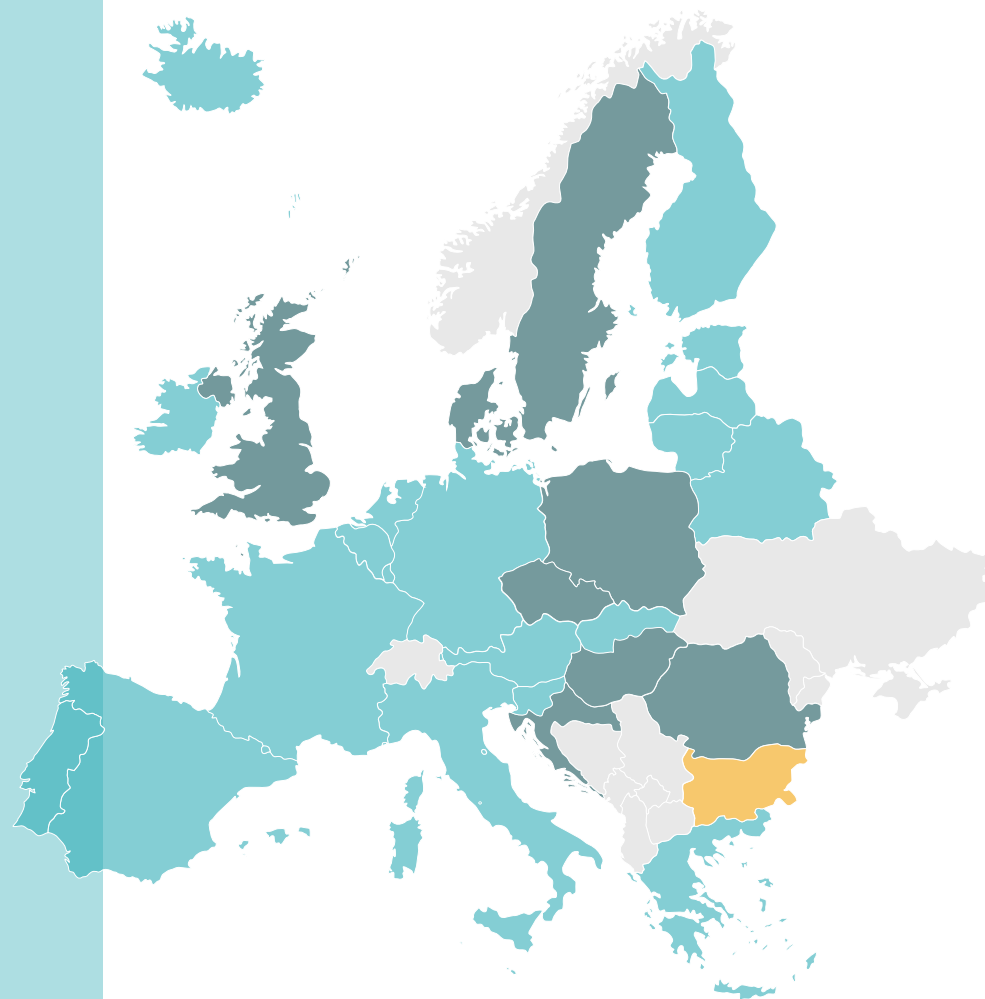


December 2019

BULGARIA **ON THE ROAD TO** **ERM II AND** **BANKING UNION**



Ministry of Finance of the Republic of Bulgaria

BULGARIA ON THE ROAD TO EUROPEAN INTEGRATION



1 July 1997

Introduction of the currency board arrangement (fixed to the Euro)

29 March 2004

Accession of Bulgaria to NATO

1 January 2007

Bulgaria's accession to the European Union

1 January 2014

Full opening up EU labour markets to Bulgarian citizens

29 June 2018

Submission of intention of Bulgaria to join ERM II and Banking union

2020

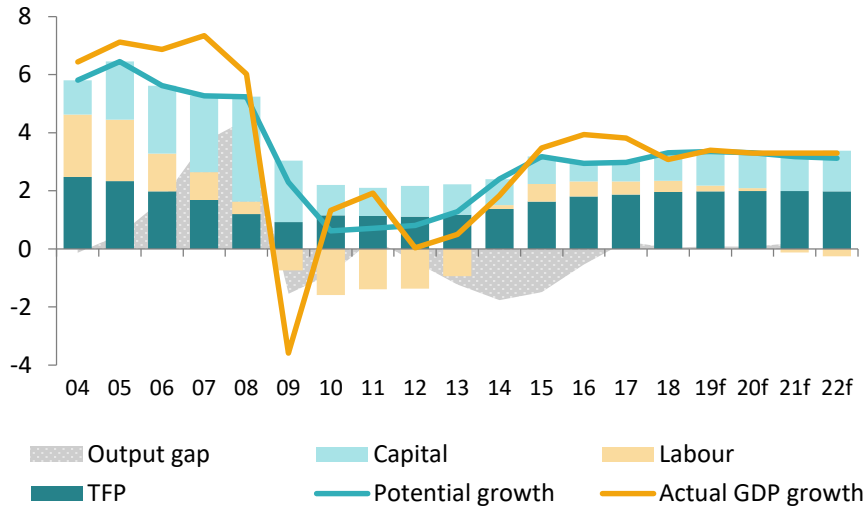
Decision on the formal participation of Bulgaria in ERM II and Banking union

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

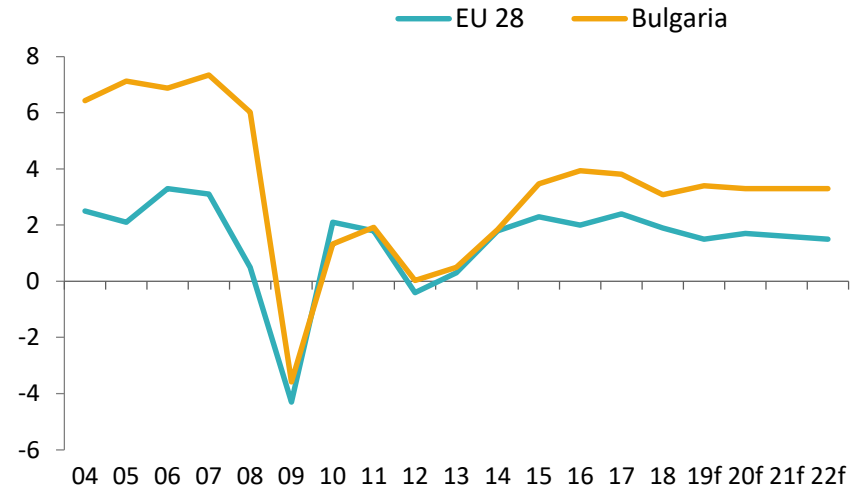
POTENTIAL GROWTH (%) AND CONTRIBUTIONS (PPS)



Source: NSI, MF

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

REAL GDP GROWTH (%)

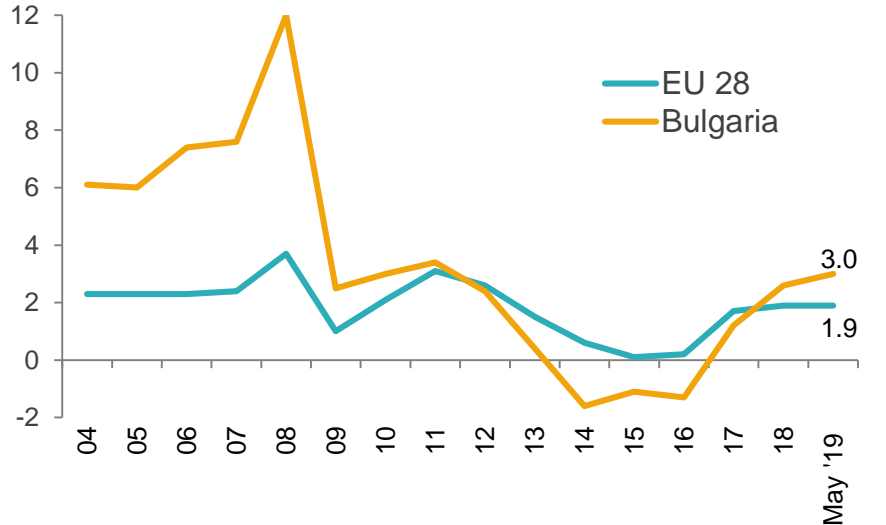


Source: NSI, MF

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

Low Inflation and Interest Rates

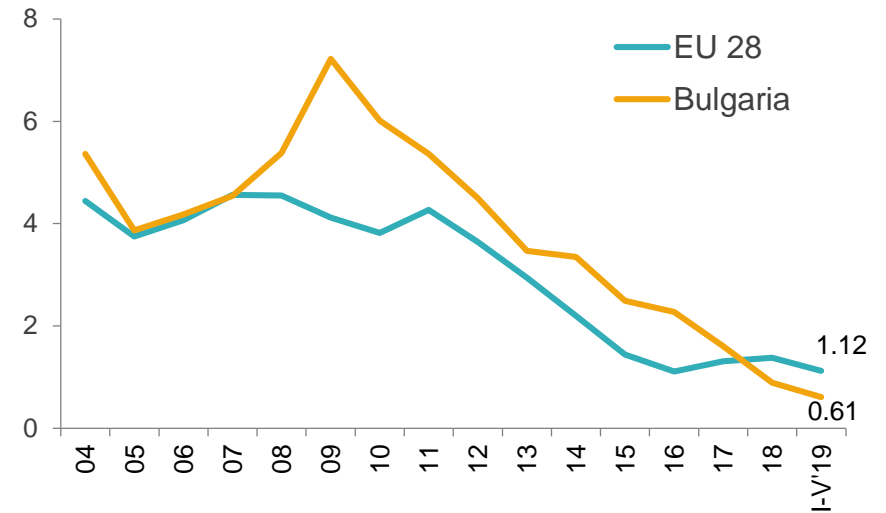
INFLATION - ANNUAL AVERAGE (%)



Source: Eurostat

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

MAASTRICHT CRITERION INTEREST RATES

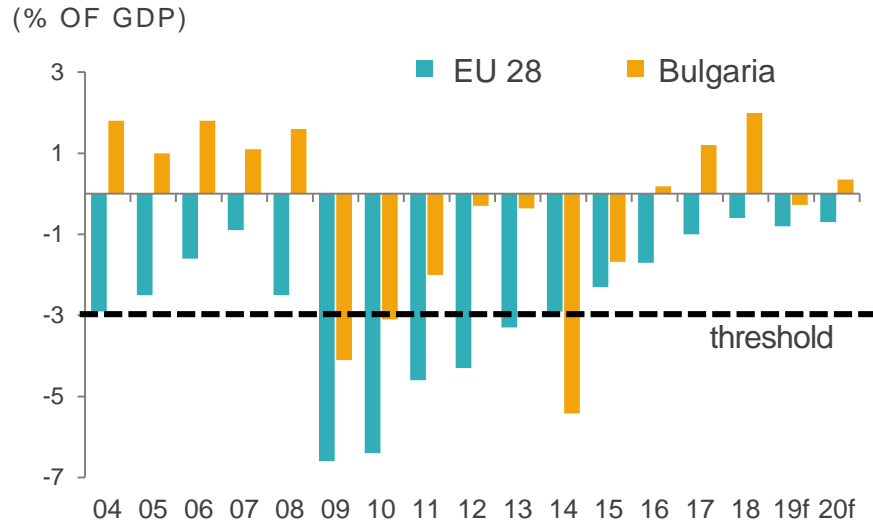


Source: Eurostat

In 2018 the EMU convergence criterion interest rates for Bulgaria were lower than EU 28 and this trend continues in 2019

Stable Public Finances

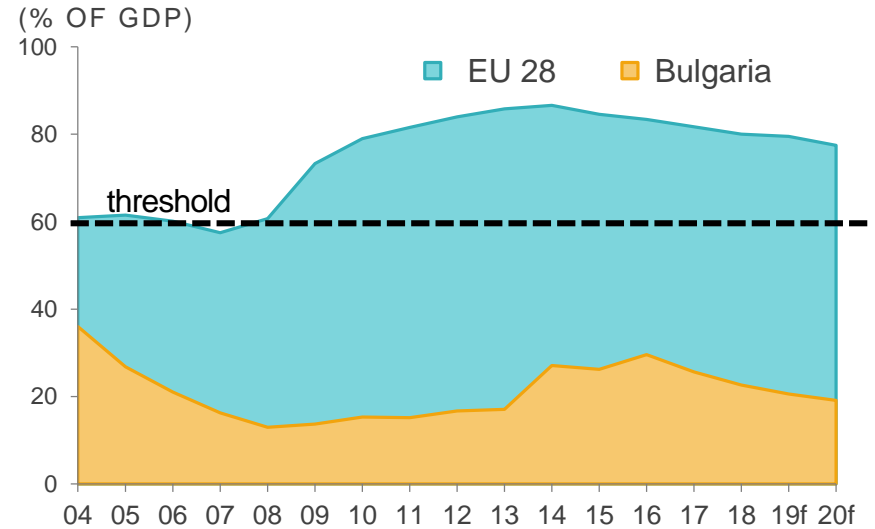
BUDGET BALANCE, GENERAL GOVERNMENT



Source: Eurostat, MF, Autumn '18 EC Forecast

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

GROSS DEBT, GENERAL GOVERNMENT

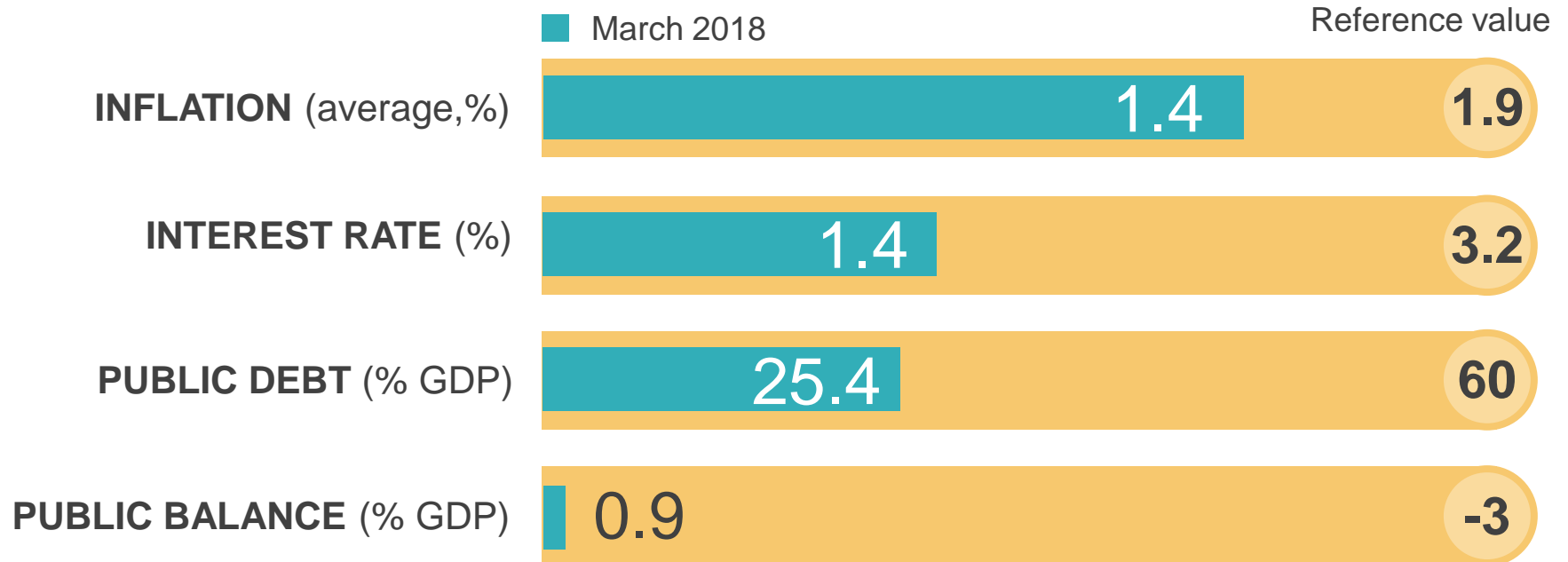


Source: Eurostat, MF, Autumn '18 EC Forecast

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

BULGARIA FULFILLS THE MAASTRICHT CRITERIA

According to the latest three convergence reports



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.

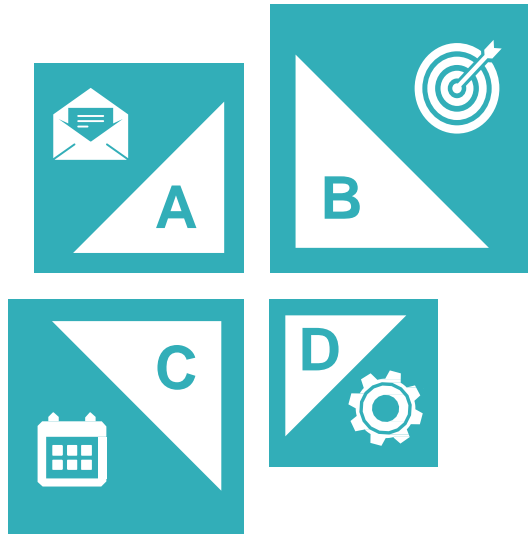
ERM II accession – HOW TO ACHIEVE IT?

A. Expression of interest

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

C. Timeframe

By 2020 joining simultaneously in the ERM II and the Banking Union.



B. Main purpose

Simultaneously join ERM II and the Banking Union, the latter being implemented through the establishment of close cooperation with the ECB in order to participate in the SSM.

D. Commitments

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

ERM II accession – HOW TO ACHIEVE IT?



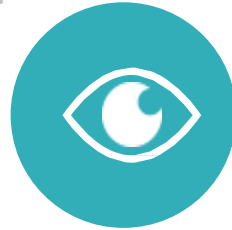
Action Plan with Commitments

Government approved an Action Plan with concrete measures within the committed policy areas and timetable.



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



What We Committed To?

01

BANKING UNION

02

DEVELOPING MACRO-PRUDENTIAL SUPERVISION

03

**STRENGTHENING THE SUPERVISION FRAMEWORK IN
THE NON-BANKING SECTOR**

04

IMPROVING THE INSOLVENCY FRAMEWORK

05

**STRENGTHENING THE ANTI MONEY LAUNDERING
FRAMEWORK**

06

**MODERNISATION OF THE FRAMEWORK OF SOES IN
LINE WITH THE GOOD INTERNATIONAL PRACTICES**

07

**LAW RATIFYING THE AGREEMENT ON THE TRANSFER
AND MUTUALISATION OF CONTRIBUTIONS TO THE
SINGLE RESOLUTION FUND**

01

BANKING UNION

Current state of play

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.

Completed



- Letter of application;
- Amendments to the Law on the Bulgarian National Bank, the Law on Credit Institutions and the Law on the Recovery and Resolution of Credit Institutions and Investment Firms, adopted by the National Assembly.
- Asset quality reviews and stress tests carried out by ECB

Actions in process



- Preparation of secondary legislation.

02

DEVELOPING MACRO-PRUDENTIAL SUPERVISION

Current state of play

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

Completed



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

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.

Completed

- Implementation of the Action Plan on the supervision of the non-banking sector;
- Ordinance amending and supplementing Ordinance № 9 of 19 November 2003 and Ordinance № 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 categorization of insurance companies according to their risk degree and systemic importance.

04 IMPROVING THE INSOLVENCY FRAMEWORK

Current state of play

Identifying gaps and proposing list of steps for addressing them.

Completed



- Approved project by SRSS and established a working group;
- Review of legislation and drafting recommendations;
- Model of an effective data collection;
- Development of self-learning resource (practical handbook) on the stabilization and insolvency procedures;
- Road map on the implementation of the recommendations adopted by CoM;
- Training of judges and trainers (trustees and fiduciaries).

05 STRENGTHENING THE ANTI-MONEY LAUNDERING FRAMEWORK

Current state of play

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

Completed



- Amendments to the Law on Money Laundering Measures adopted by the National Assembly for transposition of the Fourth Directive (AMLD 4);
- Law adopted by the National Assembly transposing the fifth antimoney laundering Directive (AMLD 5).

06

MODERNISATION OF THE FRAMEWORK OF SOE'S IN LINE WITH THE GOOD INTERNATIONAL PRACTICES

Current state of play

Revising and aligning the legislation with the OECD Guidelines on Corporate Governance of SOEs.

Completed



- Project launched under the SRSS, drafted report on the current framework, three missions conducted in Sofia and in the OECD headquarters;
- Assessment of Bulgaria's position regarding the OECD guidelines for SOEs;
- Law on SOEs adopted by the National Assembly.

07

LAW

Current state of play

RATIFYING THE AGREEMENT ON THE TRANSFER AND MUTUALISATION OF CONTRIBUTIONS TO THE SINGLE RESOLUTION FUND

Completed



- The Law is adopted by the National Assembly

FURTHER STEPS AFTER NOVEMBER 2019



01

SRSS support

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

02

Exchange of experience and knowledge with other MSs

Experts from euro area MSs presenting their experience.