EUROPEAN CENTRAL BANK

EUROSYSTEM

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

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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]

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[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;

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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

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

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

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

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.

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

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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

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[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)

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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

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[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

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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

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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

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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

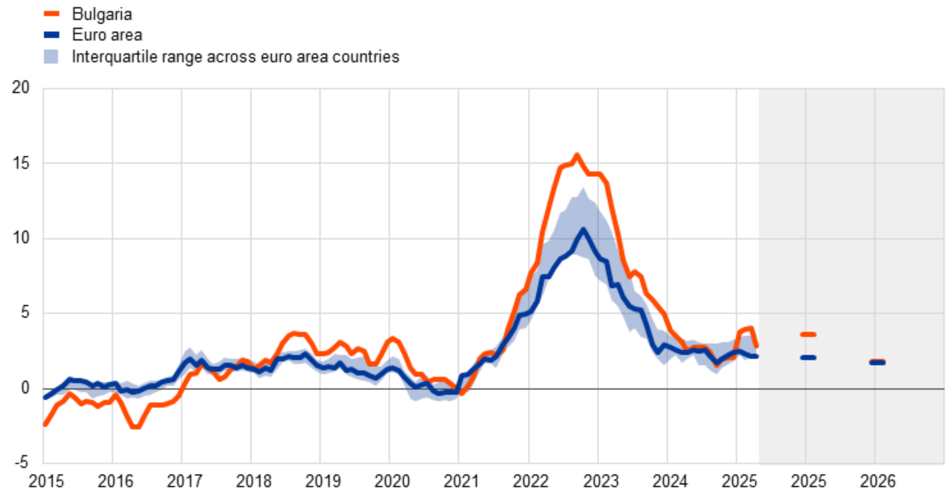
In April 2025 the 12-month average rate of HICP inflation in Bulgaria stood at 2.7%, i.e. just below the reference value of 2.8% for the criterion on price stability (Chart 4.5.1). This rate is expected to rise gradually over the coming months, reflecting increases in indirect taxes and administered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

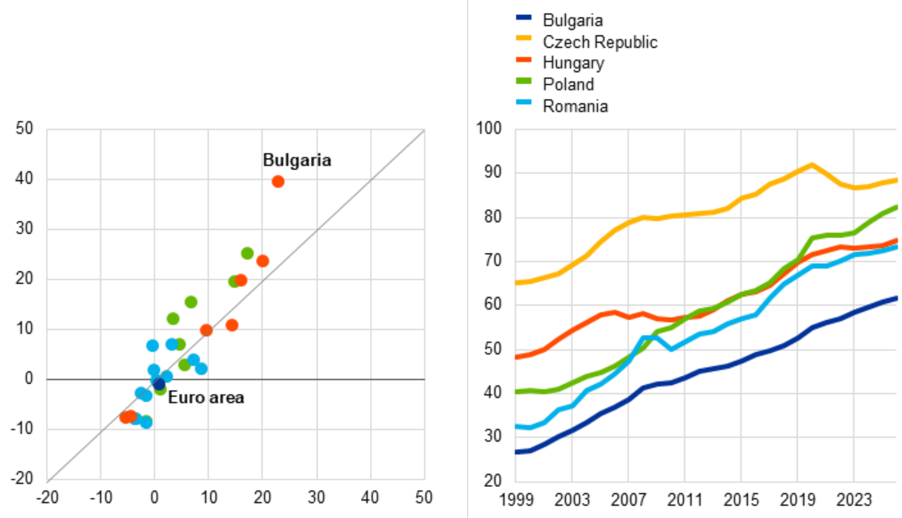
Harmonised competitiveness indicators and real GDP per capita

a) HCIs based on ULCs and GDP deflator, cumulative growth between 2019 and 2024

(percentage points; x-axis: cumulative HCI growth based on GDP deflator; y-axis: cumulative HCI growth based on ULCs)

b) Real GDP per capita relative to the euro area average

(index: euro area = 100)

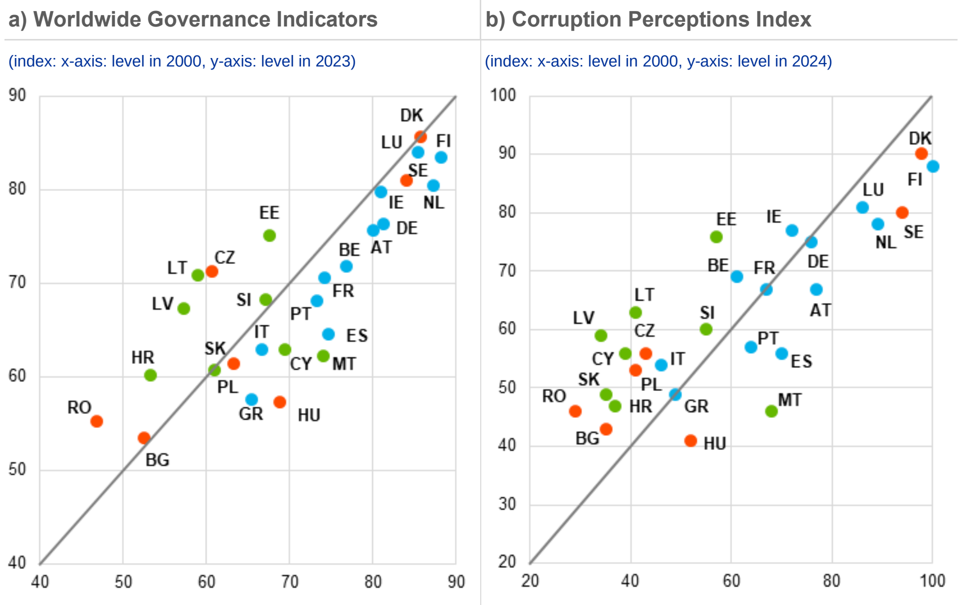


Sources: Eurostat and ECB calculations.
Notes: HCIs stands for harmonised competitiveness indicators. ULCs stands for unit labour costs. Panel a): the chart shows cumulative growth of HCIs based on the GDP deflator on the x-axis and cumulative growth of HCIs based on total ULCs on the y-axis. The solid 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]

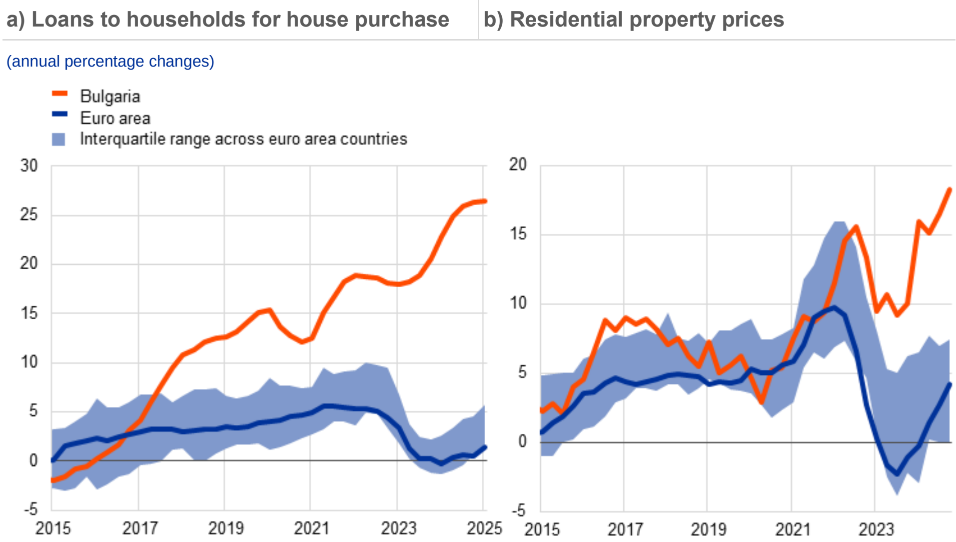
Risks stemming from strong credit and house price dynamics are increasing but being mitigated by the robustness of the banking system. Given the limited spillover effects in Bulgaria from the restrictive monetary policy stance in the euro area over the past few years and robust domestic demand in the 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.

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[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.

4.5 Statistical tables and charts

Bulgaria

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

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[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.

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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.

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

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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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