

## **Dimitar Radev: Bulgaria currently fulfils unconditionally all nominal convergence criteria**

Speech by Mr Dimitar Radev, Governor of the Bulgarian National Bank, at the opening of the conference "Money growth: banking, investment, technology", organised by Capital newspaper, Sofia, 20 March 2025.

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Dear colleagues and guests,

Thank you for inviting me to open today's conference. It is taking place at a particularly dynamic and challenging moment for both the global and the Bulgarian economy. Such forums are extremely useful for the exchange of analyses, opinions and ideas at a time when the need to adapt economic processes to new realities is becoming increasingly clear.

Let's start with the geopolitical context. In my opinion, at least for the last 35 years, it has not been as important for the economic and financial, but also for the political development of Bulgaria, as it is now.

The key words for today's geopolitical context are uncertainty and unpredictability about what lies ahead or, as the President of the ECB very well put it these days, quoting Paul Valéry: "The trouble with our times is that the future is not what it used to be."

The obvious question is, what to do in such an environment? Politicians are facing it, but not only them. It is not my job to give advice on what should be done on the political front, at least not in my capacity. I shall therefore confine myself to one sentence: Active participation in strengthening and developing the European project in today's geopolitical context is the surest guarantee for Bulgaria's good prospects.

I will focus more on the economic and financial aspects.

Developments in Ukraine and the Middle East, the increasing trade conflicts between leading economies and the process of geopolitical fragmentation, as well as the boom in digital technology development are triggering significant structural transformations in global supply chains with uncertain duration, depth and consequences.

These developments are already having a tangible impact on international trade, leading to increased volatility in commodity prices and forcing a number of countries to adapt their economic and, in particular, industrial policies to rising protectionism worldwide. In pursuit of economic security, many economies are reviewing their dependence on external suppliers and taking measures to localise critical industries, restructuring their production chains.

These developments are likely to have an increasing impact on Europe, which remains one of the most vulnerable economies in the context of global geopolitical uncertainties, especially with regard to energy resources. For us, this vulnerability is an even more serious risk factor, given that our country remains one of the most energy-intensive

economies in Europe. Breaking long-standing energy dependencies, soaring gas and electricity prices and the need for accelerated energy transformation pose serious challenges to European economies. Energy costs continue to be significantly higher than in the US and some Asian economies, creating serious structural challenges for the competitiveness of European industry.

In this complex global environment, Bulgaria's starting macroeconomic position is actually not at all bad. In 2024, the country's real GDP grew by 2.8%, i.e. above expectations, and according to the latest BNB forecast, economic growth will remain stable on positive territory, standing at 2.5% this year and 3.0% in 2026. Growth will be supported primarily by domestic demand in a context of historically very low unemployment and the absence of macroeconomic imbalances.

The performance of our banking sector remains robust, with capital buffers, liquidity coverage and profitability above the EU average.

Despite the deterioration of fiscal indicators in recent years, our country still has manoeuvrability, both in terms of the fiscal space available and in terms of the opportunities to restore the fiscal buffers exhausted by the recent budgets.

Last but not least, our country currently fulfils unconditionally all nominal convergence criteria, including the price stability criterion, with which we have had problems in recent years.

For a small and open economy like ours, which is highly integrated into global supply chains, geopolitical developments also pose a number of risks, mostly related to:

- a continued decline in foreign demand for Bulgarian goods and services, especially in view of the deepening structural challenges faced by some of our main euro area trading partners; and
- increased fluctuations in the prices of key energy and non-energy raw materials, which affect business production costs and household disposable income.

In an environment of such risks, it is essential that the economy is well prepared for unexpected shocks affecting the aggregate supply of goods and services. Macroeconomic preparations mainly consist of maintaining sufficient buffers in the banking and fiscal sectors. On the one hand, the existence of such buffers would contribute to cushioning the effect of materialisation of risks and, on the other hand, to adapting to and potentially benefiting from changes in the global economy, such as the restructuring of global production chains. A good example in this regard in recent years is the relatively smooth transition of the Bulgarian economy through the COVID crisis. The high levels of fiscal reserve and bank capitalisation maintained at that time allowed our country to recover relatively quickly from the crisis and without the need for external financial support.

In such an environment, it is extremely important to break the momentum of quantitative and structural deterioration of our fiscal position and restore fiscal buffers. I will give the following example. By the end of 2024, the fiscal reserve reached its historical low, both as a percentage of GDP (4.7%) and as a percentage of total budgetary expenditure under the Consolidated Fiscal Programme (12.3%). For comparison, the average

values of these indicators for the last two decades amounted to 8.8% and 24.4%, respectively. The consolidation of the fiscal stance will remain a serious medium-term challenge against the objective need for higher public investment and military expenditure.

Let me also say a few words about the role of the BNB. In this uncertain environment, the BNB will continue to apply conservative supervisory and regulatory policies, introducing preventive measures to ensure the resilience of the banking system. The consistency and predictability of the policies we pursue are key to the confidence of the banking sector, businesses and investors.

Our approach will continue to include:

- maintaining high capital and liquidity buffers that ensure the resilience of the banking system;
- strict supervision of lending to avoid the accumulation of excessive risks on banks' balance sheets; and
- policy flexibility so that we can respond adequately to new challenges, including in terms of anticipatory economic growth objectives.

In other words, we not only want to ensure stability, but also to create a predictable environment in which economic actors can plan and invest with greater confidence.

Finally, of course, I will also touch on the subject of the country's accession to the euro area.

This topic unites more strongly than before the current issues we are discussing from geopolitics to economics and finance.

We have, indeed, one final step left. I am convinced that we are able to do it with dignity and self-confidence. It is not by chance that I emphasised that at the moment our country meets all the convergence criteria.

As a central bank, we are focused both on the successful implementation of this final step and on our full readiness to work in the context of the shared monetary sovereignty of the euro area. This includes two main groups of tasks.

The first relates to the operationalisation of the existing capacity to operate in the euro area, including the performance of functions that we cannot perform in a currency board environment. These functions relate both to the participation in defining the Eurosystem's monetary policy, which required the building of strong analytical capacity, and to the implementation of the common monetary policy at national level through its main instruments, including the conduct of open market operations, the preparation of conditions for participation and the technical provision of access for Bulgarian banks to the ECB's standing facilities. In addition to our participation in the process of creating and distributing the money supply, the BNB will also act as a lender of last resort, providing extraordinary liquidity support to Bulgarian banks in case of need.

The second task is related to logistics and technical preparation of the process of exchange and functioning of the banking system in the context of the euro area. What

has been done so far is truly unprecedented for the bank and the country in terms of scale and technical complexity. It includes construction and renting of areas; supply of machinery, equipment and materials; providing in practice a new fleet of armoured and security vehicles; creation of a qualitatively new payment and IT infrastructure; development and approval of transport schemes and security systems; full readiness to mint Bulgarian euro coins and deliver the necessary euro banknotes; obtaining the necessary licences and certificates; carrying out a large number of public procurements. I am making this incomplete enumeration to underline two things: first that we have been working hard on this topic and not since yesterday or today; and second, that the BNB and the banking sector are very ready to join and operate within a euro area context.

Allow me to finish with a few conclusions:

- First, geopolitical uncertainty is one of the main risks to the country's economy and finances and requires the maintenance of buffers in the banking and fiscal spheres and readiness to implement adaptive policies;
- Second, the banking sector is well prepared to face the risks stemming from the external macroeconomic environment and can play an important role in the materialisation of potential development opportunities for key sectors of the economy by channelling credit resources to them;
- Third, unlike the banking sector, public finances need to restore fiscal buffers in the medium term while preserving the long-term sustainability of government debt; and
- Fourth, joining the euro area has enormous potential to become a catalyst for the country to navigate successfully in the face of global uncertainty. And this potential needs to be exploited.

Thank you for your attention and I wish you interesting and fruitful discussions!