market has not had a benchmark issue since Bulgarian Telecom was taken private. No other large state-owned enterprises, which typically provide benchmarks in other markets, have been listed. In addition, the exclusion of banks from initial privatisation waves has restricted the pool of potential benchmark issuers.

**Due to these factors, large institutional investors tend to be less active in the local market.** The pension system operates across three pillars. Following substantial growth over the past 15 years, pension portfolios’ total assets under management (AUM) surpassed €10 billion by the end of 2021, the equivalent of €1,447 per capita (compared with €978 in Romania). Pension funds allocate around 70 per cent of their assets outside Bulgaria. Only voluntary pension funds with occupational schemes, which account for less than 7 per cent of total assets in Pillar II and Pillar III pensions, are permitted to invest in securities listed on multilateral trading facilities (MTFs) such as the BEAM market. In 2021 insurance premiums represented 2.4 per cent of GDP, a figure comparable to those seen in Poland, Hungary and Croatia; however, the majority of these premiums were in the non-life segment. At end-2021 insurance companies held nearly one-third of all assets invested by Bulgarian institutional investors. In contrast, investment funds remain relatively small, accounting for less than 9 per cent of all assets managed by the three principal categories of institutional investor, although they have expanded strongly over the past two years (reaching around 5.6 per cent of GDP in early 2025).

**Capital market infrastructure barriers continue to limit the depth of investment funds in Bulgaria.** Under current legislation, the local central depository (CSD, or Central Depository AD in Bulgaria (CDAD)), which is owned by the Ministry of Finance, the BSE and a consortium of banks) is required to keep all Bulgarian securities (including mutual fund units) held by clients of its members in segregated accounts. Although CDAD has taken steps to lower transaction fees for funds, the cumulative costs remain significant. It is important to note that global custodians who are foreign direct members of CDAD are exempt from these requirements. In addition, the existence of

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64 See European Commission (2023b).

65 See European Commission (2023a).

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two separate central securities depositories – CDAD for corporate securities and the Bulgarian National Bank Depository for government securities – introduces further inefficiency. Consolidating the two into a single CSD would probably enhance efficiency by removing the need for local members to interact with multiple institutions; however, there are currently no discussions taking place regarding such a move.

**Sovereign bond issuance is limited, and most issuances are placed on foreign markets.** Reflecting the country's tight fiscal policy over the years, Bulgaria's sovereign debt market is relatively small. In addition, around half of all sovereign bonds are issued in foreign markets as Eurobonds. Most government bonds are held by local

banks until maturity, inhibiting liquidity and price discovery for other market segments.

**Bulgaria's corporate bond market is comparable to regional peers.** According to BSE data, 103 listings had been placed in the bond segment as at May 2024, up from 95 bonds at end-2023, although the average ticket size was much smaller than in peer countries.<sup>66</sup> The average turnover in May 2024 was higher than the liquidity of equity segments, at about €650,000 in daily trades, but the turnover ratio has been on a downward path in recent years and is still considered too low. By contrast with the equity market, the number of bond issuances has also risen in recent years, although these have been concentrated in the banking and real estate sectors. No municipal bonds have been listed on the BSE.

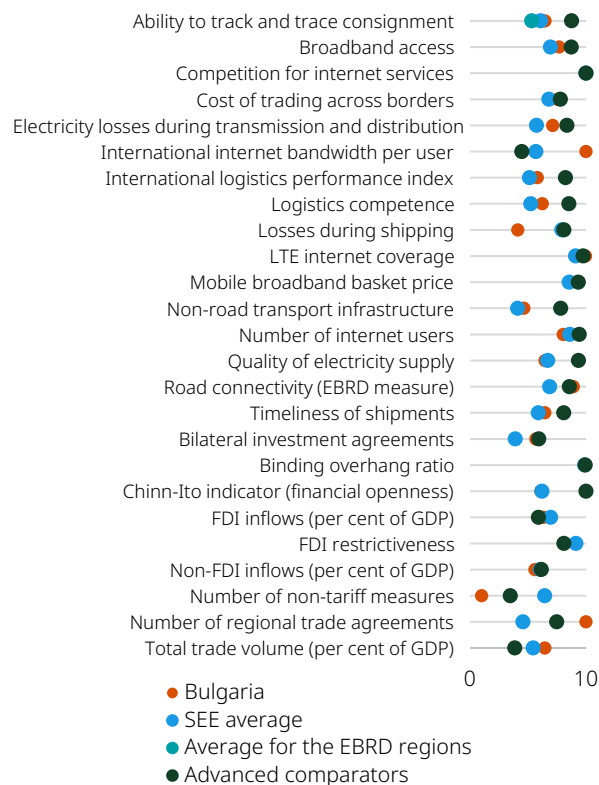
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66 Ibid.

## 2.6. Integrated

Following the significant momentum that was generated by EU accession and the economic boom that preceded the global financial crisis, trade and GVC integration has plateaued since approximately 2013. While Bulgaria's membership of the Schengen area and its impending adoption of the euro have the potential to further advance economic integration, future opportunities are expected to emerge primarily in higher-value-added activities. Achieving this integration will depend, among other things, on improvements in connectivity and infrastructure. Accordingly, enhancements to internal and regional transport networks are necessary, particularly given the substantial availability of EU funding. Notably, access to digital infrastructure – especially high-speed broadband – already exceeds the EU average, providing a strong foundation for digital transformation and the development of advanced digital skills.

Chart 46. Integrated ATQ indicators

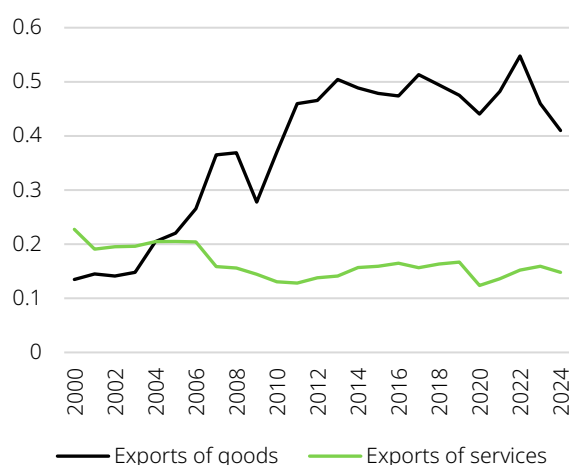


Source: EBRD calculations.

## Trade and external integration

**As a member of the EU, Bulgaria has experienced increased trade and investment with other EU countries.** Since it joined the EU in 2007, Bulgaria's exports have grown, supported by integration and foreign capital inflows (see Chart 47). Since 2013, after the financial crisis, growth in goods exports has been in line with GDP growth, with goods exports totalling around 50 per cent of GDP. Meanwhile, service exports have remained stable at roughly 15 per cent of GDP. Only 18 per cent of Bulgaria's total EU exports are accounted for by services, while trade integration for services stands at 6 per cent – lower than the EU average of 14.5 per cent.

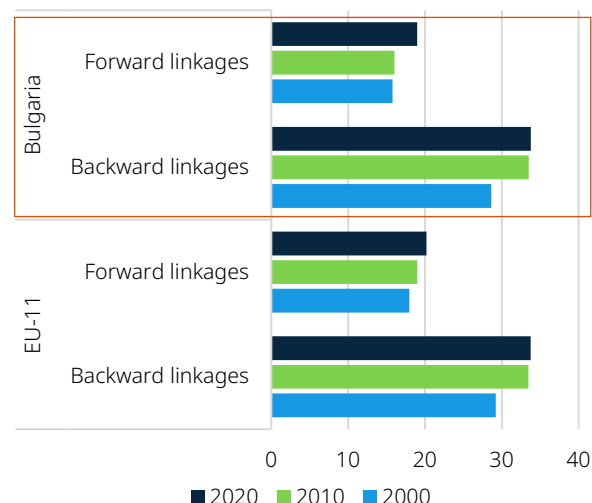
Chart 47. Exports of goods and services (per cent of GDP)



Source: NSI (2024e) and authors' calculations.

**Bulgaria has achieved substantial integration into GVCs.** Although Bulgaria did not become an EU member state until 2007 and is further away from major western European markets in geographical terms, it has achieved a level of GVC integration which is comparable to those of its EU-11 counterparts (see Chart 48). Between 2010 and 2020 its level of forward integration within GVCs increased moderately, surpassing the levels seen in peer countries, while backward integration remained relatively stable, consistent with regional trends.

Chart 48. GVC integration (per cent of gross exports)<sup>67</sup>



Source: OECD (2024b).

**Bulgaria's role in value chains affects the potential for value added, while its sectoral diversification is broad.**

In line with key exports, Bulgaria's participation in GVCs spans multiple sectors, with metals and oil products involving significant foreign inputs.<sup>68</sup> Foreign connections are more pronounced in manufacturing and services. However, knowledge-based links to foreign demand are currently among the lowest in the EU. Nearly 50 per cent of Bulgarian employment is supported by foreign demand – one of the highest levels in the EU – indicating a high degree of labour intensity in Bulgaria's GVC integration. Prior to the invasion of Ukraine, Bulgaria was the EU country that had the strongest links with Russia, contributing to the EU's lower shares in both backward and forward linkages.

**In recent years, the intensity of foreign direct investment (FDI) inflows has moderated.** After a decline following the global financial crisis, foreign investment in Bulgaria has stabilised at approximately 3.5 per cent of GDP over the past decade. Of these inflows, one-third has been directed to financial services, 20 per cent to other service sectors and 14 per cent to manufacturing.<sup>69</sup> While planned capital investments in greenfield projects have been relatively well diversified across construction, mining, manufacturing and

67 Backward linkages are intermediate imports embodied in the country's gross exports. Forward linkages are domestic value added in partners' exports and final demand.

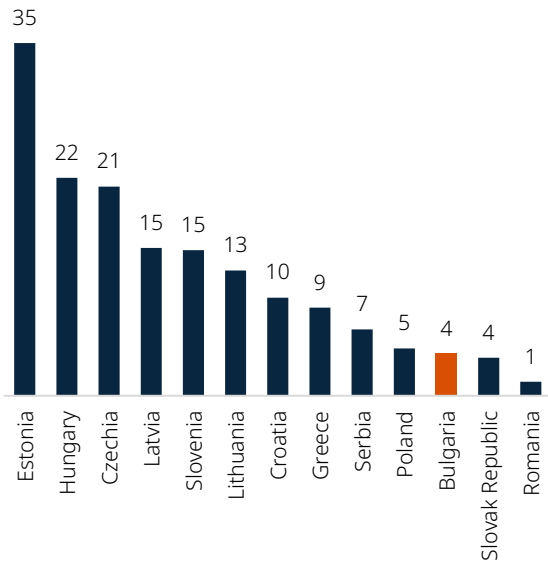
68 See IMF (2024a).

69 Ibid.

services over the last 20 years, recent investments have been more concentrated in IT and outsourcing, electronics, and the manufacturing of machinery, reflecting a positive shift towards sectors with more value added.<sup>70</sup>

**The internationalisation of Bulgarian firms has been modest.** As reflected in stocks of outward FDI, the Bulgarian economy has exported only modest levels of capital (see Chart 49). Among its peers, only Romania and the Slovak Republic had lower outward FDI in 2023. Bulgaria's geography and lack of proximity to large markets make it relatively difficult for Bulgarian businesses to expand and gain market share in the region, although there may be opportunities to expand in the Western Balkans.

**Chart 49. Stocks of outward FDI in 2023 (per cent of GDP)**

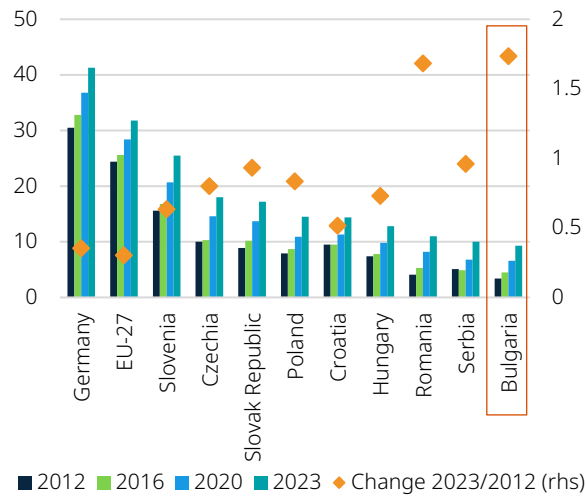


Source: UNCTAD (2025).

**Despite robust wage growth, Bulgaria continues to maintain its price competitiveness within the region.** Over the past decade, Bulgaria has recorded the largest increase in unit labour costs in the EU; however, these costs remain below those of key regional peers (see Chart 50). Bulgaria's labour costs are approximately 30-45 per cent lower than those of central European countries and about 15 per cent lower than those of Romania and even Serbia, positioning Bulgaria as an

attractive destination for cost-driven investments. Nevertheless, in light of ongoing wage trends, labour shortages and broader development objectives, a focus on higher-value-added investment is advisable. According to IMF analysis, the primary factors driving GVC integration are transport infrastructure, the rule of law and real wages, with Bulgaria classified as a country that leverages cost advantages.<sup>71</sup>

**Chart 50. Unit labour costs (€ thousands)**



Source: OECD (2024c) and authors' calculations.

**Membership of the Schengen area is expected to enhance regional integration by lowering logistical costs.** In March 2024, Bulgaria and Romania joined the "Air Schengen" area, with the removal of land border controls following in January 2025. Eliminating checks on the border with Romania is projected to generate approximately €500 million in logistical efficiencies, in addition to prospective tax revenues and increased investment.<sup>72</sup> While Romania is likely to realise these benefits with minimal additional effort, Bulgaria will need to improve its connectivity and border infrastructure, constructing additional bridges over the Danube to Romania in order to maximise the advantages of Schengen membership.

<sup>70</sup> See fDi Markets (2024).

<sup>71</sup> See IMF (2024a).

<sup>72</sup> See Etias (2024).

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## Infrastructure and internal integration

### **Road transport infrastructure is still inadequate.**

Bulgaria is still lagging behind many of its peers in terms of road quality, with around 50 per cent of the network assessed as being below EU standards. Bulgaria also has the third highest road fatality rate in the EU after Romania and Latvia.<sup>73</sup> Significant investment has been channelled into expanding the motorway network, but critical segments are yet to be completed, such as the segment linking Sofia to Greece and the Hemus motorway connecting Sofia and Varna.

**Rail infrastructure needs massive upgrades.** Bulgaria's efforts to modernise its rail network have been heavily supported by the EU, but progress has been limited. The average speed of passenger trains is around 43 km/h, which is better than Western Balkans neighbours but similar to Romania. Only 482 km out of 4,029 km of track has been modernised in recent years, and only around 3 per cent of travellers use trains. Bulgaria is aiming to procure a significant amount of modern rolling stock under the RRF.

**Regional connectivity has risen in importance since the invasion of Ukraine.** As key countries on the borders of NATO, Bulgaria, Romania and Greece would all benefit from enhanced infrastructure and connectivity. Various large connectivity projects are being discussed and considered in the region, with one example being a potential motorway connecting Greece with Constanta in Romania along the Black Sea coast.

**The governance set-up for managing transport infrastructure projects is to be improved.** The reform of the strategic transport system adopted under the RRF includes an independent audit of the technical capacity of the National Railway Infrastructure Company, the Road Infrastructure Agency and the Ministry of Transport and Communications. At the same time, technical assistance from the European Commission will be offered to help prepare and implement projects on trans-European transport network (TEN-T) railways and roads.<sup>74</sup> The sector has long been associated with corruption scandals and has relied on public subsidies.

**Logistics services could be improved.** In line with the quality of infrastructure, Bulgaria's logistics performance has not improved significantly in recent years. In 2022 the World Bank gave Bulgaria a score of 3.2 for its logistics services – marginally lower than the scores of regional peers.<sup>75</sup>

**Digital infrastructure coverage, meanwhile, is above the EU average.** Bulgaria has made good progress with increasing the availability of high-speed broadband (that is to say, broadband with speeds of more than 1 Gbps) over the past decade. The country's high-speed broadband network, which is mostly based on fibre technology, covered 89 per cent of households in 2023 – much higher than the EU average of 64 per cent. The coverage of 5G mobile networks has also progressed in the past three years, rising from 40 per cent of surface area in 2021 to 71 per cent in 2023 – albeit still lower than the EU average of 89 per cent.<sup>76</sup>

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73 See European Commission (2024e).

74 See European Commission (2024f).

75 See World Bank (2024b).

76 See European Commission (2024b).

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## Abbreviations

|     |                        |
|-----|------------------------|
| ALB | Albania                |
| DZA | Algeria                |
| ARM | Armenia                |
| AZE | Azerbaijan             |
| BLR | Belarus                |
| BIH | Bosnia and Herzegovina |
| BGR | Bulgaria               |
| HRV | Croatia                |
| CZE | Czechia                |
| EST | Estonia                |
| GEO | Georgia                |
| DEU | Germany                |
| GRC | Greece                 |
| HUN | Hungary                |
| JOR | Jordan                 |
| KAZ | Kazakhstan             |
| KOS | Kosovo                 |
| KGZ | Kyrgyz Republic        |
| LVA | Latvia                 |
| LBN | Lebanon                |
| LTU | Lithuania              |
| MDA | Moldova                |
| MNG | Mongolia               |
| MNE | Montenegro             |
| MAR | Morocco                |
| MKD | North Macedonia        |
| POL | Poland                 |
| ROU | Romania                |
| RUS | Russia                 |
| SRB | Serbia                 |
| SVK | Slovak Republic        |
| SVN | Slovenia               |
| TJK | Tajikistan             |
| TUN | Tunisia                |
| TUR | Türkiye                |
| UZB | Uzbekistan             |
| PSE | West Bank and Gaza     |

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