



REPUBLIC OF BULGARIA
Ministry of Finance

Bulgaria on the Road to ERM II and Banking Union



Bulgaria on the Road to European Integration

29 March –
accession of
Bulgaria to NATO

1 January –
Opening up EU
labour markets to
Bulgarian citizens

Decision on the
formal participation
of Bulgaria in ERM II
and Banking union

1997 — 2004 — 2007 — 2014 — 2018 — 2019

1 July 1997 –
introduction of the
currency board
arrangement
(fixed to the Euro)

1 January –
Bulgaria's
accession to the
European Union

29 June – submission
of intention of Bulgaria
to join ERM II and
Banking union



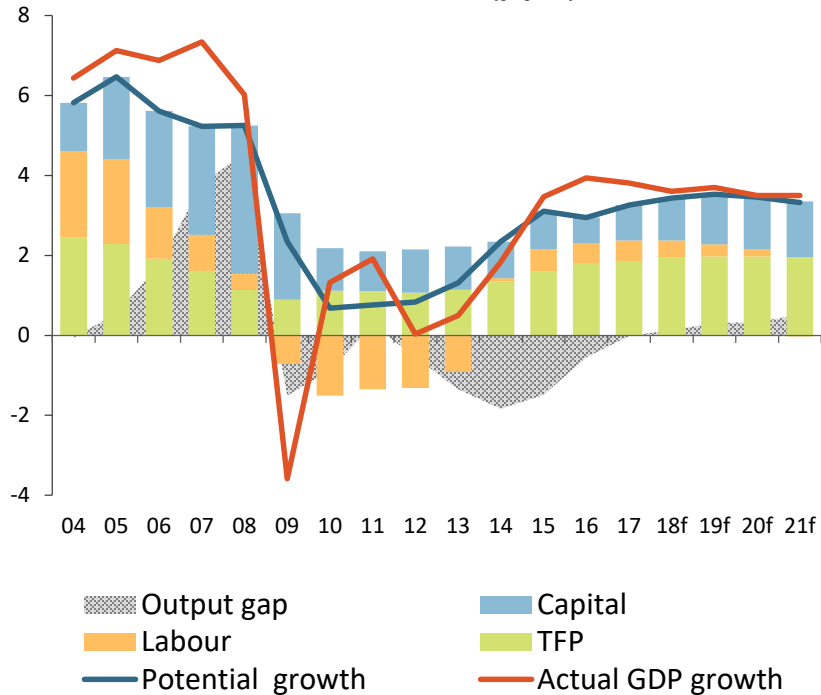
Macroeconomic Development

- GDP growth will remain robust in the near-term horizon;
- The real convergence process has been accelerating since 2015;
- Historically high activity and employment rates;
- Stable downward trend in unemployment;
- Sustained competitiveness - Bulgaria's market shares on an upward trend;
- Stable external position - positive current and capital account balance supported NIIP improvement;
- Low inflation rate;
- Credit market developments supporting growth;
- Stable public finances and high fiscal buffers.



Growth Prospects

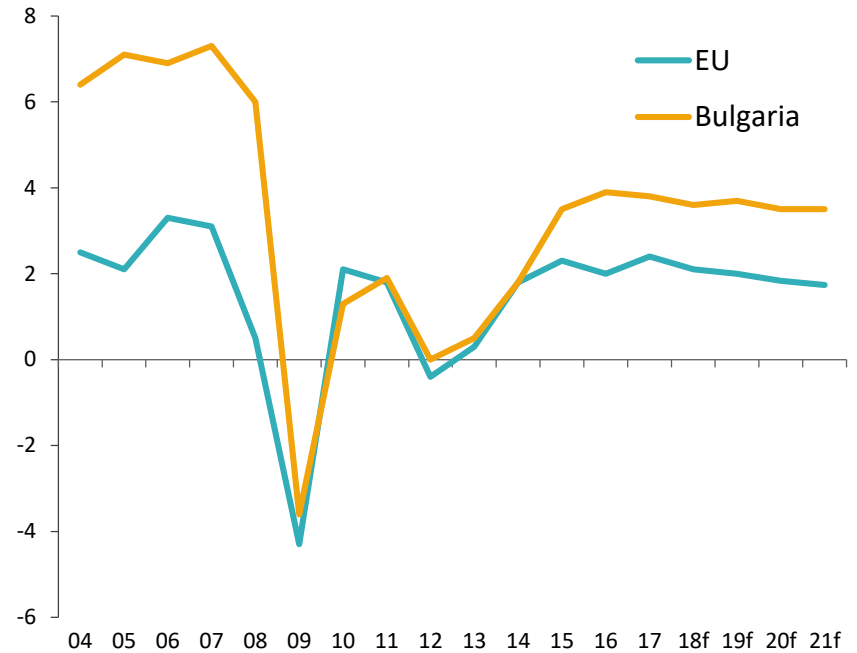
Potential growth (%) and contributions (pps)



Source: NSI, MF

- TFP will remain the main driver of potential growth in the near-term horizon.

Real GDP growth (%)



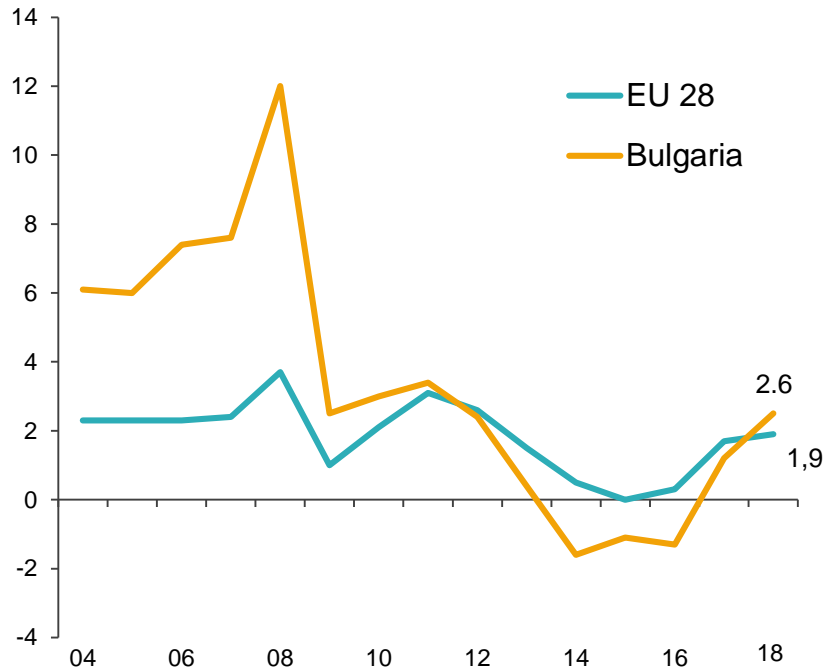
Source: NSI, MF

- GDP growth will remain robust in the near-term horizon.



Low Inflation and Interest Rates

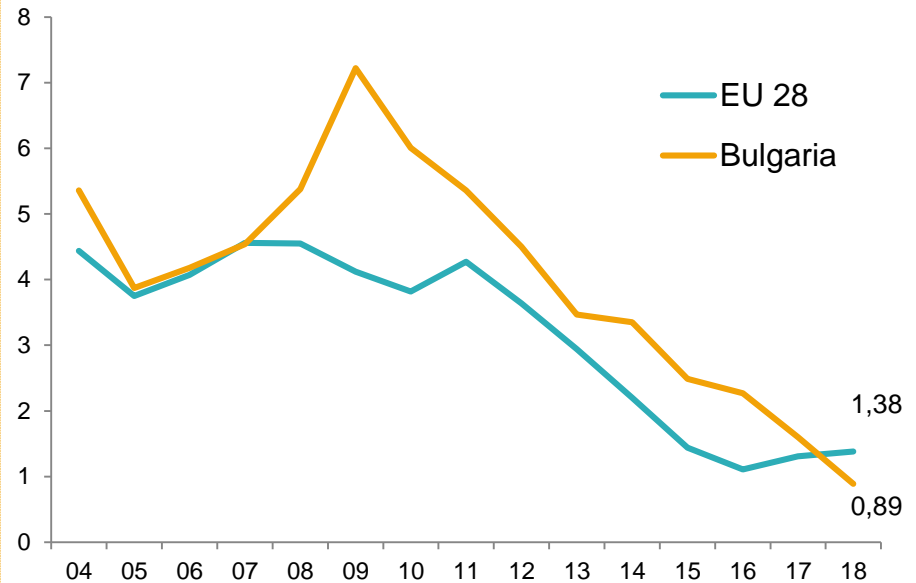
Inflation - Annual average (%)



Source: Eurostat

- Market services and energy had the largest positive contribution to 2018 inflation.

Maastricht Criterion Interest Rates



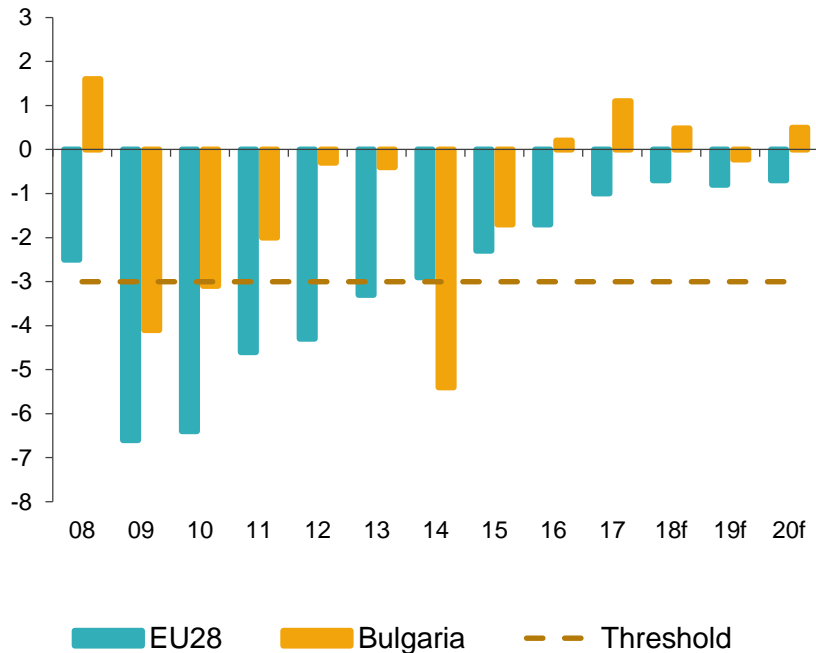
Source: Eurostat

- In 2018 the EMU convergence criterion interest rates for Bulgaria were lower than EU 28.



Stable Public Finances

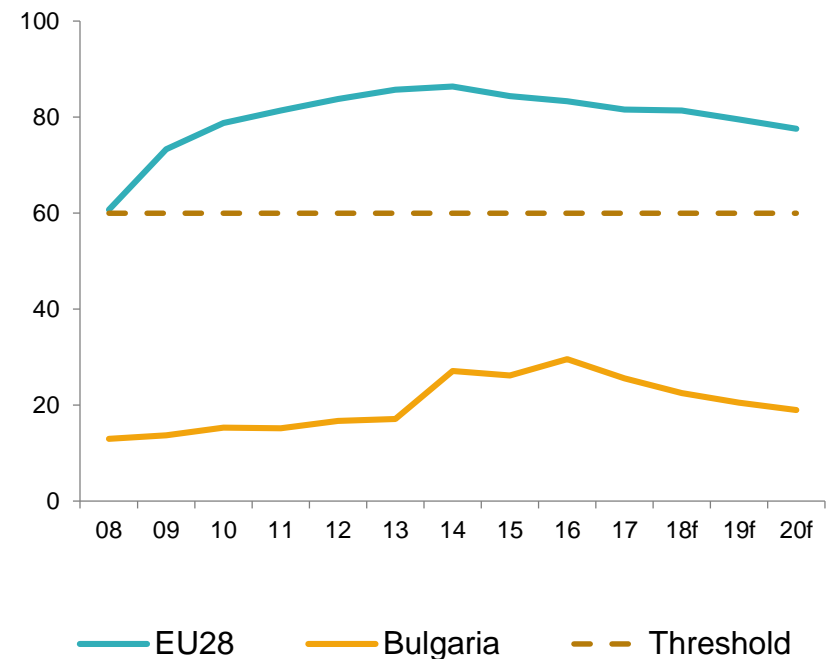
Budget Balance, General Government
(% of GDP)



Source: Eurostat, MF, Autumn '18 EC Forecast

- Track record of fiscal surpluses since 2016 and prudent forecast positions.

Gross Debt, General government
(% of GDP)



Source: Eurostat, MF, Autumn '18 EC Forecast

- Declining Debt-to-GDP ratio, far below the threshold of 60%.



Bulgaria fulfills the Maastricht criteria

according to the latest three convergence reports

| Criteria | March 2018 | Reference value | State of fulfillment |
|------------------------|---|-----------------|-------------------------------------|
| Inflation (average,%) | 1.4 | 1.9 | <input checked="" type="checkbox"/> |
| Interest rates (%) | 1.4 | 3.2 | <input checked="" type="checkbox"/> |
| Public debt (% GDP) | 25.4 | 60.0 | <input checked="" type="checkbox"/> |
| Public balance (% GDP) | 0.9 | -3.0 | <input checked="" type="checkbox"/> |
| ER stability | The Bulgarian lev did not participate in ERM II, but its exchange rate has been fixed to the euro at 1.95583 levs per euro within the framework of a currency board since July 1997 | | |

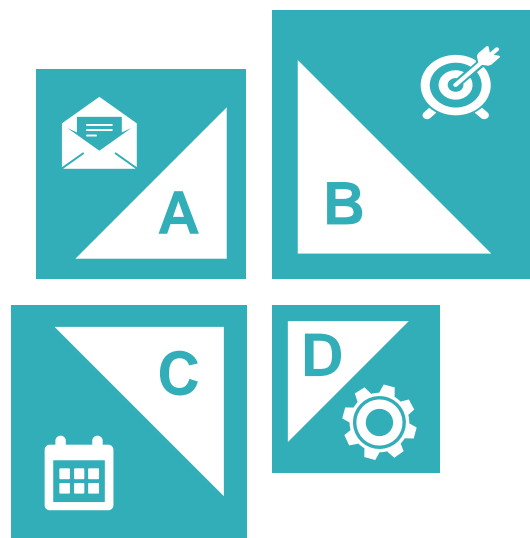
Source: Convergence Report 2018



How to achieve it

Expression of interest

Joint letter of the Minister of Finance and the Governor of the Bulgarian National Bank.



Timeframe

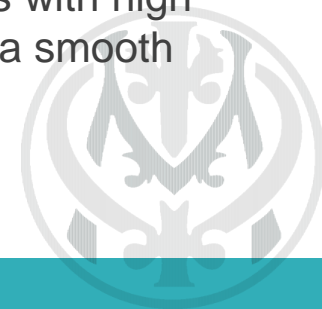
By July 2019 joining simultaneously in the ERM II and the Banking Union.

Main purpose

Participation in the Single Supervisory Mechanism (SSM) by establishing close cooperation with the ECB and applying for the ERM II mechanism.

Commitments

Implementation of measures in policy areas with high relevance for a smooth transition.



ERM II Accession – How it Started



Action Plan with Commitments

Government approved an Action Plan with concrete measures within the committed policy areas and timetable, fixed by June 2019.



Implementation

Through an inter-governmental working group established with an Order of the Minister of Finance



Monitoring Process

Regular assessment by the European Commission and regular update at the official web page of the Ministry of Finance



Reporting Process

Quarterly reports on the state of play (one conducted by the end of December)



What We Committed To?

1

Banking Union

Entering with close cooperation with ECB and conducting amendments in the legislative framework, incl. with regard to the powers of the ECB during the close cooperation period.

Current state of play



Completed

- *Letter of application;*
- *Amendments and Supplements to the Law on the Bulgarian National Bank and the Law on Credit Institutions, adopted by the National Assembly.*



Actions in process

Amendments and Supplements to the Law on the Recovery and Resolution of Credit Institutions and Investment Firms.



Planned

Preparation of secondary legislation and carrying out asset quality reviews, stress tests.



What We Committed To?

2

Developing Macro-prudential Supervision

Adopting legislative amendments in the Law on Credit Institutions in order to introduce borrower-based macro-prudential tools.

Current state of play



Completed

*Amendments and
Supplements to the Law on Credit Institutions
adopted by the National Assembly*



What We Committed To?

3

Strengthening the Supervision Framework in the non-banking sector

Implementing and reporting to EIOPA on the action plan, preparing guidelines for valuation of assets and liabilities in the sector and designing and implementing a risk-based system of supervision under the Solvency II.

Current state of play



Completed

- *Measures in the Action Plan on the supervision of the non-banking sector;*
- *Ordinance amending and supplementing Ordinance № 9 of 19 November 2003 and Ordinance No 53 of 23 December 2016 on the manner and procedure for valuation of assets and liabilities;*
- *Supplementing a Methodology for certification of annual quantitative data under Regulation (EU) 2915/35 with regard to the accountability of insurers under Solvency II;*
- *Joint instructions of the FSC and the Bulgarian Institute of Chartered Accountants to auditors;*
- *Risk-Based Supervision Manual;*
- *System of criteria for categorisation of insurance companies according to their risk degree and systemic importance.*



What We Committed To?

4

Improving the Insolvency Framework

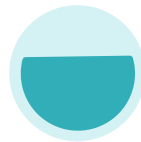
Identifying gaps and proposing list of steps for addressing them.

Current state of play



Completed

- *Approved project by SRSS;*
- *Established working group.*



Actions in process

Review of legislation and drafting recommendations



Planned

- *Model of an effective data collection;*
- *Road map on the implementation of the recommendations;*
- *Training of trainers, trustees and fiduciaries.*



What We Committed To?

5

Strengthening the Anti Money Laundering Framework

transposing the fourth anti-money laundering Directive (AMLD 4) and adopting a draft law transposing the fifth anti-money laundering Directive (AMLD 5).

Current state of play



In process of implementation

The transposition of AMLD 4 and 5 is in a process of consultations with the EC



Planned

A draft law approved by the Council of Ministers and adopted by the National Assembly



What We Committed To?

6

Modernisation of the framework of SOEs in line with the good international practices

with the assistance of the SRSS, revising and aligning the legislation with the OECD Guidelines on Corporate Governance of SOEs.

Current state of play



Completed

Project launched under the SRSS, report on the current framework, three missions conducted in Sofia and in the OECD headquarters



Actions in process

Assessment of Bulgaria's position regarding the OECD guidelines for SOEs



Planned

Proposals for legislative amendments, submission of the draft law to the Council of Ministers and to the National Assembly



What We Committed To?

7

Law Ratifying the Agreement on the Transfer and Mutualisation of Contributions to the Single Resolution Fund

Current state of play



Completed

The Law is adopted by the National Assembly



Further steps after July 2019



SRSS support

Submission of general request with additional policy commitments as a follow-up to the Action plan.



Exchange of experience and knowledge with other MSs

Experts from euro area MSs presenting their experience

