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INTERGOVERNMENTAL CONFERENCE
ON THE ACCESSION OF THE REPUBLIC OF BULGARIA TO THE
EUROPEAN UNION**

**NEGOTIATION POSITION
ON CHAPTER 11 ECONOMIC AND MONETARY UNION**

OVERALL POSITION

The Republic of Bulgaria accepts the Economic and Monetary Union (EMU) *acquis* and does not request any transitional period under this chapter.

The Republic of Bulgaria is well advanced in the implementation of the *acquis* related to economic policy co-ordination and surveillance, fiscal policy and avoiding excessive budget deficit, monetary financing of government deficits, privileged access of public authorities to financial institutions and the statute of the national central bank. It is expected that all the pending modifications will be introduced by the date of accession to the EU.

The Republic of Bulgaria considers that the Euro-based currency board arrangement introduced in 1997 provides the necessary monetary stability framework and that this monetary system should be preserved until the accession to the EU. By that moment the Republic of Bulgaria intends to have achieved a common accord with the relevant European Institutions on the prolongation of the currency board arrangement as a unilateral commitment until joining the Euro area.

It is a high priority for the Republic of Bulgaria to join the Euro area in the earliest possible term. The Republic of Bulgaria will seek to converge to the nominal criteria by the time of the accession to the EU and expects, in particular, that the fixed exchange rate to the Euro, maintained under the currency board arrangement, will be recognized as compliance to the exchange rate convergence criterion.

As a working hypothesis, the Bulgarian Government considers that Bulgaria will become a member of the EU on 01.01.2007.

ACQUIS ADOPTION AND IMPLEMENTATION

1. Economic Policy Co-ordination and Multilateral Surveillance

The Bulgarian Government implements an economic policy along the guiding principles of stable prices, sound public finances and monetary conditions, and sustainable current account balance. The decisive structural reforms of the last three years expanded the role of the private sector in the economy and established the fundamentals for the development of an open economy with free competition.

The main body ensuring the co-ordination of economic policy in Bulgaria is the Council of Ministers. The Ministry of Finance and the Ministry of Economy carry out the operational work in close co-operation and co-ordination with the other governmental units and state institutions. The Government exchanges views with the central bank of Bulgaria – the Bulgarian National Bank (BNB).

The core document, related to the economic policy, is the Programme of the Government, which covers the period of its mandate. Based on it and elaborating the targets of the Programme is the Report attached to the annual draft Budget Act. The Report specifies the economic policy objectives and instruments in the course of the fiscal year and provides a macroeconomic framework and budget balance target for the next three years.

Monitoring of economic performance in Bulgaria has already been conducted within the regular meetings of Subcommittee 4 “Economic and Financial affairs”, by the preparation of the Joint Economic Assessment of Bulgaria’s Medium-term Economic Policy Priorities, signed in June 1999. A National Economic Development Plan covering the period of 2000 – 2007 has been updated.

A set of official publications, as well as the web sites of the government and its units, and the central bank, submits detailed information in the field of economic policy, fiscal policy and monetary aggregates.

2. Fiscal Policy and Avoiding Excessive Budget Deficit

The medium term objective of the Government in the field of fiscal policy is to maintain a close to balance consolidated general government budget. Based on a three years macroeconomic policy program the Annual Budget Act states the fiscal policy target for the year as well as the main instruments for its achievement. A Council of Ministers Regulation further elaborates the measures for the implementation of the state budget. Important steps have been undertaken in the field of strengthening fiscal surveillance. In a medium-term perspective, until 2003, the major priority for the government will be the completion of the Financial Management Information System (FMIS) and the establishment of the Treasury system for all-budgetary and extra-budgetary accounts and funds. The Treasury system will enhance the Ministry of Finance’s capacity for effective budgetary planning and allocation of resources, execution, reporting and control. The reform in the fiscal sector fully conforms to the practice and experience in the European Union. The reform process undergoes monthly monitoring according to the time schedule set by the Bulgarian Government.

Though in the last two years the level of the government debt/GDP ratio has declined below 100% Bulgaria remains a country with a government debt/GDP ratio substantially above 60%. Bulgaria sets as a target the reduction of the debt burden in a medium term perspective. The Government approved in March 2000 a Strategy for Government Debt Management. It is expected that the Law on Government Debt Management will become effective at latest in the first months of 2001.

The National Statistical Institute and the Ministry of Finance participate in the EUROSTAT pilot project for candidate countries on the notification of government debt and consolidated general government balance indicators in compliance with methodological requirements of ESA 95 and EC Regulation 3605/93.

3. Monetary Policy

The Law on the Bulgarian National Bank, which was adopted in July 1997, regulates the operation of the central bank and the monetary policy and introduces a currency board arrangement.

The Law on the BNB (Art. 2) determines the main objective of the Central Bank: "The main task of the BNB shall be to contribute to the maintenance of the stability of the national currency through implementation of the monetary and credit policy as provided for by this Law". The maintenance of stable national currency results in price stability.

The Law on the BNB guarantees that the central bank should not seek or take instructions from government or any other state body when exercising the powers and carrying out the tasks and duties conferred upon by the BNB Law. The Law further strengthens BNB independence by stating that the central bank reports its activities to the National Assembly.

The Law explicitly provides that the BNB may not extend credits to the State or to any state agency, except credits against purchases of Special Drawing Rights (SDR) from the International Monetary Fund under strictly stipulated by the law terms. Furthermore, there is no provision in the BNB Law allowing for any privileged access by government, regional, local or other public authorities, other bodies governed by the public law or public undertakings to financial institutions.

The last essential amendments of the Law on Banks that entered into force in July 1999 improved the banking supervision supplementing the legislation concerning the banks insolvency procedures and the range of possible supervisory measures. As a result of this, the efficiency of the banking supervision, the protection of the depositors' interests and the stability of the banking system have been increased.

A substantial progress related to harmonization of the legislation has been achieved in the free movement of capital. The Foreign Exchange Law effective since January 2000 substantially liberalizes the movement of capital, providing at the same time effective system for capital flows reporting.

4. Exchange Rate Policy

The Law on the BNB fixes the national currency (the lev) to the Deutschemark since July 1997. Since 1 January 1999, according to the BNB Law, the official exchange rate of the lev is fixed against the Euro through the rate by which the Deutschemark was fixed irrevocably to the Euro by December 31 1998.

ADMINISTRATIVE CAPACITY

Bulgaria has the necessary institutions and qualified personnel to implement the EU legislation in the area of Economic and Monetary Union.

The BNB actively cooperates with the European central bank.

The Ministry of Finance plays the main role in the implementation of fiscal policy. According to its Medium-term Strategy, developed with PHARE assistance, the Ministry of Finance undergoes structural changes to enhance its ability for EU *acquis* implementation.

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The Bulgarian Government proposes the negotiations on this chapter to be provisionally closed on the basis of the existing *acquis*.

Should new elements of the *acquis* make it necessary, Bulgaria recognizes the possibility of opening supplementary negotiations before the end of the Intergovernmental conference.