Deutscher Bundestag **Drucksache 21/530**

21. Wahlperiode 13.06.2025

Unterrichtung

durch das Bundesministerium der Finanzen

gemäß § 9a des Gesetzes über die Zusammenarbeit von Bundesregierung und Deutschem Bundestag in Angelegenheiten der Europäischen Union

Beitritt Bulgariens zum Euroraum

Schreiben des Bundesministeriums der Finanzen – E B 3 – WK 3810/00097/002/110 vom 13. Juni 2025

Anlage 1	Wesentliche Ergebnisse der Konvergenzberichte der Europäischen Kommission und der Europäischen Zentralbank zur Erfüllung der Konvergenzkriterien durch Bulgarien
Anlage 2	Konvergenzbericht der Europäischen Kommission (englisch)
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Bulgarien beabsichtigt, der dritten Stufe der Wirtschafts- und Währungsunion zum 1. Januar 2026 beizutreten. Die am 4. Juni 2025 veröffentlichten Konvergenzberichte der Europäischen Kommission (Anlage 2) und der Europäischen Zentralbank (Anlage 3) kommen zu dem Ergebnis, dass Bulgarien die Voraussetzungen für den Beitritt zum Euroraum, die sogenannten Konvergenzkriterien, erfüllt. Ebenfalls am 4. Juni 2025 hat die Europäische Kommission einen Vorschlag für einen Beschluss des Rates vorgelegt, der das bulgarische Beitrittsersuchen befürwortet und die Ausnahmeregelung des Artikels 139 des Vertrags über die Arbeitsweise der Europäischen Union (AEUV) für Bulgarien aufhebt sowie – darauf

Die an den Deutschen Bundestag übermittelte Ursprungsdatei ermöglichte keine Weiterverarbeitung zu einer barrierefreien Bundestagsdrucksache.

aufbauend – einen Vorschlag zur rechtlichen Umsetzung der Einführung des Euro in Bulgarien.

Die Berichte der Europäischen Kommission und der Europäischen Zentralbank würdigen die Anstrengungen Bulgariens, die Konvergenzkriterien für den Eurobeitritt zu erfüllen. Im Einzelnen attestieren die Berichte, dass die rechtliche Konvergenz gegeben ist, die Inflationsrate sowie der langfristige Zinssatz in der Referenzperiode unterhalb der Referenzwerte liegen, die Tragfähigkeit der öffentlichen Finanzen erreicht wird sowie die Wechselkursstabilität gegenüber dem Euro besteht.

Die Bundesregierung teilt die Gesamteinschätzung der Konvergenzberichte und beabsichtigt, dem Beschlussvorschlag der Europäischen Kommission zum Beitritt Bulgariens zum Euroraum zuzustimmen.

Auf europäischer Ebene ist für das weitere Verfahren ein enger Zeitplan vorgesehen. Nach der politischen Beratung des Rates für Wirtschaft und Finanzen (ECOFIN-Rat) am 19./20. Juni 2025 zum Euroraumbeitritt Bulgariens sind entsprechend Artikel 140 Absatz 2 AEUV als weitere Schritte vorgesehen: die Aussprache im Europäischen Rat am 26./27. Juni 2025, die Anhörung des Europäischen Parlaments am 8. Juli 2025 und die abschließende Entscheidung des ECOFIN-Rates am 8. Juli 2025.

Das Gesetz über die Zusammenarbeit von Bundesregierung und Deutschem Bundestag in Angelegenheiten der Europäischen Union (EUZBBG) sieht in § 9a ein besonderes parlamentarisches Beteiligungsverfahren für Fälle der Einführung des Euro in einem Mitgliedstaat vor. Vor der abschließenden Entscheidung im Rat sollen der Deutsche Bundestag und die Bundesregierung das Einvernehmen herstellen. Ich weise den Deutschen Bundestag in diesem Zusammenhang vorsorglich ausdrücklich auf sein verfassungsrechtliches Recht zur Stellungnahme hin.

Im Hinblick auf den dargestellten engen zeitlichen Beratungsverlauf auf europäischer Ebene bitte ich den Deutschen Bundestag von seinem Recht zur Stellungnahme so frühzeitig wie möglich Gebrauch zu machen, damit die Bundesregierung rechtzeitig – wenn möglich bereits in der Aussprache im Europäischen Rat am 26./27. Juni 2025 – diese Haltung zum Beitrittsgesuch Bulgariens berücksichtigen kann. Die klare Positionierung Deutschlands zur Erweiterung der Eurozone, wenn alle Voraussetzungen für den Beitritt erfüllt sind, ist ein wichtiges Signal sowohl gegenüber Bulgarien als auch für die Eurozone insgesamt. Die Stellungnahme des Bundestages wird spätestens für die Positionierung der Bundesregierung zum ECOFIN am 8. Juli 2025 benötigt.

Mit Blick auf das Ziel, Einvernehmen mit dem Deutschen Bundestag herzustellen, stehe ich jederzeit für eine weitergehende Unterrichtung und Aussprache zur Verfügung. Zur besseren Übersicht übersende ich Ihnen mit diesem Schreiben fünf Anlagen und verweise insbesondere auf Anlage 1, in der die Erfüllung der Konvergenzkriterien durch Bulgarien zusammenfassend dargestellt ist.

Die Bundesregierung wird im Rahmen ihrer fortlaufenden Unterrichtung über den Rat Wirtschaft und Finanzen kontinuierlich über die weitere Entwicklung der Vorgänge informieren.

Anlage 1

Wesentliche Ergebnisse der Konvergenzberichte der Europäischen Kommission und der Europäischen Zentralbank zur Erfüllung der Konvergenzkriterien durch Bulgarien

Am 4. Juni 2025 veröffentlichten Europäischen Zentralbank (EZB) und Europäischen Kommission (KOM) ihre Konvergenzberichte, die auf Ersuchen der bulgarischen Regierung erstellt wurden. In den Konvergenzberichten wird dargestellt, inwieweit die EU-Mitgliedstaaten außerhalb des Euroraums die Bedingungen für den Beitritt zum Euroraum erfüllen und welche Fortschritte sie beim Konvergenzprozess erreicht haben. Bulgarien erfüllt nach Einschätzung der KOM und der EZB sämtliche Konvergenzkriterien, bestehend aus rechtlicher Konvergenz und vier wirtschaftlichen Kriterien (Preisstabilität, tragfähige öffentliche Finanzlage, Wechselkursstabilität gegenüber dem Euro und langfristiger Zinssatz).

Rechtliche Konvergenz:

KOM und EZB stimmen überein, dass die bulgarischen Rechtsvorschriften im monetären Bereich mit EU-Recht konform sind. Dazu zählen vor allem die Unabhängigkeit der Zentralbank, das Verbot monetärer Staatsfinanzierung und die rechtliche Integration der bulgarischen Nationalbank (BNB) in das Europäische System der Zentralbanken und der EZB. Die Satzung und das Gesetz über die BNB sind vollständig mit den Art. 130 und 131 des AEUV vereinbar.

Preisstabilität:

Das Kriterium ist erfüllt. Für den zwölfmonatigen Referenzzeitraum (Mai 2024 bis April 2025) weist Bulgarien eine durchschnittliche Inflationsrate von 2,7 Prozent aus. Sie liegt damit knapp unter dem Referenzwert von 2,8 Prozent. Der Referenzwert wurde berechnet, indem zum ungewichteten arithmetischen Mittel der im Referenzzeitraum gemessenen Inflationsraten von Irland (1,2 Prozent), Finnland (1,3 Prozent) und Italien (1,4 Prozent) 1,5 Prozentpunkte addiert wurden.

Tragfähige öffentliche Finanzlage:

Das Kriterium ist erfüllt, da zum Zeitpunkt der Prüfung kein Beschluss des Rates nach Art. 126 Abs. 6 AEUV vorlag, wonach in Bulgarien ein übermäßiges Defizit besteht. 2024 lag das öffentliche Defizit bei 3 Prozent des BIP und entsprach somit dem Maastricht-Referenzwert. Für 2025 erwartet die KOM ein öffentliches Defizit von 2,8 Prozent des BIP. Der öffentliche Schuldenstand lag 2024 bei 24,1 Prozent und soll laut KOM bis 2026 auf 27,1 Prozent steigen, liegt aber trotzdem weit unter dem Maastricht-Referenzwertes von 60 Prozent.

Wechselkursstabilität gegenüber dem Euro:

Das Kriterium ist erfüllt, da Bulgarien die im Rahmen des Wechselkursmechanismus des Europäischen Währungssystems vorgesehenen normalen Bandbreiten in den letzten zwei Jahren vor der Prüfung ohne starke Spannungen eingehalten hat. Bulgarien nimmt seit Juli 2020 am WKM II teil. Der bulgarische Lew wurde in den WKM II zu einem Leitkurs von 1,9558 Lew pro Euro mit einer Standardschwankungsbreite von ±15 Prozent aufgenommen. In den letzten 5 Jahren wies der Lew keine Abweichung vom Leitkurs auf.

Langfristiger Zinssatz:

Das Kriterium ist erfüllt. Der durchschnittliche langfristige Nominalzinssatz in Bulgarien lag im Referenzzeitraum (Mai 2024 bis April 2025) bei 3,9 Prozent und damit unterhalb des Referenzwertes für das Zinskriterium von 5,1 Prozent. Der Referenzwert wurde berechnet, indem zum Zwölfmonatsdurchschnitt der langfristigen Zinssätze Irlands (2,8 Prozent), Finnlands (2,9 Prozent) und Italiens (3,7 Prozent), die drei Länder, die auch in die Berechnung des Referenzwerts für das Preisstabilitätskriterium einbezogen wurden, 2 Prozentpunkte addiert wurden.

Anlage 2

European Commission

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on Bulgaria

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Economic and Financial Affairs

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European Commission
Directorate-General for Economic and Financial Affairs

Convergence Report 2025

on Bulgaria

ABBREVIATIONS

Member States

BG	Bulgaria
EA	Euro area
EA-20	Euro area, 20 Member States
EA-19	Euro area, 19 Member States before 2023
EA-18	Euro area, 18 Member States before 2015
EA-17	Euro area, 17 Member States before 2014
EU-28	European Union, 28 Member States
EU-27	European Union, 27 Member States before July 2013 (i.e. EU-28 excl. HR) and from February 2020 (i.e. EU-28 excl. UK)
EU-25	European Union, 25 Member States before 2007 (i.e. EU-28 excl. BG, RO and HR)
EU-15	European Union, 15 Member States before 2004

Currencies

EUR	Euro
BGN	Bulgarian lev
USD	United States dollar

Central Banks

BNB	Bulgarska narodna banka (Bulgarian National Bank – central bank of Bulgaria)

Other abbreviations

AML	Anti-money laundering
AMR	Alert Mechanism Report
BoP	Balance of Payments
CAR	Capital adequacy ratio
CBA	Currency board arrangement
CEE	Central and Eastern Europe
CIT	Corporate Income Tax
CPI	Consumer price index
CR5	Concentration ratio (aggregated market share of five banks with the largest market share)
EC	European Community
ECB	European Central Bank
EDP	Excessive Deficit Procedure
EMU	Economic and monetary union
ERM II	Exchange rate mechanism II
ESA	European System of Accounts
ESCB	European System of Central Banks
EU	European Union
Eurostat	Statistical Office of the European Union
FDI	Foreign direct investment
FGS	Funding for Growth Scheme
FSA	Financial Supervisory Authority
GDP	Gross domestic product
HICP	Harmonised index of consumer prices
IDR	In-Depth Review
MFI	Monetary Financial Institution

MIP	Macroeconomic Imbalance Procedure
NCBs	National central banks
NEER	Nominal effective exchange rate
NPL	Non-performing loans
OJ	Official Journal
OJL	Official Journal Lex
PIT	Personal Income Tax
PPS	Purchasing Power Standard
REER	Real effective exchange rate
RRF	Recovery and Resilience Facility
RRP	Recovery and Resilience Plan
SGP	Stability and Growth Pact
TFEU	Treaty on the Functioning of the European Union
ULC	Unit labour costs
VAT	Value added tax

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Convergence Report 2025 on Bulgaria

(prepared in accordance with Article 140(1) of the Treaty)

EUROPEAN
COMMISSION

Brussels, 04.06.2025
COM(2025) 303 final

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

CONVERGENCE REPORT 2025

(prepared in accordance with Article 140(1) of the Treaty on the Functioning of the European Union)

{SWD(2025) 154 final}

1. PURPOSE OF THE REPORT

The euro is meant to be the single currency of the European Union as a whole. It is currently used every day by around 350 million people in the 20 Member States of the euro area. The practical benefits include more stable prices, lower transaction costs for people and businesses, more transparent and competitive markets and increased intra-EU and international trade. The euro is also the second most used currency worldwide.

Article 140(1) of the Treaty on the Functioning of the European Union (TFEU) requires the Commission and the European Central Bank (ECB) to report to the Council, at least once every two years, or at the request of a Member State with a derogation[1], on the progress that Member States have made in fulfilling their obligations to achieve economic and monetary union. The latest Commission and ECB convergence reports were adopted in June 2024.

The 2025 Convergence Report on Bulgaria has been prepared in response to a request for a convergence assessment from Bulgaria, submitted on 25 February 2025. The staff working document accompanying this report provides a more detailed assessment of the state of convergence in Bulgaria[2].

Article 140(1) TFEU requires the reports to include an examination of the compatibility of national legislation, including the statutes of national central banks, with Articles 130 and 131 TFEU and the Statute of the European System of Central Banks and of the European Central Bank ('the ESCB/ECB Statute'). The reports must also examine whether a high degree of sustainable convergence has been achieved in the Member State concerned by means of: (i) referring to the fulfilment of the four convergence criteria (price stability, public finances, exchange rate stability and long-term interest rates); and (ii) taking account of other factors relevant to economic integration and convergence mentioned in the final subparagraph of Article 140(1) TFEU. The four convergence criteria are developed further in a protocol annexed to the Treaties (Protocol No 13 on the convergence criteria).

The convergence assessment in this report is presented against the background of recent economic and policy developments. Following the EU's weak economic performance in 2023, when GDP grew by 0.4%, the economy returned to moderate growth of 1.0% in 2024, with stronger momentum at the end of the year than previously expected. Private consumption was supported by continued growth in real wages and higher employment, with a remarkably strong labour market. After the peak in EU inflation in October 2022, which was driven by the surge in energy prices from around mid-2021 until the third quarter of 2022, a disinflationary process started towards the end of 2022. This process progressed in 2023 and throughout much of 2024, with EU headline inflation averaging 2.6% that year, and is expected to continue in 2025. Inflation divergence across the EU Member States also narrowed significantly in 2024. With the disinflation process well on track, in April 2025 the ECB cut its policy rate for the seventh time since June 2024, to 2.25%.

The economic outlook, including the Commission's 2025 Spring Economic Forecast for HICP inflation for the EU as a whole and for individual Member States, including Bulgaria, is characterised by an unusually high degree of uncertainty. In early 2025, the EU and global economies were hit by the most significant policy-induced trade and economic uncertainty shock in decades. It is unclear what the landing zone for the US tariffs vis-à-vis trading partners would be, which forces the Commission forecast to rely on several technical assumptions[3]. Beyond trade, broader geopolitical tensions remain elevated, heightening risks, weighing on confidence, and posing significant risks to the economic outlook.

In Bulgaria, economic growth accelerated from 1.9% in 2023 to 2.8% in 2024, driven by private consumption, which was, in turn, sustained by higher real wages, employment gains and increased social benefits. Real GDP growth in Bulgaria is forecast to slow down again from 2.8% in 2024 to 2% in 2025. Annual average HICP inflation in Bulgaria slowed to 2.6% in 2024, while inflation developments in 2025 and in 2026 are set to be driven by several price hikes at the beginning of 2025 and, subsequently, by both external prices and domestic cost factors exerting downward pressure on inflation.

[1] The Member States that have not yet fulfilled the necessary conditions to adopt the euro are referred to as 'Member States with a derogation'. Denmark negotiated an opt-out before the Maastricht Treaty was adopted and does not participate in the third stage of economic and monetary union.

[2] The cut-off date for the data used in this report is 19 May 2025. The convergence assessment is based on a range of monthly convergence indicators that have been calculated up to April 2025.

[3] Significantly, the individualised 'reciprocal' higher tariffs are assumed to not be reinstated at the expiry of the 90 days suspension. The forecast also assumes that the exceptionally high tariffs on Chinese imports, imposed after April 2, will be scaled back to pre-escalation levels, as they are deemed unsustainable. By the time the Commission forecast was published, on 19 May 2025, the new tariffs in place were lower than those assumed at the cut-off date.

The expected acceleration in implementing the recovery and resilience plans (RRPs) and the cohesion policy programmes can at least partly offset the negative consequences of the weaker international environment and play a crucial role in the convergence process of many non-euro area EU Member States. Besides contributing to higher growth and improved public finances in the near term, the Recovery and Resilience Facility (RRF) and cohesion policy programmes strengthen Member States' long-term growth and resilience by supporting major reforms and investments that help address both long-standing and new challenges, such as diversifying energy supplies.

In November 2024, the Commission launched the first implementation cycle of the reformed economic governance framework that entered into force on 30 April 2024. The main objectives of the new framework are to strengthen Member States' debt sustainability and promote sustainable and inclusive growth in all Member States through growth-enhancing reforms and priority investments. At the centre of the new framework are the national medium-term fiscal-structural plans, which set the Member States' fiscal paths, defined in terms of net expenditure growth rates. The plans contain priority reforms and investments and cover an adjustment period of four years as a rule. An extended adjustment period (up to seven years) can be agreed at the request of the Member State which commits to additional reforms and investments that are conducive to economic growth and fiscal sustainability. Bulgaria submitted its four-year national medium-term fiscal-structural plan on 27 February 2025. On 12 May 2025, the Commission recommended to the Council to endorse Bulgaria's plan.

On 19 March 2025, the Commission presented, as part of the ReArm Europe Plan/Readiness 2030, an ambitious defence package providing financial levers to EU Member States to drive higher investment in defence capabilities. As part of this plan, the Commission invited Member States to apply for the activation of the national escape clause (NEC) of the Stability and Growth Pact, which will provide them additional budgetary space to transition to a durably higher level of defence expenditure, within the EU fiscal rules. The amount of the deviation under the escape clause will be capped at 1.5% GDP, available for a period of four years. Bulgaria applied for the NEC on 2 May 2025. A new dedicated instrument - Security Action for Europe (SAFE) - has been established, with the Commission planning to raise up to EUR 150 billion on the capital markets to help EU Member States quickly and substantially increase investments in Europe's defence capabilities. Bulgaria submitted a request to the Council and the Commission to activate the NEC. On 4 June 2025, the Commission recommended to the Council to activate the NEC for Bulgaria, allowing the country to deviate from, and exceed, the net expenditure path that will be set in the Council recommendation endorsing its medium-term fiscal plan.

On 4 June 2025, the Commission published its European Semester Spring 2025 package. To drive long-term prosperity and resilience, the EU is aligning its economic governance with a renewed focus on competitiveness as presented in the Competitiveness Compass. Through its country-specific recommendations, the European Semester reflects the new priorities to boost competitiveness and provides guidance, including to Bulgaria, on the necessary reforms and investments at national and regional level. As part of the European Semester Spring 2025 package, the Commission recommends that Bulgaria adheres to the maximum growth rates of net expenditure in its plan, while making use of the allowance under the NEC for higher defence expenditure.

Convergence criteria

The examination of the **compatibility of national legislation**, including the statutes of national central banks of Member States with a derogation, together with Article 130 TFEU and the compliance duty under Article 131 TFEU, includes an assessment of observance of the prohibition of monetary financing (Article 123 TFEU) and the prohibition of privileged access to financial institutions (Article 124 TFEU); the consistency with the ESCB's objectives (Article 127(1) TFEU) and tasks (Article 127(2) TFEU); and other aspects relating to the integration of national central banks into the ESCB.

The first indent of Article 140(1) TFEU defines the **price stability criterion** as *'the achievement of a high degree of price stability; this will be apparent from a rate of inflation which is close to that of, at most, the three best performing Member States in terms of price stability'*.

Article 1 of the Protocol on the convergence criteria further provides that *'the criterion on price stability [...] shall mean that a Member State has a price performance that is sustainable and an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than 1.5 percentage points that of, at most, the three best-performing Member States in terms of price stability. Inflation shall be* *measured by means of the consumer price index on a comparable basis, taking into account differences in national definitions'*[4].

The sustainability requirement implies that the satisfactory inflation performance must be attributed to the behaviour of input costs and other factors that influence price developments in a structural manner, rather than the influence of temporary factors. Therefore, the convergence examination includes an assessment of the factors that affect the inflation outlook and is complemented by a reference to the most recent Commission inflation forecast[5].

The inflation reference value was calculated as 2.8% in April 2025, with Ireland, Finland and Italy being the three 'best-performing Member States'[6].

No Member States were identified as outliers in terms of inflation performance for calculating the reference value, as none of their inflation rates deviated by a wide margin from the euro area average due to country-specific circumstances.

The second indent of Article 140(1) TFEU defines the convergence **criterion dealing with public finances** is defined in the as *'the sustainability of the government financial position; this will be apparent from having achieved a government budgetary position without a deficit that is excessive as determined in accordance with Article 126(6)'*.

Furthermore, Article 2 of the Protocol on the convergence criteria states that this criterion means that *'at the time of the examination the Member State is not the subject of a Council decision under Article 126(6) of the said Treaty that an excessive deficit exists'*.

The TFEU refers to the **exchange rate criterion** in the third indent of Article 140(1) as *'the observance of the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System, for at least two years, without devaluing against the euro'*.

Article 3 of the Protocol on the convergence criteria provides that: *'The criterion on participation in the exchange rate mechanism of the European Monetary System [...] shall mean that a Member State has respected the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System without severe tensions for at least the last two years before the examination. In particular, the Member State shall not have devalued its currency's bilateral central rate against the euro on its own initiative for the same period'*[7].

The relevant two-year period for assessing exchange rate stability in this report ran from 20 May 2023 to 19 May 2025. In its assessment of the exchange rate stability criterion, the Commission takes into account developments in auxiliary indicators such as foreign reserve developments and short-term interest rates. It also takes into account the role of policy measures (including foreign exchange interventions) and international financial assistance (wherever relevant) in maintaining exchange rate stability.

The fourth indent of Article 140(1) TFEU requires *'the durability of convergence achieved by the Member State with a derogation and of its participation in the exchange rate mechanism'* to be *'reflected in the* ***long-term interest rate levels****'*.

Article 4 of the Protocol on the convergence criteria further states that *'the criterion on the convergence of interest rates [...] shall mean that, observed over a period of one year before the examination, a Member State has had an average nominal long-term interest rate that does not exceed by more than 2 percentage points that of, at most, the three best-performing Member States in terms of price stability. Interest rates shall be measured on the basis of long-term government bonds or comparable securities, taking into account differences in national definitions'.*

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4 For the purpose of the price stability criterion, inflation is measured by the Harmonised Index of Consumer Prices (HICP) defined in Regulation (EU) 2016/792.

5 All forecasts for inflation and other variables in this report are from the Commission's Spring 2025 Economic Forecast. The forecasts are based on a set of common assumptions for external variables and on a 'no policy change' assumption, but also take into consideration measures that are known in sufficient detail.

6 The respective 12-month average inflation rates were 1.2%, 1.3% and 1.4%.

7 In assessing compliance with the exchange rate criterion, the Commission examines whether the exchange rate has remained close to the ERM II central rate. Reasons for an appreciation may be taken into account, in accordance with the Common Statement on Acceding Countries and ERM2 by the Informal ECOFIN Council held in Athens on 5 April 2003.

The interest rate reference value was calculated as 5.1% in April 2025[8].

Article 140(1) TFEU also requires the reports to take into account **other factors** relevant to economic integration and convergence. These include the integration of markets, the development of the balance of payments on the current account and of unit labour costs and other price indices. The additional factors to be considered are important indicators of whether a Member State would integrate into the euro area without difficulties. They also broaden the view on the sustainability of convergence.

The assessment of the degree of sustainable convergence for Bulgaria presented in this report draws on the Commission's Spring 2025 Economic Forecast and the policy guidance provided under the European Semester. It is informed in particular by: (i) the fiscal surveillance carried out under the Stability and Growth Pact and (ii) by the Macroeconomic Imbalance Procedure. It also reflects the Commission's assessments of fiscal sustainability risks and of the national fiscal framework, as well as the implementation of the RRP.

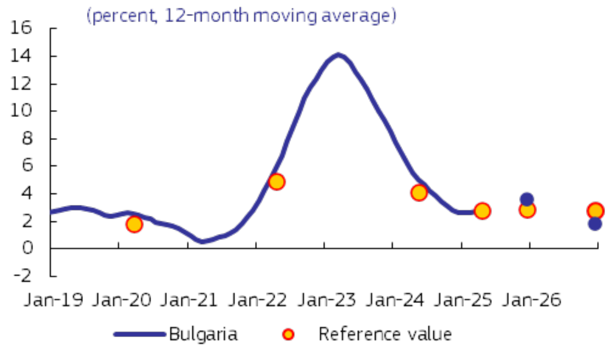
2. Bulgaria

In the light of its assessment on legal compatibility and on the fulfilment of the convergence criteria, and taking into account the additional relevant factors, the Commission considers that Bulgaria fulfils the conditions for adopting the euro.

Legislation in Bulgaria is compatible with the compliance duty under Article 131 TFEU.

Bulgaria fulfils the criterion on price stability. The average inflation rate in Bulgaria during the 12 months to April 2025 was 2.7%, below the reference value of 2.8%. A review of a broad range of indicators does not identify causes for concern regarding the sustainability of price stability.

Graph 2a: **Bulgaria - Inflation criterion**



Note: The dots at the right end of the chart show the projected reference value and 12-month average inflation rate of Bulgaria in December 2025 and December 2026. The reference values for 2020, 2022 and 2024 refer to the reference values calculated in the previous convergence reports.
Source: Eurostat, Commission's Spring 2025 Economic Forecast.

Bulgaria's annual HICP inflation rate averaged 8.6% in 2023 and decreased to 2.6% in 2024. Annual HICP inflation declined from 14.3% in January 2023, flattening at around 2.8% in May-July 2024 before declining further and stabilising at 2.1% in October-December 2024. It then rose significantly at the beginning of 2025, peaking at 4% in March before decreasing to 2.8% in April 2025. At the beginning of 2023, headline HICP inflation was still above HICP inflation excluding energy and food, due to higher energy and food price inflation. With the rapid disinflation of fuel and gas prices in 2023, overall inflation remained below core inflation for the rest of 2023. In 2024, headline HICP inflation and core inflation remained close to each other, as the fall in fuel prices in the second half of 2024 was largely offset by somewhat higher food price inflation. The sharp price hikes at the beginning of 2025 covered items both within and outside the core inflation basket. These price hikes were largely due to: (i) restored higher VAT rates for bread and restaurants; (ii) higher excise duties for tobacco; (iii) increased electricity and gas prices for households; and (iv) higher

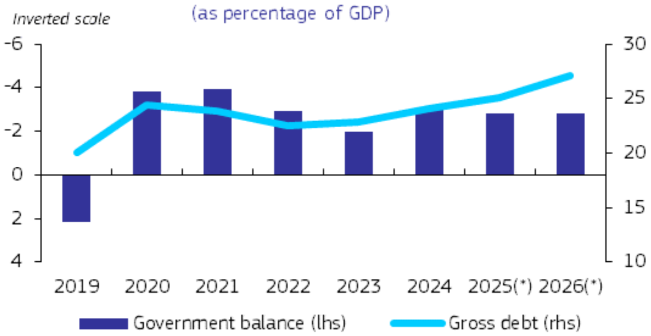
[8] The reference value for April 2025 was calculated as the simple average of the 12-month average of long-term interest rates of Ireland (2.8%), Finland (2.9%) and Italy (3.7%), plus two percentage points.

food prices due to increased international food prices. The subsequent decrease in inflation in April was largely due to reductions in hospital fees that are part of core inflation and in gas and fuel prices.

The Commission's Spring 2025 Economic Forecast projects that average annual inflation will increase from 2.6% in 2024 to 3.6% in 2025 and gradually ease to 1.8% in 2026. The 12-month average inflation rate is projected to increase above the projected reference value by the end of 2025, fall back to the reference value in the first months of 2026 and stay below it for the rest of 2026[9]. The higher VAT rates for bread and restaurants, higher excise duties for tobacco and other administered prices, including electricity, are estimated to have a full impact, including second-round effects, of around 1.5 percentage points by the end of 2025. These factors, which explain a large part of the temporary rise of inflation in 2025, are not expected to have a lasting effect on inflation. Moreover, the higher inflation in 2025 also reflects higher international prices for certain food commodities. The growth in unit labour costs moderated significantly in 2024 and, looking forward, the disinflation process in the services sector is set to benefit from wage moderation. Overall, private sector wage growth, which directly influences price formation, is expected to moderate faster than aggregate wage dynamics. On the external side, the pass-through of lower international energy and other commodities prices is also projected to keep inflation down, including via second-round effects to transport services. The relatively low price level in Bulgaria (about 57% of the euro area average in 2023) suggests potential for price level convergence in the long term.

Bulgaria fulfils the criterion on public finances. Bulgaria is not the subject of a Council Decision on the existence of an excessive deficit. The general government deficit widened from 2.0% of GDP in 2023 to 3.0% in 2024. The sizeable deterioration of the deficit in 2024 was in one part due to spending increases in public sector salaries and in social benefits, particularly on pensions, which were not fully matched by revenue increases. The other part, 0.5% of GDP, was due to a one-off statistical recording of settled liabilities for road infrastructure works from 2020-2022. The Commission's Spring 2025 Economic Forecast expects the general government deficit to decrease to 2.8% of GDP in 2025 and to remain at 2.8% in 2026. The government debt-to-GDP ratio increased from 22.9% in 2023 to 24.1% in 2024. It is expected to increase further to 25.1% in 2025 and 27.1% in 2026. On 27 February 2025, Bulgaria submitted its national medium-term fiscal structural plan to the Council and the Commission. The plan includes a commitment to fiscal consolidation in 2025-2028 in line with the Stability and Growth Pact requirements. On 12 May 2025, the Commission recommended to the Council to endorse Bulgaria's plan. Accounting for the flexibility under the NEC, the net expenditure growth for 2025 is expected to be in line with the net expenditure growth ceilings contained in Bulgaria's medium-term plan. Despite the low projected debt level by 2035 (39% of GDP), Bulgaria's debt sustainability risks appear medium in the medium term, with high uncertainty on debt dynamics over the next five years based on historical volatility. Bulgaria has the key components of a robust fiscal framework, but some difficulties in implementation remain. Bulgaria has a complex system of national fiscal rules in place and there is scope to improve key aspects, including further strengthening the mandate of the Fiscal Council.

Graph 2b: **Bulgaria - Government budget balance and debt**
(as percentage of GDP)



(*) Commission's Spring 2025 Economic Forecast.
Source: Eurostat, Commission's Spring 2025 Economic Forecast.

[9] The Commission's Spring 2025 Economic Forecast does not include the impact of lower fees for hospital services and of decreases in other administered prices on inflation in April 2025. When taking into account these measures, the average inflation rate in Bulgaria would likely be close to the reference value by the end of 2025.

Bulgaria fulfils the exchange rate criterion. In July 2020, Bulgaria entered the Exchange Rate Mechanism II (ERM II) and had been participating in the mechanism for almost four years at the time of the adoption of this report. The Bulgarian lev observes a central rate of 1.95583 to the euro with a standard fluctuation band of ±15%. The Bulgarian National Bank pursues its primary objective of price stability through an exchange rate anchor as part of a currency board framework. Bulgaria joined ERM II with its existing currency board framework in place, as a unilateral commitment, thereby placing no additional obligations on the ECB. The lev exchange rate remained at the ERM II central rate for the 2 years covered by the assessment without any signs of tensions or devaluation against the euro. Additional indicators, such as developments in foreign exchange reserves and short-term interest rates, suggest that investors' risk perception towards Bulgaria has remained favourable. The (negative) spread of the Bulgarian benchmark short-term interest rate (i.e. the three-month base interest rate (BIR) to the Euribor) narrowed from -15 basis points at the beginning of 2023 to virtually no differential by the end of that year. It then widened slightly throughout 2024 and stood at 3 basis points in March 2025. A sizeable buffer of official reserves continues to underpin the currency board's resilience. Upon entering ERM II, Bulgaria committed to implement a set of policy measures (known as post-entry commitments) to ensure that its participation in the mechanism is sustainable and that it achieves a high degree of economic convergence before adopting the euro. The measures cover four policy areas: (i) the non-banking financial sector; (ii) the insolvency framework; (iii) the anti-money laundering framework; and (iv) governance of state-owned enterprises.

Bulgaria fulfils the criterion on the convergence of long-term interest rates. The average long-term interest rate in the 12-months to April 2025 was 3.9%, below the reference value of 5.1%. The Bulgarian long-term interest rate has been stable at or close to 4% since April 2023, following two stepwise increases in February and March 2023. The long-term interest rate increased from 1.9% in January 2023 to 4.2% in March. Thereafter, it remained unchanged at 4.0% for the rest of 2023 and at 3.9% throughout 2024 and up to April 2025. The yield spread relative to the German benchmark bond remained within a range of 1.4-1.9% from March 2023 to April 2025.

The Commission has also examined **additional factors**, including balance of payments developments, the integration of markets and the institutional environment. Bulgaria's external balance (the combined current and capital account) improved to 0.7% of GDP in 2023 and was almost in balance (-0.1% of GDP) in 2024. The Bulgarian economy is well integrated with the euro area through trade and investment linkages. Selected indicators related to the institutional environment show that Bulgaria performs worse than many euro area Member States. There are significant challenges related to the rule of law, fight against corruption and regulatory quality. However, as part of its participation in the ERM II and in accordance with its RRP, Bulgaria has taken measures to improve its institutional framework and the business environment, including in the four areas covered by the post-entry ERM II commitments. The financial sector in Bulgaria is smaller and less developed than in the euro area. It is dominated by the banking sector, which is well integrated into the euro area's financial sector (particularly through a high level of foreign ownership). The underdevelopment of market-based financing is reflected in the very small markets for equity and private sector debt. Continued policy action, including Bulgaria's entry into a 'close cooperation' agreement with the ECB in 2020, combined with a favourable macroeconomic environment have reduced risks to and vulnerabilities in the financial sector. As part of the Macroeconomic Imbalance Procedure, the Commission concluded in its Alert Mechanism Report for 2025 that it was not necessary to carry out an in-depth analysis for Bulgaria, while pointing to the need to monitor developments in the country's cost competitiveness, house prices and credit flows to households.

Bulgaria's RRP includes measures to address a series of structural challenges, in synergy with other EU funds, including cohesion policy funds, to boost its competitiveness and stimulate sustainable growth, and reduce the country's regional and social disparities. The RRF funding provides Bulgaria with EUR 5.7 billion in grants over the 2021-2026 period. Bulgaria received one disbursement of EUR 1.37 billion on 16 December 2022. In April 2025, Bulgaria submitted a comprehensive revision of its RRP with the aim to bring it back on track. Implementing key outstanding reforms in the areas of decarbonisation, business environment and rule of law remains important for achieving the plan's objectives. It would thus be important for Bulgaria to urgently step up its implementation of reforms and investments in order to deliver on the plan's commitments. In addition, cohesion policy funding provides Bulgaria with EUR 10.7 billion for the 2021-2027 period. Cohesion policy financing aims in particular to further support Bulgaria's competitiveness, green transition, including energy independence, the just transition and climate change resilience. It also aims to support the country's upward social convergence, including by addressing labour shortages, further developing educational and training systems and making them more inclusive for disadvantaged groups. Bulgaria has made progress in implementing EU cohesion policy but challenges remain.

Convergence Report 2025 on Bulgaria

Technical annex

1. INTRODUCTION

1.1. ROLE OF THE REPORT

The euro was introduced on 1 January 1999 by eleven Member States, namely Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. Subsequently, Greece (2001), Slovenia (2007), Cyprus and Malta (2008), Slovakia (2009), Estonia (2011), Latvia (2014), Lithuania (2015) and Croatia (2023) also adopted the euro.

Member States for which the Council has not yet decided that they fulfil the necessary conditions for the adoption of the euro are referred to as 'Member States with a derogation'. Article 140 of the Treaty lays down provisions and procedures for examining the convergence situation of Member States with a derogation (Box 1.1). At least once every two years, or at the request of a Member State with a derogation, the Commission and the European Central Bank (ECB) prepare Convergence Reports for such Member States. Denmark negotiated an opt-out arrangement before the adoption of the Maastricht Treaty ([10]) and does not participate in the third stage of EMU. Until Denmark indicates that it wishes to participate in the third stage and adopt the euro, it will not be the subject of an assessment as to whether it fulfils the necessary conditions for such a participation.

In 2024, the Commission and the ECB adopted their latest regular Convergence Reports ([11]). None of the Member States assessed in those reports was deemed to meet the necessary conditions for adopting the euro.

On 25 February 2025, Bulgaria submitted a request for a convergence assessment. This Commission Staff Working Document is a Technical Annex to the Convergence Report 2025 on Bulgaria and includes a detailed assessment of the progress with convergence, as required by Article 140(1) of the Treaty.

The convergence assessment in this report is presented against the background of several major economic and policy developments. Following the EU's weak economic performance in 2023, when GDP grew by 0.4%, the economy returned to moderate growth of 1.0% in 2024, with stronger momentum at the end of the year. In 2024, private consumption was supported by continued growth in real wages and higher employment, with a remarkably strong labour market. The disinflationary process that started towards the end of 2022 continued to progress throughout much of 2024, with EU headline inflation averaging 2.6% that year, and is expected to continue in 2025. Inflation divergence across the EU Member States also narrowed significantly in 2024. With the disinflation process well on track, in April 2025 the ECB cut its main policy rate for the seventh time since June 2024, to 2.25%.

The economic outlook, including the Commission's 2025 Spring Economic Forecast for HICP inflation for the EU as a whole and for individual Member States, is characterised by an unusually high degree of uncertainty. In early 2025, the EU and global economies were hit by the most significant policy-induced trade and economic uncertainty shock in decades. It is unclear what the landing zone for the US tariffs vis-à-vis trading partners would be, which forces the Commission forecast to rely on several technical assumptions ([12]). Beyond trade, broader geopolitical tensions remain elevated, heightening uncertainty risks, weighing on confidence, and posing significant risks to the economic outlook.

([10]) Protocol (No 16) on certain provisions relating to Denmark.

([11]) European Commission, Convergence Report 2024, COM(2024) 270 final, 26 June 2024; European Central Bank, Convergence Report 2024, June 2024.

([12]) Significantly, the individualised 'reciprocal' higher tariffs are assumed to not be reinstated at the expiry of the 90 days suspension. The forecast also assumes that the exceptionally high tariffs on Chinese imports, imposed after April 2, will be scaled back to pre-escalation levels, as they are deemed unsustainable. By the time the Commission forecast was published, on 19 May 2025, the new tariffs in place were lower than those assumed at the cut-off date.

Box 1.1: **Article 140 of the Treaty**

'1. At least once every two years, or at the request of a Member State with a derogation, the Commission and the European Central Bank shall report to the Council on the progress made by the Member States with a derogation in fulfilling their obligations regarding the achievement of economic and monetary union. These reports shall include an examination of the compatibility between the national legislation of each of these Member States, including the statutes of its national central bank, and Articles 130 and 131 and the Statute of the ESCB and of the ECB. The reports shall also examine the achievement of a high degree of sustainable convergence by reference to the fulfilment by each Member State of the following criteria:

— the achievement of a high degree of price stability; this will be apparent from a rate of inflation which is close to that of, at most, the three best performing Member States in terms of price stability,

— the sustainability of the government financial position; this will be apparent from having achieved a government budgetary position without a deficit that is excessive as determined in accordance with Article 126(6),

— the observance of the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System, for at least two years, without devaluing against the euro,

— the durability of convergence achieved by the Member State with a derogation and of its participation in the exchange-rate mechanism being reflected in the long-term interest-rate levels.

The four criteria mentioned in this paragraph and the relevant periods over which they are to be respected are developed further in a Protocol annexed to the Treaties. The reports of the Commission and the European Central Bank shall also take account of the results of the integration of markets, the situation and development of the balances of payments on current account and an examination of the development of unit labour costs and other price indices.

2. After consulting the European Parliament and after discussion in the European Council, the Council shall, on a proposal from the Commission, decide which Member States with a derogation fulfil the necessary conditions on the basis of the criteria set out in paragraph 1, and abrogate the derogations of the Member States concerned.

The Council shall act having received a recommendation of a qualified majority of those among its members representing Member States whose currency is the euro. These members shall act within six months of the Council receiving the Commission's proposal.

The qualified majority of the said members, as referred to in the second subparagraph, shall be defined in accordance with Article 238(3)(a).

3. If it is decided, in accordance with the procedure set out in paragraph 2, to abrogate a derogation, the Council shall, acting with the unanimity of the Member States whose currency is the euro and the Member State concerned, on a proposal from the Commission and after consulting the European Central Bank, irrevocably fix the rate at which the euro shall be substituted for the currency of the Member State concerned, and take the other measures necessary for the introduction of the euro as the single currency in the Member State concerned.'

The expected acceleration in implementing the recovery and resilience plans (RRPs) and the cohesion policy programmes can at least partly offset the negative consequences of the weaker

international environment and play a crucial role in the convergence process of non-euro area EU Member States. Besides contributing to higher growth and improved public finances in the near term, the Recovery and Resilience Facility (RRF) and cohesion policy programmes strengthen Member States' long-term growth and resilience by supporting major reforms and investments that help address both long-standing and new challenges, such as diversifying energy supplies. The overall implementation of the RRPs progressed in 2024 and in the first four months of 2025. By the end of 2024, RRF disbursements reached EUR 306 billion, which is close to half of the total amount of support committed under the RRF. However, in a few Member States, including Bulgaria, there are significant delays in the RRF implementation. In addition, EU Cohesion Policy funds provide EUR 378 billion to Member States for the 2021-2027 period. Cohesion policy concentrates in fields that are critical for promoting convergence and competitiveness through long-term investment in line with EU priorities and will support EU GDP growth, with a particularly high impact in the Member States and regions that are the main beneficiaries of the policy.

In November 2024, the Commission launched the first implementation cycle of the reformed economic governance framework that entered into force on 30 April 2024. The main objectives of the new framework are to strengthen Member States' debt sustainability and promote sustainable and inclusive growth in all Member States through growth-enhancing reforms and priority investments. At the centre of the new framework are the national medium-term fiscal-structural plans, which set the Member States' fiscal paths, defined in terms of net expenditure growth rates. The plans contain priority reforms and investments and cover an adjustment period of four years as a rule. An extended adjustment period (up to seven years) can be agreed at the request of the Member State which commits to additional reforms and investments that are conducive to economic growth and fiscal sustainability. Bulgaria submitted its four-year national medium-term fiscal-structural plan on 27 February 2025. On 12 May 2025, the Commission recommended to the Council to endorse Bulgaria's plan.

On 19 March 2025, the Commission presented, as part of the ReArm Europe Plan/Readiness 2030, an ambitious defence package providing financial levers to EU Member States to drive an investment surge in defence capabilities. As part of this plan, the Commission invited Member States to apply for the activation of the national escape clause (NEC) of the Stability and Growth Pact, which will provide them additional budgetary space to transition to a durably higher level of defence expenditure, within the EU fiscal rules. The amount of the planned deviation under the escape clause will be capped at 1.5% GDP, available for a period of four years. A new dedicated instrument - Security Action for Europe (SAFE) - has been established, with the Commission planning to raise up to EUR 150 billion on the capital markets to help EU Member States quickly and substantially increase investments in Europe's defence capabilities. Bulgaria submitted a request, to the Council and the Commission, to activate the NEC. On 4 June 2025, the Commission recommended to the Council to activate the NEC for Bulgaria, allowing the country to deviate from, and exceed, the net expenditure path that will be set in the Council recommendation endorsing its medium-term fiscal plan.

On 4 June 2025, the Commission published its European Semester Spring 2025 package. To drive long-term prosperity and resilience, the EU is aligning its economic governance with a renewed focus on competitiveness as presented in the Competitiveness Compass. Through its country-specific recommendations, the European Semester reflects the new priorities to boost competitiveness and provides guidance, including to Bulgaria, on the necessary reforms and investments at national and regional level. As part of the European Semester Spring 2025 package, the Commission recommends that Bulgaria adheres to the maximum growth rates of net expenditure in its plan, while making use of the allowance under the NEC for higher defence expenditure.

The remainder of the first chapter presents the methodology used for the application of the assessment criteria. Chapters 2 to 7 examine the fulfilment of the convergence criteria and other requirements in the order in which they appear in Article 140(1) (see Box 1.1). The cut-off date for the statistical data included in this convergence report was 19 May 2025.

1.2. APPLICATION OF THE CRITERIA

In accordance with Article 140(1) of the Treaty, the Convergence Reports shall examine the compatibility of national legislation with Articles 130 and 131 of the Treaty and the Statute of the European System of Central Banks (ESCB) and of the European Central Bank. The reports shall also examine the achievement of a high degree of sustainable convergence by reference to the fulfilment of the four convergence criteria dealing with price stability, public finances, exchange rate stability and long-term interest rates as well as some additional factors. The four convergence criteria are developed further in a Protocol annexed to the Treaty (Protocol No 13 on the convergence criteria).

1.2.1. Compatibility of legislation

In accordance with Article 140(1) of the Treaty, the legal examination includes an assessment of compatibility between a Member State's legislation, including the statute of its national central bank, and Article 130 and 131 of the Treaty. This assessment mainly covers three areas.

- First, the independence of the national central bank and of the members of its decision-making bodies, as laid down in Article 130, must be assessed. This assessment covers all issues linked to a national central bank's institutional and financial independence and to the personal independence of the members of its decision-making bodies.
- Second, in accordance with Articles 123 and 124 of the Treaty, the compliance of the national legislation is verified against the prohibition of monetary financing and privileged access. The prohibition of monetary financing is laid down in Article 123(1) of the Treaty, which prohibits overdraft facilities or any other type of credit facility with the ECB or the central banks of Member States in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States; and the purchase directly from these public sector entities by the ECB or central banks of debt instruments. As regards the prohibition on privileged access as set out in Article 124, the central banks, as public authorities, may not take measures granting privileged access by the public sector to financial institutions if such measures are not based on prudential considerations.
- Third, in accordance with Article 131, the integration of the national central bank into the ESCB has to be examined, in order to ensure that at the latest by the moment of euro adoption, the objectives of the national central bank are compatible with the objectives of the ESCB as formulated in Article 127 of the Treaty. The national provisions on the tasks of the national central bank are assessed against the relevant rules of the Treaty and the ESCB/ECB Statute.

1.2.2. Price stability

The price stability criterion is defined in the first indent of Article 140(1) of the Treaty: 'the achievement of a high degree of price stability; this will be apparent from a rate of inflation which is close to that of, at most, the three best performing Member States in terms of price stability'.

Article 1 of the Protocol on the convergence criteria further stipulates that 'the criterion on price stability […] shall mean that a Member State has a price performance that is sustainable and an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than 1.5 percentage points that of, at most, the three best performing Member States in terms of price stability. Inflation shall be measured by means of the consumer price index on a comparable basis, taking into account differences in national definitions.

Since national consumer price indices (CPIs) diverge substantially in terms of concepts, methods and practices, they do not constitute the appropriate means to meet the Treaty requirement that inflation must be measured on a comparable basis. To this end, the Council adopted on 23 October 1995 a framework regulation ([13]) setting the legal basis for the establishment of a harmonised methodology for compiling consumer price indices in the Member States. This process resulted in the production of the Harmonised Indices of Consumer Prices (HICPs), which are used for assessing the fulfilment of the price stability criterion.

([13]) Council Regulation (EC) No 2494/95 of 23 October 1995 concerning harmonised indices of consumer prices (OJ L 257, 27.10.1995, pp. 1-4), amended by Regulations (EC) No 1882/2003 and No 596/2009 of the European Parliament and of the Council, and repealed by Regulation (EU) 2016/792 of the European Parliament and of the Council.

Box 1.2: **Assessment of price stability and the reference value**

The numerical part of the price stability criterion implies a comparison between a Member State's average price performance and a reference value.

A Member State’s **average rate of inflation** is measured by the percentage change in the unweighted average of the last 12 monthly indices relative to the unweighted average of the 12 monthly indices of the previous period, rounded to one decimal. This measure captures inflation trends over a period of one year as requested by the provisions of the Treaty. Using the commonly used inflation rate – calculated as the percentage change in the consumer price index of the latest month over the index for the equivalent month of the previous year – would not meet the one-year requirement. The latter may also be excessively volatile from month to month and excessively affected by temporary factors.

The **reference value** is calculated as the unweighted average of the average rates of inflation of, at most, the three best-performing Member States in terms of price stability plus 1.5 percentage points. The outcome is rounded to one decimal. While in principle the reference value could also be calculated on the basis of the price performance of only one or two best performing Member States in terms of price stability, it has been existing practice to select the three best performers. Defining the reference value in a relative way (as opposed to a fixed reference value) allows taking into account the effects of a common shock that affects inflation rates across all Member States.

Table 1:
Inflation reference value in previous and current convergence reports

Convergence Report adoption date	Cut-off month	Three best performers 1) 2)	Reference value 3)	Euro area average inflation rate 4)
1998	January 1998	Austria, France, Ireland	2.7	1.5
2000	March 2000	Sweden, France, Austria	2.4	1.4
2002	April 2002	United Kingdom, France, Luxembourg 5)	3.3	2.4
2004	August 2004	Finland, Denmark, Sweden	2.4	2.1
2006 May	March 2006	Sweden, Finland, Poland	2.6	2.3
2006 December	October 2006	Poland, Finland, Sweden	2.8	2.2
2007	March 2007	Finland, Poland, Sweden	3.0	2.1
2008	March 2008	Malta, Netherlands, Denmark	3.2	2.5
2010	March 2010	Portugal, Estonia, Belgium	1.0	0.3
2012	March 2012	Sweden, Ireland, Slovenia	3.1	2.8
2013	April 2013	Sweden, Latvia, Ireland	2.7	2.2
2014	April 2014	Latvia, Portugal, Ireland	1.7	1.0
2016	April 2016	Bulgaria, Slovenia, Spain	0.7	0.1
2018	March 2018	Cyprus, Ireland, Finland	1.9	1.4
2020	March 2020	Portugal, Cyprus, Italy	1.8	1.1
2022	April 2022	France, Finland, Greece	4.9	4.4
2024	May 2024	Netherlands, Italy, Latvia	4.1	3.4
2025	April 2025	Ireland, Finland, Italy	2.8	2.3

1) EU15 until April 2004; EU25 between May 2004 and December 2006; EU27 between January 2007 and June 2013; EU28 between July 2013 and January 2020; EU27 (without UK) from February 2020 onwards.
2) In case of equal rounded average inflation for several potential best performers, the ranking is determined on the basis of unrounded data.
3) Reference values are only computed at the time of Convergence Reports. All calculations of the reference value between the Convergence Reports are purely illustrative.
4) Measured by the percentage change in the arthmetic average of the latest 12 monthly indices relative to the arithmetic average of the 12 monthly indices of the previous period.
5) Based on revised data, Germany would replace Luxembourg as one of the three Member States with the lowest 12-month average inflation in April 2002. This change would not affect the price and long-term interest rate reference values in April 2002.
Sources: Eurostat and European Commission calculations.

As Article 140(1) of the Treaty refers to ‘Member States’ and does not make a distinction between euro area and other Member States, the convergence reports select the three best performers from all Member States – EU-15 for the convergence reports before 2004, EU-25 for the reports between 2004

(Continued on the next page)

Box (continued)

and 2006, EU-27 for reports between 2007 and 2013, EU-28 for reports between 2014 and 2018 and EU-27 for the reports between 2020 and 2024.

The notion of '**best performer in terms of price stability**' is not defined explicitly in the Treaty. It is appropriate to interpret this notion in a non-mechanical manner, taking into account the state of the economic environment and country-specific factors at the time of the assessment. In particular, an outlier analysis should be performed to identify those countries whose inflation rates cannot be seen as meaningful benchmarks. These outliers are identified on the basis of two criteria taken in combination: i) an inflation rate substantially below the euro area average; and ii) an inflation rate driven by country-specific factors that cannot be seen as representative of the process that is driving inflation in the euro area. In this convergence report, no Member States were identified as outliers in terms of inflation performance for the calculation of the reference value, as none of their inflation rates deviated by a wide margin from the euro area average due to country-specific circumstances ([1]).

([1]) For more details on past outlier analyses, see Box 1.2 on page 29 of the European Commission's 2024 Convergence Report (https://economy-finance.ec.europa.eu/publications/convergence-report-2024_en).

As has been the case in past convergence reports, a Member State's average rate of inflation is measured by the percentage change in the arithmetic average of the last 12 monthly indices relative to the arithmetic average of the 12 monthly indices of the previous period. The reference value is calculated as the arithmetic average of the average rate of inflation of the three 'best-performing EU Member States in terms of price stability' plus 1.5 percentage points (see Box 1.2).

Accordingly, the reference value is currently 2.8%, based on the data of Ireland (1.2%), Finland (1.3%) and Italy (1.4%) over the 12-month period covering May 2024 – April 2025. No Member States were identified as outliers in terms of inflation performance for the calculation of the reference value, as none of their inflation rates deviated by a wide margin from the euro area average due to country-specific circumstances (see Box 1.2).

The Protocol on the convergence criteria not only requires Member States to have achieved a high degree of price stability but also calls for a price performance that is sustainable. The requirement of sustainability aims at ensuring that the degree of price stability and inflation convergence achieved in previous years will be maintained after adoption of the euro. This deserves particular attention as sustained divergences in price developments in one or more euro area Member States can lead to the emergence of competitiveness losses that must be corrected via painful adjustment processes and can trigger negative spillover effects on other Member States.

Inflation sustainability implies that the satisfactory inflation performance must essentially be due to the adequate behaviour of input costs and other factors that influence price developments in a structural manner, rather than reflecting the influence of cyclical or temporary factors. Therefore, this Technical Annex also takes account of the role of the macroeconomic situation and cyclical position in the inflation performance, of developments in unit labour costs as a result of trends in labour productivity and nominal compensation per head, and of developments in import prices to assess how external price developments have impacted on domestic inflation. Similarly, the impact of administered prices and indirect taxes on headline inflation is also considered.

From a forward-looking perspective, the report includes an assessment of medium-term prospects for price developments. The analysis of factors that have an impact on the inflation outlook is complemented by the projections from the most recent Commission inflation forecast. Medium-term inflation prospects are also assessed by reference to the economies' key structural characteristics, including the functioning of the labour and product markets.

1.2.3. Public finances

The convergence criterion dealing with the government budgetary position is defined in the second indent of Article 140(1) of the Treaty as 'the sustainability of the government financial position; this will be apparent from having achieved a government budgetary position without a deficit that is excessive as determined in accordance with Article 126(6)'. Furthermore, Article 2 of the Protocol on the convergence criteria states that this criterion means that 'at the time of the examination the Member State is not the subject of a Council decision under Article 126(6) of the said Treaty that an excessive deficit exists'.

The convergence assessment in the budgetary area is thus directly linked to the excessive deficit procedure which is specified in Article 126 of the Treaty and further clarified in the Stability and Growth Pact (see Box 1.3 for further information on the excessive deficit procedure as strengthened by the 2024 reform of the Stability and Growth Pact). The details of the excessive deficit procedure are defined in Regulation 1467/97 as amended in 2024 which sets out the way in which government deficit and debt levels are assessed to determine whether an excessive deficit exists, under Article 126 of TFEU. The convergence assessment of the budgetary position is therefore judged by whether the Member State is subject to a Council decision under 126(6) on the existence of an excessive deficit ([14]).

On 4 June 2025, the Commission adopted a report under Article 126(3) of the TFEU for 4 Member States. The report did not cover Bulgaria, as its government deficit in 2024 did not exceed 3.0% of GDP.

In the context of the European Semester, the country-specific recommendations for 2025 invite Member States to reinforce overall defence spending and readiness in line with the European Council conclusions of 6 March 2025. Member States are called to adhere to the maximum growth rates of net expenditure recommended by the Council, while - where relevant - making use of the allowance under the national escape clause for higher defence expenditure.

([14]) The definitions of the government deficit and debt used in this report are in accordance with the excessive deficit procedure, as was the case in previous convergence reports. These definitions are laid out in the amended Council Regulation (EC) No 479/2009. In particular, government debt is general government consolidated gross debt at nominal value. Information regarding the excessive deficit procedure and its application to different Member States since 2002 can be found at: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm.

Box 1.3: **Excessive Deficit Procedures under the new EU fiscal framework**

The new EU fiscal framework was adopted on 29 April 2024. The rules on the opening of a deficit-based Excessive Deficit Procedure (EDP) remain unchanged while the rules on the opening of a debt-based EDP are changed and clarified in the amended Council Regulation (EC) 1467/97. ([1])

In order to simplify the EU fiscal framework and increase transparency, a single operational indicator (net expenditure) anchored in debt sustainability serves as a basis for setting the fiscal path and for carrying out annual fiscal surveillance. Net expenditure means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on Union programmes fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, as well as cyclical elements of unemployment benefit expenditure. One-offs and other temporary measures will also be excluded from the net expenditure indicator.

The EDP is specified in Article 126 of the Treaty on the Functioning of the European Union (TFEU). Protocol 12 of the Treaty gives further details on the excessive deficit procedure, including the reference values on deficit and debt. Council Regulation (EC) 1467/97 on speeding up and clarifying the implementation of the EDP (the corrective arm of the Stability and Growth Pact) clarifies the implementation of the excessive deficit procedure. Together, these provisions determine the steps to be followed to reach a Council decision on the existence and correction of an excessive deficit.

The Commission will produce reports under Article 126(3) of TFEU on the basis of the following criteria:

- whether the ratio of the planned or actual government deficit to gross domestic product exceeds 3% of GDP, unless:
  - the ratio has declined substantially and continuously and reached a level that comes close to the reference value;
  - or, alternatively, the excess over the reference value is exceptional and temporary and the ratio remains close to the reference value;
- when the ratio of the government debt to GDP exceeds 60% of GDP, the budgetary position is not close to balance ([2]) or in surplus and when the deviations recorded in the control account ([3]) of the Member State exceed the established annual or cumulative thresholds (0.3% and 0.6% of GDP respectively).

When assessing the existence of an excessive deficit in accordance with Article 126(3) TFEU, the Commission should take into account all relevant factors. Substantial public debt challenges in the Member State concerned should be considered a key aggravating factor. The increase of government investment in defence, where applicable, should be considered as a relevant factor when assessing the existence of an excessive deficit. The Commission shall give due and express consideration to any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with the deficit and debt criteria and which the Member State has put forward to the Council and the Commission. In that context, particular consideration shall be given to financial contributions to fostering international solidarity and achieving the common priorities of the Union

([1]) OJ L, 2024/1264, 30.4.2024, Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (europa.eu). The consolidated version of Regulation No 1467/97 can be found at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A01997R1467-20240430.

([2]) The budgetary position shall be considered close to balance if the general government deficit does not exceed 0.5 % of GDP.

([3]) The Commission will set up a control account for each Member State to keep track of annual and cumulative upward and downward deviations of the net expenditure observed from the net expenditure path as set by the Council pursuant to the new preventive arm Regulation (see footnote 5).

(Continued on the next page)

Box (continued)

referred to in the new preventive arm Regulation. ([4]) For deficit-based EDPs, the relevant factors can be considered for i) those Member States with debt below 60% and ii) those Member States with debt exceeding 60% of GDP and satisfying the double condition of the overarching principle, i.e. that the general government deficit remains close to the 3% of GDP reference value and its excess over the reference value is temporary.

In the next step of the procedure, the Economic and Financial Committee (EFC) should formulate an opinion in accordance with Article 126(4) TFEU within two weeks of the adoption by the Commission of a report issued in accordance with Article 126(3) TFEU. Taking fully into account this opinion, the Commission, if it considers that an excessive deficit exists, should address an opinion and a proposal to the Council in accordance with Article 126(5) and (6) TFEU and inform the European Parliament thereof. The Council should then decide on the existence of an excessive deficit in accordance with Article 126(6) TFEU, as a rule within four months of the reporting dates established in Article 3(2) and (3) of Regulation (EC) No 479/2009. When it decides that an excessive deficit exists, the Council should at the same time make recommendations to the Member State concerned in accordance with Article 126(7) TFEU.

In its recommendation, the Council shall request that the Member State implements a corrective net expenditure path which ensures that the general government deficit remains or is brought and maintained below the reference value within the deadline set in the recommendation. The corrective path should also ensure that the debt is kept on a plausibly downward path or remains at prudent levels below 60% of GDP in the medium term. In the case of a debt-based EDP, the corrective net expenditure path shall be at least as demanding as the net expenditure path under the preventive arm from which the Member State deviated and correct as a rule the cumulated deviations of the control account.([5])

([4]) OJ L 1263, 30.4.2024, Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (europa.eu).

([5]) OJ L 1264, 30.4.2024. Council Regulation (EU) 2024/1264 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.

1.2.4. Exchange rate stability

The Treaty refers to the exchange rate criterion in the third indent of Article 140(1) as 'the observance of the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System, for at least 2 years, without devaluing against the euro'.

Article 3 of the Protocol on the convergence criteria stipulates: 'The criterion on participation in the exchange rate mechanism of the European Monetary System [...] shall mean that a Member State has respected the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System without severe tensions for at least the last 2 years before the examination. In particular, the Member State shall not have devalued its currency's bilateral central rate against the euro on its own initiative for the same period' ([15]). Based on the Council Resolution on the establishment of the ERM II ([16]), the European Monetary System has been replaced by the Exchange Rate Mechanism II upon the introduction of the euro, and the euro has become the centre of the mechanism.

([15]) In assessing compliance with the exchange rate criterion, the Commission examines whether the exchange rate has remained close to the ERM II central rate, while reasons for an appreciation may be taken into account, in accordance with the Common Statement on Acceding Countries and ERM II by the Informal ECOFIN Council, Athens, 5 April 2003.

([16]) 97/C 236/03 of 16 June 1997, OJ C 236, 2.8.1997, p.5.

Box 1.4: **A reinforced approach to ERM II participation by means of upfront policy commitments by the applicant Member States**

Participating in ERM II is an essential step for a Member State with a derogation on the way to fulfil the exchange rate criterion and to euro adoption. Fulfilling the exchange rate criterion through the smooth participation in ERM II is provided for in Article 140 of the TFEU, Protocol No 13 to the TFEU on the convergence criteria and the Resolution of the European Council on the establishment of an exchange-rate mechanism in the third stage of economic and monetary union adopted in Amsterdam on 16 June 1997 ([1]). In accordance with this framework, ERM II entry of a Member State with a derogation requires a mutual agreement of all 'ERM II parties'. These include the finance ministers of euro area Member States, the European Central Bank, and the finance ministers and the central bank governors of the non-euro area Member States participating in ERM II. The European Commission provides analytical support to the ERM II process, but has no voting right and no right of initiative in the ERM II entry process.

In July 2018, learning from past episodes of economic overheating in ERM II and the euro-area crisis, the ERM II parties clarified the modalities of a reinforced approach for future ERM II participation with a view of ensuring a smooth transition to, and participation in, ERM II, in their statement on Bulgaria's path towards ERM II, stating that this approach would apply to all Member States wishing to join ERM II from then onwards ([2]). The reinforced approach was confirmed in the later statement of the ERM II parties of July 2019 on Croatia's path towards ERM II participation ([3]).

According to this reinforced approach, the applicant Member State and ERM II parties agree on a number of policy commitments to be implemented by the former before joining ERM II. This package of so called prior policy commitments aims at maximising the country's chances to operate smoothly in ERM II. It is country-specific, targeted and covers policy areas that are highly relevant for a smooth transition to and participation in ERM II including, for instance institutional quality, governance, the financial sector, fiscal policy, or the business environment.

In particular, as being part of the euro area now also implies for a Member State to be part of the Banking Union's pillars of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM), the applicant Member State is expected to enter into 'close cooperation' with the ECB for banking supervision purposes at the latest by the time of its participation in ERM II. A Member State with a derogation can join the Banking Union before its euro adoption via an arrangement called 'close cooperation'. Entering in close cooperation with the ECB means that the significant credit institutions established in the country concerned are supervised by the ECB via the involvement of the domestic national supervisor. Entering in close cooperation also implies participation in the Single Resolution Mechanism, including the Single Resolution Fund.

In terms of process, the ECB and the Commission monitor the fulfilment of the prior-commitments undertaken by the applicant Member States in the respective areas of competence of the ECB and the Union and in close cooperation with the Member State concerned. The two institutions regularly inform ERM II parties on the progress made with the prior-commitments. A comprehensive assessment of the applicants' banking sector is carried out by the ECB as part of the process of establishing close cooperation with the ECB. This includes an asset quality review and a stress test that aims at assessing whether banks are fundamentally sound. The results of the comprehensive assessment are made public on the ECB's website ([4]).

([1]) https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A31997Y0802%2803%29
([2]) See: https://www.consilium.europa.eu/en/press/press-releases/2018/07/12/statement-on-bulgaria-s-path-towards-erm-ii-participation/
([3]) See: https://www.consilium.europa.eu/en/press/press-releases/2019/07/08/statement-on-croatia-s-path-towards-erm-ii-participation/
([4]) The results of the comprehensive assessment of six Bulgarian banks are available at: https://www.bankingsupervision.europa.eu/press/pr/date/2019/html/ssm.pr190726~1b474e3467.en.html

(Continued on the next page)

Box (continued)

In line with the long-standing ERM II practice, ERM II parties also expect applicant Member States to take further policy commitments at the moment of joining ERM II with the aim of achieving a high degree of sustainable economic convergence by the time the euro will be adopted.

At the time of writing this report, Bulgaria and Denmark were the only non-euro-area Member States participating in ERM II. Bulgaria joined the ERM II on 10 July 2020 after having completed its prior policy commitments ([5]). Bulgaria established close cooperation with the ECB. In addition, the prior policy commitments of the Bulgarian authorities covered measures related to the macroprudential framework, the supervision of the non-banking financial sector, the insolvency framework, the anti-money laundering framework and the governance of state-owned enterprises ([6]).

At the time of ERM II entry, the Bulgarian authorities also committed to pursue sound economic policies with the aim of preserving economic and financial stability and achieving a high degree of sustainable economic convergence. In particular, the Bulgarian authorities committed to implement specific policy measures (the so-called post-ERM II entry commitments) on the non-banking financial sector, state-owned enterprises, the insolvency framework and the anti-money laundering framework ([7]).

([5]) For the details on the decision of the ERM II parties on Bulgaria see: https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1321
([6]) For more details on the prior-commitments taken by Bulgarian authorities see: https://www.consilium.europa.eu/media/36125/st11119-en18.pdf
([7]) See: https://www.ecb.europa.eu/pub/pdf/annex/ecb.pr200710_annex~29156bba37.en.pdf

In its assessment of the exchange rate stability criterion, the Commission takes into account developments in auxiliary indicators such as foreign reserve developments and short-term interest rates, as well as the role of policy measures, including foreign exchange interventions, and international financial assistance wherever relevant, in maintaining exchange rate stability.

The assessment of this criterion verifies the participation in ERM II (see Box 1.4 for further information on ERM II participation) and examines exchange rate behaviour within the mechanism. The relevant period for assessing exchange rate stability in this Technical Annex is 20 May 2023 to 19 May 2025.

1.2.5. Long-term interest rates

The fourth indent of Article 140(1) of the Treaty requires that 'the durability of convergence achieved by the Member State with a derogation and of its participation in the exchange rate mechanism' is 'reflected in the long-term interest rate levels'. Article 4 of the Protocol on the convergence criteria further stipulates that 'the criterion on the convergence of interest rates [...] shall mean that, observed over a period of one year before the examination, a Member State has had an average nominal long-term interest rate that does not exceed by more than 2 percentage points that of, at most, the three best performing Member States in terms of price stability. Interest rates shall be measured on the basis of long-term government bonds or comparable securities, taking into account differences in national definitions' (see Box 1.5).

Box 1.5: **Data for the interest rate convergence**

The fourth indent of Article 140(l) of the Treaty requires that the durability of nominal convergence and exchange rate stability in Member States should be assessed by reference to long-term interest rates. Article 4 of the Protocol on the convergence criteria adds that these '*Interest rates shall be measured on the basis of long-term government bonds or comparable securities, taking into account differences in national definitions*'.

Article 5 of the Protocol requires that the Commission should provide the statistical data used for the application of the convergence criteria. However, in the context of the interest rate criterion, the ECB has developed the criteria for harmonising the series of 10-year benchmark bond yields on behalf of Eurostat and collects the data from the central banks. The selection of bonds for inclusion in this series is based on the following criteria:

- issued by a central government;
- a residual maturity as close as possible to 10 years;
- adequate liquidity, which is the main selection criterion; the choice between a single benchmark or the simple average of a sample is based on this requirement;
- fixed coupon;
- yield gross of tax.

For fifteen Member States, the residual maturity of the benchmark bond is at least 9.5 years. For twelve Member States, the residual maturity of the benchmark bond is below 9.5 years, in particular for Bulgaria with the residual maturity slightly above 6.55 years. All yields are calculated on the basis of secondary market rates, where available. For Czechia, Germany, Malta and Spain a basket of bonds is used, while a single benchmark bond is used in twenty-three Member States.

Data used in this Report can be found on Eurostat ("Maastricht criterion bond yields (mcby): EMU convergence criterion bond yields", code: tec00097). The same series is also published by the ECB's Statistical Data Warehouse (code IRS.M.*Country Code*.L.L40.CI.0000.*Currency Code*.N.Z) and in a dedicated page in the ECB website with additional information:
http://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/long_term_interest_rates/html/index.en.html.

For the assessment of the criterion on the convergence of interest rates, yields on benchmark long-term bonds have been taken, using an average rate over the latest 12 months. The reference value for April 2025 is calculated as the simple average of the average long-term interest rates in Ireland (2.8%), Finland (2.9%) and Italy (3.7%) plus 2 percentage points, yielding a reference value of 5.1%.

1.2.6. Additional factors

Article 140(1) TFEU also requires that the reports take into account other factors relevant to economic integration and convergence. These additional factors include financial, product and labour market integration and the development of the balance of payments. The analysis of the development of unit labour costs and other price indices, which is also prescribed by Article 140 of the Treaty, is covered in the price stability section.

The assessment of additional factors gives an important indication of a Member State's ability to integrate into the euro area without difficulties. As regards the balance of payments, the focus is on the situation and development of the external balance ([17]). Market integration is assessed

([17]) The external balance is defined as the combined current and capital account (net lending/borrowing vis-à-vis the rest of the world). This concept permits in particular to take full account of external transfers (including EU transfers), which are partly recorded in the capital account. It is the concept closest to the current account as defined when the Maastricht Treaty was drafted.

through trade, foreign direct investment and a smooth functioning of the internal market. Moreover, progress in financial integration is examined, together with the main characteristics, structures and trends of the financial sector. Given that Member States which adopt the euro also participate in the banking union, developments in national banking sectors are specifically looked at as well.

Starting with the 2012 Convergence Report, the convergence assessment is aligned with the broader European Semester approach which takes an integrated look at the economic policy challenges facing EMU in ensuring fiscal sustainability, competitiveness, financial market stability and economic growth.

The section on additional factors makes reference to the surveillance of macroeconomic imbalances under the Macroeconomic Imbalance Procedure ([18]).

([18]) The key elements of the Macroeconomic Imbalance Procedure are described in Box 1.7 of the European Commission's 2024 Convergence Report.

2. BULGARIA

2.1. LEGAL COMPATIBILITY

2.1.1. Introduction

The legal basis for the Bulgarska Narodna Banka (the BNB – Bulgaria's central bank), the Law on the Bulgarian National Bank (the BNB Law) of 2024 ([19]), has been amended since the 2024 Convergence Report by the Law on the State Budget of the Republic of Bulgaria for 2025 (Law on State Budget) ([20]). The Bulgarian authorities have amended the BNB Law to remedy the incompatibility highlighted in the Commission's 2024 Convergence Report. In particular, this concerns issues flagged in the section on central bank independence in relation to Article 99(5) of the Bulgarian Constitution ([21]). In accordance with paragraph 14 of its transitional and final provisions, the BNB Law shall enter into force on the date specified in the Council Decision on the adoption of the euro by Bulgaria. The entry into force would therefore be automatic and would not require further action from the Bulgarian authorities. The BNB Law will replace and repeal the previous BNB Law ([22]). Once it enters into force, the BNB Law is compatible with the relevant provisions of the EU law.

2.1.2. Central bank independence

Article 15(3) of the BNB Law provides that the grounds for the early dismissal of a member of the Governing Council, with the exception of the Governor, shall be established by a decision of the Governing Council. A member of the Governing Council whose dismissal is proposed shall cease to exercise their powers from the day of the Governing Council's decision. The Governing Council's decision is subject to appeal before the Supreme Administrative Court within 7 days. The Supreme Administrative Court gives its decision within 14 days of receipt of the appeal. This decision is final. Ensuring personal independence requires that national legislation should allow reasonable time for appealing a dismissal decision as well as for the judicial review to take place for appealing. The short time-limit for the appeal and the very constrained timeframe for the judicial procedure in Article 15(3) may be seen as a residual imperfection that Bulgaria should consider addressing in the near future.

The Bulgarian Constitution has been amended in January 2024 in a matter that could indirectly impact the BNB's independence. The new Article 99(5) of the Bulgarian Constitution provides that, in a case where no agreement is reached on the formation of a government, the President, following consultations with the parliamentary groups and acting on a motion by the caretaker prime minister-designate, appoints a caretaker cabinet, and schedules new elections within 2 months. A caretaker prime minister is to be appointed from among the Chairperson of the National Assembly, the Governor or a Deputy Governor of the BNB, the President or a Vice-President of the Bulgarian National Audit Office, and the Ombudsman (or a deputy thereof).

The appointment as caretaker prime minister of the Governor or one of the Deputy Governors of the BNB could disrupt its effective and independent functioning. This would be potentially a serious cause for concern. The appointment would only be for a limited period (until a regular government is formed), but the caretaker government could be reappointed for several successive periods as long as election results do not result in the formation of a government and new elections have to be scheduled. To avoid such potential disruption and its possible impact on the BNB's independence, one possible solution stated in the Commission Convergence Report 2024 was the

([19]) Law on Българска народна банка (Bulgarian National Bank), Darjaven vestnik issue 13, 13.2.2024.

([20]) Law on the State Budget of the Republic of Bulgaria for 2025, Decree No. 53, 21.3.2025, Darjaven vestnik issue 26, 27.3.2025.

([21]) Constitution of the Republic of Bulgaria, Darjaven vestnik issue 56, 13.7.1991.

([22]) Law on Българска народна банка (Bulgarian National Bank), Darjaven vestnik issue 46, 10.6.1997.

amendment of the BNB Law to provide sufficient and effective safeguards for the BNB's independence as required by EU law. Firstly, any appointment of the Governor or a Deputy Governor of the BNB as a caretaker prime minister should be conditional on their explicit consent and they should be empowered to refuse such an appointment. Secondly, if such consent is expressed, the rules should prevent that person from holding both positions simultaneously, because this could lead to conflicts of interest and lack of independence. In this respect, the effective and independent functioning of the BNB must be preserved. This could be ensured through the person's resignation from their post at the BNB at the time of their appointment as caretaker prime minister.

Article 13 of the BNB Law has been amended by paragraph 32 of the Transitional and Final provisions of the Law on the State Budget, published on 27 March 2025, and a new paragraph (5) has been added, stating that in the event that the Governor or Deputy Governor has expressed the explicit consent to be appointed as caretaker prime minister (Acting Prime Minister) under the procedure of Article 99, paragraph 5 of the Constitution of the Republic of Bulgaria, he/she shall resign. The Governor or Deputy Governor has the right to refuse to be appointed as caretaker prime minister (Acting Prime Minister) under the procedure of Article 99, paragraph 5 of the Constitution of the Republic of Bulgaria. The Commission also welcomes the amendments made to paragraph (4) of Article 13 according to which, in the event of the appointment of the Governor or Deputy Governor as caretaker prime minister (Acting Prime Minister) under the procedure of Art. 99, para. 5 of the Constitution of the Republic of Bulgaria, the appointment of a new Governor, respectively Deputy Governor, shall be held no later than one month from the termination of the powers under the procedure of paragraph 8 of the BNB Law. Until the appointment, the powers of the Governor shall be exercised by a deputy designated by him from among the Deputy Governors, and for a Deputy Governor, Art. 20, paragraph 4 of the BNB Law shall apply. This procedure ensures the continuity of central bank's activities in case of appointment of the Governor or Deputy Governor as caretaker prime minister (Acting Prime Minister).

Therefore, the incompatibility mentioned in the Commission's Convergence Report 2024 in this area has been resolved.

2.1.3. Prohibition of monetary financing and privileged access

There are no incompatibilities and imperfections in the BNB Law with regard to the prohibition of monetary financing and privileged access, as enshrined in Article 123 and 124 of the TFEU.

2.1.4. Integration into the ESCB

Objectives

The objectives of the BNB are compatible with the TFEU.

Tasks

There are no incompatibilities and imperfections in the BNB Law with regard to the tasks of the ESCB and the ECB.

2.1.5. Assessment of compatibility

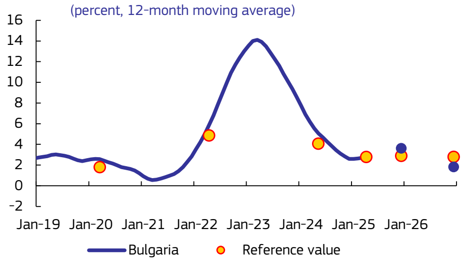
The Bulgarian authorities have taken measures to remedy the incompatibility that was identified in the 2024 Convergence Report. The BNB Law is compatible with Article 130 and Article 131 of the TFEU and the ESCB/ECB Statute.

2.2. PRICE STABILITY

2.2.1. Respect of the reference value

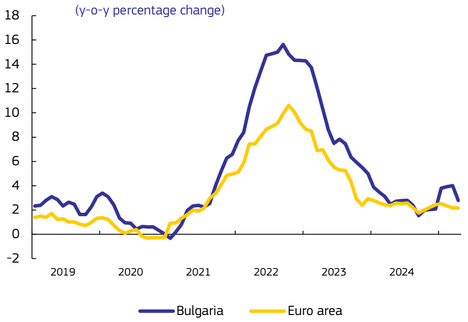
The 12-month average inflation rate, which is used for the convergence assessment, was above the reference value at the time of the last convergence assessment of Bulgaria in 2024. The 12-month average inflation rate decreased gradually from a high of 14.1% in March 2023 to 2.6% in December 2024. In April 2025, the reference value was 2.8%, calculated as the average of the 12-month average inflation rates in Ireland, Finland and Italy plus 1.5 percentage points. The corresponding inflation rate in Bulgaria was 2.7%, below the reference value. The 12-month average inflation rate in Bulgaria is projected to increase above the projected reference value by the end of 2025, fall back to the reference value in the first months of 2026 and stay below it for the rest of 2026 ([23]). A review of a broad range of indicators does not identify causes for concern regarding the sustainability of price stability.

Graph 2.1: **Bulgaria - Inflation criterion**
(percent, 12-month moving average)



Note: The dots at the right end of the chart show the projected reference value and 12-month average inflation rate of Bulgaria in December 2025 and December 2026. The reference values for 2020, 2022 and 2024 refer to the reference values calculated in the previous convergence reports.
Source: Eurostat, Commission's Spring 2025 Economic Forecast.

Graph 2.2: **Bulgaria - HICP inflation**
(y-o-y percentage change)



Source: Eurostat.

2.2.2. Recent inflation developments

The annual HICP inflation rate started to decline from 14.3% in January 2023 and flattened around 2.8% in May-July 2024 before declining further to 2.1% in October-December 2024. It then rose sharply at the beginning of 2025, peaking at 4% in March, before decreasing to 2.8% in April 2025. At the beginning of 2023, headline HICP inflation was still above HICP inflation excluding energy and food (core inflation), due to higher energy and food price inflation. With the rapid disinflation of fuel and gas prices in 2023, overall inflation remained below core inflation in the rest of 2023. In 2024, headline HICP inflation and core inflation remained close to each other, as the fall in fuel prices in the second half of 2024 was largely offset by somewhat higher food price inflation. The sharp price hikes at the beginning of 2025 concerned items both within and outside the core inflation basket. These price hikes were largely due to restored higher VAT rates for bread and restaurants, higher excise duties for tobacco, increased electricity and gas prices for households, other utilities and administered prices, and higher food prices due to increased international food prices. The drop in April 2025 of the annual HICP inflation rate was largely due to a substantial reduction in hospital fees. Decreases in other administered prices and in gas and fuel prices also contributed to the drop. Inflation in Bulgaria has been reconverging with that of the euro area over the past 2 years. The average annual inflation rate in Bulgaria was 8.6% in 2023, 3.2 percentage points above the euro area. It then declined to 2.6% in 2024, narrowing the gap to 0.2 percentage point.

HICP inflation excluding energy and food declined from 11.1% in January 2023 to 3% in the May-August 2024 period, decelerated further to 2.5% in December 2024. It then increased to 3.8% in

([23]) The Commission's Spring 2025 Economic Forecast does not include the impact of lower fees for hospital services and of decreases in other administered prices on inflation in April 2025. When taking into account these measures, the average inflation rate in Bulgaria would likely be close to the reference value by the end of 2025.

March 2025, before declining to 2.3% in April 2025. In 2023, services price inflation remained on average 1 percentage point above non-energy industrial goods inflation while both components were on a declining path. Services inflation reached 3% in April 2024. It then increased, mainly due to tourism and transport services, and stabilised around 5% in the second half of 2024. Since mid-2024, annual inflation in prices of packaged international holidays picked up to around 15%, as VAT rates were restored. Apart from these items, services inflation in 2024 was driven by price increases in catering and accommodation services. Services inflation then rose to 7.2% in March 2025 and then fell to 3.5% in April 2025. Higher administrative and other fees, prices in restaurants, and prices of communication services accounted for around 1.5 percentage points of the acceleration in services price inflation between December 2024 and March 2025. In April, hospital fees were reduced from 5,8 BGN to 1 BGN, that led to 2.9 percentage points decline in annual services inflation. Other administered prices also contributed negatively to services inflation in April 2025. Annual inflation in non-energy industrial goods prices continued to abate throughout 2024, and remained around zero in the September 2024 – March 2025 period, benefiting from low inflation in imported goods. Inflation in non-energy industrial goods then increased to 0.9% in April 2025 due to a base effect from the decision to reduce co-payments for certain medicines from April 2024.

Table 2.1:
Bulgaria - Components of inflation **(percentage change)[1)]**

	2019	2020	2021	2022	2023	2024	Apr-25	weights in total 2025
HICP	2.5	1.2	2.8	13.0	8.6	2.6	2.7	1000
Non-energy industrial goods	0.2	-0.1	0.7	7.1	8.5	1.3	0.5	306
Energy	1.4	-6.1	10.6	26.8	-1.3	-1.4	-1.0	108
Unprocessed food	5.3	5.5	-0.3	20.0	15.5	3.4	3.4	50
Processed food	4.0	4.1	2.9	17.2	12.0	3.3	4.0	227
Services	3.2	2.3	2.0	8.2	9.4	4.8	5.4	309
HICP excl. energy, food, alcohol and tobacco	1.8	1.2	1.4	7.6	8.9	3.1	3.0	615
HICP at constant tax rates	2.4	1.5	3.2	13.3	8.7	2.3	2.3	1000
Administered prices HICP	2.6	1.7	2.4	6.2	6.9	4.4	4.3	148

1) Measured by the arithmetic average of the latest 12-monthly indices relative to the arithmetic average of the 12-monthly indices in the previous period.
Source: Eurostat, European Commission calculations.

2.2.3. Underlying factors and sustainability of inflation

Macroeconomic policy mix and growth developments

Economic growth accelerated from 1.9% in 2023 to 2.8% in 2024, driven by private consumption. In a context of a tight labour market and falling inflation, real wages continued to expand in 2024. The continued growth in aggregate employment, as well as increased social transfers underpinned strong nominal income expansion in 2023 and 2024. Combined with abating inflation, this led to robust growth in real disposable income, which fuelled private consumption. The strong growth in consumer credit also supported private consumption in 2023 and 2024.

Goods exports contracted in 2023, due to the decline in external demand, the strong negative base effect from 2022 and some one-off factors ([24]). In 2024, exports of goods and services contracted both in nominal and in real terms, while the terms of trade deteriorated. The decline in exports was broad-based in terms of product categories, with somewhat deeper decline in cereals due to weak harvest, but more concentrated geographically with sharp declines in a few destination countries. The Russian war of aggression against Ukraine and the economic difficulties in other countries have weighed on goods export.

Services exports expanded robustly in 2023, benefiting from the continued recovery in the tourism sector and the expansion of services outsourced to Bulgaria. While these positive trends continued

([24]) Notably planned maintenance in the steel industry and the nuclear power plant and the ban on exports of petroleum products processed from Russian oil.

in 2024, the volume of international transport services temporarily declined. Overall, in 2024 services exports contracted by 0.6% in real terms.

Investment held up well in 2023, increasing by 10.2% with an important contribution from public sector investment and purchases of new equipment. In 2024, investment declined by 1.1% due to lower public spending and roughly constant private sector borrowing. The accumulation of inventories turned sharply negative in 2023. Firms accumulated more inventories in the form of unfinished production and final goods in 2024, in parallel with the increase in imports and decline in finished construction.

In 2023, imports contracted sharply, following the decline in exports and inventories and then expanded in 2024, reflecting the buoyant private consumption growth.

Real GDP growth is forecast to slow down to 2% in 2025 and 2.1% in 2026 due to both external and domestic factors. Private consumption is set to grow more moderately, as lower real disposable income growth and precautionary savings constrain purchases by households. The outlook for exports has also been revised downwards but is expected to accelerate moderately in 2026. In addition to subdued external demand, exports of goods in 2025 are affected by planned maintenance works in the steel production and oil refining industries. Private investment is projected to contract in 2025 and 2026 due to the heightened economic uncertainty. The assumed acceleration in EU funds absorption is expected to support moderate investment growth that accelerates in 2026. Wage moderation in the private sector is expected to continue, accompanied by limited job losses, related to the worsened economic environment and the need to preserve competitiveness and profitability among firms. Public sector wages are projected to grow strongly in 2025, amid strong hiring in both years.

Bulgaria's fiscal stance ([25]) is estimated to have been broadly neutral in 2024 and, based on the Commission's Spring 2025 Economic Forecast, the stance is expected to become supportive in 2025 (-1.1 of GDP). It is projected to turn contractionary in 2026 (0.8% of GDP).

The BNB pursues its primary objective of price stability through an exchange rate anchor in the context of the currency board with the lev pegged to the euro. The currency board serves as a key macroeconomic policy anchor. The monetary tightening in the euro area has affected the non-financial corporations lending segment of the Bulgarian banking sector by increased interest rates, but the pass-through to the mortgage lending segment has been rather muted. Country-specific factors in the setting of interest rates, high domestic liquidity and competition in the sector explain the continued strong lending for house purchases. The deposit base continued to grow due to growing disposable income and as households prioritise liquidity and remain risk averse, while awareness of alternative investment options remains weak in a context of low financial literacy. The ample liquidity in the banking sector provided cheap and abundant funding for credit expansion. Moreover, mortgage lending interest rates are predominantly linked to the domestic deposit interest rates, which has contributed to keeping down the lending rates, against a backdrop of strong competition among leading banks. In 2024, with the easing of inflation and monetary conditions in the euro area, the practice of Bulgarian banks seeking temporarily higher returns from arbitrage on financial markets abroad instead of expanding domestic market shares, appears to have declined.

Given the risks to the debt-servicing capacity of borrowers, and the quality of banks' assets, the BNB reconfirmed the systemic risk buffer at 3% on 11 December 2023. Moreover, the BNB's Governing Council increased the minimum required reserves on the funds attracted from non-residents from 5% to 10% as from 1 June 2023. The minimum required reserves on the funds attracted from both residents and non-residents were increased from 10% to 12% as from 1 July

([25]) The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding COVID-19-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth. A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

2023. The increased reserve requirements were motivated by high inflation, high consumer demand, dynamic credit activity, and slow and weak transmission from the monetary tightening in the euro area to the domestic financial market. As of October 2024, the BNB imposed borrower-based limits to commercial banks in the form of a maximum loan-to-value ratio of 85%, a limit of debt service to disposable income of 50% and maximum maturity of 30 years. The measures appear targeted at the low-income higher-risk borrowers that would be the first and hardest-hit by adverse economic conditions.

Table 2.2:
Bulgaria - Other inflation and cost indicators **(annual percentage change)**

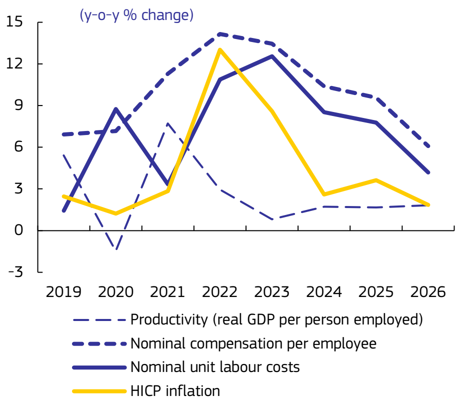
	2019	2020	2021	2022	2023	2024	2025[1)]	2026[1)]
HICP inflation								
Bulgaria	2.5	1.2	2.8	13.0	8.6	2.6	3.6	1.8
Euro area	1.2	0.3	2.6	8.4	5.4	2.4	2.1	1.7
Private consumption deflator								
Bulgaria	2.1	-0.6	6.0	16.0	8.1	4.9	3.5	2.5
Euro area	1.2	0.6	2.3	6.7	6.3	2.5	1.9	1.7
Nominal compensation per employee								
Bulgaria	6.9	7.2	11.3	14.2	13.4	10.4	9.6	6.1
Euro area	2.3	-0.4	4.3	4.5	5.3	4.5	3.3	2.7
Labour productivity								
Bulgaria	5.4	-1.5	7.7	3.0	0.8	1.7	1.7	1.8
Euro area	0.3	-4.6	4.7	1.1	-1.0	-0.1	0.3	0.8
Nominal unit labour costs								
Bulgaria	1.4	8.8	3.3	10.9	12.5	8.5	7.8	4.2
Euro area	2.0	4.4	-0.4	3.4	6.4	4.7	3.0	1.9
Imports of goods deflator								
Bulgaria	-0.2	-6.0	16.4	23.2	-3.6	-0.6	-0.1	0.3
Euro area	-0.5	-3.9	9.8	21.8	-4.3	-2.1	-0.6	-0.1

1) Commission's Spring 2025 Economic Forecast.
Source: Eurostat, Commission's Spring 2025 Economic Forecast.

Wages and labour costs

The labour market remained tight in 2023 and 2024, with the unemployment rate fluctuating between 4% and 4.5%, amid increasing participation rates and employment rates. Compensation per employee grew nominally by 13.4% in 2023 and by 10.4% in 2024. Throughout 2024 wage growth slowed from 13.8% in Q1 2024 to 4% in Q4 2024 and the number of employees in manufacturing declined, as inflation pressures subsided and firms aimed to improve their competitive position given weakened external demand.

Graph 2.3: **Bulgaria - Inflation, productivity and wage trends**



Source: Eurostat, Commission's Winter 2025 Economic Forecast.

Given the relatively low-income levels in Bulgaria, the setting of the minimum wage has an important effect both on income inequality and on labour market outcomes, such as participation rates and regional disparities. The minimum wage was increased by 9.9% at the beginning of 2023, still below the accumulated inflation since the previous update on 1 January 2021. As from 1 January 2024 the minimum wage was increased by 19.6%, to BGN 933 (EUR 477), following an amendment to the Labour Code aligned with Directive (EU) 2022/2041 on adequate minimum wages. Accordingly, the minimum wage in 2024 has to amount to 50% of the average wage in the July 2022 - June 2023 period. The same rule led to a further increase in the minimum wage by 15% in January 2025. Aggregate labour productivity improved by 0.9% in 2023 and by 1.7% in

2024, reflecting the stronger output expansion and some employment gains. Overall, unit labour costs (ULC) increased by 12.3% in 2023 and 8.5% in 2024.

The aggregate ULC dynamics in 2023 and 2024 conceal important sectoral developments. In 2023, wage growth in manufacturing accelerated to 23% in Q1 2023 (possibly reflecting the strong productivity gains in 2022) and then decelerated to 14% in Q4 2023 as firms tried to gain competitiveness in export markets. In 2024, manufacturing firms optimised production costs through labour shedding to accommodate the sizeable wage increases that reached almost 24% on aggregate in the sector. Wages in key service sectors (e.g. trade, transport and hospitality) have been growing much more moderately, especially in 2024. In the other services sectors, buoyant domestic demand led to intensified hiring and strong wage increases. Consequently, domestic cost pressures in services with low productivity gains contributed to higher value added deflators in these sectors. Wage increases in the public sector were also an important factor in the strong aggregate wage dynamics in 2023 and 2024.

External factors

Import prices are an important channel through which external price shocks affect the domestic price dynamics. The import deflator turned negative in 2023 and was almost constant in 2024. The disinflation process abroad has affected consumer prices directly via imported consumer goods and indirectly through prices of raw materials, etc.

The lev's real effective exchange rate, which is determined by the price of the lev vis-à-vis the currencies of 37 major trade partners, appreciated by 2.5% in 2023 and 1.1% in 2024. The appreciation in 2023 was strongly influenced by the depreciation of the Turkish lira against the euro. Türkiye is Bulgaria's most important trading partner outside the EU, accounting for 5.6% of total exports and 8.2% of total imports in 2023. In 2024, the appreciation of the Bulgarian lev was close to the long-term average and is explained by the higher domestic inflation compared to that of the major trading partners.

Administered prices and taxes

The share of administered prices in the HICP basket in 2025 is slightly higher at around 15%, compared with 12% in the euro area. Prices of electricity and water were increased substantially in 2023 and 2024 by the regulator. Electricity prices were subsequently increased by 8.4% in January 2025. Heat energy prices were also increased in 2023, and were subsequently decreased in 2024, broadly following price developments for natural gas. The decision to reduce co-payments for certain medicines in late March 2024 has also brought down the administered prices since April 2024. Overall, annual administered price inflation remained on average 1.9 percentage points above headline HICP inflation in the November 2023-March 2025 period and then fell 2.7 percentage points below overall HICP inflation in April 2025.

Indirect taxes had a slight negative effect on inflation in 2023 and a positive effect in 2024 and at the beginning of 2025. The energy measures (lower VAT rates for natural gas and central heating and exemption of excise duties for gas and electricity) expired only in mid-2023. As a result, HICP inflation at constant tax rates was above headline HICP inflation in 2023. In 2023 and 2024, excise duties on cigars and cigarettes were increased cumulatively by almost 10%. Combined with the full effect from the abolition of energy support measures in mid-2023, these changes led to a negative gap between HICP inflation at constant tax rates and headline HICP inflation in 2024. This gap widened at the beginning of 2025, following the expiration of VAT decreases for bread, flour and restaurants and the increase in excise duties on tobacco products by 6% ([26]). Another increase of the excise duties on tobacco products of around 4% was introduced in May 2025. In the euro area, annual constant-tax HICP was below headline inflation by 0.1 percentage point in 2023 and by 0.5 percentage point in 2024.

([26]) VAT rates of 20% were restored, after the expiration of the 0% VAT on bread and flour and the 9% on restaurants, introduced in mid-2020.

A comparison between the HICP index and Eurostat's measure of HICP at constant tax rates shows that the changes in indirect taxes in Bulgaria in January 2025 contributed directly to an increase in Bulgaria's month-on-month headline inflation in January 2025 by around 0.6 percentage point. This, together with the impact from higher regulated electricity and gas prices, which is estimated at around 0.4 percentage point, drives the forecast increase in annual inflation throughout the current year.

Medium-term prospects

The Commission's Spring 2025 Economic Forecast projects that average annual inflation will increase from 2.6% in 2024 to 3.6% in 2025 and gradually ease to 1.8% in 2026. After the price increases in Q1 2025, as discussed in Section 2.2.2., and the reduction in April 2025, inflation developments in the rest of 2025 and in 2026 are set to be driven by both external prices and domestic cost factors. Food prices are projected to broadly follow international developments. The pass-through of lower international energy and other commodities prices is projected to keep inflation down, including via second-round effects on transport services. The disinflation process in the services sector is set to benefit from the continuation of wage moderation and the need to preserve the competitiveness position in exported services in a context of a worsened external environment.

Increased inflation in 2023 has brought the consumer price level in Bulgaria closer to the euro area average. The level of consumer prices in Bulgaria nevertheless stood at about 57% of the euro area average in 2023. This suggests that there is potential for price level convergence in the long term, as GDP per capita in terms of purchasing power standards (about 61% of the euro area average in 2023) rises towards the euro area average.

Medium-term inflation prospects will depend on the containment of price expectations and on wage-productivity developments, as well as on the functioning of product and services markets. These developments may be substantially affected by the cyclical position of the economy.

2.3. PUBLIC FINANCES

2.3.1. Recent fiscal developments

The Bulgarian deficit has remained within the 3% of GDP Treaty reference value since 2022. However, after decreasing to 2.0% in 2023, the deficit returned to 3.0% in 2024. The expenditure-to-GDP ratio increased from 38.8% to 39.8% whereas the revenue-to-GDP ratio in 2024 remained broadly stable at 36.7% from 36.8%, also due to higher social security contributions and direct taxes, which benefited from favourable employment dynamics.

In 2023, changes in income policy parameters such as the minimum and maximum insurable income drove social contributions up. Revenues were further supported by the introduction of a 100% dividend policy on SOEs. Increases in public sector salaries and pensions that had been enacted in previous years started to have a budgetary impact. However, the outturn deficit for 2023 was also affected by the normalisation of energy prices, which contributed to a sharp decrease in subsidies (down by 46.7% from 2022, the equivalent of 2.2% of GDP).

Declining inflation in 2024 resulted in more moderate revenue increases, while the expenditure side continued to grow steadily due to legislative changes from 2022 that continued to have an impact in 2024. The deterioration in the deficit was partly driven by the sustained spending increases in public sector salaries and in social benefits, in particular on pensions, not fully matched by revenue increases. For pensions the main driver was the yearly indexation based on the so-called 'Swiss rule' (by 12% as of 1 July 2023 and by 11% as of 1 July 2024) and top-ups for pensions under the poverty line. Further increases were recorded in sickness and unemployment benefits among others. The one-off statistical recording of settled liabilities for road infrastructure works from 2020-22 also contributed, by 0.5% of GDP, to the increase in the deficit. Public investment decreased compared to 2023, partly due to the base effect in 2023 coming from the end-of-period absorption of the EU funds of the 2014-2020 programme.

Measures on the revenue side included a package of measures to fight tax evasion and avoidance, including improved checks on goods with high fiscal risk and improved exchange of information on cross-border payments. On the other hand, SOE dividends collected in 2024 were lower than in 2023, driving down other current revenues.

The fiscal stance was broadly neutral in 2024, driven by the expansionary contribution of net nationally financed primary current expenditure and of other capital expenditure that were largely offset by lower nationally financed gross fixed capital formation and the slightly contractionary contribution of EU-funded expenditure compared to 2023, which was the last year for the absorption of the EU funds for the programming period 2014-2020.

The debt ratio increased from 22.5% in 2022 to 22.9% in 2023. The primary deficit of 1.4% of GDP in 2023 and the impact of nominal GDP growth cancelled each other out, but the joint impact of interest expenditure and a positive stock-flow adjustment led to the increase. In 2024, the general government debt-to-GDP ratio further increased to 24.1%, mostly driven by a larger primary deficit (2.5% of GDP) and interest expenditure, which more than offset the impact of robust nominal GDP growth.

2.3.2. Medium-term prospects

On 27 February 2025, Bulgaria submitted its national medium-term fiscal structural plan to the Council and the Commission, covering the 2025-2028 period.

The net expenditure growth in the plan averages 4.9% over the 2025-28 adjustment period. In terms of structural primary balance, the plan envisages a yearly adjustment of 0.16% of GDP. The indicative strategy to meet the fiscal targets included in the plan is heavily reliant on revenue measures, and it envisages expenditure increases, notably in public sector salaries, pensions and social benefits.

On 12 May 2025, the Commission recommended to the Council to endorse Bulgaria's plan. Based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirements as set out in Article 16(2) of Regulation (EU) 2024/1263.

The 2025 budget was adopted by the National Assembly on 21 March 2025. On the revenue side, it heavily relies on the yields of measures to fight tax evasion and avoidance and on dividend policy, but it is also supported by other measures such as planned increases in excise duties on tobacco products and by the reinstatement of standard VAT rates including for restaurants, bread and flour. A positive impact on the budget is also expected from increases in maximum and minimum insurable income, resulting in higher social security contributions, and by improvements in arrears management.

On the expenditure side, the budget for 2025 envisages public sector salaries to grow, in line with recent trends, with the largest budgetary impact from increases in the remuneration of defence and security staff, followed by salary increases for teachers and increases in the minimum wage. Pension spending is expected to increase further, largely due to the impact of the Swiss rule, of other pension supplements (for instance widow's supplements), as well as the impact of newly-awarded pensions. Public investment is expected to increase considerably in 2025 compared to 2024, driven by the planned acceleration of RRP implementation, which needs to be completed by mid-2026, and also driven by strong increases in defence investment due to the accrual of planned deliveries of military equipment.

On 2 May 2025 Bulgaria submitted its 2025 Annual Progress Report, reporting on relevant fiscal outturn data and projections, and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The 2025 Annual Progress Report also reflects Bulgaria's biannual reporting on the progress made in delivering on its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

Based on the Commission's 2025 Spring Economic Forecast, the general government deficit is projected at 2.8% of GDP in both 2025 and 2026. Net expenditure is expected to grow by 9.2% in 2025, above the recommended growth rate of 6.2% for the same year. This is due to the combination of expenditure increases on pensions and public sector salaries and of a marked increase in expenditure on defence, including investment, as well as to higher public investment in other areas. On 2 May Bulgaria submitted a request to activate the National Escape Clause (NEC) for increases in its defence spending. On 4 June 2025, the Commission recommended a Council recommendation for the activation of the NEC for Bulgaria, allowing Bulgaria to deviate from, and exceed, the net expenditure path to be set in the Council recommendation endorsing its medium-term fiscal plan. Accounting for the flexibility under the NEC, the net expenditure growth for 2025 is expected to be in line with the net expenditure growth ceilings contained in Bulgaria's medium-term plan. The general government debt-to-GDP ratio is forecast to increase to 25.1% in 2025 and to reach 27.1% in 2026.

Table 2.3:
Bulgaria - Budgetary developments and projections (as % of GDP unless indicated otherwise)

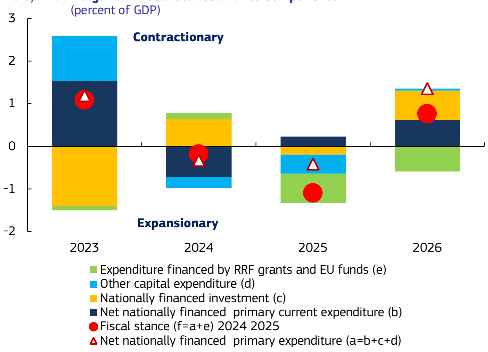
Outturn and forecast [1]	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**[1]	**2026**[1]
General government balance	2.2	-3.8	-4.0	-3.0	-2.0	-3.0	-2.8	-2.8
- Total revenue	38.6	37.5	37.5	38.3	36.8	36.7	38.8	38.4
- Total expenditure	36.4	41.3	41.5	41.3	38.8	39.8	41.6	41.2
of which:								
- Interest expenditure	0.6	0.5	0.5	0.4	0.5	0.5	0.6	0.7
p.m.: Tax burden	30.5	30.3	30.7	31.1	29.9	30.9	32.2	31.8
Primary balance	2.7	-3.3	-3.5	-2.6	-1.5	-2.5	-2.2	-2.1
Fiscal stance [2]					1.1	-0.2	-1.1	0.8
Recommended growth in net expenditure (%)							6.2	4.9
Growth in net expenditure (%)							9.2	1.7
Government gross debt	20.1	24.4	23.8	22.5	22.9	24.1	25.1	27.1
p.m: Real GDP growth (%)	3.8	-3.2	7.8	4.0	1.9	2.8	2.0	2.1

1) Commission's Spring 2025 Economic Forecast.
2) The fiscal stance is based on the increase in net expenditure (including that financed by the EU budget) relative to medium-term potential GDP growth. A positive (negative) sign indicates a contractionary (expansionary) fiscal stance (in % of GDP). The fiscal stance profile in 2020-2023 does not include the temporary impact of COVID-19 emergency measures.
Source: European Commission.

Based on the Commission's estimates, the fiscal stance is projected to become expansionary in 2025, at –1.1% of GDP. The expansionary fiscal stance in 2025 is largely driven by EU-financed expenditure. The contribution of net nationally financed investment is also projected to be slightly expansionary (-0.2% of GDP) in 2025. The fiscal stance is expected to turn contractionary in 2026 (0.8% of GDP), mainly on account of the slower growth in nationally financed primary current expenditure and nationally financed investment.

Medium-term fiscal sustainability risks are

Graph 2.4: **Bulgaria - Fiscal stance and its components**
(percent of GDP)



Source: Commission's Spring 2025 Economic Forecast.

assessed as medium. Government debt is projected to increase from 24.5% of GDP in 2024 to around 39% in 2035 ([27]). This projection assumes that the structural primary deficit (prior to accounting for expected changes in the cost of ageing) will remain constant at 2.3% of GDP as of 2025 ([28]).

The sensitivity analysis confirms this risk assessment since negative macro-fiscal shocks (i.e. a lower structural primary balance, a higher interest-growth rate differential or a temporary interest rate shock) would result in only somewhat higher debt ratios by 2035. On the other hand, if the structural primary balance were to return to its historical 15-year average of 0.6% of GDP, the debt ratio would be about 14 percentage points lower in 2035. The stochastic projections point to a large degree of uncertainty around the baseline projection.

Several factors mitigate risks, including the low share of short-term government debt and the small amount of general government contingent liabilities. Risk-increasing factors include the relatively high share of non-performing loans in the Bulgarian banking sector and the substantial share of public debt denominated in euro although this risk is mitigated by the currency board and the prospect for euro adoption.

The key elements of a robust fiscal framework are in place in Bulgaria, but some difficulties in implementation remain. Bulgaria has a complex system of national fiscal rules in place, unchanged since the 2024 Convergence Report. Several rules target the same budget aggregates but the fact that they are expressed according to different accounting standards (accrual and cash-based) may create conflicting messages. Moreover, the capacity of the Ministry of Finance to monitor, plan, forecast and report on the general government budget in both accrual and cash terms remains a challenge, especially with respect to the management and planning of government finances. The Ministry does not always have as much information or access to detailed data as would be desirable for budgetary planning. Information is lacking on the operations of entities outside the central administration and occasionally even of some other ministries. The Ministry of Finance also has weaknesses in producing projections on an accrual basis (e.g. under the European System of National and Regional Accounts (ESA)).

There is potential to enhance the capacity and independence of the Bulgarian independent fiscal institution (IFI), the Fiscal Council of Bulgaria (FCB). It currently has a narrow mandate, monitoring compliance of fiscal rules and assessing the macroeconomic and budgetary forecasts and is supported by a thinly staffed Secretariat of only two full-time employees. The six-year mandates of Members are not staggered, increasing the need for transparency in the appointment process. The mandates of the current Members expired in November 2021 and new Members were appointed in March 2025. The amended Budgetary Framework Directive (2011/85/EU) which is to be transposed by 31 December 2025, will affect some aspects of the Bulgarian fiscal framework, particularly relating to the Fiscal Council's independence safeguards and tasks.

The planning and budgeting of public investments is undergoing reform, but implementation challenges remain. Bulgaria shows scope for improvement on key dimensions such as (i) aligning investment decisions with their long-term strategic goals; (ii) vertical (between levels of government) and horizontal (across sectors) coordination; (iii) the application of consistent value-for-money criteria and methodologies to investments not financed by EU-funds; (iv) limiting the under-execution of capital expenditure; and (v) the carry-over of unspent funds.

2.4. EXCHANGE RATE STABILITY

The Bulgarian lev joined the Exchange Rate Mechanism II (ERM II) on 10 July 2020. The Bulgarian National Bank (BNB) entered in parallel into a 'close cooperation' agreement with the ECB. After

([27]) For more details on the methodology, see European Commission (2025), Debt Sustainability Monitor 2024, Institutional Paper 306, March 2025.

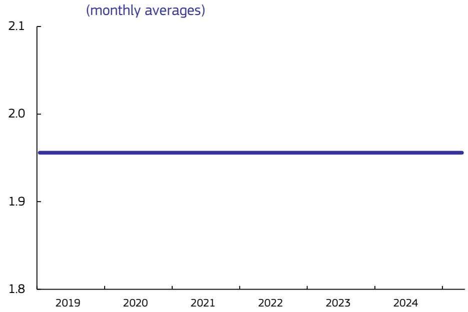
([28]) Bulgaria's medium-term plan implies that debt would reach around 41% of GDP in 2035, broadly similar to the baseline projection at unchanged policy in the Debt Sustainability Monitor 2024.

joining, Bulgaria committed to pursue a set of policy measures (known as post-entry commitments) to ensure that its participation in the mechanism is sustainable and achieves a high degree of economic convergence before the adoption of the euro. The measures cover four policy areas: (i) the non-banking financial sector; (ii) the insolvency framework; (iii) the anti-money laundering framework; (iv) and governance of state-owned enterprises.

Bulgaria introduced its currency board framework on 1 July 1997, pegging the Bulgarian lev to the German mark and subsequently to the euro (at an exchange rate of 1.95583 BGN/EUR). Under the currency board framework, the BNB has to fully cover its monetary liabilities with foreign reserves. The BNB is obliged to exchange monetary liabilities and euro at the official exchange rate without any limit.

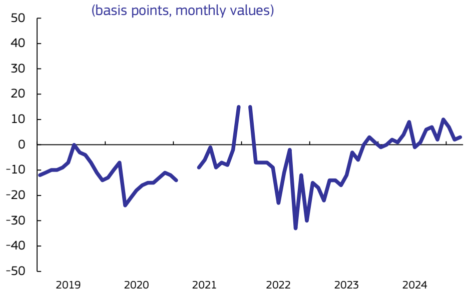
Bulgaria's international reserves are large, at 41% of GDP in 2024 (down from around 44% of GDP in 2023). International reserves increased from around EUR 38 billion at the beginning of 2023 to around EUR 42 billion at the end of 2023. The reserves decreased in the first half of 2024 to around EUR 38 billion and then increased to around EUR 42 billion by the end of 2024. Most of the inflows to the reserves in 2023 reflected the issuance of government securities on international financial markets. Positive contributions were also made by a net positive flow from purchases and sales of reserve currency by commercial banks. In 2024, sales of reserve currency by banks had the largest negative contribution to the gross international reserves, while Government and other depositors' funds had a positive contribution.

Graph 2.5: **Bulgaria - BGN/EUR exchange rate**
(monthly averages)



Source: ECB.

Graph 2.6: **Bulgaria - Annual effective interest rate spread to 1-M Euribor**
(basis points, monthly values)



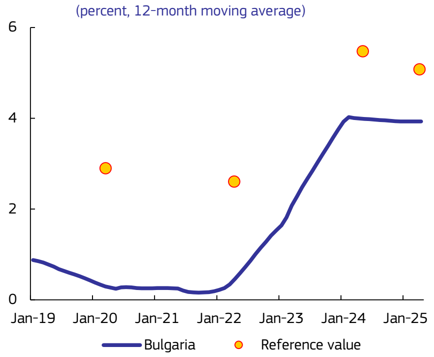
Source: Eurostat and National Bank of Bulgaria.

The BNB does not set monetary policy interest rates. The euro area's monetary policy affects domestic interest rates directly through the operation of Bulgaria's currency board. The BNB discontinued the production of short-term reference rates (e.g. SOFIBOR) from 1 July 2018. The BNB instead publishes a base interest rate (BIR) based on the LEONIA Plus (LEv OverNight Interest Average Plus) index, which is a reference rate of concluded and effected overnight deposit transactions in Bulgarian lev on the interbank market in Bulgaria. The BIR stood at 1.8% in January 2023. It increased throughout most of 2023, reaching 3.9% in October 2023 and remained at that level until May 2024. It decreased gradually to 2.4% in March 2025. The changes in the BIR closely tracked those of the 1-month Euribor rate. The interest rate differential between the BIR and the 1-month Euribor narrowed from -15 basis points at the beginning of 2023 to virtually no differential by the end of that year. The interest differential widened slightly throughout 2024 and stood at 3 basis points in March 2025.

2.5. LONG-TERM INTEREST RATES

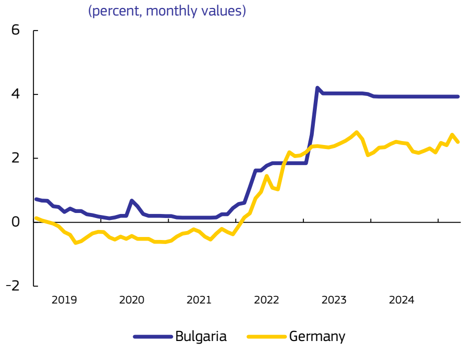
Long-term interest rates used for the convergence examination reflect the secondary market yield on a single benchmark Bulgarian government bond with a residual maturity of around 6.5 years.

Graph 2.7: **Bulgaria - Long-term interest rate criterion**
(percent, 12-month moving average)



Source: European Commission.

Graph 2.8: **Bulgaria - Long-term interest rates**
(percent, monthly values)



Source: Eurostat.

The Bulgarian 12-month moving average long-term interest rate relevant for the assessment of the Treaty criterion was below the reference value in the 2024 convergence assessment of Bulgaria. The average interest rate increased from 1.6% in January 2023 to 3.9% at the end of 2024. It stood at 4.0% until September 2024 and slightly decreased to 3.9% since then. In April 2025, the reference value, calculated as the average of long-term interest rates in Ireland, Finland and Italy plus 2 percentage points, was 5.1%. In that month, the 12-month moving average of the yield on the Bulgarian benchmark bond was 3.9%, i.e. 1.2 percentage points below the reference value.

The Bulgarian long-term interest rate has been stable at or close to 4% since April 2023, following two stepwise increases in February and March 2023. The long-term interest rate increased from 1.9% in January 2023 to 4.2% in March. Thereafter, it remained unchanged at 4.0% for the rest of 2023 and at 3.9% throughout 2024 and up to April 2025. The increase in the long-term interest rate at the beginning of 2023 reflected the very high inflation that Bulgaria experienced in 2022 and the tightening of monetary policy in the euro area that year. The stability of the long-term interest rate at the higher level is due to the use of a single benchmark bond at any point in time for this assessment and the fact that the bond is infrequently traded on the secondary market. Financial developments are therefore not seen in the yields until the bond is either traded or replaced by a new benchmark bond. The difference between the Bulgarian and German long-term interest rates remained within a range of 1.4-1.9% from March 2023 to April 2025. The higher spread compared to its historical average of around 1.2% during the past decade likely reflects the combined effects of higher inflation, heightened political uncertainty in Bulgaria and the thin secondary market for Bulgarian government debt securities.

2.6. ADDITIONAL FACTORS

The Treaty (Article 140 TFEU) calls for an examination of other factors relevant to economic integration and convergence that the Commission should take into account in its assessment. The assessment of the additional factors (including balance of payments developments, and product, labour and financial market integration) gives an indication of a Member State's ability to integrate into the euro area without difficulties.

In December 2024, the Commission published its 14th Alert Mechanism Report (AMR 2025) under the Macroeconomic Imbalance Procedure. The report concluded that it was not necessary to carry out further in-depth analysis on Bulgaria in the context of the Macroeconomic Imbalance Procedure. Developments related to cost competitiveness, dynamic household borrowing, and strong house-price growth remain a concern and require continued close monitoring. Nevertheless, nominal wage growth has been on a declining path with sharp deceleration in Q4 2024. House prices have continued to increase. They have been growing more slowly than income since 2013 but are estimated to be overvalued by around 10-15%. Household debt remains low as share of GDP despite dynamic credit flows that are supported by very low interest rates on mortgages. In terms of financial stability, in February 2024, the European Systemic Risk Board concluded that the residential real estate market in Bulgaria was subject to medium risks and the macroprudential policy mix was partially appropriate and partially sufficient to mitigate the situation. Borrower-based macroprudential measures were introduced by the Bulgarian National Bank in September 2024.

Bulgaria's recovery and resilience plan (RRP) includes measures to address a series of structural challenges by reforming the energy sector, investing in sustainable transport and green transition, promoting deployment of 5G networks, strengthening rule of law and the fight against corruption, promoting entrepreneurship and e-governance, improving the quality and inclusiveness of education and reforming the minimum income scheme. The plan is supported by EUR 5.7 billion of RRF funding.

Bulgaria has implemented 23% of the plan's milestones and targets and received one disbursement of EUR 1.37 billion or 24% of the overall allocation.

On 16 April 2025, Bulgaria submitted a request to revise its RRP in line with Art. 21 of the RRF Regulation. The revision concerns nearly all measures in the RRP and aims to bring the plan back on track and deliver on the original plan's key objectives. Together with its request for revision, Bulgaria has submitted a proposal for a REPowerEU chapter.

Some important reforms in areas such as anti-money laundering, insolvency framework, SOE governance reform and education have progressed. Implementing key reforms in the areas of energy, business environment and rule of law, is crucial to deliver on the RRP commitments. Investments providing support for small and medium enterprises, industrial modernisation and healthcare have progressed. However, overall implementation faces significant delays and needs to accelerate in order to complete all measures by August 2026.

In addition, cohesion policy funding helps tackle Bulgaria's growth and competitiveness challenges and aims to reduce the country's territorial and social disparities. In the current 2021-2027 programming period, cohesion policy provides Bulgaria with EUR 10.7 billion to further support Bulgaria's competitiveness, green transition, including energy independence, the just transition and climate change resilience, as well as upward social convergence, including by addressing labour shortages, further developing educational systems and skills and making them more inclusive for disadvantaged groups. Bulgaria has made progress in implementing cohesion policy but challenges remain.

2.6.1. Developments in the balance of payments

Bulgaria's external balance (i.e. the combined current and capital accounts) turned positive to 0.7% in 2023 and deteriorated to -0.1% in 2024. Net services exports improved markedly in 2023 with the recovery in tourism exceeding pre-pandemic levels and other services, including those outsourced to Bulgaria (e.g. IT and business services). It then slowed down in 2024 largely due to a temporary decline in transport services exports to Germany and Greece in Q2 and Q3 2024. The trade balance improved in 2023 as imports declined more steeply than exports on account of a deep contraction in inventories accumulation and more moderate private consumption. In 2024 trade balance deteriorated as external demand remained constrained, while imports of goods increased on account of stronger domestic demand. The Russian war of aggression continued to weigh on the export performance in 2024, with goods exports to the Russian Federation and Ukraine contracting by 26% and 38%, respectively, in nominal terms. The terms of trade deteriorated in both 2023 and 2024. The primary income deficit widened to 6.6% of GDP and then shrank to 5.1% in 2024, driven by the rise and the subsequent decline in foreign direct investment (FDI) income. Secondary income balance deteriorated as a share of GDP in 2023 and 2024, while capital account balance improved in both years. The developments in the secondary income balance were largely determined by the current transfers from the EU to the government, including direct payments under the Common Agricultural Policy and other non-investment grants. In 2023, the capital account balance improved mostly due to lower value of purchases of land abroad by residents. In 2024, capital transfers from the EU in the form of investment grants account for most of the increase in the capital account balance.

The financial account, net of official reserves, deteriorated to –2.5% of GDP in 2023 and then turned slightly positive in 2024. FDI, notably in the form of reinvested earnings, made the largest negative contribution to the financial account balance in both years. Net investments in debt securities abroad contributed by 1% of GDP and 1.5% of GDP to the financial account in 2023 and 2024, respectively. The improvement in 2024 is largely attributable to the increased investments in long-term debt securities abroad by the banking sector, related to the high domestic liquidity and higher returns on foreign financial assets. The balance of other investments had a limited impact on the financial account balance, with gross inflows and outflows of currency and deposits roughly offsetting each other. The BNB's reserve assets increased by 3.5% of GDP in 2023 and then decreased by 0.9% of GDP in 2024, largely mirroring the developments of the external balance and financial account ([29]).

Table 2.4:
Bulgaria - Balance of payments **(percentage of GDP)**

	2019	2020	2021	2022	2023	2024
Current account	1.7	0.4	-1.1	-2.7	-0.9	-1.8
of which: Balance of trade in goods	-4.7	-3.1	-4.0	-5.9	-4.2	-5.2
Balance of trade in services	8.1	5.7	6.5	7.0	8.3	7.5
Primary income balance	-4.8	-3.7	-4.8	-5.6	-6.6	-5.1
Secondary income balance	3.1	1.6	1.3	1.8	1.6	1.0
Capital account	1.5	1.4	0.7	0.9	1.6	1.7
External balance [1]	3.1	1.9	-0.4	-1.7	0.7	-0.1
Financial account	3.6	4.2	3.9	2.7	1.0	-0.6
of which: Direct investment	-2.0	-4.1	-1.6	-4.1	-4.2	-2.2
Portfolio investment	2.6	1.2	3.2	1.2	1.3	2.3
Other investment [2]	3.9	-2.2	-2.8	1.0	0.4	0.1
Change in reserves	-0.9	9.4	5.1	4.6	3.5	-0.9
Financial account without reserves	4.5	-5.1	-1.2	-1.9	-2.5	0.2
Errors and omissions	0.5	2.3	4.3	4.5	0.3	-0.6
Gross capital formation	20.7	20.1	20.7	22.7	19.7	20.4
Gross saving	22.4	20.7	20.5	20.1	20.4	19.5
Net international investment position	-30.8	-23.4	-15.6	-8.7	-6.3	-3.7

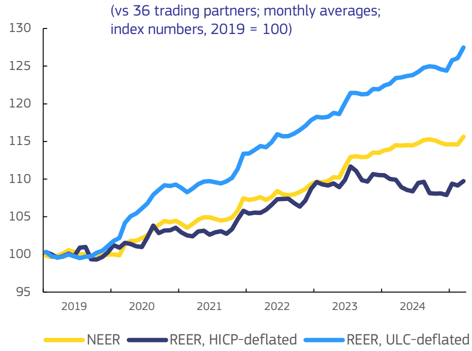
1) The combined current and capital account.
2) Including financial derivatives.
Sources: Eurostat, European Commission calculations, the Bulgarian National Bank.

The net international investment position further improved to –5% of GDP in 2024, having stood at over -50% of GDP a decade ago. The improvement reflects both nominal GDP growth as well as higher growth in foreign assets than in liabilities on the back of subdued FDI inflows.

The real effective exchange rate deflated by the HICP appreciated in 2023 and then depreciated in 2024 as domestic inflation abated. By contrast, the real effective exchange rate deflated by unit labour costs (ULC) accelerated, as domestic wage growth outstripped the wage dynamics abroad.

With the deterioration of external demand in

Graph 2.9: **Bulgaria - Effective exchange rates**
(vs 36 trading partners; monthly averages; index numbers, 2019 = 100)



Source: European Commission.

([29]) Valuation changes (exchange rate or price changes) of the country's external assets and liabilities, as well as other changes, e.g. arising from changes in residence, are not included in the balance of payments.

2023, exporters sharply reduced inventory accumulation and cut purchases from abroad. Wage growth also decelerated throughout 2023 and 2024, reflecting firms' efforts to secure competitiveness gains against the backdrop of deteriorated foreign demand. In an environment of deteriorating world exports in 2023, Bulgarian export market share improved by 1.8%, driven by services exports.

The Commission's Spring 2025 Economic Forecast projects that the current account will remain slightly negative at to –1.1% of GDP in 2025 and -1% of GDP 2026 as imports grow faster than exports.

2.6.2. Market integration

The economy is well integrated with the euro area through trade and investment linkages. After a decline between 2019 and 2020, the ratio of trade openness (see Table 2.5 for a definition) rebounded to close to 71.2% in 2022, which was a new peak. It decreased to 61.5% in 2023 and further to 55.6% in 2024. Bulgaria is a relatively open economy. Trade with the euro area was around 25% of total trade in 2024. Germany, Italy and Greece were the main trading partners. Outside the euro area, Bulgaria's main trading partners were Türkiye and Romania.

Table 2.5:
Bulgaria - Market integration

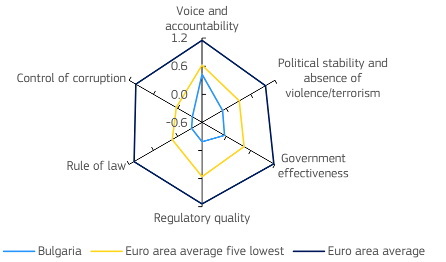
	2019	2020	2021	2022	2023	2024
Trade openness 1) (%)	64.4	56.8	62.0	71.2	61.5	55.7
Trade with EA in goods & services 2)+3) (%)	29.0	25.7	28.0	30.7	27.5	24.5
IMD World Competitiveness Ranking 4)	48	48	53	53	57	58
Internal Market Transposition Deficit 5) (%)	0.6	1.6	2.2	1.8	1.7	1.6
Real house price index 6)	118.3	124.4	127.5	125.1	127.1	141.1

1) (Imports + Exports of goods and services / (2 x GDP at current market prices)) x 100 (Foreign Trade Statistics, Balance of Payments).
2) (Imports + Exports of goods with EA-20 / (2 x GDP at current market prices)) x 100 (Foreign Trade Statistics).
3) Trade in services with EA-20 (average credit and debit in % of GDP at current prices) (Balance of Payments).
4) International Institute for Management Development (IMD).
5) Percentage of internal market directives not yet communicated as having been transposed, relative to the total.
6) Deflated house price index (2015=100) (Eurostat).
Sources: Eurostat, World Bank, International Institute for Management Development, European Commission calculations.

Net FDI inflows have remained low, at 5.5% of GDP in 2023 and then declined to 3.1% of GDP in 2024. Reinvested earnings accounted for most the FDI inflows in those two years, while direct investment in equity from abroad contracted in 2024. The low inward FDI since the 2008-09 global financial crisis reflects low investor appetite and difficulties to attract fresh capital. The stock of inward FDI as a share of GDP continued to decline to 62% in 2024, down from 65% in 2023, due to both low FDI inflows and sustained nominal GDP growth. In 2024, financial and insurance, real estate and manufacturing constituted around 60% of the total inward FDI stock, in almost equal proportion.

Unsupportive business environment and institutional quality remain important challenges. According to the World Bank's 2024 Worldwide Governance Indicators, Bulgaria ranks markedly lower in rule of law, fight against corruption and regulatory quality than the average of the five euro area Member States with the lowest scores ([30]). Political favouritism has been shown to have a strong impact on public tenders and to have adverse effects on productivity and competitiveness ([31]). The Bulgarian RRP includes several measures to improve the business environment. These include ambitious reforms of the judiciary and anti-corruption reforms (including on whistle-blowing), the overhaul of the public procurement framework, the liberalisation of the electricity market, and strengthening the frameworks for insolvency, anti-money laundering and the governance of state-owned enterprises. The last three are also part of the post-entry commitments that Bulgaria made when it entered ERM II. After considerable delays, the implementation of several of these RRP reforms is under way and progressing (see also Section 2.7. on the Sustainability of Convergence).

Graph 2.10: **Bulgaria - World Bank's 2024 Worldwide Governance Indicators**



Note: Estimate of governance ranges from -2.5 (weak) to 2.5 (strong). The values in this chart are for 2023.
Source: World Bank.

Bulgaria has taken action to improve the framework for preventing and fighting money laundering, its predicate offences and the financing of terrorism. These actions include amending the Law on Measures Against Money Laundering to strengthen the capacity of national anti-money laundering and countering the financing of terrorism (AML/CFT) supervisory authorities to act where obliged entities fail to comply with their obligations and adopting an action plan for countering money laundering and terrorism financing (2023-2027) whose implementation is underway.

Bulgaria has also taken steps to: enhance the accuracy of beneficial ownership information through a mechanism for the reporting of discrepancies; reinforce the analytical capacity of the Financial Intelligence Unit to make better use of suspicious transaction reports (STRs) through the implementation of new IT software for the submission of STRs and other reports and information which became operational in March 2024; communicate swiftly targeted financial sanctions adopted and amended by the UN Security Council; and to identify the subset of non-profit organisations which are likely to be at risk of abuse for terrorist financing. Bulgaria underwent an assessment of the effectiveness of its AML/CFT framework against international standards developed by the Financial Action Task Force. As a result, Bulgaria was placed under increased monitoring and adopted an action plan, in October 2023 to address the deficiencies. The Bulgarian authorities are in the process of implementing the action plan.

The education system faces serious difficulties to ensure quality and inclusiveness. Around half of 15-year-old students lack basic numerical and reading competences according to the Programme for International Student Assessment. Socio-economic background has a major impact on students' performance, with children from disadvantaged groups performing considerably worse. To tackle some of these challenges, the Bulgarian RRP supports the creation of STEM learning centres, which is ongoing. The lack of basic skills translates to significantly fewer students entering higher education than the EU average, while quality standards for admission are lower.

Labour and skills shortages remain a significant challenge and risk worsening, considering the educational attainment and negative demographic trends. This in turn, combined with the high

([30]) A Member State is considered to have a 'low' ('high') ranking compared with the average five euro area Member States with the lowest scores for each indicator if its score is at least 0.3 percentage point lower (higher) than that of the average of this group of five euro area Member States. See also European Commission, 2024 Rule of Law Report, Country Chapter on Bulgaria.

([31]) Fazekas, M., Poltoratskaya,V., Schiffbauer, M.T., and Tóth, B., 'Procuring Low Growth: The Impact of Political Favoritism on Public Procurement and Firm Performance in Bulgaria', Policy Research Working Paper, Prosperity Washington, D.C.: World Bank Group, 2025.

inactivity rates for Roma and persons with disability, poses challenges for economic growth and social outcomes.

Bulgaria also scores low on digital skills and the update of digital technologies. Only 35.5% of Bulgaria's population has basic digital skills, which is among the lowest rates in the EU. Bulgaria scores very low on the digitalisation of businesses, with small and medium enterprises particularly affected. One of the priorities of both Bulgaria's RRP and Cohesion policy investments is to improve digital skills with significant investment to adapt the skill set of the workforce. Moreover, the RRP includes measures such as a voucher scheme for the digitalisation of small and medium sized enterprises and is complemented by targeted Cohesion Policy investments.

Public and private R&D investments remain amongst the lowest in the EU as share of GDP. The public research landscape is very fragmented with many educational institutions and research organisations receiving limited funding. Linkages between academia and business are not well-established and make commercialisation of research results difficult.

Regional disparities in Bulgaria remain high. GDP per capita in the capital Sofia is around three times higher than in the other regions. Similar differences are observed in labour productivity, demographics, education and training, employment, healthcare and infrastructure. In addition, the lower administrative capacity in some regions further impairs their ability to organise procurements, implement investments and to deliver public services and policies Addressing territorial disparities is one of the high-level objectives laid down in the Bulgaria's 2021-2027 Partnership Agreement.

Table 2.6:
Bulgaria - Allocation of assets by financial sub-sector

						Ratio to GDP (%)
	BG		**EA**		**EA 5 smallest**	
	2019	**2023**	**2019**	**2023**	**2019**	**2023**
Financial corporations (total)	172	169	721	698	177	189
Central bank	41	44	52	56	46	53
Monetary financial institutions	95	90	271	278	86	89
Other financial intermediaries	16	15	192	172	17	20
Non-MMF investment funds[1)]	1	2	113	113	5	5
Insurance co. and Pension Funds	19	18	94	79	23	23
						Share of total (%)
	BG		**EA**		**EA 5 smallest**	
	2019	**2023**	**2019**	**2023**	**2019**	**2023**
Central bank	24	26	7	8	26	28
Monetary financial institutions	55	53	38	40	49	47
Other financial intermediaries	9	9	27	25	9	10
Non-MMF investment funds	1	1	16	16	3	3
Insurance co. and Pension Funds	11	11	13	11	13	12

1) MMF stands for money market funds.

Source: Eurostat.

Bulgaria's financial sector is smaller and less developed than the euro area's. The assets of the financial sector amounted to 169% of GDP in 2023, which was much less than in the euro area (698% of GDP) but broadly similar to the average of the five euro area Member States with the smallest financial sectors. As in the euro area, the size of the financial sector as a share of GDP has shrunk in Bulgaria since 2019. Banking dominates the Bulgarian financial sector, making up 55% of the financial sector's assets in 2023. The BNB is the second largest holder of financial assets with a share of 26% in 2023, more than all non-banking financial intermediaries taken together. These shares are larger than in the euro area, reflecting a relative underdevelopment of non-bank financial intermediaries and investment funds, similar to that of the five euro area Member States with the smallest financial sectors. At the same time, the relative share of the insurance and pension-fund sector in Bulgaria is similar to that in the euro area.

Table 2.7:

Bulgaria - Financing of the economy1)

						Ratio to GDP (%)
	BG		EA		EA 5 smallest	
	2019	2023	2019	2023	2019	2023
Total liabilities	361	345	762	725	318	301
Loans	114	93	235	219	104	94
Non-financial co. debt securities	3	2	12	12	3	2
Financial co. debt securities	1	1	67	60	3	5
Government debt securities	18	19	79	71	48	42
Listed shares	10	8	70	65	13	11
Unlisted shares	72	69	191	189	53	52
Other equity	84	95	72	73	60	61
Trade credits and advances	61	59	35	36	34	35
						Share of total (%)
	BG		**EA**		**EA 5 smallest**	
	2018	**2023**	**2019**	**2023**	**2019**	**2023**
Loans	33	27	31	30	33	31
Non-financial co. debt securities	1	0	2	2	1	1
Financial co. debt securities	0	0	9	8	1	2
Government debt securities	5	5	10	10	15	14
Listed shares	3	2	9	9	4	3
Unlisted shares	21	20	25	26	18	19
Other equity	25	28	9	10	18	19
Trade credits and advances	18	17	5	5	11	11

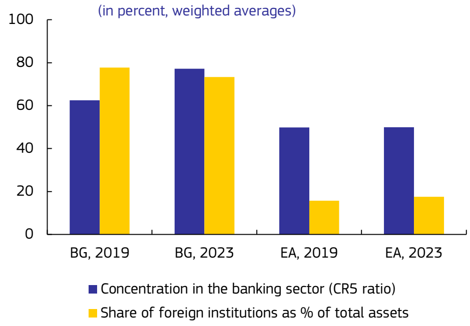
1) The table focuses on the financing needs of a country and how these are met by the financial system. The table is constructed from the liabilities of all economic sectors, but only considers loans, debt securities, equity and trade credits. The sum of liabilities in the table only reflects the total for the liabilities considered.

Source: Eurostat.

As to the financing of the economy, outstanding liabilities are much lower than in the euro area (345% of GDP in 2023 vs 725% of GDP in the euro area) but higher than those of the euro area Member States with the lowest financing needs. As in the euro area, loans are the dominant source of funding. However, Bulgaria has less developed bond and equity markets than the euro area and market financing (debt securities and listed shares) is relatively underdeveloped. Equity and private-sector-debt markets represented 2% of liabilities in 2023 (and only 11% of GDP altogether), compared with 19% of liabilities in the euro area (where private-sector debt and listed stocks amounted to 72% and 65% of GDP respectively). Bulgaria's financing structure is broadly similar to that of the five euro area Member States with the smallest financial needs, except for the smaller size of its bond market. The latter mostly reflects the low level of public debt in the country. Trade credits and advances play a bigger role in the financing of the economy in Bulgaria than in the euro area, even when compared with the five euro area Member States with the lowest financing needs.

Bulgaria's banking sector is well integrated into the euro area's financial sector, in particular through a high level of foreign ownership in the banking system. The ratio of foreign-owned institutions to total bank assets was 73% in 2023, down from 78% in 2019. Bank concentration (as measured by the market share of the five largest credit institutions in total assets) has increased significantly since 2019 and reached almost 77% in 2023. This is 27 percentage points above the euro area average in 2023.

Graph 2.11: **Bulgaria - Foreign ownership and concentration in the banking sector**
(in percent, weighted averages)



Source: ECB, Structural financial indicators.

2.7. SUSTAINABILITY OF CONVERGENCE

This concluding section draws together elements that are key for gauging the sustainability of Bulgaria's convergence with the euro area. The analysis reviews sustainability from a number of angles.

First, the sustainability dimension is inherent in the individual convergence criteria themselves. This holds most explicitly for the price stability criterion, which includes the requirement of a 'sustainable price performance'. In principle, the fiscal criterion (EDP) also involves a forward-looking aspect, providing a view on the durability of the correction of fiscal imbalances. While the exchange and interest rate criteria are, by construction, backward-looking, they aim to capture an economy's ability to operate durably under conditions of macroeconomic stability, indicating whether the conditions for sustainable convergence following euro adoption are in place.

Second, the assessment of additional factors (balance of payments, product and financial market integration) required by the Treaty broadens the view on sustainability of convergence and allows for a more complete picture, complementing the quantitative criteria. In particular, a sound external competitiveness position, effectively functioning markets for goods and services and a robust financial system are key to ensuring that the convergence process remains smooth and sustainable.

Third, the convergence assessment should be informed by the results and findings of enhanced policy co-ordination and surveillance procedures (MIP, fiscal governance), taking into account the comprehensive reform of the EU's economic governance rules in 2024. The aim is not to add to the existing requirements for euro adoption, but to make full use of the comprehensive economic and financial analysis undertaken under the European Semester. While some elements drawn from the European Semester (e.g. related to AMR scoreboard indicators) are included in the relevant chapters on convergence above, this section uses this framework more systematically to provide an integrated view of the sustainability dimension.

Any assessment of the sustainability of convergence has limits and must be based on a judgement of the likely future development of the economy. In particular, as experience has shown, the sustainability and robustness of the convergence process after euro adoption is to a significant extent endogenous, i.e. it depends on a Member State's domestic policy measures after it has joined the euro area. Therefore, while the assessment of sustainability is an essential element in determining a Member State's readiness to adopt the euro based on initial conditions and existing policy frameworks, the outcome of such an assessment should be seen as a snapshot at a specific point in time. The long-term sustainability of the convergence process will also depend on the adoption of appropriate policies over time. In this respect, the ongoing surveillance carried out in the context of the European Semester will play a major part in ensuring that such policies are implemented by the Member State after euro adoption.

The analysis below looks at sustainability from four different perspectives: price stability; fiscal performance and governance; structural resilience and growth sustainability; and financial resilience.

Price stability

The synchronisation of Bulgaria's business cycle with that of the euro area (see next sub-section) tends to keep Bulgaria's headline and core inflation at levels similar to those of the euro area. Bulgaria's inflation developments were particularly closely aligned with those of the euro area over the decade preceding the energy price shock of 2022. On average, between 2011 and 2021, Bulgaria's headline inflation rate averaged 1.1%, which was below the euro area average of 1.3%. Core inflation during this period, at 0.4%, was considerably below the euro area average at 1.1%.

By contrast, between 2022 and 2024, inflation in Bulgaria was significantly higher than in the euro area, with an average annual rate of 8.1% compared to 5.4% in the euro area. The de-coupling of inflation in Bulgaria and the euro area during these years was mainly due to Bulgaria's greater exposure to the food and energy price shocks. The price hikes in imported energy and other materials in 2022 led to a surge in production costs, thereby also contributing to higher prices for domestically produced goods and services. The cost-push factor was more pronounced than in the euro area because the Bulgarian economy is around three times more energy intensive than the euro area and its cyclical position was stronger. As food accounts for a significantly higher share of household consumption in Bulgaria, the food price shock had a disproportionately stronger impact on headline inflation. Subsequently, the unwinding of the shocks led to a stronger disinflation process in Bulgaria compared with the euro area. Headline and core inflation in Bulgaria both fell in 2024 by around 6 percentage points compared with a drop of 3 and 2.2 percentage points respectively in the euro area.

The pick-up in inflation in Bulgaria in 2025 is of a temporary nature and mainly reflects increases in January 2025 in a mix of taxes and administered prices, partially offset by the lowered hospital fees in April. This effect is set to lead to higher inflation throughout 2025. As the temporary effect of higher taxes and administered prices fades away, annual inflation is forecast to fall steadily throughout 2026, leading to a decreasing inflation gap compared to the euro area (see Section 2.2.3.). Additional evidence on the temporary and not broad-based nature of the increase in inflation in 2025 is provided by the median HICP inflation rate ([32]), which has remained below 2.5% since the beginning of the year, as well as by price expectations in the Commission's consumer and business surveys, which remain below their long-term averages ([33]).

Notwithstanding their recent deceleration, nominal unit labour costs (ULC) in Bulgaria have risen strongly historically, with an annual average growth of 6.3% since 2011. This trend increase in ULC occurred in both the tradeable and non-tradeable sectors of the economy, with a relatively limited difference between manufacturing and the rest of the economy. Nevertheless, the increase in ULC has not been associated with a loss in Bulgaria's export market share, which increased by around 10% between 2011 and 2013 and has remained broadly steady since then ([34]). This preservation of Bulgaria's export market share was supported by a mix of margin compression, i.e. reduced profits per unit of exports, non-labour cost compression, and improved non-cost competitiveness through a gradual shift towards higher value-added and tech-intensive products ([35]). The growth

([32]) Median inflation is the month-on-month inflation rate of the component whose expenditure weight is in the 50th percentile of price changes. By omitting outliers (small and large price changes), median inflation provides an alternative measure of underlying inflation. The value above refers to the unweighted measure of median inflation.

([33]) European Commission, Business and consumer survey results for April 2025, Statistical Annex.

([34]) Market performance of exports, Annual macro-economic database (AMECO) of the European Commission's Directorate General for Economic and Financial Affairs.

([35]) Evidence supporting this conclusion is also provided in Ivanov Evgeni and Ivanova Neli (2021), 'Determinants of Bulgarian Exports: the Role of Price and Non-Price Competitiveness', Bulgarian National Bank, Discussion Paper DP/118/2021.

profile of wages and ULC will need to be carefully monitored in the coming years in view of the important implications for price stability, the economy's adjustment capacity and external competitiveness. In this context, it will be important to focus structural policies and reforms on productivity growth, including technological upgrades to continue sustainable economic convergence without lasting price pressures.

Bulgaria's successful integration into the euro area will require the continued careful monitoring of inflation pressures, with longer-term inflation prospects contingent on wages growing in line with productivity. In this respect, continued high growth in public sector wages constitutes a risk for higher aggregate wages in Bulgaria. These factors could weigh on the adjustment potential, cost competitiveness and inflation prospects of the economy.

Structural resilience and growth sustainability

When assessing Bulgaria's capacity to function smoothly in the euro area, an important dimension is its current degree of cyclical synchronisation with the euro area and risks that that this synchronisation may weaken in the future. Such a risk will depend on Bulgaria's macroeconomic vulnerabilities and exposure to economic shocks as well as its capacity to adjust to such shocks.

Bulgaria's economic cycle has been closely synchronised with that of the euro area for the past two decades, both in terms of the real GDP growth rate and the output gap and it is forecast to continue doing so in 2025 and 2026. This cyclical synchronisation is higher than for most other non-euro area Member States. To a large extent, it is explained by Bulgaria's highly open economy, its strong integration in the EU single market, and the pegging of the lev to the euro since 1999 in the context of the currency board framework. In turn, the latter has been backed by prudent fiscal policy and low government debt. Bulgaria's trade grew strongly from the early 2000s up to its EU accession and then throughout its EU membership. More than half of exports and imports of goods and services are with the EU, with Germany, Romania, Italy and Greece being the most important markets. Türkiye is also an important trading partner.

As to vulnerabilities and exposure to shocks, Section 2.6. stressed that the Macroeconomic Imbalance Procedure did not identify major imbalances in Bulgaria in 2025. In particular, the country's external position appears solid. The external balance (the combined current and capital account) has been positive most of the time since 2011 and the net international investment position (NIIP) improved substantially from –97% of GDP in 2009 to around -4% of GDP in 2024. Moreover, Bulgaria's NIIP excluding non-defaultable instruments, such as foreign direct investment and equity shares, has been positive over recent years and reached 46% of GDP in 2024. Bulgaria also enjoys relatively high export diversification, which reduces its exposure to sectoral trade shocks. Measures of export diversification such as the Herfindahl-Hirschman Index put Bulgaria among the EU Member States with a high export diversification ([36]). Nevertheless, two sources of external vulnerability should be mentioned. The first is cost competitiveness, which was already mentioned in the subsection on inflation. The second relates to the country's high exposure to energy and food prices. As witnessed in recent years, shocks to global energy and food prices have a stronger pass-through into domestic inflation than the euro area average. The decarbonisation of energy production in Bulgaria, including through higher investment in renewables, would strengthen the competitiveness of the Bulgarian economy and reduce its exposure to energy price shocks.

The 2025 MIP also identifies two sources of domestic vulnerability: strong growth in credit to households and signs of overvaluation in house prices. Although the household debt-to-GDP ratio remains low, at 26% in 2024, credit flows remain high - in 2024, they were equivalent to 21% of the debt stock in 2023 - and has stood above the MIP threshold of 14% since 2021. According to

([36]) Herfindahl-Hirschman Market Concentration Index a measure of the dispersion of trade value across an exporter's partners. It ranges from 0 for perfect diversification and 1 for perfect concentration (i.e. lower values indicate that exports are more diversified).

the 2025 Alert Mechanism Report, house prices are estimated to be slightly overvalued by around 10-15%, with continued strong growth in 2023 and 2024.

Several features of the Bulgarian economy support its capacity to adjust to shocks, including its labour market and low public debt. Bulgaria's adjustment capacity was amply tested during the pandemic and energy crises, when the economy faced extraordinary headwinds. The contraction in economic activity in 2020 was lower than in the euro area and the recovery in output in 2021 and 2022 was stronger.

Bulgaria's labour market is relatively flexible and efficient and this flexibility should facilitate adjustment to changes in economic conditions. Despite unprecedented shocks, the unemployment rate has declined by more than 1 percentage point since the COVID-19 crisis and now stands more than 2 percentage points below the euro area. However, the Bulgarian labour market also suffers from some weaknesses in terms of skills shortages (see Section 2.6.2.) and structurally fast growth in wages (see subsection on inflation above). The former requires structural challenges in the education system to be addressed and increases in adult training. Another positive feature of Bulgaria's adjustment capacity relates to the level of its public debt. In 2024, the country's public debt amounted to 24% of GDP, the second lowest ratio in the EU. In the medium term, such a low level of government debt should provide the fiscal space that is needed in a monetary union in the event of adverse shocks. In the shorter term, however, Bulgaria's fiscal space is constrained by a deficit, which remains close to the 3% limit.

Bulgaria's adjustment capacity remains hindered by a non-supportive business environment. Various reports and indicators by international institutions, such as the World Bank's Worldwide Governance Indicators, IMD's World Competitiveness Report and OECD's Product Market Regulation (PMR) indicators ([37]), point to an unfavourable business environment, and low government and business efficiency. Businesses in the country report that the most significant hindrances to a better business environment are corruption, frequent changes in regulations, bureaucracy, and biased public procurement ([38]). Businesses have also consistently complained about the quality of regulatory work ([39]) and the failure to ensure a level playing field ([40]). Regulatory barriers remain higher in Bulgaria than in comparable countries for lawyers, notaries, architects and civil engineers. Improving the business environment would both enhance productivity and improve the capacity of firms to respond to shocks.

In recent years, Bulgaria has implemented several reforms that should support its resilience and adjustment capacity. There is, however, substantial scope for further progress in this area. In July 2019, the country committed to implementing policy measures prior to joining the ERM II in the following six policy areas: banking supervision; the macroprudential framework; the supervision of the non-banking financial sector; the anti-money laundering framework; the insolvency framework; and the governance of state-owned enterprises (SOEs). In June 2020, the Bulgarian authorities notified the ERM II parties of the fulfilment of these commitments, which the ECB and the Commission assessed as effectively implemented. At the time of its ERM II entry in July 2020, Bulgaria committed to implementing further policy measures in the following four areas: i) the non-banking financial sector; (ii) insolvency framework; (iii) the anti-money laundering framework; and iv) the governance of SOEs.

Measures implemented in the non-banking financial sector aim to improve supervisory practices and the governance and functioning of the insurance sector. Insolvency framework measures included: an overhaul of the legislative framework; training programmes for insolvency

([37]) See: https://www.worldbank.org/en/publication/worldwide-governance-indicators; International Institute for Management Development/World Competitiveness Centre, World Competitiveness Booklet 2024; and OECD's Product Market Regulation (PMR) indicators, Key takeaways from the 2023-2024 update of the OECD Product Market Regulation indicators, ECO/CPE (2024)99.

([38]) Bulgarian Industrial Association – 2024 through the eyes of the business.

([39]) EIB Investment Survey 2022 – European Union overview.

([40]) European Commission, 2023 and 2024 editions of the Rule of Law Report, Country Chapter on Bulgaria.

practitioners; development of manuals, guidelines and specialised electronic tools; and improved data collection and publicity. Regarding anti-money laundering, Bulgaria committed to enhance the capacity of supervisors and adopt a risk-based approach to detecting and countering such activities. On SOEs, the authorities committed among other elements to improve their governance by ensuring competitive procedures for board appointments and regular financial performance reporting.

Bulgaria's recovery and resilience plan includes an ambitious set of structural reforms and investments but has faced delays. Bulgaria made some progress with implementing reforms to strengthen the rule of law and improve the overall business environment. It has yet to implement major reforms to and investments in the decarbonisation of the energy sector, as well as further business environment reforms, notably on anti-corruption. In April 2025, Bulgaria submitted a comprehensive revision of its RRP, including a REPowerEU chapter, with a view to bringing the plan back on track and achieving its ambitious objectives. Accelerating the implementation of the planned investments and reforms would strengthen the resilience of the economy and ensure Bulgaria benefits fully from its funding allocation under the recovery and resilience facility.

Financial resilience

Bulgaria's financial sector has shown stability and resilience, particularly since the 2009 international financial crisis and during the COVID-19 pandemic and in the aftermath of Russia's invasion of Ukraine. The banking sector is by far the largest financial subsector in Bulgaria, although it is still small relative to the size of its economy when compared to the EU and euro area Member States on average.

The accession of Bulgaria to the Banking Union in 2020 led to the direct supervision by the ECB of 5 commercial banks registered in Bulgaria, which hold approximately three quarters of all assets in the banking sector.

The banking sector is well-capitalised and profitable. Bulgaria's banking sector capital adequacy and liquidity ratios have remained at consistently high levels. The tier-1 capital ratio is estimated at 22.0% as of December 2024, compared with an EU average of around 17.5%. Bulgaria's banking sector liquidity coverage ratio, at around 240% at end-December 2024 ([41]), was also well above the EU ratio of around 165% ([42]) and around two-and-a-half times higher than the regulatory minimum required level of 100%.

The banking sector records healthy profits. The sector is expected to have achieved record profits in 2024, driven by strong net interest income. The Bulgarian National Bank estimates a return on equity (ROE) at the end of December 2024 of around 16.0%. This compares with a return of 10.5% in 2024 for EU banks ([43]). The Bulgarian banking sector has experienced rapid growth in lending over the past several years, with a focus on mortgage lending. Low interest rates, abundant liquidity in the banking system, rapid income growth and positive consumer sentiment together have contributed to the dynamic credit activity. In September 2024, the total amount of loans for households grew by 21.3% year on year, while loans to non-financial corporations (NFCs) increased by 9.1%. The prolonged period of strong lending activity leads to a possible accumulation of credit risks in the banking system's balance sheet, which in the medium term could put some downward pressure on the high levels of profits by Bulgarian banks. However, while the ratio of non-performing loans (NPLs) remains relatively high, the rapid increase in loan volumes has not translated into growing NPLs. The share of non-performing exposures continue to decline to historically low levels in all major segments of the banks' loan portfolio, mostly due to write-offs and sales of NPLs. A roadmap on the insolvency framework reform was adopted in

([41]) Banks in Bulgaria October–December 2024, Bulgarian National Bank (see: https://www.bnb.bg/bnbweb/groups/public/documents/bnb_publication/pub_b_in_b_2024_12_en.pdf).

([42]) Liquidity coverage ratio, EU countries participating in the Single Supervisory Mechanism. ECB Data Portal (see: https://data.ecb.europa.eu/data/datasets/SUP/SUP.Q.B01.W0._Z.I3017._T.SII._Z._Z._Z.PCT.C).

([43]) European Bank Authority, Risk Dashboard Q4 2024.

2019 as part of the ERM II prior-commitments to prepare Bulgaria for successful participation in ERM II. The ERM II post-entry commitment on insolvency sought to implement the roadmap. To this end, the changes to the Bulgarian Commercial Act in 2023 and secondary legislation aim to address long-standing shortcomings in Bulgaria's insolvency and restructuring regime. The legislative amendments and measures to implement these are also part of the Bulgarian RRP. In recent years, the Bulgarian National Bank has repeatedly increased the countercyclical capital buffer rate applicable to domestic credit risk exposures to further strengthen the resilience of the banking system and prevent an excessive build-up of risks. The Bulgarian National Bank also introduced borrower-based measures targeted at low-income higher-risk borrowers as of October 2024.

Bulgaria's capital market is underdeveloped and does not adequately support financing needs for both the government and corporates. Recent initiatives could help increase capital market growth by increasing financial literacy and engaging market participants. In April 2023, the Bulgarian Ministry of Finance published a report, which included 60 recommended actions, with the objective of increasing the availability of investable assets and the level of trust in the Bulgarian capital market and ultimately making the use of the capital markets cheaper and more efficient within a time horizon of 5 years ([44]). Over the past few years Bulgaria has been a net lender to the rest of the world, partially due to limited domestic investment opportunities, depicted by still underutilised and relatively inefficient domestic capital markets. Local private-equity (PE) and venture-capital (VC) markets remain too small to meet the financing needs of innovative firms. In addition, VCs in Bulgaria focus more on early-stage businesses, which is positive for innovation but may pose challenges when scaling start-ups, supressing growth prospects.

The supervisory framework for Bulgaria's non-banking financial sector has been significantly strengthened both in preparation for the country's Exchange Rate Mechanism II entry in 2020 and since then, in addressing post-ERM II policy commitments. The insurance market, though highly concentrated, remains significantly smaller than the EU average, with notable distinctions between its life and general insurance segments. The low insurance penetration and steady economic growth present promising opportunities for insurers to grow and both life and non-life insurance are projected to expand rapidly in the years to come.

Conclusion

The broad-based analysis of underlying factors relevant for the sustainability of Bulgaria's convergence suggests that sufficiently robust conditions are in place for the country to be able to maintain a sustainable convergence path in the medium term, thus supporting a positive assessment. However, significant challenges remain, and policy discipline will need to be maintained in a determined manner to fully exploit the benefits of participation in the euro area and minimise risks to the convergence path going forward.

([44]) Bourse Consult (2023), 'Bulgaria: Diagnostic of the State of the Capital Market', Gap Analysis and Recommendations Reports, August 2022 (https://reform-support.ec.europa.eu/publications-0/bulgaria-diagnostic-state-development-bulgarian-capital-market-gap-analysis-and-recommendations_en).

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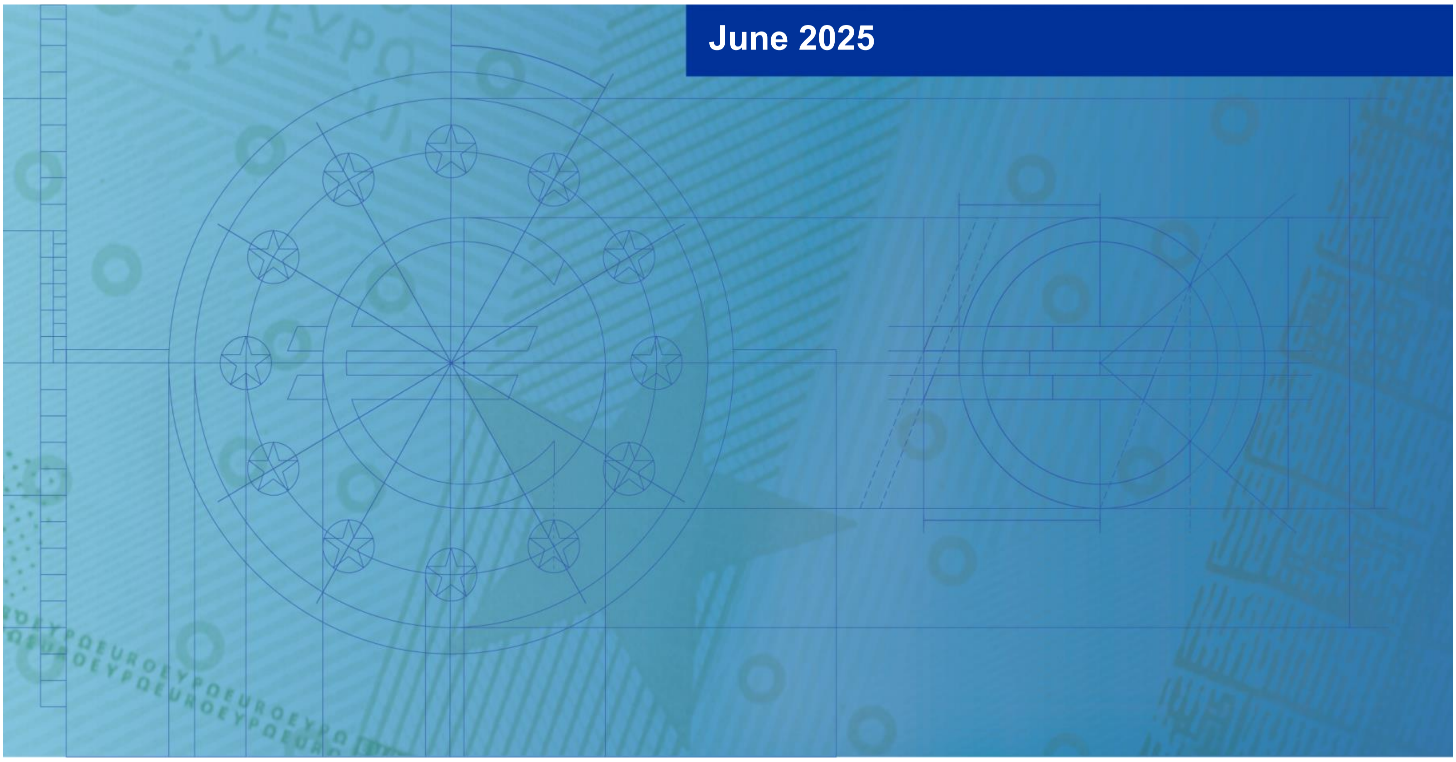
Convergence Report



June 2025

Contents

1 Introduction

This Convergence Report has been prepared following a request for a country examination submitted by Bulgaria on 25 February 2025. In producing this report, the ECB fulfils its requirement under Article 140 of the Treaty on the Functioning of the European Union (hereinafter the "Treaty") to report to the Council of the European Union (EU Council) at the request of an EU Member State with a derogation "on the progress made by the Member States with a derogation in fulfilling their obligations regarding the achievement of economic and monetary union".[1] The same mandate has been given to the European Commission, which has also prepared a report, and both reports are being submitted to the EU Council in parallel. This report covers only Bulgaria: the other Member States with a derogation, i.e. the Czech Republic, Hungary, Poland, Romania and Sweden, will be examined in the next regular Convergence Report in 2026. Denmark, which has a special status, will not be covered in the 2026 report, unless it so requests.[2]

In this report, the ECB uses the framework applied in its previous Convergence Reports. It examines whether a high degree of sustainable economic convergence has been achieved in Bulgaria, whether the national legislation is compatible with the Treaties and the Protocol on the Statute of the European System of Central Banks and of the European Central Bank (hereinafter the "Statute of the ESCB"), and whether the statutory requirements are fulfilled for Българска народна банка (Bulgarian National Bank) to become an integral part of the Eurosystem.

The examination of the economic convergence process is highly dependent on the quality and integrity of the underlying statistics. The compilation and reporting of statistics must not be subject to political considerations or interference. EU Member States have been invited to consider the quality and integrity of their statistics as a matter of high priority, to ensure that a proper system of checks and balances is in place when these statistics are compiled, and to apply minimum standards in the domain of statistics. These standards are of the utmost importance in reinforcing the independence, integrity and accountability of the national statistical institutes and in helping to support confidence in the quality of government finance statistics (see Chapter 5).

From 4 November 2014 it became mandatory for any EU Member State whose derogation is abrogated to join the Single Supervisory Mechanism (SSM) at the

1 Unless otherwise stated, all references in this report to the "Treaty" refer to the Treaty on the Functioning of the European Union, and the references to article numbers reflect the numbering in effect since 1 December 2009. Unless otherwise stated, all references in this report to the "Treaties" refer to both the Treaty on European Union and the Treaty on the Functioning of the European Union. These terms are also explained in the ECB's glossary.

2 When the Maastricht Treaty was concluded in 1992, Denmark was granted an exemption clause or "opt-out" under which it does not have to participate in Stage Three of Economic and Monetary Union and, therefore, introduce the euro.

latest on the date on which it adopts the euro.[3] At that point, all SSM-related rights and obligations start to apply to that country. Therefore, it is of the utmost importance that the necessary preparations are made. In particular, the banking system of any Member State joining the euro area, and therefore the SSM, is subject to a comprehensive assessment.[4] Bulgaria is currently the only Member State that participates in the SSM under the close cooperation established with the ECB as part of the country's commitment to joining the banking union and the exchange rate mechanism (ERM II) simultaneously.[5] The close cooperation framework with the Bulgarian National Bank entered into force on 1 October 2020, following the fulfilment of the necessary supervisory and legislative prerequisites. On that date, the ECB assumed responsibility for (i) the direct supervision of the significant institutions in Bulgaria, (ii) the common procedures for all supervised entities, and (iii) the oversight of less significant institutions, which continue to be supervised by the national supervisor. ECB Banking Supervision and the Bulgarian National Bank collaborated very closely to ensure the smooth integration of the national competent authority into the SSM.[6]

This report is structured as follows. Chapter 2 describes the framework used for the examination of economic and legal convergence. Chapter 3 contains a country summary, which provides the main results of the examination of economic and legal convergence in Bulgaria. Chapter 4 examines in more detail the state of economic convergence in Bulgaria. Chapter 5 provides an overview of the convergence indicators and the statistical methodology used to compile them. Lastly, Chapter 6 examines the compatibility of the national legislation of Bulgaria, including the statute of the Bulgarian National Bank, with Articles 130 and 131 of the Treaty.

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[3] On 4 November 2014 the ECB assumed the tasks conferred on it by Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63). See Article 33(2) of that Regulation.

[4] See recital 10 of Regulation (EU) No 468/2014 of the European Central Bank of 16 April 2014 establishing the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (SSM Framework Regulation) (ECB/2014/17) (OJ L 141, 14.5.2014, p. 1).

[5] See Decision (EU) 2020/1015 of the European Central Bank of 24 June 2020 on the establishment of close cooperation between the European Central Bank and Българска народна банка (Bulgarian National Bank) (ECB/2020/30) (OJ L 224I, 13.7.2020, p. 1).

[6] See the 2020 ECB Annual Report on supervisory activities, in particular Section 4.1 "Enlarging the SSM through close cooperation".

2 Framework for analysis

2.1 Economic convergence

To examine the state of economic convergence in EU Member States seeking to adopt the euro, the ECB makes use of a common framework for analysis. This common framework, which has been applied in a consistent manner in all European Monetary Institute (EMI) and ECB Convergence Reports, is based, first, on the Treaty provisions and their application by the ECB with regard to developments in prices, fiscal balances and debt ratios, exchange rates and long-term interest rates, as well as in other factors relevant to economic integration and convergence. Second, it is based on a range of additional backward and forward-looking economic indicators considered to be useful for examining the sustainability of convergence in greater detail. Some elements of this framework have been enhanced over time. The examination of the Member State concerned based on all these factors also provides important information which helps to ensure that its integration into the euro area will proceed without major difficulties. Boxes 1 to 5 below outline the legal provisions and provide methodological details on the ECB’s application of these provisions.

This Convergence Report builds on principles set out in previous reports published by the ECB in order to ensure continuity and equal treatment. In particular, a number of guiding principles are used by the ECB (and prior to that by the EMI) in the application of the convergence criteria. First, the individual criteria are interpreted and applied in a strict manner. The rationale behind this principle is that the main purpose of the criteria is to ensure that only those Member States with economic conditions conducive to the maintenance of price stability and the coherence of the euro area can participate in it. Second, the convergence criteria constitute a coherent and integrated package, and they must all be satisfied. The Treaty lists the criteria on an equal footing and does not suggest a hierarchy. Third, the convergence criteria have to be met on the basis of actual data rather than forecasts. Fourth, the application of the convergence criteria should be consistent, transparent and simple. Moreover, when considering compliance with the convergence criteria, sustainability is an essential factor, as convergence must be achieved on a lasting basis and not just at a given point in time. For this reason, the country examination elaborates on the sustainability of convergence.

In this respect, economic developments in the country concerned are reviewed from a backward-looking perspective, covering, in principle, the past ten years. This helps to better determine the extent to which current achievements are the result of genuine structural adjustments, which in turn should lead to a better assessment of the sustainability of economic convergence.

In addition, and to the extent appropriate, a forward-looking perspective is adopted. In this context, particular attention is paid to the fact that the sustainability of favourable economic developments hinges critically on appropriate and lasting policy responses to existing and future challenges. Strong governance, sound institutions and sustainable public finances are also essential for supporting price stability and sustainable output growth over the medium to long term. Overall, it is emphasised that ensuring the sustainability of economic convergence depends on the achievement of a strong starting position, the existence of sound institutions, resilience to shocks and the pursuit of appropriate policies after the adoption of the euro.

The cut-off date for the statistics included in this Convergence Report was 19 May 2025. The statistical data used in the application of the convergence criteria were provided by the European Commission (see Chapter 5 as well as the statistical tables and charts), in cooperation with the ECB in the case of exchange rates and long-term interest rates. In agreement with the Commission, the reference period for both the price stability criterion and the long-term interest rate criterion is from May 2024 to April 2025. For exchange rates, the reference period is from 20 May 2023 to 19 May 2025. Historical data on fiscal positions cover the period up to 2024. Account is also taken of forecasts from various sources and other information relevant to a forward-looking examination of the sustainability of convergence. The Commission's Spring 2025 Economic Forecast and its Alert Mechanism Report 2025, which are also taken into account in this report, were released on 19 May 2025 and 17 December 2024 respectively. This report was adopted by the General Council of the ECB on 30 May 2025.

With regard to price developments, the legal provisions and their application by the ECB are outlined in Box 1.

Box 1
Price developments

1. Treaty provisions

Article 140(1), first indent, of the Treaty requires the Convergence Report to examine the achievement of a high degree of sustainable convergence by reference to the fulfilment by each Member State of the following criterion:

"the achievement of a high degree of price stability; this will be apparent from a rate of inflation which is close to that of, at most, the three best performing Member States in terms of price stability".

Article 1 of Protocol (No 13) on the convergence criteria stipulates that:

"The criterion on price stability referred to in the first indent of Article 140(1) of the Treaty on the Functioning of the European Union shall mean that a Member State has a price performance that is sustainable and an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than 1½ percentage points that of, at most, the three best performing Member States in terms of price stability. Inflation shall be measured by means of the consumer price index on a comparable basis taking into account differences in national definitions".

2. Application of Treaty provisions

In the context of this report, the ECB applies the Treaty provisions as outlined below.

First, with regard to “an average rate of inflation, observed over a period of one year before the examination”, the inflation rate has been calculated using the change in the 12-month average of the HICP in the reference period from May 2024 to April 2025 compared with the previous 12-month average. Inflation has been measured on the basis of the HICP, which was developed for the purpose of assessing convergence in terms of price stability on a comparable basis (see Section 5.2). Second, the notion of “at most, the three best performing Member States in terms of price stability”, which is used for the definition of the reference value, has been applied by taking the unweighted arithmetic average of the rates of inflation of the three Member States with the lowest average inflation rates (excluding outliers).

It should be noted that the concept of “outlier” has been referred to in previous ECB Convergence Reports and in the Convergence Reports of the EMI. In line with those reports, a Member State is considered to be an outlier if two conditions are fulfilled: first, its 12-month average inflation rate is significantly below the euro area average; and, second, its price developments have been strongly affected by exceptional factors. The identification of outliers does not follow a mechanical approach. The outlier concept was introduced to deal appropriately with potential significant distortions in the inflation developments of individual countries that reduce the representativeness of the inflation rates in those countries as a benchmark for convergence. The ECB’s approach to identifying outliers in this report is in line with the approach followed in previous ECB Convergence Reports.

On this basis, for the purposes of this report, the three best performing Member States in terms of price stability are Ireland (1.2%), Finland (1.3%) and Italy (1.4%). Adding 1½ percentage points to the average of these three rates, the reference value for the price stability criterion is 2.8%. None of these three best performing Member States has been identified as a possible outlier for exclusion from the calculation of the reference value for price stability.

The average rate of HICP inflation over the 12-month reference period from May 2024 to April 2025 is reviewed in light of the country’s economic performance over the last ten years in terms of price stability. This allows a more detailed examination of the sustainability of price developments in the country under review. Attention is paid to the orientation of monetary policy, in particular to whether the focus of the monetary authorities has been primarily on achieving and maintaining price stability, as well as to the contribution of other areas of economic policy to this objective. Moreover, the implications of the macroeconomic environment for the achievement of price stability are taken into account. Price developments are examined in light of supply and demand conditions, focusing on factors such as unit labour costs and import prices. Lastly, trends in other relevant price indices are considered. From a forward-looking perspective, a view is provided of prospective inflationary developments in the coming years, including forecasts by major international organisations and market participants. Moreover, institutional and structural aspects relevant to maintaining an environment conducive to price stability after adoption of the euro are discussed.

With regard to fiscal developments, the legal provisions and their application by the ECB, together with procedural issues, are outlined in Box 2.

Box 2
Fiscal developments

1. Treaty and other legal provisions

Article 140(1), second indent, of the Treaty requires the Convergence Report to examine the achievement of a high degree of sustainable convergence by reference to the fulfilment by each Member State of the following criterion:

"the sustainability of the government financial position; this will be apparent from having achieved a government budgetary position without a deficit that is excessive as determined in accordance with Article 126(6)".

Article 2 of Protocol (No 13) on the convergence criteria stipulates that:

"The criterion on the government budgetary position referred to in the second indent of Article 140(1) of the said Treaty shall mean that at the time of the examination the Member State is not the subject of a Council decision under Article 126(6) of the said Treaty that an excessive deficit exists".

Article 126 sets out the excessive deficit procedure (EDP). In accordance with Article 126(2) and (3), the European Commission prepares a report if a Member State does not fulfil the requirements for fiscal discipline, in particular if:

1. the ratio of the planned or actual government deficit to GDP exceeds a reference value (defined in the Protocol on the EDP as 3% of GDP), unless either:
   (a) the ratio has declined substantially and continuously and reached a level that comes close to the reference value; or, alternatively,
   (b) the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value;
2. the ratio of government debt to GDP exceeds a reference value (defined in the Protocol on the EDP as 60% of GDP), unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace.

In addition, the report prepared by the Commission must take into account whether the government deficit exceeds government investment expenditure and all other relevant factors, including the medium-term economic and budgetary position of the Member State. The Commission may also prepare a report if, notwithstanding the fulfilment of the criteria, it is of the opinion that there is a risk of an excessive deficit in a Member State. The Economic and Financial Committee formulates an opinion on the Commission's report. Lastly, in accordance with Article 126(6), the EU Council, on the basis of a recommendation from the Commission and having considered any observations which the Member State concerned may wish to make, decides, acting by qualified majority and excluding the Member State concerned, and following an overall assessment, whether an excessive deficit exists in a Member State.

The Treaty provisions under Article 126 are further clarified by Regulation (EC) No 1467/97[7] as amended by Regulations (EU) Nos 1177/2011[8] and 2024/1264[9], which, among other things:

- confirms the equal footing of the debt criterion with the deficit criterion by making the former operational;
- specifies the conditions under which a ratio of government debt to GDP which exceeds the reference value shall be considered sufficiently diminishing and approaching the reference value at a satisfactory pace in accordance with Article 126(2)(b) of the Treaty. The reformed EU fiscal framework modifies the conditions under which a ratio of government debt to GDP that exceeds the reference value shall be considered sufficiently diminishing and approaching the reference value at a satisfactory pace in accordance with Article 126(2)(b). Notably, Article 2(2) of the Regulation provides that the requirement shall be considered fulfilled if the Member State concerned respects its net expenditure path. The Commission shall prepare a report in accordance with Article 126(3) of the Treaty when the ratio of government debt to GDP exceeds the reference value, the budgetary position is not close to balance or in surplus, and the deviations recorded in the control account of the Member State exceed either 0.3 percentage points of GDP annually or 0.6 percentage points of GDP cumulatively;
- details the relevant factors that the Commission shall take into account when preparing a report under Article 126(3) of the Treaty. Most importantly, it mentions a series of factors considered relevant in assessing developments in medium-term economic, budgetary and government debt positions (see Article 2(3) of the Regulation).

2. Application of Treaty provisions

For the purpose of examining convergence, the ECB expresses its view on fiscal developments. With regard to sustainability, the ECB examines key indicators of fiscal developments from 2015 to 2024, the outlook and the challenges for general government finances, focusing on the links between deficit and debt developments. Regarding the impact of the COVID-19 pandemic and Russia's war against Ukraine on general government finances, the ECB refers to the Stability and Growth Pact's general escape clause, which was activated from 20 March 2020 until 31 December 2023, i.e. before the reform of the Stability and Growth Pact in April 2024, as laid down in Articles 5(1) and 9(1) of Regulation (EC) No 1466/97[10] for the preventive arm and in Article 3(5) of Regulation (EC) No 1467/97 for the corrective arm. Regarding the impact of unlocking additional flexibility for higher defence expenditure, the ECB refers to the Stability and Growth Pact's national escape clause, which was introduced in the reform of April 2024. Article 26 of Regulation (EU) 2024/1263[11] stipulates that "following a request from a Member State and on a recommendation by the Commission based on its

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[7] Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

[8] Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 306, 23.11.2011, p. 33).

[9] Council Regulation (EU) No 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024).

[10] Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 209, 2.8.1997, p. 1).

[11] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L 2024/1263, 30.4.2024).

analysis, the Council may within four weeks of the Commission recommendation adopt a recommendation allowing a Member State to deviate from its net expenditure path as set by the Council where exceptional circumstances outside the control of the Member State have a major impact on the public finances of the Member State concerned, provided that such deviation does not endanger fiscal sustainability over the medium term". The ECB also provides an analysis with regard to the effectiveness of national budgetary frameworks, as referred to in Article 2(3)(d) of Regulation (EC) No 1467/97 and in Directive 2011/85/EU[12]. With regard to Article 126 of the Treaty, the ECB, in contrast to the Commission, has no formal role in the EDP. Therefore, the ECB report only states whether the country is subject to an EDP.

With regard to the Treaty provision that a debt ratio of above 60% of GDP should be "sufficiently diminishing and approaching the reference value at a satisfactory pace", the ECB examines past and future trends in the debt ratio. For Member States in which the debt ratio exceeds the reference value, the ECB provides the Commission's latest assessment as laid down in Article 2(3) of Regulation (EC) No 1467/97.

The examination of fiscal developments is based on data compiled on a national accounts basis, in compliance with the European System of Accounts 2010 (ESA 2010) (see Chapter 5). Most of the figures presented in this report were provided by the Commission in April and May 2025, and include government financial positions from 2015 to 2024, as well as Commission forecasts for the period 2025-26.

With regard to the sustainability of public finances, the outcome in the reference year, 2024, is reviewed in light of the performance of the country under review over the past ten years. First, the development of the deficit ratio is investigated. It is useful to bear in mind that the change in a country's annual deficit ratio is typically influenced by a variety of underlying forces. These influences can be divided into "cyclical effects" on the one hand, which reflect the reaction of deficits to changes in the economic cycle, and "non-cyclical effects" on the other hand, which are often taken to reflect structural or permanent adjustments to fiscal policies. However, such non-cyclical effects, as quantified in this report, cannot necessarily be seen as entirely reflecting a structural change to fiscal positions, because they include temporary effects on the budgetary balance stemming from the impact of both policy measures and special factors.

As a further step, the development of the government debt ratio in this period is considered, as well as the factors underlying it. These factors are the difference between nominal GDP growth and interest rates, the primary balance and the deficit-debt adjustment. Such a perspective can offer further information on the extent to which the macroeconomic environment, in particular the combination of growth and interest rates, has affected the dynamics of debt. In addition, the structure of government debt is considered, focusing in particular on the shares of debt with a short-term maturity and foreign currency debt, as well as their development. By

12 Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41).

comparing these shares with the current level of the debt ratio, the sensitivity of fiscal balances to changes in exchange rates and interest rates can be highlighted.

With the entry into force of the reformed Stability and Growth Pact in 2024 came new rules on the opening of a debt-based excessive deficit procedure (EDP). While the rules on opening a deficit-based EDP remain largely unchanged, the rules on opening a debt-based EDP have been amended as described in Box 2. However, over the period up to the cut-off date for statistics in 2025, no debt-based EDPs were opened on the basis of the 2024 outcomes given that net expenditure paths, as set by the EU Council, cover fiscal strategies only as of 2025.

The general escape clause of the Stability and Growth Pact was activated for the period 2020-23, and in April 2025 the EU Council initiated a coordinated request for activation of the national escape clause. The activation of the general escape clause allowed Member States to depart from the budgetary requirements that would have normally applied in order to facilitate the necessary policy coordination measures in the context of the pandemic and Russia's war against Ukraine within the framework of the Stability and Growth Pact. On 19 March 2025 the European Commission then proposed a coordinated activation of the national escape clause, allowing countries to deviate from their endorsed net expenditure path, in order to unlock additional budgetary space for higher defence expenditure. In particular, the Commission stated that "Russia's war of aggression against Ukraine and its threat to European security are exceptional circumstances outside the control of Member States, which have a major impact on Member States' public finances through the related incurred and/or planned increase in defence expenditure".[13] On 30 April 2025 the Council issued a statement on its coordinated request for activation of the national escape clause.[14] At that time, 16 Member States had decided to request the activation of the clause, which covers a period of four years and a maximum of 1.5% of GDP in flexibility.

Turning to a forward-looking perspective, recent forecasts by the European Commission for the period 2025-26 and the assessment of long-term challenges to debt sustainability are considered. This includes, in particular, the outlook for budget balances and debt ratios on the basis of current fiscal policies. In addition, long-term challenges to the sustainability of budgetary positions and broad areas for consolidation are emphasised, particularly those related to unfunded government pension systems in connection with demographic change and to contingent liabilities incurred by government. Under the new rules, countries' medium-term budgetary plans are outlined in their national fiscal-structural plans, which they have published since autumn 2024. These plans present a net expenditure trajectory covering a period of at least four years and outline government fiscal strategies as of 2025.

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[13] See European Commission, "Accommodating increased defence expenditure within the Stability and Growth Pact", Communication from the Commission, C(2025) 2000 final, Brussels, 19 March 2025.

[14] See Council of the European Union, "Coordinated activation of the National Escape Clause", *press release*, 30 April 2025.

With regard to exchange rate developments, the legal provisions and their application by the ECB are outlined in Box 3.

Box 3
Exchange rate developments

1. Treaty provisions

Article 140(1), third indent, of the Treaty requires the Convergence Report to examine the achievement of a high degree of sustainable convergence by reference to the fulfilment by each Member State of the following criterion:

"the observance of the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System, for at least two years, without devaluing against the euro".

Article 3 of Protocol (No 13) on the convergence criteria stipulates that:

"The criterion on participation in the Exchange Rate mechanism of the European Monetary System referred to in the third indent of Article 140(1) of the said Treaty shall mean that a Member State has respected the normal fluctuation margins provided for by the exchange-rate mechanism on the European Monetary System without severe tensions for at least the last two years before the examination. In particular, the Member State shall not have devalued its currency's bilateral central rate against the euro on its own initiative for the same period".

2. Application of Treaty provisions

With regard to exchange rate stability, the ECB examines whether the country has participated in ERM II (which superseded the ERM as of January 1999) for a period of at least two years prior to the convergence examination without severe tensions, in particular without devaluing against the euro. In cases of shorter periods of participation, exchange rate developments are described over a two-year reference period.

The examination of exchange rate stability against the euro focuses on the exchange rate being close to the ERM II central rate, while also taking into account factors that may have led to an appreciation, which is in line with the approach taken in the past. In this respect, the width of the fluctuation band within ERM II does not prejudice the examination of the exchange rate stability criterion.

Moreover, the issue of the absence of "severe tensions" is generally addressed by: (i) examining the degree of deviation of exchange rates from the ERM II central rates against the euro; (ii) using indicators such as exchange rate volatility vis-à-vis the euro and its trend, as well as short-term interest rate differentials vis-à-vis the euro area and their development; (iii) considering the role played by foreign exchange interventions; and (iv) considering the role of international financial assistance programmes in stabilising the currency.

The reference period in this report is from 20 May 2023 to 19 May 2025. The bilateral exchange rates referred to are official ECB reference rates (see Chapter 5).

In addition to ERM II participation and nominal exchange rate developments against the euro over the period under review, evidence relevant to the sustainability of the current exchange rate is briefly reviewed. This is derived from the development of the real effective exchange rates and the current, capital and financial accounts of the balance of payments. The evolution of gross external debt and the net international investment position over longer periods is also examined. The section on exchange rate developments additionally considers measures of the degree of a country's integration with the euro area. This is assessed in terms of both external trade integration (exports and imports) and financial integration. Lastly, the section on exchange rate developments reports, if applicable, whether the country under examination has benefited from central bank liquidity assistance or balance of payments support during the two-year reference period. Both actual and precautionary assistance are considered.

With regard to long-term interest rate developments, the legal provisions and their application by the ECB are outlined in Box 4.

Box 4
Long-term interest rate developments

1. Treaty provisions

Article 140(1), fourth indent, of the Treaty requires the Convergence Report to examine the achievement of a high degree of sustainable convergence by reference to the fulfilment by each Member State of the following criterion:

"the durability of convergence achieved by the Member State with a derogation and of its participation in the exchange-rate mechanism being reflected in the long-term interest-rate levels".

Article 4 of Protocol (No 13) on the convergence criteria stipulates that:

"The criterion on the convergence of interest rates referred to in the fourth indent of Article 140(1) of the said Treaty shall mean that, observed over a period of one year before the examination, a Member State has had an average nominal long-term interest rate that does not exceed by more than two percentage points that of, at most, the three best performing Member States in terms of price stability. Interest rates shall be measured on the basis of long-term government bonds or comparable securities, taking into account differences in national definitions".

2. Application of Treaty provisions

In the context of this report, the ECB applies the Treaty provisions as outlined below.

First, with regard to "an average nominal long-term interest rate" observed over "a period of one year before the examination", the long-term interest rate has been calculated as an arithmetic average over the latest 12 months for which HICP data were available. The reference period considered in this report is from May 2024 to April 2025, in line with the reference period for the price stability criterion.

Second, the notion of "at most, the three best performing Member States in terms of price stability", which is used for the definition of the reference value, has been applied by using the unweighted arithmetic average of the long-term interest rates of the same three Member States included in the calculation of the reference value for the criterion on price stability (see Box 1). Over the reference period considered in this report, the long-term interest rates of the three Member States with the lowest inflation rate included in the calculation of the reference value for the price stability criterion were 2.9% (Finland), 2.8% (Ireland) and 3.7% (Italy). As a result, the average rate is 3.1% and, adding two percentage points, the reference value is 5.1%.[15]

As mentioned above, the Treaty makes explicit reference to the "durability of convergence" being reflected in the level of long-term interest rates. Therefore, developments over the reference period from May 2024 to April 2025 are reviewed against the background of the path of long-term interest rates over the past ten years (or the period for which data are available) and the main factors underlying differentials vis-à-vis the average long-term interest rate prevailing in the euro area. During the reference period, the average euro area long-term interest rate may have partly reflected high country-specific risk premia in several euro area countries. Therefore, the euro area AAA long-term government bond yield (i.e. the long-term yield of the euro area AAA yield curve, which includes the euro area countries with an AAA rating) is also used for comparison purposes. As background to this analysis, this report also provides information about the size and development of the financial market. This is based on three different indicators (the outstanding amount of debt securities issued by non-financial corporations, stock market capitalisation and credit from monetary financial institutions to the domestic non-financial private sector), which together provide a measure of the size of financial markets.

Lastly, Article 140(1) of the Treaty requires this report to take account of several other relevant factors (see Box 5). In this respect, an enhanced economic governance framework in accordance with Article 121(6) of the Treaty entered into force on 13 December 2011 with the aim of ensuring a closer coordination of economic policies and the sustained convergence of EU Member States' economic performances. Box 5 below briefly outlines these legislative provisions and the way in which the above-mentioned additional factors are addressed in the assessment of convergence conducted by the ECB.

Box 5
Other relevant factors

1. Treaty and other legal provisions

Article 140(1) of the Treaty requires that "The reports of the Commission and the European Central Bank shall also take account of the results of the integration of markets, the situation and development of the balances of payments on current account and an examination of the development of unit labour costs and other price indices".

[15] Interest rates have been measured on the basis of available harmonised long-term interest rates, which were developed for the purpose of examining convergence (see Chapter 5).

In this respect, the ECB takes into account the legislative package on EU economic governance which entered into force on 13 December 2011. Building on the Treaty provisions under Article 121(6), the European Parliament and the EU Council adopted detailed rules for the multilateral surveillance procedure referred to in Article 121(3) and (4) of the Treaty. These rules were adopted "in order to ensure closer coordination of economic policies and sustained convergence of the economic performances of the Member States" (Article 121(3)) in view of the "need to draw lessons from the first decade of functioning of the economic and monetary union and, in particular, for improved economic governance in the Union built on stronger national ownership"[16]. The legislative package includes an enhanced surveillance framework (the macroeconomic imbalance procedure or MIP) aimed at preventing excessive macroeconomic and macro-financial imbalances by helping diverging EU Member States to establish corrective plans before divergence becomes entrenched.

2. Application of Treaty provisions

In line with past practice, the additional factors referred to in Article 140(1) of the Treaty are reviewed in Chapter 4 under the headings of the individual criteria described in Boxes 1 to 4. For completeness, Chapter 4 also presents the scoreboard indicators for Bulgaria (including in relation to the alert thresholds), thereby ensuring the provision of all available information relevant to the detection of macroeconomic and macro-financial imbalances that may be hampering the achievement of a high degree of sustainable convergence as stipulated in Article 140(1) of the Treaty. Notably, EU Member States with a derogation that are subject to an excessive imbalance procedure can hardly be considered as having achieved a high degree of sustainable convergence as stipulated in Article 140(1) of the Treaty.

2.2 Compatibility of national legislation with the Treaties

2.2.1 Introduction

Article 140(1) of the Treaty requires the ECB (and the European Commission) to report, at least once every two years or at the request of a Member State with a derogation, to the Council on the progress made by the Member States with a derogation in fulfilling their obligations regarding the achievement of economic and monetary union. These reports must include an examination of the compatibility of the national legislation of each Member State with a derogation, including the statutes of its NCB, with Articles 130 and 131 of the Treaty and the relevant Articles of the Statute of the ESCB. This Treaty obligation of Member States with a derogation is also referred to as "legal convergence".

When assessing legal convergence, the ECB is not limited to making a formal assessment of the letter of national legislation but may also consider whether the

16 See recital 2 of Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23/11/2011, p. 25).

implementation of the relevant provisions complies with the spirit of the Treaties and the Statute of the ESCB. The ECB is particularly concerned about any signs of pressure being put on the decision-making bodies of any Member State's NCB which would be inconsistent with the spirit of the Treaty as regards central bank independence.

The ECB also sees the need for the smooth and continuous functioning of the NCBs' decision-making bodies. In this respect, the relevant authorities of a Member State have, in particular, the duty to take the necessary measures to ensure the timely appointment of a successor if the position of a member of an NCB's decision-making body becomes vacant.[17]

The ECB will closely monitor any developments prior to making a positive final assessment concluding that a Member State's national legislation is compatible with the Treaty and the Statute of the ESCB.

A Member State with a derogation and legal convergence

Bulgaria, whose national legislation is examined in this report, has the status of a Member State with a derogation, i.e. it has not yet adopted the euro. Article 5[18] of the Act concerning the conditions of accession of the Republic of Bulgaria and Romania and the adjustments to the Treaties on which the European Union is founded provides that Bulgaria is to participate in the Economic and Monetary Union from the date of accession as a Member State with a derogation within the meaning of Article 139 of the Treaty.

The aim of assessing legal convergence is to facilitate the Council's decisions as to which Member States fulfil "their obligations regarding the achievement of economic and monetary union" (Article 140(1) of the Treaty). In the legal domain, such conditions refer in particular to central bank independence and to the NCBs' legal integration into the Eurosystem.

17 Opinions CON/2010/37 and CON/2010/91. All ECB opinions are published on EUR-Lex.

18 See Article 5 of the Act concerning the conditions of accession of the Republic of Bulgaria and Romania and the adjustments to the Treaties on which the European Union is founded (OJ L 157, 21.6.2005, p. 203).

Structure of the legal assessment

The legal assessment broadly follows the framework of the previous reports of the ECB and the EMI on legal convergence.[19]

The compatibility of national legislation is considered in the light of legislation enacted before 15 April 2025.

2.2.2 Scope of adaptation

Areas of adaptation

For the purpose of identifying those areas where national legislation needs to be adapted, the following issues are examined:

- compatibility with provisions on the independence of NCBs, members of NCBs' decision-making bodies and Governors in the Treaty (Article 130) and the Statute of the ESCB (Articles 7 and 14.2);
- compatibility with provisions on confidentiality (Article 37 of the Statute of the ESCB);
- compatibility with the prohibitions on monetary financing (Article 123 of the Treaty) and privileged access (Article 124 of the Treaty);
- compatibility with the single spelling of the euro required by EU law; and
- legal integration of the NCBs into the Eurosystem (in particular as regards Articles 12.1 and 14.3 of the Statute of the ESCB).

"Compatibility" versus "harmonisation"

Article 131 of the Treaty requires national legislation to be "compatible" with the Treaties and the Statute of the ESCB; any incompatibility must therefore be remedied.

[19] In particular the ECB's Convergence Reports of June 2024 (on Bulgaria, the Czech Republic, Hungary, Poland, Romania and Sweden), June 2022 (on Bulgaria, the Czech Republic, Croatia, Hungary, Poland, Romania and Sweden), June 2020 (on Bulgaria, the Czech Republic, Croatia, Hungary, Poland, Romania and Sweden), May 2018 (on Bulgaria, the Czech Republic, Croatia, Hungary, Poland, Romania and Sweden), June 2016 (on Bulgaria, the Czech Republic, Croatia, Hungary, Poland, Romania and Sweden), June 2014 (on Bulgaria, the Czech Republic, Croatia, Lithuania, Hungary, Poland, Romania and Sweden), June 2013 (on Latvia), May 2012 (on Bulgaria, the Czech Republic, Latvia, Lithuania, Hungary, Poland, Romania and Sweden), May 2010 (on Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania and Sweden), May 2008 (on Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovakia and Sweden), May 2007 (on Cyprus and Malta), December 2006 (on the Czech Republic, Estonia, Cyprus, Latvia, Hungary, Malta, Poland, Slovakia and Sweden), May 2006 (on Lithuania and Slovenia), October 2004 (on the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, Slovakia and Sweden), May 2002 (on Sweden) and April 2000 (on Greece and Sweden), and the EMI's Convergence Report of March 1998.

Neither the primacy of the Treaties and the Statute of the ESCB over national legislation nor the nature of the incompatibility affects the need to comply with this obligation.

The requirement for national legislation to be "compatible" does not mean that the Treaty requires "harmonisation" of the NCBs' statutes, either with each other or with the Statute of the ESCB. National particularities may continue to exist to the extent that they do not infringe the competence in monetary matters that is irrevocably conferred on the EU. Indeed, Article 14.4 of the Statute of the ESCB permits NCBs to perform functions other than those specified in the Statute of the ESCB, to the extent that they do not interfere with the objectives and tasks of the ESCB.[20] Provisions authorising such additional functions in NCBs' statutes are a clear example of circumstances in which differences may remain. Rather, the term "compatible" indicates that national legislation and the NCBs' statutes need to be adjusted to eliminate inconsistencies with the Treaties and the Statute of the ESCB and to ensure the necessary degree of integration of the NCBs into the ESCB. In particular, any provisions that infringe an NCB's independence, as defined in the Treaty, and its role as an integral part of the ESCB, should be adjusted. It is therefore insufficient to rely solely on the primacy of EU law over national legislation to achieve this.

The obligation in Article 131 of the Treaty only covers incompatibility with the Treaties and the Statute of the ESCB. However, national legislation that is incompatible with secondary EU legislation relevant for the areas of adaptation examined in this Convergence Report should be brought into line with such secondary legislation. The primacy of EU law does not affect the obligation to adapt national legislation. This general requirement derives not only from Article 131 of the Treaty but also from the case law of the Court of Justice of the European Union.[21]

The Treaties and the Statute of the ESCB do not prescribe the manner in which national legislation should be adapted. Compatibility may therefore be achieved by removing any national legislation which is incompatible with EU law or by referring to the Treaties and the Statute of the ESCB, or, exceptionally, by incorporating provisions thereof and referring to their provenance, subject to the following qualifications:

As a rule, a reproduction of relevant provisions of Union law directly applicable in the legal order of the Member State using the same language is to be avoided.[22] A reproduction may create uncertainty both as to the legal nature and origin of the applicable provisions and as to the date of their entry into force. This would not align with the principle of uniform application and interpretation of Union law throughout the Union.[23] Moreover, if a national provision uses wording that is different from that used

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20 As regards tasks and powers that have been partially conferred upon the ECB, any national legislation must be without prejudice to the tasks and powers conferred upon the ECB. See Opinion CON/2020/15.

21 See, amongst others, *Commission of the European Communities* v *French Republic*, C-265/95, ECLI:EU:C:1997:595.

22 See paragraph 12 of Opinion CON/2005/21, paragraph 2.4 of Opinion CON/2022/15, and paragraph 2.6 of Opinion CON/2023/27.

23 Judgment of the Court of Justice of 7 February 1973, *Commission* v *Italy*, C-39/72, ECLI:EU:C:1973:13, paragraphs 16 and 17; Judgment of the Court of Justice of 10 October 1973, *Variola*, C-34/73,

in the relevant Union provision, it creates regulatory content of its own. In accordance with Article 2(1) of the Treaty, the Union's exclusive competence in matters of monetary policy precludes Member States from adopting provisions which, in the light of their objective and content, establish legal rules governing the use of the euro as the single currency, unless Member States have been empowered to do so.[24] In this context, the concept of monetary policy is not limited to its operational implementation, which, under Article 127(2), first indent, of the Treaty is one of the basic tasks of the Eurosystem. It also has a regulatory dimension intended to guarantee the status of the euro as the single currency.[25]

In exceptional circumstances, a reproduction of relevant provisions of Union law directly applicable in the legal order of the Member State using the same language may be used for the sake of coherence and in order to make them comprehensible to the persons to whom they apply. Where such exceptional circumstances allowing for a reproduction of directly applicable provisions of Union law exist, provisions should be reproduced precisely, and the wording should not be modified.[26] Furthermore, provisions should be reproduced only to the extent warranted by the exceptional circumstances. However, such exceptional circumstances do not exist where the directly applicable provisions of Union law are sufficiently coherent and comprehensive, making it unnecessary to repeat or reflect them in national law.[27] Where directly applicable provisions of Union law are merely relevant in the context of the areas covered by the national law, the national law does not need to reference these provisions. To the extent that national law necessarily reproduces directly applicable provisions of Union law for the abovementioned reasons, it should do so in an explicit manner and clarify that its provisions are either "in accordance with" or "in compliance with" the relevant provisions of Union law, where the latter are merely reproduced to put the national law in the larger context, or "without prejudice to" the relevant provisions of Union law, where a national authority exercises residual competences that go beyond those exercised within the ESCB and the Eurosystem.[28]

Furthermore, as a tool for achieving and maintaining the compatibility of national legislation with the Treaties and the Statute of the ESCB, the ECB must be consulted by the EU institutions and by the Member States on draft legislative provisions in its fields of competence, pursuant to Articles 127(4) and 282(5) of the Treaty and Article 4

ECLI:EU:C:1973:101, paragraphs 9 to 11; Judgment of the Court of Justice of 2 February 1977, *Amsterdam Bulb*, C-50/76, ECLI:EU:C:1977:13, paragraphs 5 to 8. See also paragraph 12 of Opinion CON/2005/21, paragraph 2.1 of Opinion CON/2006/10, paragraph 2.4 of Opinion CON/2006/29, paragraph 2.1 of Opinion CON/2007/1, paragraph 2.2 of Opinion CON/2007/43, paragraph 2.3 of Opinion CON/2022/15, paragraph 2.3 of Opinion CON/2023/27 and paragraph 2.5 of Opinion CON/2024/12.

24 E.g. under the relevant provisions of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro (OJ L 139, 11.5.1998, p. 1) or other provisions of Union law.

25 Judgment of the Court of Justice of 26 January 2021, *Hessischer Rundfunk*, C-422/19 and C-423/19, ECLI:EU:C:2021:63, paragraphs 38 and 39, Judgment of the Court of Justice of 20 April 2023, *Brink's Lithuania*, C-772/21, ECLI:EU:C:2023:305, paragraphs 56 and 57.

26 See paragraph 2.2 (footnote 6) of Opinion CON/2007/43, paragraph 2.4 of Opinion CON/2022/15, paragraph 2.6 of Opinion CON/2023/27 and paragraph 2.7 of Opinion CON/2024/12.

27 See paragraph 13 of Opinion CON/2005/21, paragraphs 2.2 and 3.2 of Opinion CON/2006/10, paragraph 2.4 of Opinion CON/2022/15, paragraph 2.6 of Opinion CON/2023/27 and paragraph 2.7 of Opinion CON/2024/12.

28 See paragraph 2.6 of Opinion CON/2023/27 and paragraph 2.8 of Opinion CON/2024/12.

of the Statute of the ESCB. Council Decision 98/415/EC[29] expressly requires Member States to take the measures necessary to ensure compliance with this obligation.

2.2.3 Independence of NCBs

As far as central bank independence is concerned, national legislation in the Member States that joined the EU in 2004, 2007 or 2013 had to be adapted to comply with the relevant provisions of the Treaty and the Statute of the ESCB, and be in force on 1 May 2004, 1 January 2007 and 1 July 2013 respectively.[30] Sweden had to bring the necessary adaptations into force by the date of establishment of the ESCB on 1 June 1998.

Central bank independence

In November 1995, the EMI established a list of features of central bank independence (later described in detail in its 1998 Convergence Report) which were the basis for assessing the national legislation of the Member States at that time, in particular the NCBs' statutes. The concept of central bank independence includes various types of independence that must be assessed separately, namely: functional, institutional, personal, and financial independence. Over the past few years there has been further refinement of the analysis of these aspects of central bank independence in the opinions adopted by the ECB. These aspects are the basis for assessing the level of convergence between the national legislation of the Member States with a derogation and the Treaties and the Statute of the ESCB.

Functional independence

Central bank independence is not an end in itself but is instrumental in achieving an objective that should be clearly defined and should prevail over any other objective. Functional independence requires each NCB's primary objective to be stated in a clear and legally certain way and to be fully in line with the primary objective of price stability established by the Treaty. The pursuit of this objective is served by providing the NCBs with the necessary means and instruments for achieving this objective independently of any other authority. The Treaty's requirement of central bank independence reflects the generally held view that the primary objective of price stability is best served by a fully independent institution with a precise definition of its mandate. Central bank independence is fully compatible with holding NCBs accountable for their decisions, which is an important aspect of enhancing confidence in their independent status. This entails transparency and dialogue with third parties.

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[29] Council Decision 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions (OJ L 189, 3.7.1998, p. 42).

[30] This also applies to the ESCB's confidentiality regime; see Section 2.2.4 of this Convergence Report.

As regards timing, the Treaty is not clear about when the NCBs of Member States with a derogation must comply with the primary objective of price stability set out in Articles 127(1) and 282(2) of the Treaty and Article 2 of the Statute of the ESCB. For those Member States that joined the EU after the date of the introduction of the euro in the EU, it is not clear whether this obligation should run from the date of accession or from the date of their adoption of the euro. While Article 127(1) of the Treaty does not apply to Member States with a derogation (see Article 139(2)(c) of the Treaty), Article 2 of the Statute of the ESCB does apply to such Member States (see Article 42.1 of the Statute of the ESCB). The ECB takes the view that the obligation of the NCBs to have price stability as their primary objective runs from 1 June 1998 in the case of Sweden, and from 1 May 2004, 1 January 2007 and 1 July 2013 for the Member States that joined the EU on those dates. This is based on the fact that one of the guiding principles of the EU, namely price stability (Article 119 of the Treaty), also applies to Member States with a derogation. It is also based on the Treaty objective that all Member States should strive for macroeconomic convergence, including price stability, which is the intention behind the regular reports of the ECB and the European Commission. This conclusion is also based on the underlying rationale of central bank independence, which is only justified if the overall objective of price stability has primacy.

The country assessments in this report are based on these conclusions as to the timing of the obligation of the NCBs of Member States with a derogation to have price stability as their primary objective.

Institutional independence

Institutional independence is reflected in Article 130 of the Treaty and Article 7 of the Statute of the ESCB. These two articles prohibit the NCBs and members of their decision-making bodies from seeking or taking instructions from EU institutions or bodies, from any government of a Member State or from any other body. In addition, they prohibit EU institutions, bodies, offices or agencies, and the governments of the Member States from seeking to influence those members of the NCBs' decision-making bodies whose decisions may affect the fulfilment of the NCBs' ESCB-related tasks. For national legislation to mirror Article 130 of the Treaty and Article 7 of the Statute of the ESCB, it should reflect both prohibitions and not narrow the scope of their application.[31] The recognition that central banks have such independence does not have the consequence of exempting them from every rule of law or of shielding them from any kind of legislation.[32]

Whether an NCB is organised as a state-owned body, a special public law body or simply a public limited company, there is a risk that influence may be exerted by the owner on its decision-making in relation to ESCB-related tasks by virtue of such

[31] Opinion CON/2011/104.

[32] See paragraph 2.3 of Opinion CON/2019/15, paragraph 2.2 of Opinion CON/2024/24 and paragraph 2.2 of Opinion CON/2025/2. See also *Commission* v *European Central Bank*, C-11/00, ECLI:EU:C:2003:395, paragraphs 134 to 136.

ownership.[33] Such influence, whether exercised through shareholders' rights or otherwise, may affect an NCB's independence and should therefore be limited by law.

The legal framework for central banking needs to provide a stable and long-term basis for a central bank's functioning. Frequent changes to the institutional set-up of an NCB, affecting its organisational or governance stability, could adversely affect that NCB's institutional independence.[34]

Institutional independence should also be respected in cases of emergency. Only where the conditions under Article 347 of the Treaty are met, may national authorities be justified in exercising, on a temporary and exceptional basis, powers that fall within the exclusive competence of the ESCB. The critical time for this assessment is when the measure is adopted. Due to the exceptional nature of Article 347 of the Treaty, Member States should refrain from adopting preventive legislation in the absence of the conditions prescribed by Article 347 of the Treaty.[35]

Prohibition on giving instructions

Rights of third parties to give instructions to NCBs, their decision-making bodies or their members are incompatible with the Treaty and the Statute of the ESCB as far as ESCB-related tasks are concerned.

Any involvement of an NCB in the application of measures to strengthen financial stability must be compatible with the Treaty, i.e. NCBs' functions must be performed in a manner that is fully compatible with their functional, institutional, and financial independence so as to safeguard the proper performance of their tasks under the Treaty and the Statute of the ESCB.[36] To the extent that national legislation provides for a role of an NCB that goes beyond advisory functions and requires it to assume additional tasks, it must be ensured that these tasks will not affect the NCB's ability to carry out its ESCB-related tasks from an operational and financial point of view.[37] Additionally, the inclusion of NCB representatives in collegiate decision-making supervisory bodies or other authorities would need to give due consideration to safeguards for the personal independence of the members of the NCB's decision-making bodies.[38]

[33] Opinion CON/2019/23.

[34] See paragraph 2.2 of Opinion CON/2011/104 and paragraph 3.2.2 of Opinion CON/2017/34.

[35] See paragraph 2.2 of Opinion CON/2021/35.

[36] Opinion CON/2010/31.

[37] Opinion CON/2009/93.

[38] Opinion CON/2010/94.

Prohibition on approving, suspending, annulling or deferring decisions

Rights of third parties to approve, suspend, annul or defer an NCB's decisions are incompatible with the Treaty and the Statute of the ESCB as far as ESCB-related tasks are concerned.[39]

Prohibition on censoring decisions on legal grounds

A right for bodies other than independent courts to censor, on legal grounds, decisions relating to the performance of ESCB-related tasks is incompatible with the Treaty and the Statute of the ESCB, since the performance of these tasks may not be reassessed at the political level. A right of an NCB Governor to suspend the implementation of a decision adopted by the ESCB or by an NCB decision-making body on legal grounds and subsequently to submit it to a political body for a final decision would be equivalent to seeking instructions from third parties.

Prohibition on participation in decision-making bodies of an NCB with a right to vote

Participation by representatives of third parties in an NCB's decision-making body with a right to vote on matters concerning the performance by the NCB of ESCB-related tasks is incompatible with the Treaty and the Statute of the ESCB, even if such vote is not decisive.[40] Such participation even without the right to vote is incompatible with the Treaty and the Statute of the ESCB, if such participation interferes with the performance of ESCB-related tasks by that decision-making bodies or endangers compliance with the ESCB's confidentiality regime.[41]

Prohibition on ex ante consultation relating to an NCB's decision

An express statutory obligation for an NCB to consult third parties ex ante relating to an NCB's decision provides third parties with a formal mechanism to influence the final decision and is therefore incompatible with the Treaty and the Statute of the ESCB.

However, dialogue between an NCB and third parties, even when based on statutory obligations to provide information and exchange views, is compatible with central bank independence provided that:

- this does not result in interference with the independence of the members of the NCB's decision-making bodies;

39 Opinion CON/2016/33.

40 Regarding voting in general, the secret character of voting may contribute to safeguarding the independence of an NCB's decision-making bodies. However, the possibility of open voting is not excluded by the principle of institutional independence, see paragraph 2.3 of Opinion CON/2022/10.

41 Opinions CON/2014/25 and CON/2015/57.

- the special status of Governors in their capacity as members of the ECB's decision-making bodies is fully respected; and
- confidentiality requirements resulting from the Statute of the ESCB are observed.[42]

Discharge provided for the duties of members of the NCB's decision-making bodies

Statutory provisions regarding the discharge provided by third parties (e.g. governments) regarding the duties of members of the NCB's decision-making bodies (e.g. in relation to accounts) should contain adequate safeguards, so that such a power does not impinge on the capacity of the individual NCB member independently to adopt decisions in respect of ESCB-related tasks (or implement decisions adopted at ESCB level). Inclusion of an express provision to this effect in NCB statutes is recommended.

Personal independence

Article 130 of the Treaty and Articles 7 and 14.2 of the Statute of the ESCB further safeguard central bank independence in relation to Governors and members of NCBs' decision-making bodies. Governors are members of the General Council of the ECB and become members of the Governing Council upon adoption of the euro by their Member States. Governors cannot be regarded as representatives of a Member State when they perform their duties as members of the Governing Council or the General Council of the ECB.[43] Article 14.2 of the Statute of the ESCB provides that NCB statutes must, in particular, provide for a minimum term of office of five years for Governors. It also protects against Governors being arbitrarily relieved from their office by providing that they may only be relieved from office if they no longer fulfil the conditions required for performing their duties or if they have been found guilty of serious misconduct. In such cases, Article 14.2 of the Statute of the ESCB provides for the possibility of recourse to the Court of Justice of the European Union, which has the power to annul the national decision taken to relieve a Governor from office.[44] The suspension of a Governor may effectively amount to relieving a Governor from office for the purposes of Article 14.2 of the Statute of the ESCB.[45] NCB statutes must comply with this provision as set out below.

Article 130 of the Treaty prohibits national governments and any bodies from influencing the members of NCBs' decision-making bodies in the performance of their tasks. In particular, Member States may not seek to influence the members of the

[42] Opinion CON/2018/17.

[43] See *LR Ģenerālprokuratūra*, C-3/20, ECLI:EU:C:2021:969, paragraph 43.

[44] See *Rimšēvičs and ECB* v *Latvia*, C-202/18 and C-238/18, ECLI:EU:C:2019:139, paragraph 76.

[45] See *Rimšēvičs and ECB* v *Latvia*, C-202/18 and C-238/18, ECLI:EU:C:2019:139, paragraph 52, and paragraph 3.7 of Opinion CON/2011/9.

NCB’s decision-making bodies by amending national legislation affecting their remuneration, which, as a matter of principle, should apply only for future appointments.[46] However, the independence requirements laid down in Article 130 of the Treaty are not breached by changes in the remuneration of the members of NCBs’ decision-making bodies which are based on objective criteria, for example, by benchmarking salaries with the aim of ensuring proportionality between the different hierarchical positions at an NCB.[47]

Minimum term of office for Governors

In accordance with Article 14.2 of the Statute of the ESCB, NCB statutes must provide for a minimum term of office of five years for a Governor. This does not preclude longer terms of office, while an indefinite term of office does not require adaptation of the statutes provided the grounds for the relieving a Governor from office are in line with those of Article 14.2 of the Statute of the ESCB. Shorter periods cannot be justified even if only applied during a transitional period.[48] National legislation which provides for a compulsory retirement age should ensure that the retirement age does not interrupt the minimum term of office provided by Article 14.2 of the Statute of the ESCB, which prevails over any compulsory retirement age, if applicable to a Governor.[49] When NCB statutes are amended, the amending law should safeguard the security of tenure of the Governor and of other members of decision-making bodies who are involved in the performance of ESCB-related tasks.[50]

Grounds for relieving Governors from office

NCB statutes must ensure that Governors may not be dismissed for reasons other than those mentioned in Article 14.2 of the Statute of the ESCB. The purpose of the requirement under that Article is to prevent the authorities involved in the appointment of Governors, particularly the relevant government or parliament, from arbitrarily dismissing a Governor. NCB statutes should delete any incompatibility with the grounds for relieving from office laid down in Article 14.2 of the Statute of the ESCB or omit any mention of grounds for relieving from office (since Article 14.2 is directly applicable).[51] Once elected or appointed, Governors may not be relieved from office under conditions other than those mentioned in Article 14.2 of the Statute of the ESCB even if they have not yet taken up their duties. As the conditions under which a Governor may be relieved from office are autonomous concepts of Union law, their

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46 See, for example, Opinions CON/2010/56, CON/2010/80, CON/2011/104, CON/2011/106 and CON/2021/9.

47 See paragraph 3.3.3 of Opinion CON/2024/38.

48 Opinion CON/2018/23.

49 Opinion CON/2012/89.

50 Opinions CON/2018/17, CON/2019/19 and CON/2019/36.

51 Opinion CON/2018/53.

application and interpretation do not depend on national contexts.[52] Ultimately, it is for the Court of Justice of the European Union, in accordance with the powers conferred on it by Article 14.2, second subparagraph, of the Statute of the ESCB, to interpret these concepts.[53]

Security of tenure and grounds for relieving from office of members of NCBs' decision-making bodies, other than Governors, who are involved in the performance of ESCB-related tasks

Applying the same rules for the security of tenure and grounds for relieving of Governors from office to other members of the decision-making bodies of NCBs involved in the performance of ESCB-related tasks will also safeguard the personal independence of those persons.[54] Article 130 of the Treaty and Article 7 of the Statute of the ESCB refer to "members of the decision-making bodies" of NCBs, rather than to Governors specifically. This applies in particular where a Governor is "first among equals" with colleagues with equivalent voting rights or where such other members are involved in the performance of ESCB-related tasks.

Right of judicial review

Governors as well as other members of the NCBs' decision-making bodies must have the right to submit any decision to relieve them from their office to an independent court of law, in order to limit the potential for political discretion in evaluating the grounds for such a decision.

Article 14.2 of the Statute of the ESCB stipulates that Governors who have been dismissed from office may refer such a decision to the Court of Justice of the European Union. The Court of Justice of the European Union has the power to annul the national measure of dismissal if it is found to be contrary to Union law.

On the basis of Article 130 of the Treaty and Article 7 of the Statute of the ESCB, national legislation should provide for a right of review by the national courts of a decision to dismiss members of NCBs' decision-making bodies (other than Governors) involved in the performance of ESCB-related tasks.[55] This right can either be a matter of general law or can it take the form of a specific provision. Even though this right may be available under the general law, for reasons of legal certainty it could be advisable to provide specifically for such a right of review.

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[52] See Opinion CON/2019/36 and the Opinion of Advocate General Kokott in *Rimšēvičs and ECB* v *Latvia*, Joined Cases C-202/18 and C-238/18, ECLI:EU:C:2018:1030, paragraph 77.

[53] See *Rimšēvičs and ECB* v *Latvia*, Joined Cases C-202/18 and C-238/18, ECLI:EU:C:2019:139, paragraph 92: "[I]t is for the Court, in the context of the powers conferred on it by the second subparagraph of Article 14.2 of the Statute of the ESCB and of the ECB, to verify that a temporary prohibition on the governor concerned performing his duties is taken only if there are sufficient indications that he has engaged in serious misconduct capable of justifying such a measure."

[54] Opinions CON/2004/35, CON/2005/26, CON/2006/32, CON/2006/44, CON/2007/6, CON/2019/19 and CON/2019/24.

[55] Opinion CON/2022/45.

Safeguards against conflicts of interest

Personal independence also entails ensuring that no conflict of interest arises between the duties of members of NCB decision-making bodies involved in the performance of ESCB-related tasks in relation to their respective NCBs (and of Governors also in relation to the ECB) and any other functions which such members of decision-making bodies may have and which may jeopardise their personal independence.[56] As a matter of principle, membership of a decision-making body involved in the performance of ESCB-related tasks is incompatible with the exercise of other functions that might create a conflict of interest. In particular, members of such decision-making bodies may not hold an office or have an interest that may influence their activities, whether through office in the executive or legislative branches of the state or in regional or local administrations, or through involvement in a business organisation. Particular care should be taken to prevent potential conflicts of interest on the part of non-executive members of decision-making bodies.

Financial independence

The overall independence of an NCB would be jeopardised if it could not autonomously avail itself of sufficient financial resources to fulfil its mandate, i.e. to perform the ESCB-related tasks required of it under the Treaty and the Statute of the ESCB.[57]

Member States may not put their NCBs in a position where they have insufficient financial resources and inadequate net equity[58] to carry out their ESCB or Eurosystem-related tasks, as applicable. This would be the case if, for example, an NCB was precluded from building up adequate financial resources in the form of reserves or buffers to offset losses, particularly those resulting from monetary policy operations, and the Member State concerned did not ensure in advance that the NCB had the necessary funds to bear the financial burden resulting from exercising a function outside the scope of the ESCB (such as the funds necessary to be able to pay the compensation resulting from the liability regime for that function), while retaining its ability to carry out its ESCB tasks effectively and independently.[59] It should be noted that Articles 28.1 and 30.4 of the Statute of the ESCB provide for the possibility of the ECB making further calls on the NCBs to contribute to the ECB's capital and to make further transfers of foreign reserves.[60] Moreover, Article 33.2 of the Statute of the ESCB provides[61] that, in the event of a loss incurred by the ECB which cannot be fully

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[56] In this regard, Member States are free to set the conditions required for the appointment of the members of the decision-making bodies of their NCBs, provided that they do not conflict with the features of central bank independence flowing from the Treaties. See Opinions CON/2018/23, CON/2020/19 and CON/2021/9.

[57] Opinions CON/2021/7 and CON/2023/17.

[58] Opinions CON/2014/24, CON/2014/27, CON/2014/56 and CON/2017/17.

[59] Opinions CON/2023/17 and CON/2023/44. See also *Banka Slovenije*, Case C-45/21, ECLI:EU:C:2022:670, paragraph 105.

[60] Article 30.4 of the Statute of the ESCB only applies within the Eurosystem.

[61] Article 33.2 of the Statute of the ESCB only applies within the Eurosystem.

offset against the general reserve fund, the ECB's Governing Council may decide to offset the remaining loss against the monetary income of the relevant financial year in proportion to and up to the amounts allocated to the NCBs. The principle of financial independence means that compliance with these provisions requires an NCB to be able to perform its functions unimpaired.

For all the reasons mentioned above, financial independence also implies that an NCB should always be sufficiently capitalised. In particular, any situation should be avoided whereby for a prolonged period of time an NCB's net equity is below the level of its statutory capital or is even negative, including where losses beyond the level of capital and the reserves are carried over.[62] Any such situation may negatively impact on the NCB's ability to perform its ESCB-related tasks. Moreover, such a situation may affect the credibility of the Eurosystem's monetary policy. Therefore, the event of an NCB's net equity becoming less than its statutory capital or even negative would require that the respective Member State provides the NCB with an appropriate amount of capital at least up to the level of the statutory capital within a reasonable period of time so as to comply with the principle of financial independence. As concerns the ECB, the relevance of this issue has already been recognised by the Council by adopting Council Regulation (EC) No 1009/2000.[63] It enabled the Governing Council of the ECB to decide on an actual increase of the ECB's capital to sustain the adequacy of the capital base to support the operations of the ECB;[64] NCBs should be financially able to respond to such ECB decision.

The concept of financial independence should be assessed from the perspective of whether any third party is able to exercise either direct or indirect influence not only over an NCB's ESCB-related tasks but also over its ability to fulfil its mandate financially in terms of appropriate financial resources. The aspects of financial independence set out below are particularly relevant in this respect.[65] These are the features of financial independence where NCBs are most vulnerable to outside influence.

Determination of budget

If a third party has the power to determine or influence an NCB's budget, this is incompatible with financial independence unless the law provides a safeguard clause so that such a power is without prejudice to the financial means necessary for carrying out the NCB's ESCB-related tasks.[66]

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62 Opinions CON/2018/17, CON/2020/13, CON/2022/37, CON/2023/17 and CON/2023/24.

63 Council Regulation (EC) No 1009/2000 of 8 May 2000 concerning capital increases of the European Central Bank (OJ L 115, 16.5.2000, p. 1).

64 Decision ECB/2010/26 of 13 December 2010 on the increase of the ECB's capital (OJ L 11, 15.1.2011, p. 53).

65 The main formative ECB opinions in this area are: Opinions CON/2002/16, CON/2003/22, CON/2003/27, CON/2004/1, CON/2006/38, CON/2006/47, CON/2007/8, CON/2008/13, CON/2008/68 and CON/2009/32.

66 Opinion CON/2019/12.

The accounting rules

The accounts should be drawn up either in accordance with general accounting rules or in accordance with rules specified by an NCB's decision-making bodies. If, instead, such rules are specified by third parties, the rules must at least take into account what has been proposed by the NCB's decision-making bodies.

The annual accounts should be adopted by the NCB's decision-making bodies, assisted by independent accountants, and may be subject to ex post approval by third parties (e.g. the government or parliament). The NCB's decision-making bodies should be able to decide on the calculation of the profits independently and professionally.

Where an NCB's operations are subject to the control of a state audit office or similar body charged with controlling the use of public finances, the scope of the control should be clearly defined by the legal framework,[67] should be without prejudice to the activities of the NCB's independent external auditors[68] and further, in line with the principle of institutional independence, it should comply with the prohibition on giving instructions to an NCB and its decision-making bodies and should not interfere with the NCB's ESCB-related tasks.[69] The state audit should be done on a non-political, independent and purely professional basis.[70]

Distribution of profits, NCBs' capital and financial provisions

With regard to profit allocation, an NCB's statutes may prescribe how its profits are to be allocated. In the absence of such provisions, decisions on the allocation of profits should be taken by the NCB's decision-making bodies on professional grounds, and should not be subject to the discretion of third parties unless there is an express safeguard clause stating that this is without prejudice to the financial means necessary for carrying out the NCB's ESCB-related tasks.[71]

Profits may be distributed to the State budget only after any accumulated losses from previous years have been covered and financial provisions deemed necessary to safeguard the real value of the NCB's capital and assets have been created.[72] Temporary or ad hoc legislative measures amounting to instructions to the NCBs in relation to the distribution of their profits are not permissible.[73] Similarly, a tax on an

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67 Opinion CON/2019/19.

68 For the activities of the independent external auditors of the NCBs see Article 27.1 of the Statute of the ESCB.

69 Opinions CON/2011/9, CON/2011/53, CON/2015/57 and CON/2018/17.

70 Opinions CON/2015/8, CON/2015/57, CON/2016/24, CON/2016/59 and CON/2018/17.

71 Opinions CON/2017/17 and CON/2018/17.

72 Opinions CON/2009/85, CON/2017/17, CON/2022/37 and CON/2023/24, and paragraph 3.2 of Opinion CON/2024/32.

73 Opinions CON/2009/26 and CON/2013/15.

NCB's unrealised capital gains would also impair the principle of financial independence.[74]

A Member State may not impose reductions of capital on an NCB without the ex ante agreement of the NCB's decision-making bodies, which must aim to ensure that it retains sufficient financial means to fulfil its mandate under Article 127(2) of the Treaty and the Statute of the ESCB as a member of the ESCB. For the same reason, any amendment to the profit distribution rules of an NCB should only be initiated and decided in close cooperation with the NCB, which is best placed to assess its required level of reserve capital.[75] As regards financial provisions or buffers, NCBs must be free to independently create financial provisions to safeguard the real value of their capital and assets. Member States may also not hamper NCBs from building up their reserve capital to a level which is necessary for a member of the ESCB to fulfil its tasks.[76]

Financial liability for supervisory authorities

Most Member States place their financial supervisory authorities within their NCB. This is unproblematic if such authorities are subject to the NCB's independent decision-making. However, if the law provides for separate decision-making by such supervisory authorities, it is important to ensure that decisions adopted by them do not endanger the finances of the NCB as a whole. In such cases, national legislation should enable the NCB to have ultimate control over any decision by the supervisory authorities that could affect an NCB's independence, in particular its financial independence.[77]

Autonomy in staff matters

Member States may not impair an NCB's ability to employ and retain the qualified staff necessary for the NCB to perform independently the tasks conferred on it by the Treaty and the Statute of the ESCB.[78] Also, an NCB may not be put into a position where it has limited control or no control over its staff, or where the government of a Member State can influence its policy on staff matters.[79] Any amendment to the legislative provisions on the remuneration for members of an NCB's decision-making bodies and its employees should be decided in close and effective cooperation with the NCB,[80] taking due account of its views, to ensure the ongoing ability of the NCB to

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74 Opinions CON/2009/59 and CON/2009/63.

75 Opinions CON/2009/53, CON/2009/83 and CON/2019/21.

76 Opinions CON/2009/26, CON/2012/69 and CON/2020/13.

77 Opinion CON/2021/7.

78 Opinion CON/2019/19.

79 Opinions CON/2008/9, CON/2008/10, CON/2012/89 and CON/2023/37.

80 Opinion CON/2019/19.

independently carry out its tasks.[81] Autonomy in staff matters extends to issues relating to staff pensions. Further, amendments that lead to reductions in the remuneration for an NCB's staff should not interfere with that NCB's powers to administer its own financial resources, including the funds resulting from any reduction in salaries that it pays.[82]

Ownership and property rights

Rights of third parties to intervene or to issue instructions to an NCB in relation to the property held by an NCB are incompatible with the principle of financial independence.

2.2.4 Confidentiality

The obligation of professional secrecy for ECB and NCB staff as well as for the members of the ECB and NCB governing bodies under Article 37 of the Statute of the ESCB may give rise to similar provisions in NCBs' statutes or in the Member States' legislation. The primacy of Union law and rules adopted thereunder also means that national laws on access by third parties to documents should comply with relevant Union law provisions, including Article 37 of the Statute of the ESCB, and may not lead to infringements of the ESCB's confidentiality regime.[83] The access of a state audit office or similar body to an NCB's confidential information and documents must be limited to what is necessary for the performance of the statutory tasks of the body that receives the information and must be without prejudice to the ESCB's independence and the ESCB's confidentiality regime to which the members of NCBs' decision-making bodies and staff are subject.[84] NCBs should ensure that such bodies protect the confidentiality of information and documents disclosed at a level corresponding to that applied by the NCBs.

2.2.5 Prohibition on monetary financing and privileged access

On the monetary financing prohibition and the prohibition on privileged access, the national legislation of the Member States that joined the EU in 2004, 2007 or 2013 had to be adapted to comply with the relevant provisions of the Treaty and the Statute of the ESCB and be in force on 1 May 2004, 1 January 2007 and 1 July 2013 respectively. Sweden had to bring the necessary adaptations into force by 1 January 1995.

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81 Opinions CON/2010/42, CON/2010/51, CON/2010/56, CON/2010/69, CON/2010/80, CON/2011/104, CON/2011/106, CON/2012/6, CON/2012/86, CON/2014/7 and CON/2023/37.

82 Opinion CON/2014/38.

83 Opinion CON/2021/16.

84 Opinions CON/2015/8 and CON/2015/57.

Prohibition on monetary financing

Article 123(1) of the Treaty prohibits overdraft facilities or any other type of credit facility with the ECB or with the NCBs in favour of EU institutions, bodies, offices or agencies, central governments, regional, local, or other public authorities, other bodies governed by public law, or public undertakings of Member States.

It also prohibits the purchase directly from these public sector entities by the ECB or NCBs of debt instruments. The Treaty contains one exemption from this monetary financing prohibition: it does not apply to publicly owned credit institutions which, in the context of the supply of reserves by central banks, must be given the same treatment as private credit institutions (Article 123(2) of the Treaty). The precise scope of application of the monetary financing prohibition is further clarified by Council Regulation (EC) No 3603/93,[85] according to which the prohibition includes any financing of the public sector's obligations vis-à-vis third parties.

The monetary financing prohibition aims to encourage the Member States to follow a sound budgetary policy not allowing monetary financing of public deficits (or privileged access by public authorities to the financial markets) to lead to excessively high levels of debt or excessive Member State deficits.[86] Therefore the prohibition must be interpreted extensively in order to ensure its strict application, subject only to the limited exemptions contained in Article 123(2) of the Treaty and Regulation (EC) No 3603/93. Thus, even if Article 123(1) of the Treaty refers specifically to "credit facilities", i.e. with the obligation to repay the funds, the prohibition applies a fortiori to other forms of funding, i.e. without the obligation to repay.

The ECB's general stance on the compatibility of national legislation with the prohibition has primarily been developed within the framework of consultations of the ECB by Member States on draft national legislation under Articles 127(4) and 282(5) of the Treaty.[87]

National legislation relating to the scope of application of the monetary financing prohibition

National legislation may not narrow the scope of application of the monetary financing prohibition or extend the exemptions available under EU law. For example, national legislation providing for the financing by the NCB of a Member State's financial commitments to international financial institutions or to third countries is, in principle, incompatible with the monetary financing prohibition. As an exemption, Regulation (EC) No 3603/93 allows for the financing by the NCBs of obligations falling upon the

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85 Council Regulation (EC) No 3603/93 of 13 December 1993 specifying definitions for the application of the prohibitions referred to in Articles 104 and 104b (1) of the Treaty (OJ L 332, 31.12.1993, p. 1). Articles 104 and 104b(1) of the Treaty establishing the European Community are now Articles 123 and 125(1) of the Treaty on the Functioning of the European Union.

86 *Peter Gauweiler and Others*, C-62/14, ECLI:EU:C:2015:400, paragraph 100. Article 123 of the Treaty also serves the objective of maintaining price stability and reinforces central bank independence.

87 See Convergence Report 2008, footnote 13, containing a list of formative EMI/ECB opinions in this area adopted between May 1995 and March 2008.

public sector vis-à-vis the IMF provided that it results in foreign claims which have all the characteristics of reserve assets.[88] The relevant characteristics that determine the reserve asset quality of the claims concern their availability on demand to meet balance of payments financing needs and other related purposes, which implies that the credit quality and liquidity of the claims must be ensured.[89]

National legislation conferring tasks upon NCBs

National legislation assigning tasks to NCBs may not lead to any financing of the public sector's obligations vis-à vis third parties. In accordance with Article 14.4 of the Statute of the ESCB, NCBs may perform functions other than those specified in the Statute of the ESCB unless the Governing Council finds that these functions interfere with the objectives and tasks of the ESCB. Where a Member State assigns such a function to its NCB, that NCB is responsible and liable for the performance of that function. Nevertheless, when defining the responsibility and liability of an NCB in relation to that function, Member States are required to comply with their obligations deriving from Union law and, in particular, Article 123(1) of the Treaty.[90]

Article 1(1), point (b), of Council Regulation (EC) No 3603/93 defines the term "other type of credit facility" for the purposes of Article 123 of the Treaty as, inter alia, any financing of the public sector's obligations vis-à-vis third parties. Accordingly, the NCB concerned must not assume obligations vis-a-vis third parties that could potentially be incumbent on the public sector. Consequently, the NCB concerned must not finance pre-existing obligations vis-à-vis third parties that are incumbent on other public authorities or bodies and the effective financing of the obligations vis-à-vis third parties by the NCB concerned must not result directly from the measures adopted or the policy choices made by other public authorities or bodies.[91]

Advanced distribution of central bank profits

National legislation may not require the distribution of central bank profits which have not been fully realised, accounted for and audited. To comply with the monetary financing prohibition, the amount distributed to the State budget pursuant to the applicable profit distribution rules cannot be paid, even partially, from the NCB's reserve capital. Therefore, profit distribution rules should leave unaffected the NCB's reserve capital. Moreover, when NCB assets are transferred to the State, they must be

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88 Recital 14 and Article 7 of Regulation (EC) No 3603/93. See, for example, Opinions CON/2016/21, CON/2017/4, CON/2020/37 and CON/2021/23.

89 See Opinion CON/2021/39.

90 *Banka Slovenije*, C-45/21, ECLI:EU:C:2022:670, paragraphs 53, 54, 57 and 97. See, for example, Opinions CON/2022/39, paragraph 2.2, CON/2023/17, paragraph 2.2.1, and CON/2023/44, paragraph 2.3.

91 *Banka Slovenije*, C-45/21, ECLI:EU:C:2022:670, paragraphs 67 to 75 and 84. See, for example, paragraph 3.1 of Opinion CON/2022/39, paragraph 2.2.2 of Opinion CON/2023/17, and paragraph 3.1.1 of Opinion CON/2023/44.

remunerated at market value and the transfer should take place at the same time as the remuneration.[92]

Similarly, intervention in the performance of other Eurosystem tasks, such as the management of foreign reserves, by introducing taxation of theoretical and unrealised capital gains is not permitted since this would result in a form of central bank credit to the public sector through the advanced distribution of future and uncertain profits.[93]

Assumption of public sector liabilities

National legislation which requires an NCB to take over the liabilities of a previously independent public body, as a result of a national reorganisation of certain tasks and duties (for example, in the context of a transfer to the NCB of certain supervisory tasks previously carried out by the state or independent public authorities or bodies), without fully insulating the NCB from all financial obligations resulting from the prior activities of such a body, would be incompatible with the monetary financing prohibition.[94]

National legislation holding an NCB liable on account of the exercise of a task assigned to it under national law would entail the assumption of a pre-existing obligation vis-à-vis third parties and be incompatible with the monetary financing prohibition if the third parties who have suffered harm were not compensated as a result of the NCB's actions, i.e. the infringement by the NCB of the rules imposed on it in that context.[95] In addition, in case of tasks that require implementation of highly complex and urgent measures, such as those relating to the reorganisation or resolution of banks or central counterparties, national legislation holding an NCB liable on account of the exercise of such tasks would amount to the effective financing of the obligations vis-à-vis third parties if the NCB's liability was not limited to infringements of a serious nature of the rules imposed on it in that context.[96]

The Court of Justice has not yet elaborated on what the limitations to infringements of a serious nature of the rules imposed on an NCB exactly consist of. In view of the different traditions for the liability of NCBs in the Member States' national legal orders, such limitations may take different forms provided that they exclude the effective financing of the obligations of the public sector vis-à-vis third parties. This is the case if national law addresses the condition of fault and limits the liability of the NCB concerned to gross negligence in view of the urgency and complexity of the case at hand.[97] The effective financing of the obligations of the public sector vis-à-vis third parties is also excluded if national law addresses the condition of unlawful conduct instead of fault and limits judicial review or relevant measures by granting a large

[92] Opinions CON/2011/91 and CON/2011/99.

[93] Opinions CON/2009/59 and CON/2009/63.

[94] Opinion CON/2013/56.

[95] *Banka Slovenije*, C-45/21, ECLI:EU:C:2022:670, paragraph 71.

[96] *Banka Slovenije*, C-45/21, ECLI:EU :C :2022 :670, paragraph 75. See, for example, paragraph 2.2.3 of Opinion CON/2023/17, and paragraphs 3.1.2 and 3.1.3 of Opinion CON/2023/44.

[97] Paragraph 2.2.3 of Opinion CON/2023/17.

margin of discretion to the NCB concerned in view of the urgency and complexity of the case at hand.[98]

Financial support for credit and/or financial institutions

National legislation which provides for financing by an NCB, even if granted independently and at their full discretion, of insolvent credit and/or other financial institutions would be incompatible with the monetary financing prohibition.

The same would apply to the Eurosystem financing of a credit institution which has been recapitalised to restore its solvency by way of a direct placement of state-issued debt instruments where no alternative market-based funding sources exist (hereinafter “recapitalisation bonds”), and where such bonds are to be used as collateral. In such case of a state recapitalisation of a credit institution by way of direct placement of recapitalisation bonds, the subsequent use of the recapitalisation bonds as collateral in central bank liquidity operations raises monetary financing concerns.[99] Emergency liquidity assistance, granted by an NCB independently and at its full discretion to a solvent credit institution on the basis of collateral security in the form of a State guarantee, has to meet the following criteria: (a) it must be ensured that the credit provided by the NCB is as short term as possible; (b) there must be systemic stability aspects at stake; (c) there must be no doubts as to the legal validity and enforceability of the State guarantee under applicable national law; and (iv) there must be no doubts as to the economic adequacy of the State guarantee, which should cover both principal and interest on the loans.[100]

Financial support for resolution funds or financial arrangements and deposit insurance or investor compensation schemes

The financing by an NCB of a resolution fund or a deposit guarantee fund that qualifies as a “body governed by public law” within the meaning of Article 123(1) of the Treaty is not compatible with the monetary financing prohibition. A body is “governed by public law” if it has all of the following characteristics: (a) it is established for the specific purpose of meeting needs in the general interest, not having an industrial or commercial character; (b) it has legal personality; and (c) it is closely dependent on the public sector entities referred to in Article 123(1) of the Treaty. A close dependence on those public sector entities is presumed when a body is financed, for the most part, by them; or is subject to management supervision by them; or has an administrative, managerial or supervisory board, more than half of whose members are appointed by them.[101]

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98 Paragraph 3.2.3 of Opinion CON/2024/31.

99 Opinions CON/2012/50, CON/2012/64, and CON/2012/71.

100 Opinion CON/2012/4, footnote 42 referring to further relevant Opinions in this field. See also Opinions CON/2016/55 and CON/2017/1.

101 Opinions CON/2020/24 and CON/2021/17.

Even if the financing is not provided to a “body governed by public law”, the financing of any resolution fund or financial arrangement is not in line with the monetary financing prohibition.[102] Where an NCB acts as resolution authority, it should not, under any circumstances, assume or finance any obligation of either a bridge institution or an asset management vehicle.[103] To this end, national legislation should clarify that the NCB will not assume or finance any of these entities’ obligations.[104]

The Deposit Guarantee Schemes Directive[105] and the Investor Compensation Schemes Directive[106] provide that the costs of financing deposit guarantee schemes and investor compensation schemes must be borne, respectively, by credit institutions and investment firms themselves. With the exception of financing a “body governed by public law”, national legislation which provides for the financing by an NCB of a national deposit insurance scheme for credit institutions or a national investor compensation scheme for investment firms would be compatible with the monetary financing prohibition only if it were short term, addressed urgent situations, systemic stability aspects were at stake, and decisions were at the NCB’s discretion.[107] In particular, central bank support for deposit guarantee schemes should not amount to a systematic pre-funding operation.[108]

Fiscal agency function

Article 21.2 of the Statute of the ESCB establishes that the “ECB and the national central banks may act as fiscal agents” for “Union institutions, bodies, offices or agencies, central governments, regional local or other public authorities, other bodies governed by public law, or public undertakings of Member States”. The purpose of Article 21.2 of the Statute of the ESCB is, following transfer of the monetary policy competence to the Eurosystem, to clarify that NCBs may continue to provide the fiscal agent service traditionally provided to governments and other public entities without infringing the monetary financing prohibition. In addition, Regulation (EC) No 3603/93 establishes a number of explicit and narrowly drafted exemptions from the monetary financing prohibition relating to the fiscal agency function, as follows: (a) intra-day credits to the public sector are permitted provided that they remain limited to the day and that no extension is possible;[109] (b) crediting the public sector’s account with cheques issued by third parties before the drawee bank has been debited is permitted if a fixed period of time corresponding to the normal period for the collection of cheques by the NCB concerned has elapsed since receipt of the cheque, provided

[102] Opinions CON/2015/22, CON/2016/28 and CON/2019/16.

[103] Opinions CON/2011/103, CON/2012/99, CON/2015/3 and CON/2015/22.

[104] Opinions CON/2015/33, CON/2015/35 and CON/2016/60.

[105] Recital 27 of Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (OJ L 173, 12.6.2014, p. 149).

[106] Recital 23 of Directive 97/9/EC of the European Parliament and of the Council of 3 March 1997 on investor-compensation schemes (OJ L 84, 26.3.1997, p. 22).

[107] Opinions CON/2020/24 and CON/2021/17.

[108] Opinion CON/2011/84.

[109] Article 4 of Regulation (EC) No 3603/93 and Opinion CON/2013/2.

that any float which may arise is exceptional, is of a small amount and averages out in the short term;[110] and (c) the holding of coins issued by and credited to the public sector is permitted where the amount of such assets remains at less than 10 % of coins in circulation.[111]

National legislation on the fiscal agency function should be compatible with EU law in general, and with the monetary financing prohibition in particular.[112] Taking into account the express recognition in Article 21.2 of the Statute of the ESCB of the provision of fiscal agency services, which is a legitimate function traditionally performed by NCBs, the provision by central banks of fiscal agency services complies with the monetary financing prohibition, provided that such services remain within the field of the fiscal agency function and do not constitute central bank financing of public sector obligations vis-à-vis third parties or central bank crediting of the public sector outside the narrowly defined exceptions specified in Regulation (EC) No 3603/93.[113] National legislation that enables an NCB to hold government deposits and to service government accounts does not raise concerns about compliance with the monetary financing prohibition as long as such provisions do not enable the extension of credit, including overnight overdrafts. However, there would be a concern about compliance with the monetary financing prohibition if, for example, national legislation were to enable the remuneration of deposits or current account balances above, rather than at or below, market rates. Remuneration that is above market rates constitutes a de facto credit, contrary to the objective of the prohibition on monetary financing, and might therefore undermine that objective. It is essential for any remuneration of an account to reflect market parameters and it is particularly important to correlate the remuneration rate of the deposits with their maturity.[114] Moreover, the provision without remuneration by an NCB of fiscal agent services does not raise monetary financing concerns, provided they are core fiscal agent services.[115]

Prohibition on privileged access

Article 124 of the Treaty provides that “[a]ny measure, not based on prudential considerations, establishing privileged access by Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States to financial institutions, shall be prohibited”. As with the monetary financing prohibition, the prohibition of privileged access aims to encourage the Member States to follow a sound budgetary policy, not allowing (monetary financing of public deficits or)

[110] Article 5 of Regulation (EC) No 3603/93.

[111] Article 6 of Regulation (EC) No 3603/93.

[112] Opinion CON/2013/3.

[113] Opinions CON/2009/23, CON/2009/67 and CON/2012/9.

[114] See, among others, Opinions CON/2010/54, CON/2010/55 and CON/2013/62.

[115] Opinion CON/2012/9.

privileged access by public authorities to the financial markets to lead to excessively high levels of debt or excessive Member State deficits.[116]

Under Article 1(1) of Council Regulation (EC) No 3604/93,[117] privileged access is understood as any law, regulation or other binding legal instrument adopted in the exercise of public authority which: (a) obliges financial institutions to acquire or to hold liabilities of EU institutions or bodies, central governments, regional, local or other public authorities, other bodies governed by public law or public undertakings of Member States, or (b) confers tax advantages that only benefit financial institutions or financial advantages that do not comply with the principles of a market economy, in order to encourage those institutions to acquire or hold such liabilities.

As public authorities, NCBs may not take measures granting privileged access to financial institutions by the public sector if such measures are not based on prudential considerations. Furthermore, the rules on the mobilisation or pledging of debt instruments enacted by the NCBs must not be used as a means of circumventing the prohibition on privileged access.[118] Member States' legislation in this area may not establish such privileged access.

Article 2 of Regulation (EC) No 3604/93 defines "prudential considerations" as those which underlie national laws, regulations or administrative actions based on, or consistent with, EU law and designed to promote the soundness of financial institutions so as to strengthen the stability of the financial system as a whole and the protection of the customers of those institutions. Prudential considerations seek to ensure that banks remain solvent with regard to their depositors.[119] In the area of prudential supervision, EU secondary legislation has established a number of requirements to ensure the soundness of credit institutions.[120] A "credit institution" has been defined as an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.[121] Additionally, credit institutions, commonly referred to as "banks", require an authorisation by a competent Member State authority to provide services.[122]

Although minimum reserves might be seen as a part of prudential requirements, they are part of an NCB's operational framework and used as a monetary policy tool in

116 See, to that effect, *Smaranda Bara and Others* v *Casa Naţională de Asigurări de Sănătate and Others*, C-201/14, ECLI:EU:C:2015:638, paragraph 22; and *Peter Gauweiler and Others*, C-62/14, ECLI:EU:C:2015:400, paragraph 100.

117 Council Regulation (EC) No 3604/93 of 13 December 1993 specifying definitions for the application of the prohibition of privileged access referred to in Article 104a of the Treaty (OJ L 332, 31.12.1993, p. 4). Article 104a of the Treaty establishing the European Community is now Article 124 of the Treaty.

118 Article 3(2) of and recital 10 of Regulation (EC) No 3604/93.

119 Opinion of Advocate General Elmer in *Société civile immobilière Parodi* v *Banque H. Albert de Bary et Cie.,* C-222/95, ECLI:EU:C:1997:345, paragraph 24.

120 Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (OJ L 176, 27.06.2013, p. 1) and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.06.2013, p. 338).

121 Article 4(1), point (1), of Regulation (EU) No 575/2013.

122 Article 8 of Directive 2013/36/EU.

most economies, including in the euro area.[123] In this respect, paragraph 2 of Annex I to Guideline (EU) 2015/510 of the European Central Bank (ECB/2014/60)[124] states that the Eurosystem's minimum reserve system primarily pursues the aims of stabilising the money market interest rates and creating (or enlarging) a structural liquidity shortage.[125] The ECB requires credit institutions established in the euro area to hold the required minimum reserves (in the form of deposits) on account with their NCB.[126]

This report focuses on the compatibility both of national legislation or rules adopted by NCBs and of the NCBs' statutes with the Treaty prohibition on privileged access. However, this report is without prejudice to an assessment of whether laws, regulations, rules or administrative acts in Member States are used under the cover of prudential considerations as a means of circumventing the prohibition on privileged access. Such an assessment is beyond the scope of this report.

2.2.6 Single spelling of the euro

Article 3(4) of the Treaty on European Union lays down that the "Union shall establish an economic and monetary union whose currency is the euro". In the texts of the Treaties in all the authentic languages written using the Roman alphabet, the euro is consistently identified in the nominative singular case as "euro". In the Greek alphabet text, the euro is spelled "ευρώ" and in the Cyrillic alphabet text the euro is spelled "евро".[127] Consistent with this, Regulation (EC) No 974/98 makes it clear that the name of the single currency must be the same in all the official languages of the EU, taking into account the existence of different alphabets. The Treaties thus require a single spelling of the word "euro" in the nominative singular case in all EU and national legislative provisions, taking into account the existence of different alphabets.

In view of the exclusive competence of the EU to determine the name of the single currency, any deviations from this rule are incompatible with the Treaties and should

123 This is supported by Article 3(2) and recital 9 of Regulation (EC) No 3604/93.

124 Guideline (EU) 2015/510 of the European Central Bank of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (General Documentation Guideline) (ECB/2014/60) (OJ L 91, 2.4.2015, p. 3).

125 The higher the reserve requirement is set, the fewer funds banks will have to loan out, leading to lower money creation.

126 See Article 19 of the Statute of the ESCB; Council Regulation (EC) No 2531/98 of 23 November 1998 concerning the application of minimum reserves by the European Central Bank (OJ L 318, 27.11.1998, p. 1); Regulation (EC) No 1745/2003 of the European Central Bank of 12 September 2003 on the application of minimum reserves (ECB/2003/9) (OJ L 250, 2.10.2003, p. 10); and Regulation (EU) No 1071/2013 of the European Central Bank of 24 September 2013 concerning the balance sheet of the monetary financial institutions sector (ECB/2013/33) (OJ L 297, 7.11.2013, p. 1).

127 The "Declaration by the Republic of Latvia, the Republic of Hungary and the Republic of Malta on the spelling of the name of the single currency in the Treaties", annexed to the Treaties, states that; "Without prejudice to the unified spelling of the name of the single currency of the European Union referred to in the Treaties as displayed on banknotes and on coins, Latvia, Hungary and Malta declare that the spelling of the name of the single currency, including its derivatives as applied throughout the Latvian, Hungarian and Maltese text of the Treaties, has no effect on the existing rules of the Latvian, Hungarian or Maltese languages".

be eliminated.[128] While this principle applies to all national legislation, the assessment in the country chapters focuses on the NCBs' statutes and the euro changeover laws.

2.2.7 Legal integration of NCBs into the Eurosystem

Provisions in national legislation (in particular an NCB's statutes, but also other legislation) which would prevent the performance of Eurosystem-related tasks or compliance with the ECB's decisions are incompatible with the effective operation of the Eurosystem once the Member State concerned has adopted the euro. National legislation therefore has to be adapted to ensure compatibility with the Treaty and the Statute of the ESCB in respect of Eurosystem-related tasks. To comply with Article 131 of the Treaty, national legislation had to be adjusted to ensure its compatibility by the date of establishment of the ESCB (as regards Sweden) and by 1 May 2004, 1 January 2007 and 1 July 2013 (as regards the Member States that joined the EU on these dates). Nevertheless, statutory requirements relating to the full legal integration of an NCB into the Eurosystem need only enter into force at the moment that full integration becomes effective, i.e. the date on which the Member State with a derogation adopts the euro.

The main areas examined in this report are those in which statutory provisions may hinder NCBs' compliance with the Eurosystem's requirements. These include provisions (a) that could prevent NCBs from taking part in implementing the single monetary policy, as defined by the ECB's decision-making bodies, or (b) that could hinder a Governor from fulfilling their duties as a member of the ECB's Governing Council, or (c) that do not respect the ECB's prerogatives, or (d) that do not recognise that the exclusive competence for ESCB-related tasks in Member States whose currency is the euro is irrevocably conferred on the Union,[129] or (e) pursuant to which NCBs in the performance of their ESCB-related tasks are bound by decisions of national authorities that conflict with legal acts of the ECB. Distinctions are made between economic policy objectives, tasks, financial provisions, exchange rate policy and international cooperation. Finally, other areas where NCBs' statutes may need to be adapted are mentioned.

Economic policy objectives

The full integration of an NCB into the Eurosystem requires its statutory objectives to be compatible with the ESCB's objectives, as laid down in Article 2 of the Statute of the ESCB. Among other things, this means that statutory objectives with a "national flavour" – for example, where statutory provisions refer to an obligation to conduct monetary policy within the framework of the general economic policy of the Member State concerned – need to be adapted. Furthermore, an NCB's secondary objectives must be consistent and not interfere with its obligation to support the general

[128] Opinion CON/2012/87.

[129] Opinion CON/2020/2.

economic policies in the EU with a view to contributing to the achievement of the objectives of the EU as laid down in Article 3 of the Treaty on European Union, which is itself an objective expressed to be without prejudice to maintaining price stability.[130]

Tasks

The tasks of an NCB of a Member State whose currency is the euro are predominantly determined by the Treaty and the Statute of the ESCB, given that NCB's status as an integral part of the Eurosystem. In order to comply with Article 131 of the Treaty, provisions on tasks in an NCB's statutes therefore need to be compared with the relevant provisions of the Treaty and the Statute of the ESCB, and any incompatibility must be removed.[131] This applies to any provision that, after adoption of the euro and integration into the Eurosystem, constitutes an impediment to carrying out ESCB-related tasks and in particular to provisions which do not respect the ESCB's powers under Chapter IV of the Statute of the ESCB.

Any national legislative provisions relating to monetary policy must recognise that the EU's monetary policy is to be carried out through the Eurosystem.[132] An NCB's statutes may contain provisions on monetary policy instruments. Such provisions should be comparable to those in the Treaty and the Statute of the ESCB, and any incompatibility must be removed in order to comply with Article 131 of the Treaty.

Monitoring fiscal developments is a task that an NCB carries out on a regular basis to assess properly the stance to be taken in monetary policy. NCBs may also present their views on relevant fiscal developments on the basis of their monitoring activity and the independence of their advice, with a view to contributing to the proper functioning of the European Monetary Union. The monitoring of fiscal developments by an NCB for monetary policy purposes should be based on the full access to all relevant public finance data. Accordingly, the NCBs should be granted unconditional, timely and automatic access to all relevant public finance statistics. However, an NCB's role should not go beyond monitoring activities that result from or are linked – directly or indirectly – to the discharge of their monetary policy mandate.[133] A formal mandate for an NCB to assess forecasts and fiscal developments implies a function for the NCB in (and a corresponding responsibility for) fiscal policymaking which may risk undermining the discharge of the Eurosystem's monetary policy mandate and the NCB's independence.[134]

In the context of the national legislative initiatives to address the turmoil in the financial markets, the ECB has emphasised that any distortion in the national segments of the

[130] Opinions CON/2010/30 and CON/2010/48.

[131] See, in particular, Articles 127 and 128 of the Treaty and Articles 3 to 6 and 16 of the Statute of the ESCB.

[132] Article 127(2), first indent, of the Treaty.

[133] Opinions CON/2012/105, CON/2013/90 and CON/2013/91.

[134] For example, national legislative provisions transposing Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41). See Opinions CON/2013/90 and CON/2013/91.

euro area money market should be avoided, as this may impair the implementation of the single monetary policy. In particular, this applies to the extension of State guarantees to cover interbank deposits.[135]

Member States must ensure that national legislative measures addressing liquidity problems of businesses or professionals, for example their debts to financial institutions, do not have a negative impact on market liquidity. In particular, such measures may not be inconsistent with the principle of an open market economy, as reflected in Article 3 of the Treaty on European Union, as this could hinder the flow of credit, materially influence the stability of financial institutions and markets and therefore affect the performance of Eurosystem tasks.[136]

National legislative provisions assigning the exclusive right to issue banknotes to the NCB must recognise that, once the euro is adopted, the ECB's Governing Council has the exclusive right to authorise the issue of euro banknotes, pursuant to Article 128(1) of the Treaty and Article 16 of the Statute of the ESCB,[137] while the right to issue euro banknotes belongs to the ECB and the NCBs. Once the euro is adopted, national legislative provisions enabling the government to influence issues such as the denominations, production, volume or withdrawal of banknotes must also either be repealed or recognition must be given to the ECB's powers with regard to euro banknotes, as set out in the provisions of the Treaty and the Statute of the ESCB. Irrespective of the division of responsibilities in relation to coins between governments and NCBs, the relevant provisions must recognise the ECB's power to approve the volume of issue of euro coins once the euro is adopted. A Member State may not consider currency in circulation as its NCB's debt to the government of that Member State, as this would defeat the concept of a single currency and be incompatible with the requirements of Eurosystem legal integration.[138]

With regard to foreign reserve management,[139] any Member State that has adopted the euro and which does not transfer its official foreign reserves[140] to its NCB is in breach of the Treaty. In addition, any right of a third party – for example, the government or parliament – to influence an NCB's decisions with regard to the management of the official foreign reserves would be inconsistent with Article 127(2), third indent, of the Treaty. Furthermore, NCBs have to provide the ECB with foreign reserve assets in proportion to their shares in the ECB's subscribed capital. This means that there must be no legal obstacles to NCBs transferring foreign reserve assets to the ECB.

With regard to statistics, although regulations adopted under Article 34.1 of the Statute of the ESCB in the field of statistics do not confer any rights or impose any obligations

135 Opinions CON/2009/99, CON/2011/79 and CON/2017/1.

136 Opinion CON/2010/8.

137 Paragraph 3.1 of Opinion CON/2024/1, and paragraphs 2.3, 2.4 and 2.5 of Opinion CON/2024/26.

138 Opinion CON/2008/34.

139 Article 127(2), third indent, of the Treaty.

140 With the exception of foreign exchange working balances, which Member State governments may retain pursuant to Article 127(3) of the Treaty.

on Member States that have not adopted the euro, Article 5 of the Statute of the ESCB, which concerns the collection of statistical information, applies to all Member States, regardless of whether they have adopted the euro. Accordingly, Member States whose currency is not the euro are under an obligation to design and implement, at national level, all measures they consider appropriate to collect the statistical information needed to fulfil the ECB's statistical reporting requirements[141] and to make timely preparations in the field of statistics in order for them to become Member States whose currency is the euro.[142] National legislation laying down the framework for cooperation between the NCBs and national statistical offices should guarantee the NCBs' independence in the performance of their tasks within the ESCB's statistical framework.[143]

Financial provisions

The financial provisions in the Statute of the ESCB comprise rules on financial accounts,[144] auditing,[145] capital subscription,[146] the transfer of foreign reserve assets[147] and the allocation of monetary income.[148] NCBs must be able to comply with their obligations under these provisions and therefore any incompatible national provisions must be repealed.[149]

Exchange rate policy

A Member State with a derogation may retain national legislation which provides that the government is responsible for the exchange rate policy of that Member State, with a consultative and/or executive role being granted to the NCB. However, by the time that a Member State adopts the euro, such legislation must reflect the fact that responsibility for the euro area's exchange rate policy has been transferred to the EU level in accordance with Articles 138 and 219 of the Treaty.

International cooperation

For the adoption of the euro, national legislation must be compatible with Article 6.1 of the Statute of the ESCB, which provides that in the field of international cooperation

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141 In this regard, national legislation should ensure consistency with the reporting requirements set out in Union legislation. See Opinion CON/2020/29.

142 Opinion CON/2013/88.

143 Opinions CON/2015/5 and CON/2015/24.

144 Article 26 of the Statute of the ESCB.

145 Article 27 of the Statute of the ESCB.

146 Article 28 of the Statute of the ESCB.

147 Article 30 of the Statute of the ESCB.

148 Article 32 of the Statute of the ESCB.

149 Paragraphs 2.1 and 3.2 to 3.4 of Opinion CON/2022/37; paragraphs 2.1, 2.2 and 3.1 to 3.5 of Opinion CON/2023/24; and paragraph 3.2 of Opinion CON/2024/32.

involving the tasks entrusted to the Eurosystem, the ECB decides how the ESCB is represented. National legislation allowing an NCB to participate in international monetary institutions must make such participation subject to the ECB's approval (Article 6.2 of the Statute of the ESCB).

Miscellaneous

In addition to the above issues, for certain Member States there are other areas where national provisions need to be adapted (for example in the area of clearing and payment systems and the exchange of information).

3 Country summary for Bulgaria

In April 2025 the 12-month average rate of HICP inflation in Bulgaria stood at 2.7%, i.e. just below the reference value of 2.8% for the criterion on price stability. This rate is expected to rise gradually over the coming months, reflecting increases in indirect taxes and administered prices, as well as persistent domestic price pressures from strong, albeit moderating, wage growth amid tight labour markets. The catching-up process is also likely to result in positive inflation differentials vis-à-vis the euro area over the longer term, since GDP per capita and price levels are still significantly lower in Bulgaria than in the euro area. While equilibrium inflation differentials associated with this catching-up process tend not to be very large, they may become a concern if they are accompanied by and add to potentially unsustainable developments in credit and asset prices.

Bulgaria is currently not subject to a Council Decision on the existence of an excessive deficit. Its general government budget deficit stood at 3.0% of GDP in 2024, i.e. at the level of the 3% reference value, and its general government gross debt-to-GDP ratio stood at 24.1%, i.e. well below the 60% reference value.

The Bulgarian lev participated in ERM II in the two-year reference period from 20 May 2023 to 19 May 2025. Over the reference period the lev did not exhibit any deviation from the central rate. The agreement on participation in ERM II was based on a number of policy commitments by the Bulgarian authorities. While Bulgaria has completed almost all of its ERM II post-entry commitments, further progress is needed to address the outstanding shortcomings in the area of anti-money laundering and countering the financing of terrorism (AML/CFT). In particular, Bulgaria is encouraged to accelerate its efforts to fulfil the elements of the action plan that was adopted by the Financial Action Task Force (FATF) after Bulgaria was placed on the FATF's "grey list" of jurisdictions under increased monitoring in October 2023.

Over the reference period from May 2024 to April 2025, long-term interest rates in Bulgaria stood at 3.9% on average and were thus below the 5.1% reference value for the interest rate convergence criterion. The differential between long-term interest rates in Bulgaria and the euro area (GDP-weighted) interest rate did not change and stood at 0.9 percentage points at the end of the reference period. Capital markets in Bulgaria remain smaller and much less developed than those in the euro area.

Bulgarian law is compatible with the Treaties and the Statute of the ESCB as required under Article 131 of the Treaty.

Table 3.1

Overview table of economic indicators of convergence

	Price stability	Government budgetary developments and projections			Exchange rate		
	HICP inflation[1]	Country in excessive deficit[2,3]	General government surplus (+)/ deficit (-)[4]	General government debt[4]	Currency participating in ERM II[3]	Exchange rate vis-à-vis the euro[5]	Long-term interest rate[6]
2023	8.6	No	-2.0	22.9	Yes	0.0	3.8
2024	2.6	No	-3.0	24.1	Yes	0.0	3.9
2025	2.7	No	-2.8	25.1	Yes	0.0	3.9
Reference value[7]	**2.8**		**-3.0**	**60.0**			**5.1**

Sources: European Commission (Eurostat, Directorate-General for Economic and Financial Affairs) and European System of Central Banks.
1) Average annual percentage change. Data for 2025 refer to the period from May 2024 to April 2025.
2) Refers to whether a country was subject to an EU Council decision on the existence of an excessive deficit for at least part of the year.
3) The information for 2025 refers to the period up to the cut-off date for statistics (19 May 2025).
4) As a percentage of GDP. Data for 2025 are taken from the European Commission's Spring 2025 Economic Forecast.
5) Annual percentage change. A positive (negative) number denotes appreciation (depreciation) vis-à-vis the euro. Data for 2025 refer to the period from 1 January 2025 to 19 May 2025.
6) Average annual interest rate. Data for 2025 refer to the period from May 2024 to April 2025.
7) The reference values for HICP inflation and long-term interest rates refer to the period from May 2024 to April 2025; for the general government balance and debt, the reference values are defined in Article 126(2) of the Treaty on the Functioning of the European Union and the related Protocol (No 12) on the excessive deficit procedure.

4 Examination of economic convergence

4.1 Price developments

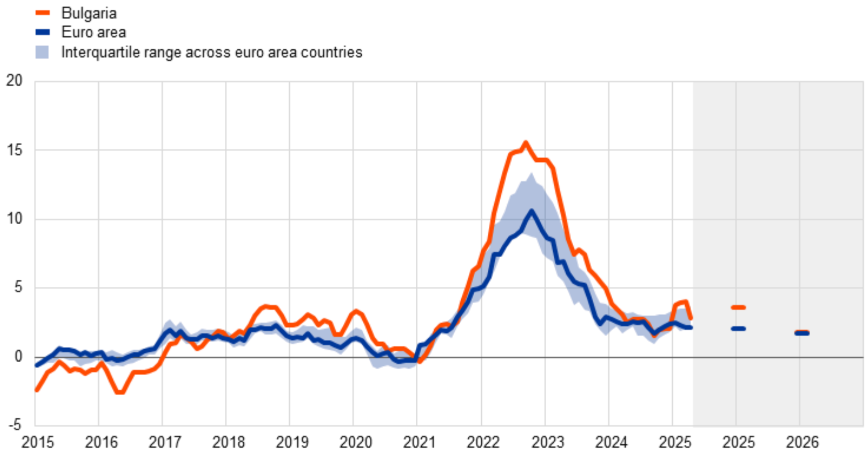
In April 2025 the 12-month average rate of HICP inflation in Bulgaria stood at 2.7%, i.e. just below the reference value of 2.8% for the criterion on price stability (Chart 4.5.1). This rate is expected to rise gradually over the coming months, reflecting increases in indirect taxes and administered prices, as well as persistent domestic price pressures.

Over the past ten years the 12-month average rate of HICP inflation has fluctuated within a very wide range, from -1.4% to 14.1%. After a prolonged period in negative territory, inflation turned positive again in 2017. Robust economic growth and falling unemployment, together with a longer-term decline in the working age population and the process of price and income convergence, as well as administrative and policy factors, led to a sharp rise in nominal wages and unit labour costs. HICP inflation subsequently fluctuated, mostly ranging between 2% and 3%, before dropping to 1.2% in 2020 (Table 4.5.1) owing to the contraction of the Bulgarian economy as a result of the COVID-19 pandemic and declines in energy prices. Rising global energy and food prices, changes in administered prices and the rebound in economic activity and private consumption then pushed up prices in the first half of 2021. From September that year the rate of inflation accelerated markedly, owing to high electricity, fuel and gas prices, and the associated direct and indirect effects. Russia’s invasion of Ukraine in late February 2022 exacerbated the increase in global commodity prices and supply bottlenecks, leading to a sharp rise in HICP inflation, which peaked at 15.6% in September 2022 before starting to decrease. Bulgaria has been particularly vulnerable to recent external price fluctuations, owing primarily to certain structural features of its economy and its exposure to Russia. By December 2024 the annual rate of HICP inflation had slowed to 2.1% on account of lower commodity prices, easing supply bottlenecks and government measures to mitigate the impact of the energy price rises. These were mainly in the form of transfers to households and firms, and to a lesser extent changes in indirect taxes. The decline in HICP inflation was broad-based across components, with the strongest contribution coming from energy and food prices, the same components that fuelled inflation in the period 2021-22.

In April 2025 the annual rate of HICP inflation reached 2.8%. The disinflation trend that began at the end of 2022 ceased in January 2025 when the annual rate of HICP inflation rose to 3.8%. It then remained around 4% for the next two months, before moderating to 2.8% in April (Chart 4.1). The significant rise in HICP inflation in early 2025 was due to a combination of policy-driven price increases and more broad-based price increases across several consumption categories. The policy-driven increases resulted from changes in indirect taxes and administered prices, including the end of support measures that had been introduced to mitigate the impact of the pandemic. Other price increases were concentrated mainly in the services sector, fuelled by second-round effects from higher food and energy prices, as well as persistent wage pressures amid tight labour markets and robust domestic demand supported by strong credit and asset price growth. The sharp decline in HICP inflation in April 2025, dropping to 2.8% from 4.0% in March, was driven largely by the marked drop in prices for hospital services.

Chart 4.1
HICP inflation developments and outlook

(annual percentage changes)



Sources: Eurostat, European Commission (Directorate-General for Economic and Financial Affairs) and ECB.
Notes: Solid lines depict annual percentage changes in the monthly HICP. The shaded area shows projections for annual HICP inflation from the European Commission's Spring 2025 Economic Forecast.

The orientation of monetary policy towards price stability has played an important role in shaping inflation dynamics in Bulgaria over past decades. On 1 July 1997 the Bulgarian National Bank introduced a currency board arrangement. The Bulgarian lev was initially pegged at par to the Deutsche Mark and since 1 January 1999 it has been pegged to the euro at a rate of 1.95583 levs per euro. Such an arrangement inherently requires fiscal discipline, and over the years Bulgaria's prudent fiscal policy has supported the stability of the currency board, thus highlighting the strong interconnection between the two. In 2023, as spillover effects from previous monetary policy tightening in the euro area remained limited in Bulgaria, the Bulgarian National Bank raised banks' minimum reserve requirements to withdraw some of the excess liquidity from the banking system.

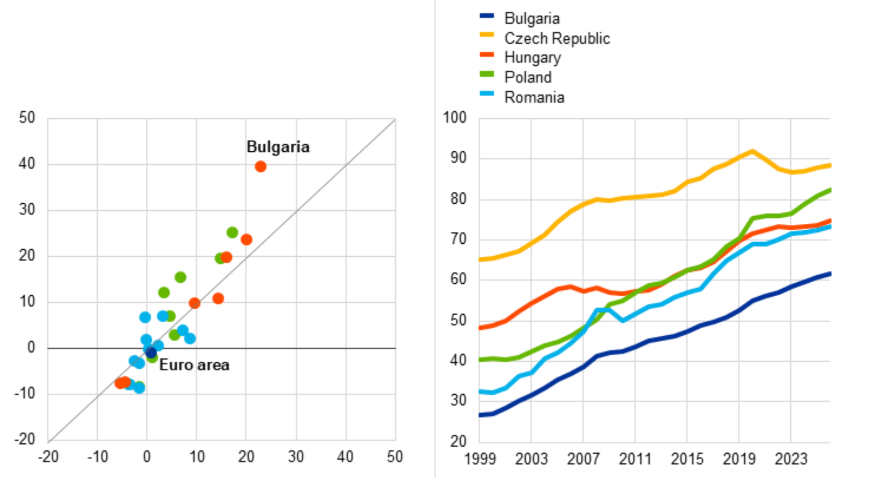
Inflation is expected to remain elevated in the coming months, driven by strong domestic price pressures. According to the European Commission's Spring 2025 Economic Forecast, HICP inflation is projected to rise to 3.6% in 2025, before falling to 1.8% in 2026. Although the pass-through of wages to consumer price inflation has been relatively limited so far, domestic price pressures stemming from strong, albeit moderating, wage growth are expected to persist over the forecast horizon. At the same time, mortgage lending and house price growth remain robust, posing the risk of a credit/asset price spiral (see below for more details). This risk is exacerbated by the fact that positive inflation differentials vis-à-vis the euro area might not easily self-correct, as higher domestic inflation may lead to more negative real mortgage interest rates, which could further fuel housing credit growth and house price appreciation. These forecasts should be viewed in the context of persistent labour shortages that are rooted in demographic trends such as low birth rates and rapid population ageing. However, they are subject to considerable uncertainty, with risks tilted to the upside as inflation in Bulgaria is still relatively more sensitive to external price developments than the euro area. Similar to other central and eastern European countries, Bulgaria is a small open economy deeply integrated into global supply chains, making it particularly vulnerable to international uncertainty and disruptions, such as those arising from geopolitical tensions, higher US tariffs and uncertainty about trade policies. Since 2022 Bulgaria has effectively eliminated its dependence on Russian energy imports through diversification of supply sources. Nevertheless, the Bulgarian economy remains exposed to commodity price fluctuations owing to its high energy intensity and the significant share of energy and food in the consumption basket.

Looking further ahead, there are other factors that pose risks to the sustainability of inflation convergence in Bulgaria over the longer term. This is particularly the case because in recent years unit labour costs have risen at a much faster pace than in the euro area and other competitor countries (Table 4.1). Given the fixed exchange rate with Bulgaria's main trading partners, this has resulted in a notable deterioration in price and cost competitiveness relative to other EU countries (Chart 4.2, panel a), particularly in terms of unit labour costs. Over the longer term, the catching-up process, while desirable, is likely to result in positive inflation differentials vis-à-vis the euro area, since GDP per capita and price levels are still significantly lower in Bulgaria than in the euro area (Chart 4.2, panel b). However, existing literature suggests that the Balassa-Samuelson effect is not usually very large, suggesting that equilibrium inflation differentials may not be a key concern as long as they are not accompanied by unsustainable developments in credit and asset prices. Nevertheless, the catching-up process needs to be supported by appropriate policies in order to avoid unduly jeopardising Bulgaria's competitiveness and to prevent the build-up of unsustainable levels of credit growth and other macroeconomic imbalances. In particular, while hourly labour costs in Bulgaria are still the lowest in the EU, growth in wages needs to be consistent with that in productivity, among other things, in order to safeguard price competitiveness and the country's attractiveness to foreign investors. Moreover, as Bulgaria has been participating in the exchange rate mechanism (ERM II) since July 2020 with its existing currency board arrangement in place, it is important to contain inflationary pressures with appropriate policies, not least to enhance productivity growth by investing in innovation and human capital, especially in the non-traded goods sector.

Chart 4.2

Harmonised competitiveness indicators and real GDP per capita

a) HCIs based on ULCs and GDP deflator, cumulative growth between 2019 and 2024	b) Real GDP per capita relative to the euro area average
(percentage points; x-axis: cumulative HCI growth based on GDP deflator; y-axis: cumulative HCI growth based on ULCs)	(index: euro area = 100)

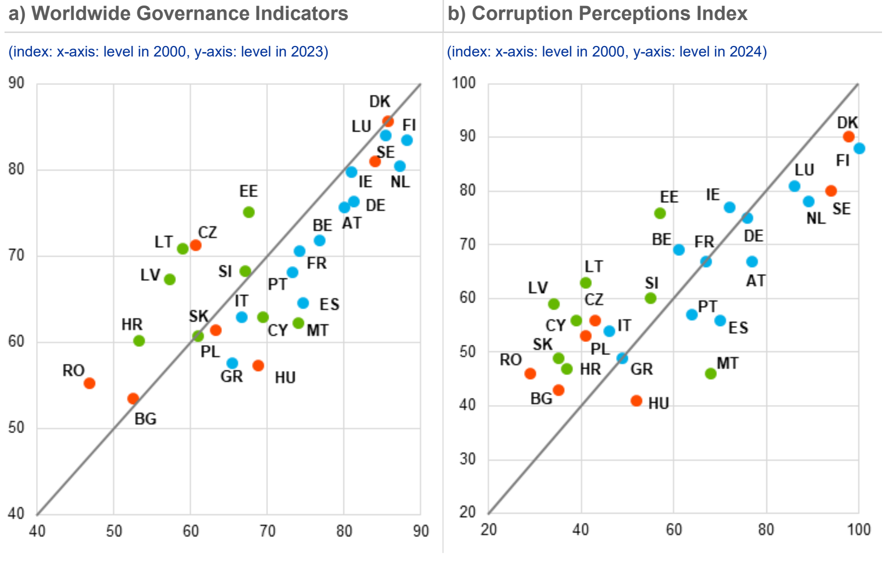


Sources: Eurostat and ECB calculations.
Notes: HCIs stands for harmonised competitiveness indicators. ULCs stands for unit labour costs. Panel a): the chart shows cumulative growth of HCIs based on the GDP deflator on the x-axis and cumulative growth of HCIs based on total ULCs on the y-axis. The solid line represents the bisector. HCIs based on the GDP deflator for individual countries are calculated relative to the 20 euro area countries and the EER-41 group of trading partners; HCIs based on total ULCs for individual countries are calculated relative to the 20 euro area countries and the EER-18 group of trading partners. For the euro area, HCIs based on the GDP deflator and total ULCs are calculated relative to the EER-41 and the EER-18 group of trading partners respectively. The red dots indicate non-euro area EU countries; the green dots indicate countries that joined the euro area from 2003 onwards; the light blue dots indicate countries that joined the euro area before 2003; the dark blue dot indicates the euro area aggregate. Panel b): Based on real GDP per capita in terms of purchasing power standard. Data for 2024-26 are taken from the European Commission's Spring 2025 Economic Forecast.

The quality of institutions and governance in Bulgaria present certain challenges that could undermine its economic resilience and the sustainability of convergence. These challenges may manifest, for example, with respect to the business environment, public administration efficiency, tax compliance, corruption, social inclusion, transparency, judicial independence and access to online services. A less robust institutional framework can limit potential output growth, which could affect Bulgaria's debt servicing capacity and complicate economic adjustments. It may also hinder Bulgaria's ability to implement policy measures. Various institutional indicators point to a need for improvement in Bulgaria's institutional quality and governance, with limited progress observed in recent decades (Chart 4.3).[150] Bulgaria is among the EU countries facing significant challenges in these areas. Implementing the reforms set out in its Recovery and Resilience Plan could help to enhance the country’s rule of law and governance.

Chart 4.3

Overview of EU countries in terms of institutional quality



Sources: Worldwide Governance Indicators 2024 (World Bank), Transparency International and ECB calculations.
Notes: Panel a): the index is computed as the average of the percentile scores (relative to the scale) of the following World Governance Indicators: voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law and control of corruption. Panel b): the Corruption Perceptions Index ranks countries by their perceived levels of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean). For the Corruption Perceptions Index, the reference years for Cyprus and Malta are 2003 and 2004 respectively. The red dots indicate non-euro area EU countries; the green dots indicate countries that joined the euro area from 2003 onwards; the light blue dots indicate countries that joined the euro area before 2003.

Achieving an environment that is conducive to sustainable convergence in Bulgaria requires stability-oriented economic policies and wide-ranging structural reforms. As monetary policy cannot be tailored to country-specific circumstances, other policy areas (fiscal, macroprudential) should provide the economy with the means to cope with potential country-specific shocks and macroeconomic imbalances. This is also reflected in a number of Bulgaria’s ERM II

[150] Measuring institutional quality is challenging and inevitably involves a degree of judgement. On the one hand, perception-based indicators can have some merit when compared with other indicators. One advantage of perception-based surveys resides in their catch-all nature, whereas more specific measures may provide highly distorted information. Also, while the absolute value of perception-based indicators may be questionable, they are useful for cross-country comparisons, unless it is clear that there is a systematic bias against one or more specific countries. Moreover, indicators that are based solely on the content of laws, but not on detailed knowledge of their actual implementation, can be misleading. Furthermore, as no institutional model may be presumed to be preferable ex ante, perception-based surveys may prevent the emergence of measurement biases when gauging the various dimensions of economic governance directly. On the other hand, perception-based surveys also produce distortions. For instance, they may be heavily influenced by a recent episode or poorly designed questions. Moreover, as regards EU countries, the institutional focus has only gained analytical and policy prominence in recent years. There is thus, generally speaking, still ample scope for measurement improvements. Finally, cross-country approaches to an issue as complex as institutional quality or good governance are necessarily somewhat insufficient and clearly need to be complemented with more country-specific and longer-term assessments. At the same time, measurement difficulties should not lead to a down-playing of these crucially important determinants of long-term prosperity, social fairness and well-being.

post-entry commitments, which are discussed in more detail in Section 4.3. In addition, structural reforms to enhance the business and institutional environment are crucial in order to attract foreign direct investment and boost potential growth. These include Bulgaria's commitment to further reduce corruption, ensure an independent and effective judicial system, and improve the education system. It is also important for the country to modernise its infrastructure to boost potential output and promote a more efficient allocation of resources, and for it to enhance the degree of financial development and penetration to bolster long-term growth prospects. Furthermore, it is essential to strengthen national policies aimed at enhancing competition in product markets, to proceed with the liberalisation of regulated sectors and to manage a smooth transition to a digital and greener economy, thereby increasing energy efficiency and strengthening energy security. In this context, sustained efforts are needed to build up administrative capacity and to further improve the absorption of EU funding. With long-term unemployment accounting for a large percentage of total unemployment, active labour market policy measures are required to strengthen the skill level of the workforce, to promote the economic inclusion of the most vulnerable segments of society, and to mitigate the impact of a declining working-age population. With regard to macroeconomic imbalances, the European Commission did not select Bulgaria for an in-depth review in its Alert Mechanism Report 2025.

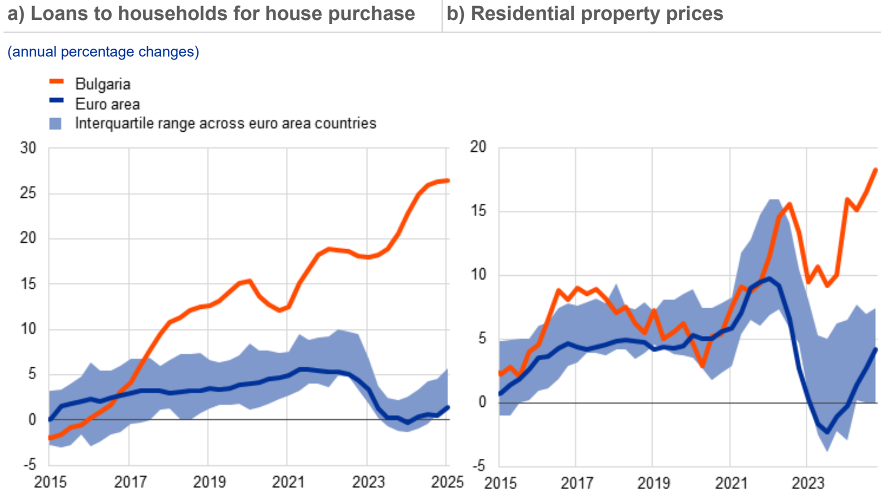
The convergence in banking supervision achieved under the close cooperation framework ensures the application of uniform supervisory standards and thus contributes to safeguarding financial stability. Following the inclusion of the Bulgarian lev in ERM II, the ECB and the Bulgarian National Bank have been working together under the close cooperation framework since 1 October 2020. The ECB is responsible for the direct supervision of four significant institutions and the common procedures for all supervised entities, as well as the oversight of 13 less significant institutions. The Bulgarian National Bank has been integrated into the Single Supervisory Mechanism and is participating in its structures and networks. With regard to the oversight of less significant institutions, which have a domestic market share of roughly 30%, the ECB is working closely with national supervisors to further harmonise implementation of the rules governing banking supervision, while also ensuring that joint supervisory standards are applied consistently across the system.[151]

Risks stemming from strong credit and house price dynamics are increasing but being mitigated by the robustness of the banking system. Given the limited spillover effects in Bulgaria from the restrictive monetary policy stance in the euro area over the past few years and robust domestic demand in the country, lending activity has remained strong, particularly in the household segment (Chart 4.4, panel a), alongside sharp increases in house prices (Chart 4.4, panel b). These trends point to a risk of overheating in the economy and early signs of a credit/asset price spiral, as reflected in estimated real estate overvaluations. To mitigate these risks, the Bulgarian National Bank recently activated borrower-based macroprudential measures

151 The totals of significant institutions and less significant institutions given in this paragraph do not reflect the highest level of consolidation, as they do not account for branches, financial holdings or mixed financial holdings.

alongside the stepwise increase in the countercyclical capital buffer rate, which has stood at 2% since 1 October 2023. In addition, the banking sector is well capitalised, liquidity buffers are large, and banks' lending standards generally align with the requirements of the borrower-based measures.

Chart 4.4
Housing market indicators



Sources: Eurostat and ECB.
Notes: Panel a): loans to households for house purchase vis-à-vis domestic households reported by monetary financial institutions. Data based on non-adjusted notional stocks. Panel b): residential property prices in nominal terms.

4.2 Fiscal developments

Bulgaria's general government budget deficit stood at the level of the 3% reference value in 2024 and its debt level stood well below the 60% reference value. In the reference year 2024 the general government budget recorded a deficit of 3.0% of GDP, thus standing at the level of the 3% deficit reference value. The general government gross debt-to-GDP ratio stood at 24.1%, well below the 60% reference value (Table 4.5.2). Compared with the previous year, the general government deficit increased by 1.0 percentage point and the debt ratio increased moderately, by 1.2 percentage points. With regard to other fiscal factors, the deficit ratio stood at the level of the ratio of public investment to GDP in 2024.

Bulgaria is currently not subject to a Council Decision on the existence of an excessive deficit. The country has been subject to the preventive arm of the Stability and Growth Pact since 2012. It was only once subject to an excessive deficit procedure, between 2010 and 2012, while its general government debt has been well below the reference value since 2004. During the period in which the general escape clause under the Stability and Growth Pact applied (owing to the pandemic and the invasion of Ukraine by Russia), the European Commission found, in May 2022, that the general government deficit-to-GDP ratio had, in 2021, been above and not close to the reference value of 3%, and, in May 2023, that the planned deficit in 2024 was also above and not close to the reference value. In both cases, the Commission's analysis suggested that the deficit criterion had not been fulfilled. However, given the high uncertainty surrounding the macroeconomic outlook, the Commission considered that at that juncture a decision on whether to place Member States under the excessive deficit procedure should not be taken.

The budget deficit increased in 2024 and remains significantly above its level prior to the pandemic. Before the pandemic, Bulgaria's prudent fiscal policy led to significant improvements in its structural balance, which shifted the headline balance from a deficit of 1.9% of GDP in 2015 to a surplus of 2.2% of GDP in 2019. As a consequence of the pandemic and the government's fiscal support to buffer its impact, the structural balance worsened markedly, resulting in a headline deficit of 4.0% of GDP in 2021. Between 2021 and 2023, the budget balance improved by 2.0% of GDP, primarily on account of an improvement in the structural balance by 1.2% of GDP. However, in 2024 the budget balance deteriorated again by 1.0 percentage point. The deterioration in the budget balance in 2024 compared with 2019, i.e. the year before the outbreak of the pandemic, was 5.2% of GDP, which was mostly attributable to a deterioration in the structural balance by 4.5% of GDP.

The government debt-to-GDP ratio has remained well below the 60% reference value over the past two decades. Prior to the pandemic, the debt ratio had declined between 2015 and 2019 by 5.8 percentage points to 20.1% of GDP, mostly owing to high primary surpluses and, to a lesser extent, favourable interest-growth differentials. After increasing by 4.3% of GDP in 2020 at the start of the pandemic, it then fell by 1.9 percentage points between 2020 and 2022. This was attributable to favourable interest-growth differentials, which compensated somewhat for the debt-increasing impact from primary deficits. Between 2022 and 2024 the debt ratio increased again by 1.6% of GDP, mostly on account of primary deficits, to a level 4.0% percentage points higher than before the pandemic.

In the presence of a long-standing currency board, the level and structure of public debt allow Bulgaria to manage its debt effectively. The share of government debt with a short-term maturity has generally been negligible. Taking into account the low share of debt with a variable interest rate and the level of the debt ratio, fiscal balances are relatively insensitive to changes in interest rates. At the same time, the proportion of foreign currency-denominated government debt is high (76.1% in 2024). However, it is mostly denominated in euro – the anchor currency of Bulgaria's currency board framework. Fiscal balances are thus relatively insensitive to changes in exchange rates other than the euro/lev exchange rate, which is fixed under the currency board.

The European Commission's Spring 2025 Economic Forecast predicts a small decrease in the budget deficit and an increasing public debt ratio. According to the European Commission's Spring 2025 Economic Forecast, the headline deficit is expected to decrease to 2.8% of GDP in 2025 and thus fall below the 3% deficit reference value. It is projected to be unchanged in 2026 at 2.8% of GDP. The debt ratio is projected to rise in 2025, to 25.1% of GDP, and to 27.1% of GDP in 2026. The projected net expenditure growth in 2025 exceeds Bulgaria’s medium-term fiscal-structural plan.[152] Bulgaria applied for the national escape clause which would allow it to deviate from the net expenditure path when this is due to higher defence expenditure.

Bulgaria has a robust fiscal framework that has helped it to maintain a low debt ratio. Bulgaria has a large number of national fiscal rules at the general government and subnational levels. They are laid out in the Public Finance Act, which was last amended in 2020 as a response to the pandemic. First, the Act sets an objective of a balanced or positive general government budget balance and a ceiling for the general government deficit at 3% of GDP and for debt at 60% of GDP, in line with the Treaty reference values. Second, it sets a medium-term budgetary objective, limiting the structural deficit of the general government sector to no more than 0.5% of GDP – or 1% of GDP if government debt is below 40% of GDP and risks to the long-term sustainability of public finances are low – with an escape clause for exceptional circumstances, in line with the preventive arm of the Stability and Growth Pact before its reform in 2024. Third, annual expenditure growth is restricted to the reference growth rate of potential GDP, in accordance with the expenditure rule of the pre-reform Stability and Growth Pact. Fourth, an additional national deficit rule restricts the deficit under the consolidated fiscal programme, calculated on a cash basis, to 3% of GDP, but allows larger deficits in exceptional circumstances. Fifth, the expenditure under the consolidated fiscal programme is capped at 40% of GDP, excluding EU funds and national co-financing. Sixth, the Public Finance Act imposes additional restrictions on the budget balance, expenditure growth and debt payments at the municipal level, and also includes constraints on the debt of social security funds and other entities. While the rules concerning the structural deficit and expenditure growth need adjustment to align with the revised European economic governance framework, due attention should be paid to ensuring continued fiscal stability. Compliance with the rules is monitored by the Fiscal Council, which was established in 2016 in line with EU requirements. While its mandate and the quality of its work have been strengthened over time, there is still room for improvement regarding the Fiscal Council’s capacity and independence. Notable progress has been made in enhancing the capacity of the tax administration, leading to increasing tax collection and improved tax compliance, though further progress is still desirable to address the still sizeable informal economy.

Bulgaria faces medium risks to fiscal sustainability over the medium term and low risks over the long term. The European Commission’s 2024 Debt Sustainability Monitor found that Bulgaria faces medium fiscal sustainability risks over the medium term. This assessment is unchanged compared with the 2023 results. While it was found that debt, although increasing, would remain under 60% of GDP under all scenarios, it was considered to be at medium risk owing to the high uncertainty as regards debt dynamics over the next five years, based on historical volatility. Over the long term, Bulgaria was found to face low risks, compared with medium risks in the 2023 report. The assessment reflects decreasing costs of ageing, which in the long

[152] The fiscal-structural plan of Bulgaria was published in February 2025. After assessing the plan, on 12 May the European Commission recommended to the EU Council that it adopt a recommendation endorsing the plan.

term offset the impact of a more demanding initial budgetary position. According to the baseline from the 2024 Ageing Report prepared by the Ageing Working Group (AWG) of the EU's Economic Policy Committee, age-related public expenditure is projected to increase moderately (by 0.6 percentage points of GDP) over the period 2022-70, from a level of 18.2% of GDP in 2022.[153] Under the AWG's risk scenario, the increase in costs would be significantly higher, i.e. 3.9 percentage points of GDP, mainly owing to a larger rise in healthcare and long-term care spending (by 2.1 percentage points of GDP by comparison with the baseline scenario). These projections signal a need for further reforms to reinforce the long-term sustainability of public finances.

Looking ahead, Bulgaria needs to pursue prudent fiscal policies to ensure compliance with its net expenditure path. Although the country recorded fiscal surpluses prior to the pandemic, its budget balance has deteriorated substantially since then. This development has coincided with a period of political instability marked by six snap elections between 2021 and 2024. Therefore, to ensure long-term sustainability, Bulgaria needs to address spending pressures in a prudent manner and maintain a sound fiscal policy. This requires the country to ensure compliance with its net expenditure path under the Stability and Growth Pact, while also preserving fiscal buffers to mitigate potential adverse shocks. Bulgaria faces substantial delays in the implementation of its Recovery and Resilience Plan, largely due to the political instability, which risks the loss of funds from the Next Generation EU programme. Therefore, it is crucial that the country accelerate the implementation of reforms and the execution of key projects. Additionally, capital spending should be increased, with a focus on improving its quality and efficiency through enhanced public investment management, including the development of a long-term investment strategy. To further ensure medium-term fiscal sustainability, continued efforts to combat the informal economy are necessary to improve tax collection. It will also be vital to strengthen the governance and profitability of state-owned enterprises, as well as increase the sustainability of the pension system.

4.3 Exchange rate developments

The Bulgarian lev participated in ERM II in the two-year reference period from 20 May 2023 to 19 May 2025. It was included in ERM II at a central rate of 1.95583 levs per euro with a standard fluctuation band of ±15% in July 2020. Bulgaria joined the exchange rate mechanism with its existing currency board in place, as a unilateral commitment, thus placing no additional obligations on the ECB. Over the reference period the lev did not exhibit any deviation from the central rate (Chart 4.5.3). As implied by the currency board arrangement, the Bulgarian National Bank has continued to exchange on demand domestic currency against the anchor currency (the euro) and vice versa at the fixed rate.

153 European Commission and Economic Policy Committee, "The 2024 Ageing Report: Economic and Budgetary Projections for the EU Member States (2022-2070)", *European Economy Institutional Paper*, No 279, European Commission, 2024.

The agreement on participation in ERM II was based on a number of policy commitments by the Bulgarian authorities, with the aim of achieving a high degree of sustainable economic convergence by the time of the adoption of the euro. These commitments relate to implementing specific policy measures pertaining to the non-bank financial sector, state-owned enterprises, the insolvency framework, and the framework for anti-money laundering and countering the financing of terrorism (AML/CFT). The ECB and the European Commission have been monitoring the effective implementation of Bulgaria's ERM II post-entry commitments, acting within their respective areas of competence as provided for by the Treaties and secondary legislation. In its role as the prudential supervisory authority and given its shared responsibility for macroprudential policy, the ECB has focused on the implementation of the commitments related to the financial sector, i.e. the insolvency and AML/CFT frameworks, owing to their importance for the functioning of the financial system, as well as for financial integrity and stability. Bulgaria has completed almost all of its post-entry commitments and undertaken to deliver on the outstanding points related to state-owned enterprises and the insolvency framework reforms. All outstanding points are covered in commitments in Bulgaria's recovery and resilience plan. Regarding AML/CFT, while the policy measures envisaged in the post-entry commitments have been implemented, further progress is needed to address remaining shortcomings. In particular, Bulgaria is encouraged to accelerate its efforts to fulfil the elements of the action plan that was adopted by the Financial Action Task Force (FATF) after Bulgaria was placed on the FATF's "grey list" of jurisdictions under increased monitoring in October 2023.

The HICP-based real effective exchange rate of the Bulgarian lev has appreciated over the past ten years (Chart 4.5.4). This appreciation reflected developments in the nominal effective exchange rate. In the wake of Russia's invasion of Ukraine in late February 2022, the relatively high level of inflation in Bulgaria was a factor in the appreciation of the real effective exchange rate of the lev, but the effect was partially reversed by the moderation in inflation later that year. This indicator should be interpreted with caution, as Bulgaria is subject to a process of economic convergence, which complicates any long-term assessment of real exchange rate developments.

Bulgaria's combined current and capital account balance has mostly remained in surplus over the past ten years and the country's net foreign liabilities have declined markedly (Table 4.5.3). From 2015 to 2019 the combined current and capital account balance increased, primarily reflecting a substantial reduction in the goods deficit as a result of the export-led recovery. However, a deficit was recorded in 2021 and 2022 – two years characterised by high volatility owing to the pandemic and Russia's war against Ukraine. This was followed by a return to a surplus in 2023. Over the period 2020-24 the adjustment in the balance of payments was associated with an increase in the trade deficit. Gross external debt decreased further, falling from 62.6% of GDP in 2020 to 47.4% in 2024. At the same time, the country's net international investment position, largely consisting of foreign direct investment, continued to improve, rising from -23.4% of GDP in 2020 to -3.7% of GDP in 2024 (Table 4.1), on account of a further accumulation of reserve assets. Fiscal and structural policies continue to be important for supporting external sustainability and the competitiveness of the economy, especially in a volatile environment characterised by geopolitical, trade policy and commodity price shocks. Given the country's limited direct export exposure to the United States, the macroeconomic impact of the recent disruptions in trade flows as a result of import tariffs is likely to materialise mainly via Bulgaria's European trading partners. This indirect impact reflects the integration of the Bulgarian economy into the industrial supply chain, especially through intermediate products in the automotive industry.

The Bulgarian economy is well integrated with the euro area through trade and investment linkages. In 2024 exports of goods and services to the euro area constituted 45.7% of total exports, with the corresponding figure for imports standing at 40.5%. In the same year the share of the euro area in Bulgaria's stock of inward direct investment stood at 64.0% and its share in the country's stock of portfolio investment liabilities was 75.8%. The share of Bulgaria's stock of foreign assets invested in the euro area amounted to 43.9% in the case of direct investment and 53.8% for portfolio investment in 2024. Bulgaria's economy is also characterised by a high degree of euroisation. Around 75% of public debt, as well as a significant share of private debt, is denominated in euro, which mirrors the currency composition of household savings and of the liquid assets of non-financial corporations in Bulgaria.

Table 4.1
Scoreboard for the surveillance of macroeconomic imbalances

Table 4.1a – External imbalances and competitiveness indicators

	Current account balance[1]	Net international investment position[2]	Real effective exchange rate[3]	Export performance against advanced economies[4]	Nominal unit labour cost index[5]
2021	0.3	-15.6	3.7	9.7	14.0
2022	-1.1	-8.7	5.8	17.0	24.1
2023	-1.5	-6.3	8.5	15.3	26.9
2024	-1.8	-3.7	7.3	4.1	33.8
Threshold	-4.0/+6.0	-35.0	+/-10.0	-3.0	+12.0

Table 4.1b – Internal imbalances and employment indicators

	Internal imbalances					Employment indicators		
	General government gross debt[2,6]	Household debt[2,6,7]	Non-financial corporations debt[2,6]	Household credit flow[6,7,8]	Non-financial corporations credit flow[6,8,9]	House price index[10]	Unemployment rate[11]	Labour force participation[12]
2021	23.8	23.7	59.4	14.1	5.7	8.7	5.2	0.9
2022	22.5	22.4	50.4	15.0	6.2	13.8	4.2	0.2
2023	22.9	23.5	47.9	16.3	7.8	9.9	4.3	1.3
2024	24.1	25.9	46.4	21.2	8.6	16.5	4.2	1.8
Threshold	60.0	55.0	85.0	14.0	13.0	9.0	10.0	-0.2

Sources: European Commission (Eurostat, Directorate-General for Economic and Financial Affairs) and European System of Central Banks.
Note: This table includes data available as at 19 May 2025, i.e. the cut-off date for this report, and therefore differs from the scoreboard published in the Alert Mechanism Report 2025.
1) As a percentage of GDP, three-year average.
2) As a percentage of GDP.
3) HICP-deflated. Three-year percentage change relative to 42 trading partners. A positive value indicates a loss of competitiveness.
4) Three-year percentage change. Advanced economies are the member countries of the OECD plus the non-OECD EU Member States.
5) Per hour worked (2015 = 100), three-year percentage change.
6) Consolidated debt.
7) Includes non-profit institutions serving households (NPISH).
8) As a percentage of the debt stock at t-1.
9) Excludes foreign direct investment (FDI).
10) Nominal house prices. One-year percentage change.
11) As a percentage of the labour force aged 15-74.
12) As a percentage of the population aged 15-64, three-year change.

4.4 Long-term interest rate developments

Over the reference period from May 2024 to April 2025, long-term interest rates in Bulgaria declined and stood at 3.9% on average, below the 5.1% reference value for the interest rate convergence criterion (Chart 4.5.5).

Long-term interest rates in Bulgaria had mostly followed a declining trend from 2015 until 2022, when they increased sharply before subsequently stabilising. The declining trend in the first part of the past decade was attributable to domestic and global cyclical factors. These included spillovers from low interest rates in the euro area, Bulgarian banks' continued demand for government debt securities, a high private savings rate and the effect of global trade tensions on growth expectations. In the period 2020-21 the impact of the pandemic on global and domestic economic activity and inflation drove long-term interest rates in Bulgaria down to a historically low level of 0.1% in mid-2021. Long-term interest rates increased significantly from 2022 in a context of mounting domestic and global inflationary pressures. Political uncertainty – which has seen seven general elections held since 2021 – may also have contributed to a sharp increase of around 200 basis points in long-term interest rates over this period. Long-term interest rates in Bulgaria have stabilised over the past two years and stood at 3.9% in April 2025, 10 basis points below the level in April 2023 (Chart 4.5.5). However, developments in long-term interest rates in Bulgaria must be interpreted with caution, as the bond used to derive the relevant interest rate has not been traded in the market since 10 January 2024, reflecting the abundant liquidity in the banking system. Since April 2023 the default risk on long-term Bulgarian debt, as measured by ten-year credit default swap spreads, has declined significantly to around 115 basis points as the negative impact of domestic political uncertainty gradually subsided. Bulgaria's government debt is rated investment grade by all three main rating agencies (Moody's: Baa1; S&P: BBB; Fitch: BBB).

The long-term interest rate differential of Bulgarian government bonds vis-à-vis the euro area average stood at 0.9 percentage points in April 2025. Over the period 2016-17, Bulgarian long-term interest rates gradually converged towards the euro area average rate with corresponding maturity (Chart 4.5.6). From 2018 the differential remained quite low – also spending some time in negative territory – until March 2023, when it turned significantly positive. In April 2025 it stood at 0.9 percentage points (1.4 percentage points vis-à-vis the euro area AAA yield).

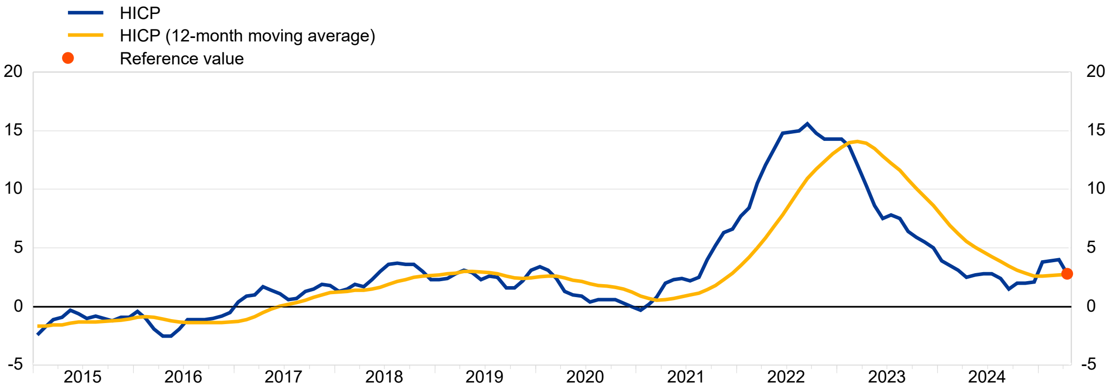
Capital markets in Bulgaria are smaller and much less developed than those in the euro area (Table 4.5.4). Over the past ten years there have been only a few indications of a deepening of capital markets. Stock market capitalisation, as a percentage of GDP, has declined from an average of 17.8% over the period 2015-19 to 8.4% in 2024. At the same time, market-based debt financing of domestic monetary financial institutions (MFIs) has increased slightly since the period 2015-19 to stand at 2.0% of GDP in 2024. The access of non-financial corporations in Bulgaria to the corporate debt market seems to have declined, as outstanding debt securities issued by this sector accounted for 1.8% of GDP in 2024, 1.4 percentage points lower than in the period 2015-19. In 2024 the Bulgarian banking system’s exposure to euro area banks in terms of funding increased in comparison with the average over the period 2015-19. Euro area banks’ claims on Bulgarian banks rose to 6.4% of the latter’s total liabilities in 2024, up from an average level of 3.3% over the period 2015-19.

The degree of financial intermediation by banks remains quite low in Bulgaria compared with the euro area average, although it is comparable to that of peer countries in the region. MFI credit to non-government residents stood at 51.9% of GDP in 2024, 1.6 percentage points below its average for the period 2015-19. As at the third quarter of 2024 – the latest date for which data are available – foreign-owned banks continued to play a major role in the banking system in Bulgaria, accounting for almost 73% of total banking assets. The banking system is largely funded by resident private non-financial sector deposits. The banking system’s assets vis-à-vis the non-financial private sector were dominated by loans, 80% of which were denominated in local currency.

Bulgaria - Price developments

Chart 4.5.1 HICP inflation and reference value 1)

(annual percentage changes)



Sources: European Commission (Eurostat) and ECB calculations.
1) The basis of the calculation of the reference value for the period from May 2024 to April 2025 is the unweighted arithmetic average of the annual percentage changes in the HICP for Ireland, Finland and Italy plus 1.5 percentage points. The reference value is 2.8%.

Table 4.5.1 Measures of inflation and related indicators

(annual percentage changes, unless otherwise indicated)

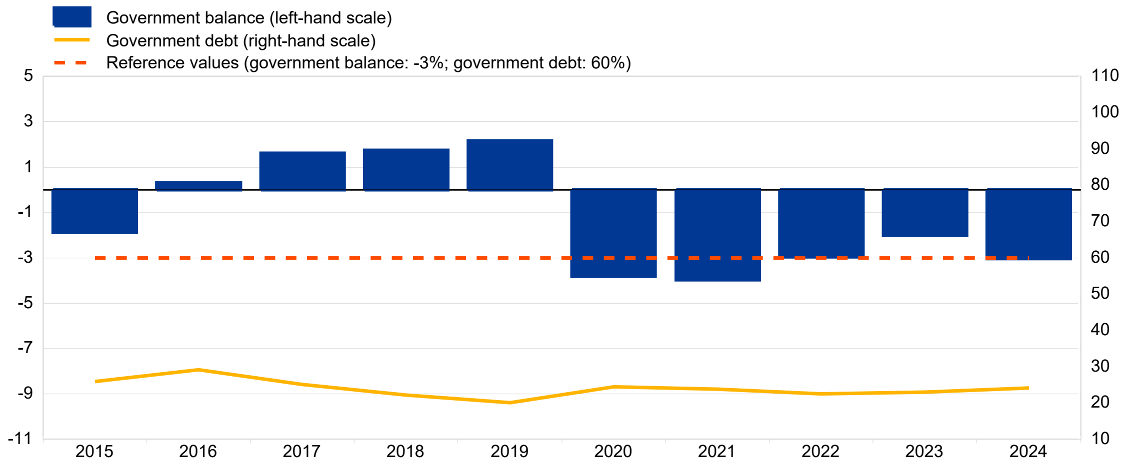
	2015-2024 1)	2015-2019 1)	2020-2024 1)	2020	2021	2022	2023	2024	2025 2)	2026 2)
Measures of inflation										
HICP	3.1	0.8	5.6	1.2	2.8	13.0	8.6	2.6	3.6	1.8
HICP excluding unprocessed food and energy	3.1	0.8	5.4	2.0	1.9	10.4	9.8	3.1	4.2	2.2
HICP at constant tax rates 3)	3.2	0.6	5.7	1.5	3.2	13.3	8.7	2.3	-	-
CPI	3.8	1.4	6.3	1.7	3.3	15.3	9.5	2.4	3.6	1.8
Private consumption deflator	4.7	2.6	6.8	-0.6	6.0	16.0	8.1	4.9	3.5	2.5
GDP deflator	6.2	4.1	8.3	4.3	7.0	15.9	8.0	6.5	5.4	2.5
Producer prices 4)	4.3	1.5	7.2	-0.2	14.9	48.4	-12.5	-4.8	-	-
Related indicators										
Real GDP growth	2.8	3.1	2.6	-3.2	7.8	4.0	1.9	2.8	2.0	2.1
GDP per capita in PPS 5) (euro area = 100)	53.0	48.9	58.3	55.1	57.1	59.8	61.1	63.6	-	-
Comparative price levels (euro area = 100)	50.4	48.6	53.3	52.2	52.7	55.1	56.6	.	-	-
Output gap 6)	-0.1	-0.2	0.0	-4.3	0.4	2.0	1.2	0.7	-0.1	-0.5
Unemployment rate (%) 7)	6.1	7.5	4.8	6.1	5.2	4.2	4.3	4.2	4.0	3.8
Unit labour costs, whole economy	6.7	4.7	8.8	8.8	3.3	10.9	12.5	8.5	7.8	4.2
Compensation per employee, whole economy	9.5	7.7	11.3	7.2	11.3	14.2	13.4	10.4	9.6	6.1
Labour productivity, whole economy	2.6	2.9	2.3	-1.5	7.7	3.0	0.8	1.7	1.7	1.8
Imports of goods and services deflator	2.5	0.1	4.9	-6.6	14.7	21.3	-2.4	0.1	-0.5	0.5
Nominal effective exchange rate 8)	2.0	1.4	2.7	2.9	1.9	1.5	4.4	2.8	-	-
Money supply (M3) 9)	9.5	8.5	10.4	11.4	10.7	12.9	8.8	8.3	-	-
Lending from banks 10)	8.8	6.2	11.4	5.3	9.7	13.9	13.3	15.1	-	-
Stock prices (SOFIX) 11)	71.0	8.8	57.1	-21.2	42.0	-5.4	27.2	16.7	-	-
Residential property prices	8.4	6.2	10.6	4.6	8.7	13.8	9.9	16.5	-	-

Sources: European Commission (Eurostat, Directorate-General for Economic and Financial Affairs), national data for CPI, money supply, lending from banks and ECB calculations based on Bloomberg Finance L.P. data for stock prices.
1) Multi-annual averages calculated using the geometric mean, except for GDP per capita in PPS, comparative price levels, output gap and unemployment rate, for which the arithmetic mean is used.
2) Data from the European Commission's Spring 2025 Economic Forecast.
3) The difference between the HICP and the HICP at constant tax rates shows the theoretical impact of changes in indirect taxes (e.g. VAT and excise duties) on the overall rate of inflation. This impact assumes a full and instantaneous pass-through of tax rate changes to the price paid by the consumer.
4) Domestic sales, total industry excluding construction.
5) PPS stands for purchasing power standards.
6) Percentage difference from potential GDP: a positive (negative) sign indicates that actual GDP is above (below) potential GDP.
7) Definition conforms to International Labor Organization guidelines.
8) EER-41 group of trading partners. A positive (negative) sign indicates an appreciation (depreciation).
9) The series includes repurchase agreements with central counterparties.
10) Adjusted for the derecognition of loans from the MFI statistical balance sheet due to their sale or securitisation.
11) Multi-annual and annual figures represent the percentage change between the end of the given period and the end of the previous period.

Bulgaria - Fiscal developments

Chart 4.5.2 General government balance and debt

(as a percentage of GDP)



Sources: European System of Central Banks and European Commission (Eurostat).

Table 4.5.2 Government budgetary developments and projections

(as a percentage of GDP, unless otherwise indicated)

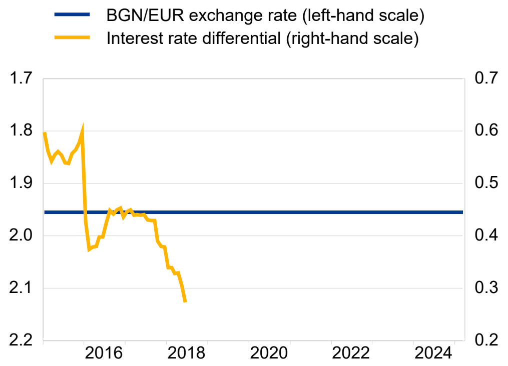
	2015-2024 [1]	2015-2019 [1]	2020-2024 [1]	2020	2021	2022	2023	2024	2025 [2]	2026 [2]
Government balance	**-1.2**	**0.8**	**-3.2**	**-3.8**	**-4.0**	**-3.0**	**-2.0**	**-3.0**	-2.8	-2.8
Total revenue	37.4	37.5	37.4	37.5	37.5	38.3	36.8	36.7	38.8	38.4
Current revenue	36.0	36.0	35.9	36.2	36.4	36.3	35.4	35.3	37.0	36.2
Direct taxes	6.0	5.7	6.3	5.8	6.4	6.2	6.4	6.6	6.6	6.2
Indirect taxes	15.1	15.2	15.0	15.0	14.8	16.1	14.6	14.8	15.9	15.8
Net social contributions	8.5	8.3	8.7	9.1	8.8	8.2	8.5	9.0	9.2	9.3
Other current revenue [3]	6.4	6.8	5.9	6.4	6.5	5.8	5.9	5.0	5.3	4.9
Capital revenue	1.5	1.5	1.4	1.3	1.1	2.0	1.4	1.4	1.8	2.2
Total expenditure	38.6	36.7	40.5	41.3	41.5	41.3	38.8	39.8	41.6	41.2
Current expenditure	34.3	32.0	36.6	36.5	38.3	37.6	34.7	35.6	36.6	36.5
Compensation of employees	10.1	9.4	10.8	10.7	11.0	10.1	10.5	11.4	12.7	12.6
Social benefits	14.0	13.3	14.7	14.1	14.1	14.6	15.0	15.7	16.0	16.1
Interest payable	0.6	0.8	0.5	0.5	0.5	0.4	0.5	0.5	0.6	0.7
Other current expenditure [4]	9.6	8.6	10.6	11.1	12.7	12.6	8.6	8.0	7.3	7.2
Capital expenditure	4.3	4.6	4.0	4.8	3.2	3.7	4.1	4.1	4.9	4.7
of which: Investment	3.3	3.6	3.0	3.3	2.7	2.4	3.8	3.0	3.6	3.3
Cyclically adjusted balance	-1.1	0.9	-3.1	-2.5	-4.1	-3.5	-2.3	-3.2	-2.8	-2.7
One-off and temporary measures	0.0	0.0	0.0	0.0	0.0	0.0	0.5	-0.5	0.4	0.0
Structural balance [5]	-1.1	0.9	-3.1	-2.5	-4.0	-3.5	-2.8	-2.7	-3.2	-2.7
Government debt	**24.0**	**24.5**	**23.5**	**24.4**	**23.8**	**22.5**	**22.9**	**24.1**	25.1	27.1
Average residual maturity (in years)	7.8	7.5	8.1	8.8	8.0	7.8	7.8	8.3	.	.
In foreign currencies (% of total)	78.0	80.2	75.9	82.5	74.6	71.6	74.8	76.1	.	.
of which: Euro	76.7	79.0	74.3	81.8	74.0	71.2	74.5	70.1	.	.
Domestic ownership (% of total)	52.7	54.6	50.9	50.7	53.8	52.2	49.6	48.0	.	.
Medium and long-term maturity (% of total) [6]	99.8	99.7	99.9	100.0	99.9	99.9	99.7	99.8	.	.
of which: Variable interest rate (% of total)	5.2	7.8	2.6	3.3	3.0	3.0	2.2	1.5	.	.
Deficit-debt adjustment	**0.6**	**1.2**	**0.0**	**0.7**	**-1.3**	**-0.2**	**0.5**	**0.1**	.	.
Net acquisitions of main financial assets	0.6	0.5	0.6	0.6	0.9	1.6	0.7	-0.6	.	.
Currency and deposits	0.6	0.6	0.6	0.7	0.9	1.7	0.3	-0.8	.	.
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	.	.
Loans	0.0	0.0	0.0	0.0	0.0	-0.1	0.2	0.0	.	.
Equity and investment fund shares or units	0.0	-0.1	0.0	-0.1	0.0	0.0	0.1	0.0	.	.
Revaluation effects on debt	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	.	.
of which: Foreign exchange holding gains/losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	.	.
Other [7]	-0.1	0.6	-0.7	0.1	-2.3	-1.9	-0.2	0.7	.	.
Net expenditure growth (in percent)	-	-	-	-	-	-	-	10.4	9.2	1.7
Medium-term fiscal-structural plan: net expenditure growth (in percent)	-	-	-	-	-	-	-	-	6.2	4.9

Sources: European System of Central Banks and European Commission (Eurostat, Directorate-General for Economic and Financial Affairs).
1) Multi-annual averages calculated using the arithmetic mean.
2) Data from the European Commission's Spring 2025 Economic Forecast.
3) Sales and other current revenue.
4) Intermediate consumption, subsidies payable and other current expenditure.
5) Cyclically adjusted balance excluding one-off and other temporary measures.
6) Original maturity of more than one year.
7) Time of recording differences and other factors (sector reclassifications and statistical discrepancies).

Bulgaria - Exchange rate and external developments

Chart 4.5.3 Bilateral exchange rate and short-term interest rate differential [1)]

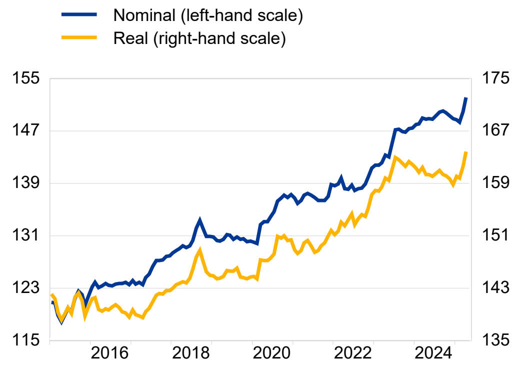
(BGN/EUR exchange rate: monthly averages;
difference between three-month interbank interest rates
and three-month EURIBOR: basis points, monthly values)



Sources: National data and ECB calculations.
1) The interest rate differential is calculated against SOFIBOR. Production of SOFIBOR reference rate was discontinued by the national central bank as of 1 July 2018; a comparable rate is not currently available.

Chart 4.5.4 Effective exchange rates [2)]

(EER-41 group of trading partners; monthly averages; index: Q1 1999 = 100)



Source: ECB.
2) The real EER-41 is CPI-deflated. An increase (decrease) in the EER indicates an appreciation (depreciation).

Table 4.5.3 External developments

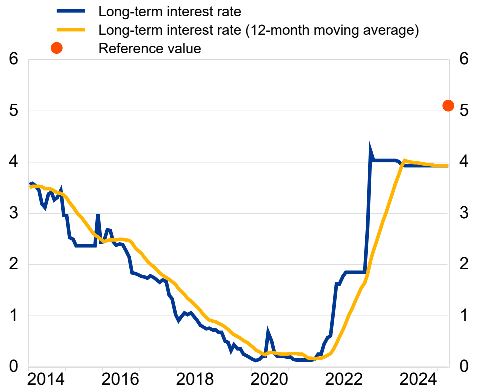
(as a percentage of GDP, unless otherwise indicated)

	2015-2024 [1)]	2015-2019 [1)]	2020-2024 [1)]	2020	2021	2022	2023	2024	2025 [2)]	2026 [2)]
Balance of payments										
Current account and capital account balance [3)]	1.8	3.5	0.1	1.9	-0.4	-1.7	0.7	-0.1	1.6	0.6
Current account balance	0.2	1.7	-1.2	0.4	-1.1	-2.7	-0.9	-1.8	-0.2	-1.2
Goods	-4.1	-3.8	-4.5	-3.1	-4.0	-5.9	-4.2	-5.2	.	.
Services	7.0	7.0	7.0	5.7	6.5	7.0	8.3	7.5	.	.
Primary income	-5.0	-4.8	-5.2	-3.7	-4.8	-5.6	-6.6	-5.1	.	.
Secondary income	2.4	3.3	1.5	1.6	1.3	1.8	1.6	1.0	.	.
Capital account balance	1.5	1.8	1.3	1.4	0.7	0.9	1.6	1.7	.	.
Combined direct and portfolio investment balance [3)]	-1.0	-0.7	-1.4	-2.9	1.7	-2.9	-2.9	0.1	.	.
Direct investment	-2.7	-2.2	-3.2	-4.1	-1.6	-4.1	-4.2	-2.2	.	.
Portfolio investment	1.7	1.6	1.9	1.2	3.2	1.2	1.3	2.3	.	.
Other investment balance	1.2	3.2	-0.7	-2.2	-3.0	1.0	0.4	0.2	.	.
Reserve assets	3.8	3.3	4.3	9.4	5.1	4.6	3.5	-0.9	.	.
Exports of goods and services	63.0	64.9	61.2	56.4	61.8	70.0	61.9	55.8	.	.
Imports of goods and services	60.2	61.7	58.7	53.9	59.3	68.9	57.8	53.5	.	.
Net international investment position [4)]	-27.9	-44.2	-11.5	-23.4	-15.6	-8.7	-6.3	-3.7	.	.
Gross external debt [4)]	62.3	71.6	53.1	62.6	57.7	50.3	47.5	47.4	.	.
Trade with the euro area [5)]										
Exports of goods and services	45.2	44.4	46.1	46.7	46.2	46.0	45.9	45.7	.	.
Imports of goods and services	42.3	43.6	41.0	41.7	42.0	38.7	42.0	40.5	.	.
Investment position with the euro area [5)]										
Direct investment assets [4)]	48.2	48.3	48.1	49.9	49.1	48.5	49.0	43.9	.	.
Direct investment liabilities [4)]	65.0	65.8	64.2	63.9	65.1	64.4	63.6	64.0	.	.
Portfolio investment assets [4)]	50.4	50.9	49.9	44.2	50.1	49.0	52.4	53.8	.	.
Portfolio investment liabilities [4)]	75.5	76.5	74.6	74.5	77.6	70.5	74.6	75.8	.	.

Sources: European System of Central Banks and European Commission (Eurostat, Directorate-General for Economic and Financial Affairs).
1) Multi-annual averages calculated using the arithmetic mean.
2) Data from the European Commission's Spring 2025 Economic Forecast.
3) Differences between totals and the sum of their components are due to rounding.
4) End-of-period outstanding amounts.
5) As a percentage of the total.

Bulgaria - Long-term interest rate developments

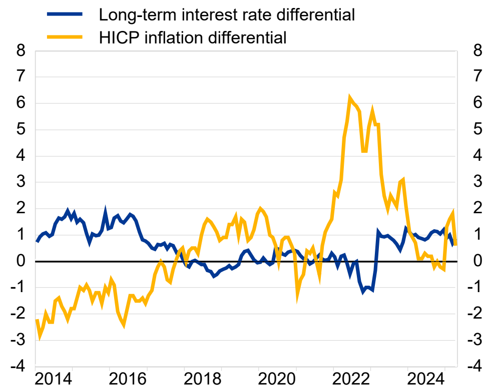
Chart 4.5.5 Long-term interest rate 1)
(monthly averages in percentages)



Sources: European System of Central Banks and ECB calculations.

1) The basis of the calculation of the reference value for the period from May 2024 to April 2025 is the unweighted arithmetic average of the interest rate levels in Ireland, Finland and Italy plus 2 percentage points. The reference value is 5.1%.

Chart 4.5.6 Long-term interest rate and HICP inflation differentials vis-à-vis the euro area
(monthly averages in percentage points)



Sources: European System of Central Banks, ECB calculations and European Commission (Eurostat).

Table 4.5.4 Long-term interest rates and indicators of financial development and integration
(as a percentage of GDP, unless otherwise indicated)

	2015-2024 1)	2015-2019 1)	2020-2024 1)	2021	2022	2023	2024	May. 2024 to Apr. 2025	Memo item: euro area 2024
Long-term interest rates									
Bulgaria 2)	1.7	1.5	1.9	0.2	1.5	3.8	3.9	3.9	-
Euro area 3), 4)	1.3	0.9	1.6	0.1	1.9	3.1	2.9	3.0	-
Euro area AAA par curve, ten-year residual maturity 2), 4)	0.7	0.3	1.1	-0.3	1.2	2.5	2.4	2.5	-
Indicators of financial development and integration									
Debt securities issued by financial corporations 5)	1.3	1.1	1.6	1.4	1.5	1.8	2.0	-	61.1
Debt securities issued by non-financial corporations 6)	2.6	3.1	2.0	2.2	1.8	1.7	1.8	-	11.6
Stock market capitalisation 7)	13.7	17.8	9.6	11.1	9.2	9.2	8.4	-	67.1
MFI credit to non-government residents 8)	52.5	53.5	51.4	51.9	48.5	49.6	51.9	-	96.2
Claims of euro area MFIs on resident MFIs 9)	4.0	3.3	4.8	4.0	4.8	5.7	6.4	-	25.7

Sources: European System of Central Banks and ECB calculations.
1) Multi-annual averages calculated using the arithmetic mean.
2) Average interest rate.
3) GDP-weighted average of the euro area long-term interest rates for the purpose of assessing convergence.
4) Included for information only.
5) Outstanding amount of debt securities issued by resident MFIs (excluding the national central bank) and other financial corporations at face value.
6) Outstanding amount of debt securities issued by resident non-financial corporations at face value.
7) Outstanding amount of listed shares issued by residents at market value.
8) MFI (excluding national central bank) credit to domestic non-MFI residents other than general government. Credit comprises outstanding amounts of loans and debt securities.
9) Outstanding amount of deposits and debt securities issued by domestic MFIs (excluding the national central bank) held by euro area MFIs as a percentage of total liabilities of domestic MFIs (excluding the national central bank). Total liabilities exclude capital and reserves and remaining liabilities.

5 Statistical methodology of convergence indicators

The examination of the convergence process is highly dependent on the quality and integrity of the underlying statistics; the compilation and reporting of statistics, particularly government finance statistics (GFS), must not be subject to any political or other external interference. Member States are invited to consider the quality and integrity of their statistics as a matter of priority, to ensure that a proper system of checks and balances is in place when compiling these statistics and to apply high standards with respect to governance and quality in the domain of statistics.

National statistical authorities in each Member State and the EU statistical authority within the European Commission (Eurostat) should enjoy professional independence and ensure that European statistics are impartial and of a high quality. This is in line with the principles laid down in Article 338(2) of the Treaty, the Regulation on European statistics[154] and the European Statistics Code of Practice[155]. Article 2(1) of the Regulation on European statistics states that the development, production and dissemination of European statistics shall be governed by the following statistical principles: a) professional independence, b) impartiality, c) objectivity, d) reliability, e) statistical confidentiality, and f) cost effectiveness. Pursuant to Article 11 of the Regulation, these statistical principles are elaborated further in the European Statistics Code of Practice.

Against this background, this chapter reviews the quality and integrity of the convergence indicators in terms of the underlying statistics. It provides information on the statistical methodology of the convergence indicators, as well as on the compliance of the underlying statistics with the standards necessary for an appropriate assessment of the convergence process.

5.1 Institutional features relating to the quality of statistics for the assessment of the convergence process

The governance of the European Statistical System (ESS) has been progressively improved, in particular with the adoption of the European

[154] Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European statistics and repealing Regulation (EC, Euratom) No 1101/2008 of the European Parliament and of the Council on the transmission of data subject to statistical confidentiality to the Statistical Office of the European Communities, Council Regulation (EC) No 322/97 on Community Statistics, and Council Decision 89/382/EEC, Euratom establishing a Committee on the Statistical Programmes of the European Communities (OJ L 87, 31.3.2009, p. 164), as amended by Regulation (EU) 2024/3018 of the European Parliament and of the Council of 27 November 2024 (OJ L 2024/3018, 6.12.2024).

[155] The European Statistics Code of Practice was endorsed by the European Commission in its Recommendation of 25 May 2005 on the independence, integrity and accountability of the national and Community statistical authorities (COM(2005) 217 final), and revised by the European Statistical System Committee in September 2011 and November 2017.

Statistics Code of Practice in 2005. In the specific context of the EU fiscal surveillance system and of the excessive deficit procedure (EDP), Council Regulation (EU) No 679/2010[156] granted Eurostat new competences for the regular monitoring and verification of public finance data, which it exercises by conducting more in-depth dialogue visits to Member States and by extending such visits to public entities supplying upstream public finance data to the national statistical institutes (NSIs).

Furthermore, the legislative package of six legal texts adopted in 2011 to strengthen the economic governance structure of the euro area and the EU as a whole requires the compilation of high-quality statistical information, which needs to be produced under robust quality management.[157] In this context, the European Statistics Code of Practice was revised in September 2011 in order to distinguish between the principles to be implemented by ESS members and the principles relating to the institutional environment that are to be implemented by Member State governments. In 2017 it was revised again in order to emphasise that the NSIs and Eurostat coordinate all activities involved in the development, production and dissemination of European statistics (produced in accordance with the Regulation on European statistics) at the level of their national statistical systems and the ESS respectively.[158]

In 2015 the Regulation on European statistics[159] **was amended in order to, among other things, clarify that the principle of professional independence of NSIs applies unconditionally.** Statistics must indeed be developed, produced and disseminated in an independent manner, free of any pressure from political or interest groups or from EU or national authorities, and existing institutional frameworks must not be allowed to restrict this principle.

Lastly, it is necessary to assure the independence of other statistical authorities responsible for the compilation of European statistics (e.g. ministries of finance). Other statistical authorities' responsibility for the publication of statistics needs to be clearly identified in order to distinguish statistical releases from political statements. In Bulgaria, the Ministry of Finance compiles quarterly government debt data, while the NSI compiles annual government debt data. The

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156 Council Regulation (EU) No 679/2010 of 26 July 2010 amending Regulation (EC) No 479/2009 as regards the quality of statistical data in the context of the excessive deficit procedure (OJ L 198, 30.7.2010, p. 1).

157 On 13 December 2011 the reinforced Stability and Growth Pact (SGP) entered into force with a new set of rules for economic and fiscal surveillance. These measures, known as the "six-pack", consist of five regulations and one directive proposed by the European Commission and approved in October 2010 by all 27 Member States at the time and the European Parliament.

158 European statistics are developed, produced and disseminated by both the ESS and the European System of Central Banks (ESCB) but under separate legal frameworks reflecting their respective governance structures. The members of the ESCB are not involved in the production of European statistics pursuant to the Regulation on European statistics. However, with a view to minimising the reporting burden and guaranteeing the coherence necessary to produce European statistics, the ESS and the ESCB cooperate closely, while complying with the statistical principles set out in Article 2(1) of the Regulation on European statistics. Given that some European statistics may be compiled by national central banks in their capacity as members of the ESCB, the NSIs and the national central banks also cooperate closely under national arrangements with a view to ensuring the necessary cooperation between the ESS and the ESCB and to guaranteeing the production of complete and coherent European statistics.

159 Regulation (EU) 2015/759 of the European Parliament and of the Council of 29 April 2015 amending Regulation (EC) No 223/2009 on European statistics (OJ L 123, 19.5.2015, p. 90).

institutional responsibilities for the compilation of EDP data and GFS are shown in Table 5.1. Although the independence of the compilers at the Bulgarian Ministry of Finance is not guaranteed by law, the monitoring and quality assurance of the EDP data and GFS compiled by the Ministry of Finance form part of the coordination role of the NSI.

Table 5.1
Quality and integrity of convergence statistics

Institutional features relating to the quality and integrity of the statistics used in assessing the convergence process	
Legal independence of the national statistical institute (NSI)	Under Article 2(2) of the Law on Statistics[1], statistics are based on the principles of professional independence, impartiality, objectivity, reliability, statistical confidentiality and cost effectiveness. Under Article 8 of the Law on Statistics, the President of the NSI is appointed by a decision of the Council of Ministers. The term of office is fixed (seven years; reappointment is possible, only once).
Administrative supervision and budget autonomy	The NSI has the status of a state agency and is directly subordinated to the Council of Ministers. It has budget autonomy on the basis of an annual amount assigned from the state budget.
Legal mandate for data collection	The Law on Statistics determines the main principles of data collection.
Legal provisions regarding statistical confidentiality	Under Articles 25 to 27a of the Law on Statistics, the confidentiality of the statistical data is assured.
Harmonised Index of Consumer Prices (HICP) inflation	
Compliance with legal minimum standards	Eurostat made a compliance monitoring visit in September 2024 and published a report in December that year confirming that the methods used for producing the HICP are satisfactory.[2] There were no major instances of non-compliance with the HICP methodology.
Other issues	Eurostat considered the representativeness of the HICP to be generally appropriate.
Government finance statistics	
Data coverage	Revenue, expenditure, deficit and debt data are provided for the period 2015-24.
Outstanding statistical issues	No major outstanding statistical issues identified. Eurostat made an EDP visit to Bulgaria in 2023 and published the final findings on its website.
Institution responsible for the compilation of statistics	The NSI compiles the non-financial and annual financial accounts of government, as well as annual government debt. The Ministry of Finance compiles quarterly government debt and the national central bank compiles the quarterly financial accounts of government.

1) Law on Statistics, *State Gazette*, No 57, 25 June 1999.
2) The full report on the findings and recommendations of Eurostat's compliance monitoring of the Bulgarian HICP is available on its website.

5.2 HICP inflation

This section considers the methodology and quality of the statistics underlying the measurement of price developments, specifically the Harmonised Index of Consumer Prices (HICP). The HICP was developed for the purpose of assessing convergence in terms of price stability on a comparable basis. It is published for all EU Member States by Eurostat.[160] The HICP covering the euro area as a whole has been the main measure of price developments for the monetary policy of the ECB since January 1999.

Article 1 of Protocol (No 13) on the convergence criteria (annexed to the Treaties) requires price convergence to be measured by means of the consumer price index (CPI) on a comparable basis, taking into account

[160] See Eurostat's website for details on the HICP legislative framework. Eurostat has also published recommendations and a methodological manual.

differences in national definitions. The framework regulation introduced to establish HICPs, Council Regulation (EC) No 2494/95[161], was adopted in October 1995 and subsequently replaced by Regulation (EU) 2016/792[162], which entered into force in June 2016. The HICPs have also been harmonised on the basis of EU Council and European Parliament regulations. They use common standards for the coverage of the items, the territory and the population included (all these elements are major reasons for differences between national CPIs). Common standards have also been established in several other areas, for example the treatment of new goods and services.

The HICPs use annually updated expenditure weights (or, until 2011, less frequent updates if this did not have a significant effect on the index) and cover all goods and services included in household final monetary consumption expenditure. The latter is derived from the national accounts domestic concept of household final consumption expenditure but excludes owner-occupied housing. The prices observed are the prices households actually pay for goods and services in monetary transactions and thus include all taxes (minus subsidies) on products, e.g. VAT and excise duties. Expenditure on health, education and social services is covered to the extent that it is financed (directly or through private insurance) by households and not reimbursed by the government. The “HICP – administered prices” includes only prices which are directly set or significantly influenced by the government, including national regulators. It is based on a common definition and compilation, and is published by Eurostat.

Eurostat must ensure that the statistical practices used to compile national HICPs comply with HICP methodological requirements and that good practices in the field of consumer price indices are being followed. Eurostat carries out compliance monitoring visits and publishes its findings in information notes made available on its website.

5.3 Government finance statistics

This section describes the methodology and quality of the statistics used to measure fiscal developments. GFS are based mainly on national accounts concepts as defined in the ESA 2010[163] and Commission Regulation (EU) No 220/2014[164]. They refer to the institutional sector “general government” as defined in the ESA 2010. This comprises central government, state government (in Member

[161] Council Regulation (EC) No 2494/95 of 23 October 1995 concerning harmonized indices of consumer prices (OJ L 257, 27.10.1995, p. 1).

[162] Regulation (EU) 2016/792 of the European Parliament and of the Council of 11 May 2016 on harmonised indices of consumer prices and the house price index, and repealing Council Regulation (EC) No 2494/95 (OJ L 135, 24.5.2016, p. 11).

[163] See Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union (OJ L 174, 26.6.2013, p. 1).

[164] Commission Regulation (EU) No 220/2014 of 7 March 2014 amending Council Regulation (EC) No 479/2009 as regards references to the European system of national and regional accounts in the European Union (OJ L 69, 8.3.2014, p. 101).

States with a federal structure), local government and social security funds. It typically does not include public corporations.

The general government deficit (-)/surplus (+) is equal to the ESA 2010 item "net lending (+)/net borrowing (-)", which in turn is equal to "total revenue" minus "total expenditure". The primary government deficit/surplus is the government deficit/surplus excluding interest expenditure.

The general government debt is the sum of the outstanding gross liabilities at nominal value (face value) in currency and deposits, debt securities (e.g. government bills, notes and bonds) and loans. It excludes financial derivatives, such as swaps[165], as well as trade credits[166] and other liabilities not represented by a financial document, such as overpaid tax advances. It also excludes contingent liabilities, such as government guarantees and pension commitments. While government debt is a gross concept in the sense that neither financial nor non-financial assets are deducted from liabilities, it is consolidated within the general government sector and therefore does not include government debt held by other government units.

Government deficit and debt ratios are expressed as a percentage of GDP at current market prices.

5.3.1 Data source

The national central banks (NCBs) provide the ECB with detailed GFS data under the ECB's GFS Guideline[167]. Although the Guideline is only legally binding for the euro area NCBs, the non-euro area EU NCBs also transmit GFS data to the ECB by the same deadlines and using the same procedures. The Guideline lays down requirements for the transmission of annual data with detailed breakdowns of annual revenue and expenditure and the deficit-debt adjustment. In addition, it requests figures on general government debt with breakdowns by instrument, by initial and residual maturity and by holder.

5.3.2 Methodological issues

GFS must comply with the ESA 2010 and reflect decisions and guidelines issued by Eurostat for specific cases involving the general government sector. The borderline classification cases between the financial, non-financial and general government sectors continue to be examined closely by Eurostat and national

165 However, on the basis of a Eurostat guidance note released in 2008, lump sums received by government under off-market interest rate swaps are treated as government loans.

166 A 2012 Eurostat decision stipulates that trade credits that are refinanced without recourse to the original holder and trade credits that are renegotiated beyond the simple extension of the initial maturity need to be reclassified as loans and are thus included in the EDP general government debt.

167 Guideline (EU) 2025/603 of the European Central Bank of 7 March 2025 on government finance statistics (ECB/2025/9) (OJ L, 2025/603, 31.3.2025).

statistical compilers and may lead to further reclassifications and changes in the EDP and GFS data.

5.4 Exchange rates

Article 3 of Protocol (No 13) on the convergence criteria defines what is meant by the criterion on participation in the exchange rate mechanism of the European Monetary System. The bilateral exchange rates of the Member States' currencies vis-à-vis the euro are daily reference rates recorded by the ECB at 14:15 CET and subsequently published on the ECB's website.[168] Nominal and real effective exchange rates (EERs) are constructed by applying trade weights (based on a geometric weighting) to the bilateral nominal and real exchange rates of the Member States' currencies vis-à-vis the currencies of 41 trading partners. Both nominal and real EER statistics are published by the ECB.

5.5 Long-term interest rates

Article 4 of Protocol (No 13) on the convergence criteria requires interest rates to be measured on the basis of long-term government bonds or comparable securities, taking into account differences in national definitions. While Article 5 assigns the responsibility for providing the statistical data for the application of the Protocol to the European Commission, the ECB, given its expertise in the area, assists in this process by defining representative long-term interest rates and collecting the data from the NCBs for transmission to the Commission. This is a continuation of the work carried out by the European Monetary Institute as part of the preparations for Stage Three of Economic and Monetary Union in close cooperation with the Commission. The conceptual work resulted in the definition of seven key features to be considered in the calculation of long-term interest rates, as presented in Table 5.2. Long-term interest rates refer to bonds denominated in national currency.

[168] Since 1 July 2016 the reference rates have been published at around 16:00 CET. For details, see "ECB introduces changes to euro foreign exchange reference rates", *press release*, ECB, 7 December 2015.

Table 5.2
Statistical framework for defining long-term interest rates for the purpose of assessing convergence

Concept	Recommendation
Bond issuer	The bond should be issued by the central government.
Maturity	As close as possible to ten years' residual maturity. Any replacement of bonds should minimise maturity drift; the structural liquidity of the market must be considered.
Coupon effects	No direct adjustment.
Taxation	Gross of tax.
Choice of bonds	The selected bonds should be sufficiently liquid. This requirement should determine the choice between benchmark or sample approaches, depending on national market conditions.
Yield formula	The "redemption yield" formula should be applied.
Aggregation	Where there is more than one bond in the sample, a simple average of the yields should be used to produce the representative rate.

5.6 Other factors

The last paragraph of Article 140(1) of the Treaty states that the reports of the European Commission and the ECB shall take account of, in addition to the four main criteria, the results of the integration of markets, the situation and development of the national balance of payments and an examination of the development of unit labour costs and other price indices. Whereas, for the four main criteria, Protocol (No 13) stipulates that the Commission will provide the data to be used for the assessment of compliance and describes those statistics in more detail, it makes no reference to the provision of statistics for these "other factors".

With regard to the results of the integration of markets, two sets of indicators are used. These are i) statistics on financial development and integration referring to the structure of the financial system,[169] and ii) statistics on financial and non-financial integration with the euro area.[170]

The data covering the structure of the financial system are provided by the NCBs. The indicators concerning the debt securities issued by resident financial corporations (monetary financial institutions (MFIs) excluding the NCB and non-monetary financial corporations) and non-financial corporations are compiled in accordance with the methodology set out in Guideline (EU) 2022/971[171]. The indicator relating to stock market capitalisation refers to listed shares issued by resident corporations following the methodology given in the same Guideline. The indicators concerning MFI credit to residents and claims of euro area MFIs on resident MFIs are based on available data collected by the ECB as part of the MFI balance sheet

[169] Debt securities issued by resident corporations, stock market capitalisation, MFI credit to non-government residents and claims of euro area MFIs on resident MFIs.

[170] External trade and investment position with the euro area.

[171] Guideline (EU) 2022/971 of the European Central Bank of 19 May 2022 on the Centralised Securities Database and the production of securities issues statistics and repealing Guideline ECB/2012/21 and Guideline (EU) 2021/834 (ECB/2022/25) (OJ L 166, 22.6.2022, p. 147).

statistics collection framework. The data are obtained from the countries under review and, for the latter indicator, also from the euro area countries covered by Regulation (EU) No 2021/379[172]. Historical data are compiled by the relevant NCBs, where appropriate. For the indicators mentioned in this paragraph, the statistical data relating to the euro area cover the countries that had adopted the euro at the time to which the statistics relate.

Balance of payments and international investment position statistics are compiled in accordance with the concepts and definitions laid down in the sixth edition of the International Monetary Fund's Balance of Payments and International Investment Position Manual (BPM6) and with guidance provided by the ECB in its Guideline on external statistics[173,174] and by Eurostat. The Convergence Report examines developments in the current account (goods, services, primary income and secondary income) and the capital account; the sum of the balances of these two accounts corresponds to the net lending/net borrowing of the total economy. In addition, developments in the main components of the financial account are presented together with the net international investment position and gross external debt of each country. Exports and imports of goods and services are presented vis-à-vis both the rest of the world and the euro area. Direct and portfolio investment assets and liabilities with the euro area are also reported. Forecasted data are taken from the European Commission's economic forecasts.[175]

The Convergence Report also looks at the development of unit labour costs and other price indices. With regard to producer price indices, these data refer to domestic sales of total industry excluding construction. The statistics are collected on a harmonised basis under the EU Regulation on European business statistics[176]. Statistics on unit labour costs (calculated as compensation per employee divided by GDP chain-linked volumes per hours worked) are derived from data provided under the ESA 2010 transmission programme.

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172 Regulation (EU) 2021/379 of the European Central Bank of 22 January 2021 on the balance sheet items of credit institutions and of the monetary financial institutions sector (recast) (ECB/2021/2) (OJ L 73, 3.3.2021, p. 16).

173 Guideline of the European Central Bank of 9 December 2011 on the statistical reporting requirements of the European Central Bank in the field of external statistics (ECB/2011/23), recast of Guideline ECB/2004/15 of 16 July 2004, as amended by Guidelines ECB/2013/25 of 30 July 2013, ECB/2015/392 of 26 November 2015, ECB/2018/19 of 2 August 2018, ECB/2020/52 of 14 October 2020, ECB/2022/23 of 5 May 2022 and ECB/2024/21 of 23 July 2024.

174 See also "EU Balance of Payments and International Investment Position statistical sources and methods – B.o.p. and i.i.p. e-book", ECB, Frankfurt am Main, October 2023.

175 These economic forecasts are made by the Directorate-General for Economic and Financial Affairs (DG ECFIN) on behalf of the European Commission.

176 Regulation (EU) No 2019/2152 of the European Parliament and of the Council of 27 November 2019 on European business statistics (OJ L 327, 17.12.2019, p. 1).

6 Examination of the compatibility of Bulgarian legislation with the Treaties

6.1 Compatibility of national legislation

The following legislation forms the legal basis for Българска народна банка (Bulgarian National Bank) and its operations:

- the Bulgarian Constitution,[177]
- the Law on Българска народна банка (Bulgarian National Bank) published on 13 February 2024 (hereinafter the "Law on BNB").[178] The Law on BNB enters into force and repeals and replaces the previous Law on Българска народна банка (Bulgarian National Bank)[179] as of the date stipulated in the Council Decision on the adoption by the Republic of Bulgaria of the euro, adopted in accordance with Article 140(2) of the Treaty, and in the Council Regulation, adopted in accordance with Article 140(3) of the Treaty. There are no additional conditions for the entry into force of the Law on BNB.

The Law on counter-corruption[180] applies to public office holders.

6.2 Independence of the NCB

With regard to the independence of Българска народна банка (Bulgarian National Bank), the Law on BNB, the Law on counter-corruption and the Bulgarian Constitution have been examined.

6.2.1 Institutional independence

Article 6 of the Law on BNB prohibits European Union institutions, bodies, offices or agencies, the Council of Ministers or the governments of other EU Member States, as well as any other bodies and institutions from giving instructions to Българска народна банка (Bulgarian National Bank), the Governor or the members of the Governing Council. This provision is in line with Article 130 of the Treaty and Article 7 of the Statute of the ESCB.[181]

Article 99 of the Bulgarian Constitution governs the formation of the government. Article 99(5) provides that if no agreement is reached on the formation of a

[177] Constitution of the Republic of Bulgaria, Darjaven vestnik issue 56, 13.7.1991.

[178] Law on Българска народна банка (Bulgarian National Bank), Darjaven vestnik issue 13, 13.2.2024.

[179] Law on Българска народна банка (Bulgarian National Bank), Darjaven vestnik issue 46, 10.6.1997.

[180] Darjaven vestnik issue 84, 6.10.2023.

[181] See paragraph 3.2 of Opinion CON/2018/53.

government, the President of the Republic of Bulgaria, following consultations with the parliamentary groups and acting on a motion by the caretaker prime minister-designate, shall appoint a caretaker cabinet, and shall schedule new elections within two months. A caretaker prime minister shall be appointed from among the Chairperson of the National Assembly, the Governor or a Deputy Governor of Българска народна банка (Bulgarian National Bank), the President or a Vice-President of the Bulgarian National Audit Office, and the Ombudsman or a deputy thereof. In principle, such a possible appointment of a Governor or a Deputy Governor, entailing the interruption of their term of office, risks compromising the independent exercise of the powers and carrying out the tasks and duties conferred upon the NCB. An NCB Governor or Deputy Governor who is appointed as a caretaker prime minister on an ad hoc basis and resigns from his or her position as NCB Governor or Deputy Governor when accepting this position does not run such a risk. However, Article 99 of the Bulgarian Constitution seems to be unprecedented insofar as it establishes a permanent regime that envisages the temporary appointment of a Governor or a Deputy Governor as a caretaker prime minister. Such regime may expose the Governor or Deputy Governor to political leverage and influence involving serious conflicts of interest.[182] In particular, in case of a temporary interruption of the term of office, the risk may arise that the Governor or Deputy Governor takes stances as caretaker prime minister that are incompatible with the stance of the NCB, before going back to their position as Governor or Deputy Governor, following which conflicts arise with previous stances that they may have taken as caretaker prime minister.[183]

Pursuant to Article 130 TFEU, when exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and the Statute of the ESCB, members of the decision-making bodies of the NCBs must not seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body. Furthermore, the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the NCBs in the performance of their tasks. It follows from Article 130 TFEU that a member of an NCB's decision-making body cannot at the same time assume the function of a member of a national government, in particular not as prime minister. Otherwise, the independent exercise of the powers and carrying out of the tasks and duties, in which the Governor or a Deputy Governor of Българска народна банка (Bulgarian National Bank) can take an independent stance which may be different to that of the government, is logically not conceivable. In this regard, it is imperative that, once appointed, the Governor or Deputy Governor of Българска народна банка (Bulgarian National Bank), as caretaker prime minister is required to fully respect the institutional independence of Българска народна банка (Bulgarian National Bank) and its decision-making bodies in compliance with Article 130 TFEU.[184] In the light of the requirement to independently exercise the powers and carry out the tasks and duties conferred upon the NCB by the Treaties and the Statute of the ESCB, as laid down in Article 130 TFEU, the risk that the Governor or Deputy

[182] See paragraph 2.2.3 of Opinion CON/2024/23.

[183] See paragraph 2.2.3 of Opinion CON/2024/23.

[184] See paragraph 2.2.2 of Opinion CON/2024/23.

Governor takes stances as caretaker prime minister that are incompatible with the stance of the Българска народна банка (Bulgarian National Bank) would only be sufficiently mitigated by requiring the Governor or Deputy Governor to resign when appointed as caretaker prime minister, in order to exclude the materialisation of this risk.[185]

On 29 May 2024 and 5 June 2024, the ECB was consulted on a draft amendment to the Law on BNB, which aimed to reflect these principles.[186] The ECB welcomed the express stipulation in the draft amendment that in the event that the Governor or a Deputy Governor explicitly consents to be appointed as a caretaker prime minister, he or she must submit their resignation as Governor or Deputy Governor. The ECB also welcomed the provision in the draft amendment that, where the Governor or a Deputy Governor is appointed as a caretaker prime minister, their duties as Governor or Deputy Governor, as the case may be, are terminated with their appointment as a caretaker prime minister, since this increases legal certainty and enhances clarity as to the point in time at which the resignation becomes legally effective.[187] On 21 March 2025, the National Assembly adopted this draft amendment.[188]

6.2.2 Personal independence

Article 15(1) and (2) of the Law on BNB lists the grounds on which members of the Governing Council may be relieved from office. Article 15(1) provides that the National Assembly may relieve the Governor from office in accordance with Article 14.2 of the Statute of the ESCB. Article 15(2) provides that other members of the Governing Council may be relieved from office if they no longer fulfil the conditions required for the performance of their duties or if they have been found guilty of serious misconduct in accordance with Article 14.2 of the Statute of the ESCB. Article 15(1) and (2) of the Law on BNB complies with Article 14.2 of the Statute of the ESCB.[189]

In 2023, Article 98(1) of the Law on counter-corruption replaced Article 80(1) of the Law on counter corruption and unlawfully acquired assets forfeiture, which had replaced Article 33(1) of the Law on the prevention of conflicts of interests, providing that the establishment of a conflict of interest by means of an enforceable legal act is a ground for relieving the Governor, Deputy Governors and the other members of the Governing Council of Българска народна банка (Bulgarian National Bank) from office, unless otherwise provided for in the Constitution, the Statute of the ESCB or special legislation. Article 98(2) of the Law on counter-corruption provides that the relief from office must follow the procedure established in the relevant laws. It is understood that in the case of the Governor, Deputy Governors and the other members of the Governing Council of Българска народна банка (Bulgarian National Bank) this refers to Article 15(1) and (2) of the Law on BNB and that this reference

185 See paragraph 2.2.4 of Opinion CON/2024/23.
186 See Opinion CON/2024/23.
187 See paragraph 2.2.4 of Opinion CON/2024/23.
188 Darjaven vestnik issue 26, 27.3.2025.
189 See paragraph 3.1 of Opinion CON/2018/53.

entails that Article 98(1) of the Law on counter-corruption cannot apply in relation to the Governor or other members of the Governing Council of Българска народна банка (Bulgarian National Bank) because the wording of Article 98(1) of the Law on counter-corruption ensures that the establishment of a conflict of interest in accordance with that Law will not be a ground for removal from office of a senior public office holder where it is otherwise provided for in special legislation, such as the Law on BNB.[190]

Article 15(3) of the Law on BNB establishes that the grounds for relieving a Deputy Governor or another member of the Governing Council of Българска народна банка (Bulgarian National Bank) other than the Governor from office must be established by decision of the Governing Council of Българска народна банка (Bulgarian National Bank). In this context, the Governing Council of Българска народна банка (Bulgarian National Bank) must assess whether the Deputy Governor or a member of the Governing Council of Българска народна банка (Bulgarian National Bank) other than the Governor fulfils the conditions for the performance of his or her duties and/or whether he or she has been guilty of serious misconduct in the light of Article 14.2 of the Statute of the ESCB. Such decisions are adopted according to a procedure determined by the Governing Council of Българска народна банка (Bulgarian National Bank) and have the immediate effect of suspending the members concerned from the exercise of their duties.

The decisions are subject to appeal before Върховния административен съд (the Supreme Administrative Court) within 7 days and the Supreme Administrative Court has 14 days to issue a final ruling on an appeal. The final ruling of the Supreme Administrative Court on an appeal is sent to the national authority, which has the competence to relieve the members of the Governing Council of Българска народна банка (Bulgarian National Bank) from office. The final ruling is binding on the appointing authority under Article 13 of the Law on BNB. The ECB understands that Article 15(3) of the Law on BNB aims to ensure that within the administrative procedure for dismissal of any member of the decision-making bodies of Българска народна банка (Bulgarian National Bank) other than the Governor, it is possible to request a review by national courts of the decision of the Governing Council of Българска народна банка (Bulgarian National Bank) establishing the grounds for relieving a Deputy Governor or another member of the Governing Council of Българска народна банка (Bulgarian National Bank) other than the Governor from office. The judicial review of such a decision may lead to its annulment. The annulment of a decision of the Governing Council of Българска народна банка (Bulgarian National Bank) establishing the grounds for relieving a Deputy Governor or another member of the Governing Council of Българска народна банка (Bulgarian National Bank) other than the Governor from office precludes the adoption of a decision by the appointing authority to dismiss the relevant member of the Governing Council of Българска народна банка (Bulgarian National Bank). In addition, the ECB understands that when deciding on the dismissal, the appointing authority cannot consider and adopt additional grounds for dismissal that were not established in the

190 See paragraph 3.1 of Opinion CON/2021/2 and paragraph 3.1.4 of Opinion CON/2022/45.

decision of the Governing Council of Българска народна банка (Bulgarian National Bank). The ECB further understands that, in accordance with general administrative law, an appeal before the Supreme Administrative Court could suspend the application of the decision of the Governing Council of Българска народна банка (Bulgarian National Bank). Based on the above understanding, Article 15(3) of the Law on BNB is consistent with Article 130 of the Treaty and with the Statute of the ESCB.[191]

Article 13(1) and (2) of the Law on BNB, which replaced Article 12(1) and (2) of the previous Law on BNB, provides for the National Assembly's powers to elect the Governor and the Deputy Governors of Българска народна банка (Bulgarian National Bank). The ECB notes that any proper election or appointment of members of an NCB's decision-making body must enable them to assume office following their election. Once elected or appointed, the Governor and the other members of the Governing Council of Българска народна банка (Bulgarian National Bank) may not be relieved from office under conditions other than those mentioned in Article 14.2 of the Statute of the ESCB, even if they have not yet taken up their duties.

As noted above, Article 99(5) of the Bulgarian Constitution provides that the Governor or a Deputy Governor of Българска народна банка (Bulgarian National Bank) may be appointed by the President of the Republic of Bulgaria as a caretaker prime minister for a period of two months. Pursuant to Article 14.2 of the Statute of the ESCB, a Governor may be relieved from office only if he or she no longer fulfils the conditions required for the performance of his or her duties or if he or she has been guilty of serious misconduct. Consequently, the appointment of the Governor of Българска народна банка (Bulgarian National Bank) as a caretaker prime minister may not amount to relief from office without the existence of such a ground. It is understood that the appointment of the Governor of Българска народна банка (Bulgarian National Bank) as caretaker prime minister is subject to the acceptance of the appointment by the Governor of Българска народна банка (Bulgarian National Bank).[192] Based on this understanding that the appointment of the Governor of Българска народна банка (Bulgarian National Bank) as a caretaker prime minister presupposes his or her acceptance, the appointment would not amount to relief from office. In such a situation, there is no need for the protection of the personal independence of the Governor of Българска народна банка (Bulgarian National Bank) by the mechanism of Article 14.2 of the Statute of the ESCB.[193]

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191 See paragraph 3.2 of Opinion CON/2022/45.

192 In the light of the requirements flowing from Article 130 TFEU as to the independence of members of decision-making bodies of NCBs other than the Governor, it is understood that the appointment of a Deputy Governor of Българска народна банка (Bulgarian National Bank) as caretaker prime minister is also subject to the acceptance of the appointment by the Deputy Governor of Българска народна банка (Bulgarian National Bank). See paragraph 2.3.2 of Opinion CON/2024/23.

193 In this context, it is noted that any provision in Bulgarian law governing the replacement of the Governor of Българска народна банка (Bulgarian National Bank), in particular any future amendment to the Law on BNB seeking to implement Article 99(5) of the Bulgarian Constitution, cannot mandate the appointment of another person as Governor for only two months. In accordance with Article 14.2, first subparagraph, of the Statute of the ESCB the term of office of a Governor of an NCB must be no less than five years. See Chapter 2.2.3 on "Independence on NCBs", Section on "Minimum term of office for Governors", Opinion CON/2018/23 and paragraph 2.3.3 of Opinion CON/2024/23.

On 29 May 2024 and 5 June 2024, the ECB was consulted on a draft amendment to the Law on BNB, which aimed to make explicit that the appointment of a BNB Governor as caretaker prime minister is subject to that BNB Governor's agreement to take up the appointment. The ECB welcomed that draft provision.[194] On 21 March 2025, the National Assembly adopted this draft amendment.[195]

6.3 Confidentiality

Article 4 of the Law on BNB provides that, without prejudice to Article 37 of the Statute of the ESCB, Българска народна банка (Bulgarian National Bank) may not disclose or transmit to other persons any information related to the ESCB, nor any information obtained that constitutes a banking, professional, commercial or other legally protected secret of the banks and the other participants in monetary and credit transactions. Article 24(1) of the Law on BNB provides that, without prejudice to Article 37 of the Statute of the ESCB, the employees of Българска народна банка (Bulgarian National Bank) shall respect confidentiality concerning negotiations, deals contracted, the amount of assets on customers' deposits and their transactions, and information received by Българска народна банка (Bulgarian National Bank), as well as any circumstances concerning the activities of Българска народна банка (Bulgarian National Bank) and its customers, which constitute business, banking, professional, commercial or other legally protected secrets, even after termination of their employment relationship. Under Article 37 of the Statute of the ESCB, professional secrecy is an ESCB-wide matter, which is duly acknowledged in Article 4 and Article 24(1) of the Law on BNB.

6.4 Monetary financing and privileged access

In past Convergence Reports the ECB considered that certain provisions of the Law on BNB arising from the particularities of the currency-board regime were incompliant with the monetary financing prohibition. The Law on BNB adopted in 2024 which enters into force on the date stipulated in the Council Decision on the adoption by the Republic of Bulgaria of the euro, has repealed those provisions.

Pursuant to the Law on credit institutions,[196] Българска народна банка (Bulgarian National Bank) operates a central credit register (Article 56) and a bank account register (Article 56a). The costs of obtaining information from these registers by government and judicial authorities are to be borne by the State budget. In past Convergence Reports the ECB considered that in order to further ensure compatibility with the prohibition of monetary financing, the Law on credit institutions would benefit from a limitation of the liability of Българска народна банка (Bulgarian National Bank)

[194] See paragraph 2.3.2 of Opinion CON/2024/23.

[195] Darjaven vestnik issue 26, 27.3.2025.

[196] Darjaven vestnik issue 59, 21.07.2006.

in relation to the operation of the two registers.[197] The provisions of both Articles 56 and 56a have been amended to waive the liability of Българска народна банка (Bulgarian National Bank) in relation to the operation of the two registers. Instead of Българска народна банка (Bulgarian National Bank), the State will be liable for damages resulting from the operation of the two registers in accordance with the general regime for State liability.[198] This makes the rules compliant with the prohibition of monetary financing.

6.5 Legal integration of the NCB into the Eurosystem

In past Convergence Reports the ECB considered, with regard to legal integration of Българска народна банка (Bulgarian National Bank) into the Eurosystem, that the Law on BNB needed to be adapted in several respects. The Law on BNB, which was adopted in 2024, addresses these elements, as set out below.

6.5.1 Tasks

6.5.1.1 Monetary policy

Article 2(1) and Article 17, points 3 and 4, and Articles 37, 38, 39 and 43 of the Law on BNB, which provide for the powers of Българска народна банка (Bulgarian National Bank) in the field of monetary policy and instruments for the implementation thereof, recognise the ECB’s powers in this field.

6.5.1.2 Collection of statistics

Article 3(8) and Article 52 of the Law on BNB, which provide for the powers of Българска народна банка (Bulgarian National Bank) relating to the collection of statistics, recognise the ECB’s powers in this field.

6.5.1.3 Official foreign reserve management

Articles 39 to 42 of the Law on BNB, which provide for the powers of Българска народна банка (Bulgarian National Bank) with regard to the management of official foreign reserves, recognise the ECB’s powers in this field.

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197 See paragraph 3.1.6 of Opinion CON/2015/46, paragraph 3.2.1 of Opinion CON/2016/19 and paragraph 2.2 of Opinion CON/2016/57.

198 See paragraph 3.2 of Opinion CON/2021/2.

6.5.1.4 Payment systems

Article 3(5) of the Law on BNB, which provides for the powers of Българска народна банка (Bulgarian National Bank) with regard to the promotion of the smooth operation of payment systems, recognises the ECB's powers in this field.

6.5.1.5 Issue of banknotes

Article 3(2) and Articles 26 to 36 of the Law on BNB, which provide for the powers of Българска народна банка (Bulgarian National Bank) with regard to the issue of banknotes and coins, recognise the Council's and the ECB's powers in this field.[199]

6.5.2 Financial provisions

6.5.2.1 Appointment of independent auditors

Article 7(7) of the Law on BNB, which provides that the external auditor is appointed by the Governing Council on the basis of a procedure complying with the Law on public procurement, recognises the Council's and the ECB's powers under Article 27.1 of the Statute of the ESCB.

6.5.2.2 Financial reporting

Articles 53 to 57 of the Law on BNB reflect the obligation to comply with the Eurosystem's regime for financial reporting of NCB operations, pursuant to Article 26 of the Statute of the ESCB.

6.5.3 International cooperation

Article 5(2) and Article 17, points 11 and 12, of the Law on BNB, which provide for the powers of Българска народна банка (Bulgarian National Bank) with regard to international cooperation, recognise the ECB's powers in this field.

6.6 Conclusions

The Law on BNB has been amended to reflect and implement the recommendations made in the ECB's Convergence Report of June 2024. As a result, the national legislation is compatible with the Treaty and the Statute of the ESCB.

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[199] See paragraph 3.2 of Opinion CON/2023/27.

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For specific terminology please refer to the ECB glossary (available in English only).

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Anlage 4

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2025/0158 (NLE)
SENSITIVE*

Proposal for a

COUNCIL DECISION

on the adoption by Bulgaria of the euro on 1 January 2026

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EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

On 3 May 1998, the Council decided that Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Austria and Finland fulfilled the necessary conditions to adopt the euro on 1 January 1999. Denmark and the United Kingdom made use of their opt-out clauses and were therefore not assessed by the Council. Greece and Sweden were considered by the Council as Member States with a derogation.

On 19 June 2000, the Council decided that Greece fulfilled the necessary conditions to adopt the euro on 1 January 2001. The countries that joined the European Union on 1 May 2004 (Czechia, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia) became Member States with a derogation in accordance with Article 4 of the respective Act of Accession.

On 11 July 2006, the Council decided that Slovenia fulfilled the necessary conditions to adopt the euro on 1 January 2007.

Bulgaria and Romania joined the European Union on 1 January 2007 and became Member States with a derogation in accordance with Article 5 of the respective Act of Accession.

On 10 July 2007, the Council decided that Cyprus and Malta fulfilled the necessary conditions to adopt the euro on 1 January 2008.

On 8 July 2008, the Council decided that Slovakia fulfilled the necessary conditions to adopt the euro on 1 January 2009.

On 13 July 2010, the Council decided that Estonia fulfilled the necessary conditions to adopt the euro on 1 January 2011.

On 9 July 2013, the Council decided that Latvia fulfilled the necessary conditions to adopt the euro on 1 January 2014.

On 23 July 2014, the Council decided that Lithuania fulfilled the necessary conditions to adopt the euro on 1 January 2015.

On 12 July 2022, the Council decided that Croatia fulfilled the necessary conditions to adopt the euro on 1 January 2023.

Article 140(1) of the Treaty on the Functioning of the European Union ('the TFEU') states that at least once every two years or at the request of a Member State with a derogation, the Commission and the European Central Bank (ECB) have to report to the Council on the progress made by Member States with a derogation in fulfilling their obligations to achieve economic and monetary union.

Based on its own report and that of the ECB, the Commission should submit to the Council a proposal for a Council decision, in accordance with the procedure laid down in Article 140(2) of the TFEU, to abrogate the derogation of the Member States fulfilling the necessary conditions.

Both the Commission and the ECB convergence reports were released on 4 June 2025. The reports include an examination of the compatibility between Bulgaria's national legislation, including the statutes of its national central bank, with Articles 130 and 131 of the TFEU and the Statute of the European System of Central Banks and of the ECB.

The reports also examine whether a high degree of sustainable convergence has been achieved, by referring the fulfilment of the convergence criteria, and take account of several other factors required under the final subparagraph of Article 140(1) of the TFEU.

In its convergence report, the Commission concludes that Bulgaria fulfils the conditions for adopting the euro.

In its convergence report, the ECB has not identified any obstacle to abrogating the derogation concerning Bulgaria.

On the basis of its report and that of the ECB, the Commission has adopted the attached proposal for a Council decision to abrogate the derogation of Bulgaria, with effect from 1 January 2026.

2. RESULTS OF CONSULTATIONS WITH THE INTERESTED PARTIES AND IMPACT ASSESSMENT

Discussions with Member States on the economic policy challenges in Member States are regularly held under various headings in the Economic and Financial Committee (EFC) and the ECOFIN/Eurogroup. These include informal discussions on issues specifically relevant to preparing for eventual entry in the euro area (including exchange rate policies).

Economic developments in the euro area and the Member States are assessed through the various procedures of economic policy coordination and surveillance (specifically under Article 121 TFEU), and as part of the Commission's regular monitoring and analysis of country-specific and area-wide developments (including forecasts, regular publication series, and input to the EFC and ECOFIN/Eurogroup). In line with the proportionality principle and with past practice, no formal impact assessment has been carried out.

3. LEGAL ELEMENTS OF THE PROPOSAL

3.1. Legal basis

The legal basis for this proposal is Article 140(2) TFEU, which provides for the procedure for a Council decision on euro adoption and for abrogating the derogation in the Member States concerned.

The Council shall act on a proposal from the Commission, after consulting the European Parliament, after discussion in the European Council and after having received a recommendation of a qualified majority of those among its members representing Member States whose currency is the euro.

3.2. Subsidiarity and proportionality

The proposal falls under the exclusive competence of the Union. Therefore, the subsidiarity principle does not apply.

This initiative does not go beyond what is needed to achieve its objective and, therefore, complies with the proportionality principle.

3.3. Choice of legal instrument

In accordance with Article 140(2) TFEU, a decision is the appropriate legal instrument.

4. BUDGETARY IMPLICATION

The proposal has no implications for the budget of the Union.

2025/0158 (NLE)

Proposal for a

COUNCIL DECISION

on the adoption by Bulgaria of the euro on 1 January 2026

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 140(2) thereof,

Having regard to the proposal from the European Commission,

Having regard to the report from the European Commission ([1])

Having regard to the report from the European Central Bank ([2])

Having regard to the opinion of the European Parliament ([3]),

Having regard to the discussion in the European Council,

Having regard to the recommendation of the members of the Council representing Member States whose currency is the euro ([4]),

Whereas:

(1) The third stage of economic and monetary union ('EMU') started on 1 January 1999. The Council, meeting in Brussels on 3 May 1998 in the composition of Heads of State or Government, decided that Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland fulfilled the necessary conditions for adopting the euro on 1 January 1999 ([5]).

(2) By Decision 2000/427/EC ([6]), the Council decided that Greece fulfilled the necessary conditions for adopting the euro on 1 January 2001. By Decision 2006/495/EC ([7]), the Council decided that Slovenia fulfilled the necessary conditions for adopting the euro on 1 January 2007. By Decisions 2007/503/EC ([8]) and 2007/504/EC ([9]), the Council decided that Cyprus and Malta fulfilled the necessary conditions for adopting the euro

(1) Report of [……] (not yet published in the Official Journal).
(2) Report of [………] (not yet published in the Official Journal).
(3) Opinion of [……] (not yet published in the Official Journal).
(4) OJ C […], [….] […]
(5) Council Decision 98/317/EC of 3 May 1998 in accordance with Article 109j(4) of the Treaty (OJ L 139, 11.5.1998, p. 30).
(6) Council Decision 2000/427/EC of 19 June 2000 in accordance with Article 122(2) of the Treaty on the adoption by Greece of the single currency on 1 January 2001 (OJ L 167, 7.7.2000, p. 19).
(7) Council Decision 2006/495/EC of 11 July 2006 in accordance with Article 122(2) of the Treaty on the adoption by Slovenia of the single currency on 1 January 2007 (OJ L 195, 15.7.2006, p. 25).
(8) Council Decision 2007/503/EC of 10 July 2007 in accordance with Article 122(2) of the Treaty on the adoption by Cyprus of the single currency on 1 January 2008 (OJ L 186, 18.7.2007, p. 29).
(9) Council Decision 2007/504/EC of 10 July 2007 in accordance with Article 122(2) of the Treaty on the adoption by Malta of the single currency on 1 January 2008 (OJ L 186, 18.7.2007, p. 32).

on 1 January 2008. By Decision 2008/608/EC ([10]), the Council decided that Slovakia fulfilled the necessary conditions for adopting the euro. By Decision 2010/416/EU ([11]), the Council decided that Estonia fulfilled the necessary conditions for adopting the euro. By Decision 2013/387/EU ([12]), the Council decided that Latvia fulfilled the necessary conditions for adopting the euro. By Decision 2014/509/EU ([13]), the Council decided that Lithuania fulfilled the necessary conditions for adopting the euro. Finally, by Decision 2022/1211/EU ([14]), the Council decided that Croatia fulfilled the necessary conditions for adopting the euro.

(3) In accordance with point 1 of Protocol No 16 on certain provisions relating to Denmark annexed to the Treaty establishing the European Community and with the Decision taken by the Heads of State or Government in Edinburgh in December 1992, Denmark has notified the Council that it will not participate in the third stage of EMU. Denmark has not requested that the procedure referred to in Article 140(2) of the Treaty on the Functioning of the European Union (TFEU) be initiated.

(4) By virtue of Decision 98/317/EC, Sweden is a Member State with a derogation within the meaning of Article 139(1) TFEU. In accordance with Article 4 of the 2003 Act of Accession ([15]), Czechia, Hungary and Poland are Member States with a derogation within the meaning of Article 139(1) TFEU. In accordance with Article 5 of the 2005 Act of Accession ([16]), Bulgaria and Romania are Member States with a derogation within the meaning of Article 139(1) TFEU.

(5) The European Central Bank (‘ECB’) was established on 1 July 1998. The European Monetary System has been replaced by an exchange rate mechanism, the setting-up of which was agreed by the Resolution of the European Council on the establishment of an exchange rate mechanism in the third stage of economic and monetary union of 16 June 1997 ([17]). The procedures for an exchange rate mechanism in stage three of economic and monetary union (ERM II) were laid down in the Agreement of 16 March 2006 between the ECB and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of economic and monetary union ([18]).

(6) Article 140(2) TFEU lays down the procedures for abrogating the derogations of the Member States concerned. At least once every two years, or at the request of a Member State with a derogation, the Commission and the ECB are to report to the Council in accordance with the procedure laid down in Article 140(1) TFEU.

(7) National legislation in the Member States, including the statutes of national central banks, is to be adapted as necessary with a view to ensuring compatibility with

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([10]) Council Decision 2008/608/EC of 8 July 2008 in accordance with Article 122(2) of the Treaty on the adoption by Slovakia of the single currency on 1 January 2009 (OJ L 195, 24.7.2008, p. 24).
([11]) Council Decision 2010/416/EU of 13 July 2010 in accordance with Article 140(2) of the Treaty on the adoption by Estonia of the euro on 1 January 2011 (OJ L 196, 28.7.2010, p. 24).
([12]) Council Decision 2013/387/EU of 9 July 2013 on the adoption by Latvia of the euro on 1 January 2014 (OJ L 195, 18.7.2013, p. 24).
([13]) Council Decision 2014/509/EU of 23 July 2014 on the adoption by Lithuania of the euro on 1 January 2015 (OJ L 228, 31.7.2014, p. 29).
(14) Council Decision 2022/1211/EU of 12 July 2022 on the adoption by Croatia of the euro on 1 January 2023 (OJ L 187, 14.7.2022, p. 31).
([15]) OJ L 236, 23.9.2003, p. 33.
([16]) OJ L 157, 21.6.2005, p. 203.
([17]) OJ C 236, 2.8.1997, p. 5.
([18]) OJ C 73, 25.3.2006, p. 21.

Articles 130 and 131 TFEU and with the Statute of the European System of Central Banks and of the European Central Bank ('Statute of the ESCB and of the ECB'). The reports of the Commission and the ECB provide a detailed assessment of the compatibility of the legislation of Bulgaria with Articles 130 and 131 TFEU and with the Statute of the ESCB and of the ECB.

(8) In accordance with Article 1 of Protocol No 13 on the convergence criteria annexed to the TFEU, the criterion on price stability referred to in the first indent of Article 140(1) TFEU means that a Member State has a price performance that is sustainable and an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than one and a half percentage points that of, at most, the three best-performing Member States in terms of price stability. For the purpose of the criterion on price stability, inflation is measured by the harmonised indices of consumer prices (HICPs) defined in Regulation (EU) 2016/792 of the European Parliament and of the Council ([19]). To assess the price stability criterion, a Member State's inflation is measured by the percentage change in the arithmetic average of 12 monthly indices, relative to the arithmetic average of 12 monthly indices from the previous period. A reference value calculated as the simple arithmetic average of the inflation rates of the three best-performing Member States in terms of price stability, plus 1.5 percentage points, was used in the reports of the Commission and the ECB. In the one-year period ending in April 2025, the inflation reference value was calculated to be 2.8%, with Ireland, Finland and Italy as the three best-performing Member States in terms of price stability, with inflation rates of 1.2%, 1.3%, and 1.4%, respectively.

(9) In accordance with Article 2 of Protocol No 13, the criterion on the government budgetary position referred to in the second indent of Article 140(1) TFEU requires that, at the time of the examination, the Member State not be the subject of a Council decision under Article 126(6) TFEU that an excessive deficit exists.

(10) In accordance with Article 3 of Protocol No 13, the criterion on participation in the exchange-rate mechanism of the European Monetary System referred to in the third indent of Article 140(1) TFEU requires a Member State to have respected the normal fluctuation margins provided for by the exchange rate mechanism (ERM) of the European Monetary System, without severe tensions, for at least the last two years before the examination. In particular, the Member State must not have devalued its currency's bilateral central rate against the euro on its own initiative for the same period. Since 1 January 1999, the ERM II provides the framework for assessing the fulfilment of the exchange rate criterion. In assessing the fulfilment of this criterion in their reports, the Commission and the ECB have examined the two-year period ending on 19 May 2025.

(11) In accordance with Article 4 of Protocol No 13, the criterion on the convergence of interest rates referred to in the fourth indent of Article 140(1) TFEU means that, observed over a period of one year before the examination, a Member State has had an average nominal long-term interest rate that does not exceed by more than two percentage points that of, at most, the three best-performing Member States in terms of price stability. The criterion used to assess the convergence of interest rates was

([19]) Regulation (EU) 2016/792 of the European Parliament and of the Council of 11 May 2016 on harmonised indices of consumer prices and the house price index, and repealing Council Regulation (EC) No 2494/95 (OJ L 135, 24.5.2016, p. 11).

comparable interest rates on ten-year benchmark government bonds. To assess the fulfilment of the interest-rate criterion, a reference value calculated as the simple arithmetic average of the nominal long-term interest rates of the three best-performing Member States in terms of price stability, plus two percentage points, was considered in the reports of the Commission and the ECB. The reference value is based on the long-term interest rates in Ireland (2.8%), Finland (2.9%) and Italy (3.7%), and in the 12-month period ending in April 2025 it was 5.1%.

(12) In accordance with Article 5 of Protocol No 13, the data used in assessing the fulfilment of the convergence criteria was provided by the Commission. Budgetary data were provided by the Commission after reporting by the Member States before 1 April 2025, in accordance with Council Regulation (EC) No 479/2009 ([20]).

(13) On the basis of reports presented by the Commission and the ECB on the progress made by Bulgaria in fulfilling its obligations regarding the achievement of economic and monetary union, it is concluded that in Bulgaria, national legislation, including the Statute of the national central bank, is compatible with Articles 130 and 131 TFEU and with the Statute of the ESCB and of the ECB.

(14) On the basis of reports presented by the Commission and the ECB on the progress made by Bulgaria in fulfilling its obligations regarding the achievement of economic and monetary union, it is concluded that, regarding the fulfilment by Bulgaria of the convergence criteria mentioned in the four indents of Article 140(1) TFEU: the average inflation rate in Bulgaria in the 12-month period ending in April 2025 stood at 2.7%, which is below the reference value, and a review of a broad range of indicators does not identify causes for concern regarding the sustainability of price stability; Bulgaria is not the subject of a Council decision on the existence of an excessive deficit; Bulgaria has been a member of ERM II since 10 July 2020 and during the two years preceding the assessment, the lev (BGN) exchange rate has not been subject to severe tensions and Bulgaria has not devalued the BGN bilateral central rate against the euro on its own initiative. Finally, in the 12-month period ending in April 2025, the long-term interest rate in Bulgaria was, on average, 3.9%, which is well below the reference value.

(15) In the light of the assessment on legal compatibility and on the fulfilment of the convergence criteria as well as the assessment of additional factors, Bulgaria fulfils the necessary conditions for the adoption of the euro,

HAS ADOPTED THIS DECISION:

Article 1

Bulgaria fulfils the necessary conditions for the adoption of the euro. The derogation referred to in Article 5 of the 2005 Act of Accession is abrogated with effect from 1 January 2026.

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(20) Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (OJ L 145, 10.6.2009, p. 1).

Article 2

This Decision is addressed to the Member States.

Done at Brussels,

For the Council
The President

Anlage 5

EUROPEAN
COMMISSION

Brussels, 4.6.2025
COM(2025) 301 final

2025/0159 (NLE)
SENSITIVE*

Proposal for a

COUNCIL REGULATION

amending Regulation (EC) No 974/98 as regards the introduction of the euro in Bulgaria

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EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

On 4 June 2025, the Commission released a proposal for a Council Decision in accordance with Article 140(2) of the Treaty on the Functioning of the European Union (the TFEU). The proposal indicates that Bulgaria fulfils the necessary conditions to adopt the euro and that the derogation of Bulgaria is abrogated with effect from 1 January 2026.

In the event of a positive decision, the Council will subsequently have to take the other measures needed for introducing the euro in Bulgaria.

Council Regulation (EC) No 974/98 on the introduction of the euro ([1]) governs the initial introduction of the euro in the first-wave euro-area Member States and Greece ([2]). That Regulation was amended by:

– Regulation (EC) No 2169/2005, to prepare for future enlargements of the euro area

– Regulation (EC) No 1647/2006, to cover Slovenia (which adopted the euro on 1 January 2007)

– Regulation (EC) No 835/2007, to cover Cyprus (which adopted the euro on 1 January 2008)

– Regulation (EC) No 836/2007, to cover Malta (which adopted the euro on 1 January 2008)

– Regulation (EC) No 693/2008, to cover Slovakia (which adopted the euro in January 2009)

– Regulation (EU) No 670/2010, to cover Estonia (which adopted the euro in January 2011)

– Regulation (EU) No 678/2013, to cover Latvia (which adopted the euro in January 2014)

– Regulation (EU) No 827/2014, to cover Lithuania (which adopted the euro in January 2015)

– Regulation (EU) No 2022/1207, to cover Croatia (which adopted the euro in January 2023).

For Bulgaria to also be covered by Regulation (EC) No 974/98, a reference to this Member State needs to be added to that Regulation. This proposal contains the necessary amendments to that Regulation.

Bulgaria's National Euro Changeover Plan specifies that the adoption of the euro as the currency of Bulgaria should coincide with the introduction of euro banknotes and coins in Bulgaria.

([1]) OJ L 139, 11.5.1998, p. 1.

([2]) Council Regulation (EC) No 2596/2000 of 27 November 2000 amending Council Regulation (EC) No 974/98 on the introduction of the euro (OJ L 300, 29.11.2000, p. 2).

2. RESULTS OF CONSULTATIONS WITH THE INTERESTED PARTIES AND IMPACT ASSESSMENT

Discussions with Member States on the economic policy challenges in Member States are regularly held under various headings in the Economic and Financial Committee (EFC) and the ECOFIN/Eurogroup. These include informal discussions on issues specifically relevant to preparing for eventual entry into the euro area (including exchange rate policies).

Economic developments in the euro area and the Member States are assessed through the various procedures of economic policy coordination and surveillance (specifically under Article 121 TFEU), and as part of the Commission's regular monitoring and analysis of country-specific and area-wide developments (including forecasts, regular publication series, and input to the EFC and ECOFIN/Eurogroup). In line with the proportionality principle and with past practice, no formal impact assessment is needed.

3. LEGAL ELEMENTS OF THE PROPOSAL

3.1. Legal basis

The legal basis for this proposal is Article 140(3) TFEU, which allows for the adoption of the other measures needed for introducing the euro in a Member State whose derogation has been abrogated under Article 140(2) TFEU.

The Council shall act with the unanimity of those Member States whose currency is the euro and the Member State concerned, on a proposal from the Commission and after consulting the ECB.

3.2. Subsidiarity and proportionality

The proposal falls under the exclusive competence of the Union. Therefore, the subsidiarity principle does not apply.

This initiative does not go beyond what is needed to achieve its objective and, therefore, complies with the proportionality principle.

3.3. Choice of legal instrument

A Regulation is the appropriate legal instrument for amending Council Regulation (EC) No 974/98 on the introduction of the euro.

4. BUDGETARY IMPLICATION

The proposal has no implications for the budget of the Union.

5. COMMENTARY ON INDIVIDUAL ARTICLES

5.1. Article 1

In accordance with Article 1 lit. (a) and with Article 1a of Regulation (EC) No 974/98, the table in the Annex to that Regulation lists the participating Member States and defines the euro adoption date, the cash changeover date, and the 'phasing-out' period, if applicable, for all these Member States.

According to Article 1 lit. (i) of Regulation (EC) No 974/98, a 'phasing-out' period can only apply to Member States where the euro adoption date and the cash changeover date fall on the same day. This was neither the case for the eleven

Member States that adopted the euro on 1 January 1999, nor for Greece, which adopted the euro on 1 January 2001.

The dates for adopting the euro and the cash changeover coincided in Slovenia, Cyprus, Malta, Slovakia, Estonia, Latvia, Lithuania and Croatia (1 January 2007 for Slovenia, 1 January 2008 for Cyprus and Malta, 1 January 2009 for Slovakia, 1 January 2011 for Estonia, 1 January 2014 for Latvia, 1 January 2015 for Lithuania, 1 January 2023 for Croatia). However, these countries chose not to have a 'phasing-out' period.

Bulgaria's National Euro Changeover Plan also sets the same date for the country's adoption of the euro and the cash changeover (1 January 2026), and Bulgaria chose not to have a 'phasing-out' period.

This Article adds Bulgaria and the following relevant data for this Member State to the table in the Annex to Regulation (EC) No 974/98 in protocol order.

Member State	Euro adoption date	Cash changeover date	Member State with a 'phasing-out' period
'Bulgaria	1 January 2026	1 January 2026	No'

5.2. Article 2

This Article sets the date of 1 January 2026 for the entry into force of the Regulation, ensuring that it will be applicable in conformity with the timing of the other Council acts related to Bulgaria's adoption of the euro, i.e. the same date when the derogation is abrogated and when the conversion rate for the Bulgarian lev enters into force.

2025/0159 (NLE)

Proposal for a

COUNCIL REGULATION

amending Regulation (EC) No 974/98 as regards the introduction of the euro in Bulgaria

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 140(3) thereof,

Having regard to the proposal from the European Commission,

Having regard to the opinion of the European Central Bank (3),

Whereas:

(1) Council Regulation (EC) No 974/98 (4) provides for the substitution of the euro for the currencies of the Member States which fulfilled the necessary conditions for the adoption of the euro at the time when the Community entered the third stage of economic and monetary union.

(2) According to Article 5 of the 2005 Act of Accession (5), Bulgaria participates in Economic and Monetary Union from the date of accession as Member State with a derogation, within the meaning of Article 139(1) of the Treaty.

(3) Pursuant to Council Decision (EU) 2025/…. (6), Bulgaria fulfils the necessary conditions for the adoption of the euro and the derogation regarding Bulgaria is to be abrogated with effect from 1 January 2026.

(4) The introduction of the euro in Bulgaria requires the extension to Bulgaria of the existing provisions on the introduction of the euro that are set out in Regulation (EC) No 974/98.

(5) Bulgaria National Euro Changeover Plan specifies that euro banknotes and coins should become legal tender in that Member State on the day of the introduction of the euro as its currency. Consequently, the euro adoption date and the cash changeover date should be 1 January 2026. No ‘phasing-out’ period should apply.

(6) Regulation (EC) No 974/98 should therefore be amended accordingly,

(3) Opinion of […] […] […].

(4) Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro (OJ L 139, 11.5.1998, p. 1).

(5) Act concerning the conditions of accession of the Republic of Bulgaria and Romania and the adjustments to the treaties on which the European Union is founded (OJ L 157, 21.6.2005, p. 203).

(6) Council Decision (EU) 2025/… on the adoption by Bulgaria of the euro on 1 January 2026.

HAS ADOPTED THIS REGULATION:

Article 1

In the Annex to Regulation (EC) No 974/98, the following entry is inserted between the entry for Belgium and the entry for Germany:

‘Bulgaria	1 January 2026	1 January 2026	No’

Article 2

This Regulation shall enter into force on 1 January 2026.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council
The President

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