



REPUBLIC OF BULGARIA
MINISTRY OF FINANCE



BULGARIAN
NATIONAL BANK

91-00-181/29.06.2018. № БНБ-40010/29.06.2018

**TO THE PRESIDENT OF THE EUROGROUP
MARIO DRAGHI, PRESIDENT OF THE EUROPEAN CENTRAL BANK
MINISTERS OF THE EURO AREA MEMBER STATES OF THE EUROPEAN UNION
MINISTER OF FINANCE AND CENTRAL BANK GOVERNOR OF DENMARK
VALDIS DOMBROVSKIS, VICE PRESIDENT OF THE EUROPEAN COMMISSION
CC HANS VIJLBRIEF, CHAIR OF THE ECONOMIC AND FINANCIAL COMMITTEE
AND THE EUROGROUP WORKING GROUP
PRESIDENT OF THE COUNCIL (ECOFIN)**

THE BULGARIAN AUTHORITIES,

Having regard to the Treaty on the European Union, in particular Article 3(4) thereof, and the Treaty on the Functioning of the European Union, in particular Articles, 119(3) and 142 thereof,

Having regard to the Protocol Concerning the Conditions and Arrangements for Admission of the Republic of Bulgaria and Romania to the European Union¹ and in particular Article 5 thereof,

Having regard to Council Regulation (EC) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions², and in particular Article 7 thereof,

Having regard to the Resolution of the European Council meeting in Amsterdam of 16 June 1997 on the establishment of an exchange-rate mechanism in the third stage of economic and monetary union,

Whereas:

(1) Bulgaria intends to join the exchange rate mechanism with its existing currency board arrangement in place, as a unilateral commitment, thus placing no additional obligations on the ECB.

(2) Bulgaria has a good track record of more than 20 years in maintaining fiscal stability and sustainability with public deficit and debt levels well below the SGP thresholds for almost 90% of the time. Budget surpluses have been recorded in almost half of the period, and the public debt (below 25% of GDP) is the third lowest in the EU.

¹ OJ L157, 21.6.2005, p 29.

² OJ L 287, 29.10.2013, p. 63.

(3) The IMF and the World Bank have conducted a Financial System Stability Assessment of Bulgaria in 2017 for the whole banking sector, noting its continuous stabilisation, the positive steps undertaken to reform supervision in recent years, as well as the need to press ahead with efforts to bolster both the sector's resilience and its supervision. In 2016 the Bulgarian National Bank conducted an Asset Quality Review and a Stress-test of the banking system following the ECB/EBA methodology. Corporate non-performing loans have been reduced. Capital buffers are at a comfortable level for the whole banking system, thus providing space for further strengthening the banks' balance-sheet.

(4) Under the Cooperation and Verification Mechanism, the Commission continues to monitor the judicial reform and the fight against corruption and organised crime in Bulgaria.

(5) In the context of the European Semester, the Commission and the Council monitor, assess and issue recommendations on Bulgaria's economic policy taking into account not only its relevance for sustainable fiscal and socioeconomic policy in Bulgaria but also its compliance with the Union rules and priorities.

(6) In the past few months, constructive discussions were held with the ECB, the Commission, the euro area Member States and Denmark on the necessary elements for a successful entry into ERM II.

Hereby we

STATE OUR firm intention to apply to ERM II by July 2019, and ultimately the euro following the fulfilment of all convergence criteria in accordance with Article 140 of the Treaty on the Functioning of the European Union.

EXPECT to join simultaneously ERM II and Banking Union by July 2019.

COMMIT to implement in the next months, and in any event before ERM II entry, a number of prior commitments in policy areas which are of high relevance for a smooth transition to ERM II, namely:

1. strengthening banking supervision by entering into close cooperation with the ECB and undertaking the necessary preparations in line with existing procedures. The application of the Bulgarian authorities to the ECB for establishing close cooperation with the Single Supervisory Mechanism will be sent to the ECB the working day following a positive note from the Eurogroup, Denmark and the ECB regarding our intention to join the ERM II by July 2019 as expressed in this letter, for which the necessary formal steps will be taken on due time. The process for entering the Banking Union will fully respect the conditions specified in the ECB's legal framework for close cooperation with the ECB.
2. developing the macroprudential framework by providing the legislative basis for borrower-based measures, in addition to the existing capital-based measures, as called upon by the ECB Governing Council for all euro area countries³.
3. enhancing the supervision of the non-banking financial sector by i) implementing and reporting to EIOPA on the action plan for supervision of the non-banking financial sector (pension funds and insurance companies) adopted by the regulator in September 2017; ii) preparing and adopting guidelines for the valuation of assets and liabilities in the non-banking financial sector; and iii) designing and implementing a risk based supervisory system under Solvency II.
4. identifying, in cooperation with the Structural Reform Support Service (SRSS), the existing gaps in the insolvency framework and preparing a roadmap listing the steps necessary to address

³ ECB Governing Council statement on macroprudential policies of 15 December 2016. See also section 3.3 of the ESRB response to the European Commission's Consultation Document on the "Review of the EU Macro-prudential Policy Framework"; Opinion CON/2017/21, paragraph 2.4; Opinion CON/2017/11, of paragraph 2.3; Opinion CON/2018/9, 3.2.

these gaps with focus on i) introducing a system of reliable data collection on insolvency and restructuring proceedings, and (ii) introducing measures to reinforce the judicial infrastructure.

5. strengthening the anti-money laundering framework by addressing any issue potentially identified by the Commission in its assessment of the transposition into national legislation of the fourth anti-money laundering directive (AML4-Directive) and adopting a draft law transposing the fifth anti-money laundering directive (AML5-Directive) at the government level.

6. Improving, with the assistance of the SRSS, the governance of state-owned enterprises by revising and aligning legislation with the OECD Guidelines on Corporate Governance of SOEs.

INVITE the Council, based on the current procedure for Bulgaria, to agree on clear regulatory framework on the ERM II accession process to be applicable for member states willing to join ERM II in the future.

EXPECT the level playing field principle to be respected for Bulgaria.

STAND ready to discuss further on this basis with the Eurogroup, Denmark, the ECB and the Commission and, in line with past practices, to take further commitments at the moment of joining ERM II with the aim of achieving a high degree of sustainable economic convergence by the time of euro adoption.

Sofia, 29 June, 2018

For the Bulgarian Authorities:

VLADISLAV GORANOV
MINISTER OF FINANCE

DIMITAR RADEV
GOVERNOR