



EUROPEAN  
COMMISSION

Brussels, 4.6.2025  
COM(2025) 303 final/2  
DOWNGRADED ON 4.6.2025

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND  
THE COUNCIL**

**CONVERGENCE REPORT 2025 on Bulgaria**

**(prepared in accordance with Article 140(1) of the Treaty on the Functioning of the  
European Union)**

{SWD(2025) 154 final}

## 1. PURPOSE OF THE REPORT

The euro is meant to be the single currency of the European Union as a whole. It is currently used every day by around 350 million people in the 20 Member States of the euro area. The practical benefits include more stable prices, lower transaction costs for people and businesses, more transparent and competitive markets and increased intra-EU and international trade. The euro is also the second most used currency worldwide.

Article 140(1) of the Treaty on the Functioning of the European Union (TFEU) requires the Commission and the European Central Bank (ECB) to report to the Council, at least once every two years, or at the request of a Member State with a derogation<sup>1</sup>, on the progress that Member States have made in fulfilling their obligations to achieve economic and monetary union. The latest Commission and ECB convergence reports were adopted in June 2024.

The 2025 Convergence Report on Bulgaria has been prepared in response to a request for a convergence assessment from Bulgaria, submitted on 25 February 2025. The staff working document accompanying this report provides a more detailed assessment of the state of convergence in Bulgaria<sup>2</sup>.

Article 140(1) TFEU requires the reports to include an examination of the compatibility of national legislation, including the statutes of national central banks, with Articles 130 and 131 TFEU and the Statute of the European System of Central Banks and of the European Central Bank ('the ESCB/ECB Statute'). The reports must also examine whether a high degree of sustainable convergence has been achieved in the Member State concerned by means of: (i) referring to the fulfilment of the four convergence criteria (price stability, public finances, exchange rate stability and long-term interest rates); and (ii) taking account of other factors relevant to economic integration and convergence mentioned in the final subparagraph of Article 140(1) TFEU. The four convergence criteria are developed further in a protocol annexed to the Treaties (Protocol No 13 on the convergence criteria).

The convergence assessment in this report is presented against the background of recent economic and policy developments. Following the EU's weak economic performance in 2023, when GDP grew by 0.4%, the economy returned to moderate growth of 1.0% in 2024, with stronger momentum at the end of the year than previously expected. Private consumption was supported by continued growth in real wages and higher employment, with a remarkably strong labour market. After the peak in EU inflation in October 2022, which was driven by the surge in energy prices from around mid-2021 until the third quarter of 2022, a disinflationary process started towards the end of 2022. This process progressed in 2023 and throughout much of 2024, with EU headline inflation averaging 2.6% that year, and is expected to continue in 2025. Inflation divergence across the EU Member States also narrowed significantly in 2024. With the disinflation process well on track, in April 2025 the ECB cut its policy rate for the seventh time since June 2024, to 2.25%.

The economic outlook, including the Commission's 2025 Spring Economic Forecast for HICP inflation for the EU as a whole and for individual Member States, including Bulgaria, is characterised by an unusually high degree of uncertainty. In early 2025, the EU and global economies were hit by the most significant policy-induced trade and economic uncertainty shock in decades. It is unclear what the landing zone for the US tariffs vis-à-vis trading partners would be, which forces the Commission forecast to rely on several technical assumptions<sup>3</sup>. Beyond trade, broader geopolitical tensions remain elevated, heightening risks, weighing on confidence, and posing significant risks to the economic outlook.

In Bulgaria, economic growth accelerated from 1.9% in 2023 to 2.8% in 2024, driven by private consumption, which was, in turn, sustained by higher real wages, employment gains and increased social benefits. Real GDP growth in Bulgaria is forecast to slow down again from 2.8% in 2024 to 2% in 2025. Annual average HICP inflation in Bulgaria slowed to 2.6% in 2024, while inflation developments in 2025 and in 2026 are set to be driven by several price hikes at the beginning of 2025 and, subsequently, by both external prices and domestic cost factors exerting downward pressure on inflation.

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<sup>1</sup> The Member States that have not yet fulfilled the necessary conditions to adopt the euro are referred to as 'Member States with a derogation'. Denmark negotiated an opt-out before the Maastricht Treaty was adopted and does not participate in the third stage of economic and monetary union.

<sup>2</sup> The cut-off date for the data used in this report is 19 May 2025. The convergence assessment is based on a range of monthly convergence indicators that have been calculated up to April 2025.

<sup>3</sup> Significantly, the individualised 'reciprocal' higher tariffs are assumed to not be reinstated at the expiry of the 90 days suspension. The forecast also assumes that the exceptionally high tariffs on Chinese imports, imposed after April 2, will be scaled back to pre-escalation levels, as they are deemed unsustainable. By the time the Commission forecast was published, on 19 May 2025, the new tariffs in place were lower than those assumed at the cut-off date.

The expected acceleration in implementing the recovery and resilience plans (RRPs) and the cohesion policy programmes can at least partly offset the negative consequences of the weaker international environment and play a crucial role in the convergence process of many non-euro area EU Member States. Besides contributing to higher growth and improved public finances in the near term, the Recovery and Resilience Facility (RRF) and cohesion policy programmes strengthen Member States' long-term growth and resilience by supporting major reforms and investments that help address both long-standing and new challenges, such as diversifying energy supplies.

In November 2024, the Commission launched the first implementation cycle of the reformed economic governance framework that entered into force on 30 April 2024. The main objectives of the new framework are to strengthen Member States' debt sustainability and promote sustainable and inclusive growth in all Member States through growth-enhancing reforms and priority investments. At the centre of the new framework are the national medium-term fiscal-structural plans, which set the Member States' fiscal paths, defined in terms of net expenditure growth rates. The plans contain priority reforms and investments and cover an adjustment period of four years as a rule. An extended adjustment period (up to seven years) can be agreed at the request of the Member State which commits to additional reforms and investments that are conducive to economic growth and fiscal sustainability. Bulgaria submitted its four-year national medium-term fiscal-structural plan on 27 February 2025. On 12 May 2025, the Commission recommended to the Council to endorse Bulgaria's plan.

On 19 March 2025, the Commission presented, as part of the ReArm Europe Plan/Readiness 2030, an ambitious defence package providing financial levers to EU Member States to drive higher investment in defence capabilities. As part of this plan, the Commission invited Member States to apply for the activation of the national escape clause (NEC) of the Stability and Growth Pact, which will provide them additional budgetary space to transition to a durably higher level of defence expenditure, within the EU fiscal rules. The amount of the deviation under the escape clause will be capped at 1.5% GDP, available for a period of four years. Bulgaria applied for the NEC on 2 May 2025. A new dedicated instrument – Security Action for Europe (SAFE) – has been established, with the Commission planning to raise up to EUR 150 billion on the capital markets to help EU Member States quickly and substantially increase investments in Europe's defence capabilities. Bulgaria submitted a request to the Council and the Commission to activate the NEC. On 4 June 2025, the Commission recommended to the Council to activate the NEC for Bulgaria, allowing the country to deviate from, and exceed, the net expenditure path that will be set in the Council recommendation endorsing its medium-term fiscal plan.

On 4 June 2025, the Commission published its European Semester Spring 2025 package. To drive long-term prosperity and resilience, the EU is aligning its economic governance with a renewed focus on competitiveness as presented in the Competitiveness Compass. Through its country-specific recommendations, the European Semester reflects the new priorities to boost competitiveness and provides guidance, including to Bulgaria, on the necessary reforms and investments at national and regional level. As part of the European Semester Spring 2025 package, the Commission recommends that Bulgaria adheres to the maximum growth rates of net expenditure in its plan, while making use of the allowance under the NEC for higher defence expenditure.

### Convergence criteria

The examination of the **compatibility of national legislation**, including the statutes of national central banks of Member States with a derogation, together with Article 130 TFEU and the compliance duty under Article 131 TFEU, includes an assessment of observance of the prohibition of monetary financing (Article 123 TFEU) and the prohibition of privileged access to financial institutions (Article 124 TFEU); the consistency with the ESCB's objectives (Article 127(1) TFEU) and tasks (Article 127(2) TFEU); and other aspects relating to the integration of national central banks into the ESCB.

The first indent of Article 140(1) TFEU defines the **price stability criterion** as *'the achievement of a high degree of price stability; this will be apparent from a rate of inflation which is close to that of, at most, the three best performing Member States in terms of price stability'*.

Article 1 of the Protocol on the convergence criteria further provides that *'the criterion on price stability [...] shall mean that a Member State has a price performance that is sustainable and an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than 1.5 percentage points that of, at most, the three best-performing Member States in terms of price stability. Inflation shall be*

*measured by means of the consumer price index on a comparable basis, taking into account differences in national definitions*<sup>4</sup>.

The sustainability requirement implies that the satisfactory inflation performance must be attributed to the behaviour of input costs and other factors that influence price developments in a structural manner, rather than the influence of temporary factors. Therefore, the convergence examination includes an assessment of the factors that affect the inflation outlook and is complemented by a reference to the most recent Commission inflation forecast<sup>5</sup>.

The inflation reference value was calculated as 2.8% in April 2025, with Ireland, Finland and Italy being the three 'best-performing Member States'<sup>6</sup>.

No Member States were identified as outliers in terms of inflation performance for calculating the reference value, as none of their inflation rates deviated by a wide margin from the euro area average due to country-specific circumstances.

The second indent of Article 140(1) TFEU defines the convergence **criterion dealing with public finances** is defined in the as *'the sustainability of the government financial position; this will be apparent from having achieved a government budgetary position without a deficit that is excessive as determined in accordance with Article 126(6)'*.

Furthermore, Article 2 of the Protocol on the convergence criteria states that this criterion means that *'at the time of the examination the Member State is not the subject of a Council decision under Article 126(6) of the said Treaty that an excessive deficit exists'*.

The TFEU refers to the **exchange rate criterion** in the third indent of Article 140(1) as *'the observance of the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System, for at least two years, without devaluing against the euro'*.

Article 3 of the Protocol on the convergence criteria provides that: *'The criterion on participation in the exchange rate mechanism of the European Monetary System [...] shall mean that a Member State has respected the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System without severe tensions for at least the last two years before the examination. In particular, the Member State shall not have devalued its currency's bilateral central rate against the euro on its own initiative for the same period'*<sup>7</sup>.

The relevant two-year period for assessing exchange rate stability in this report ran from 20 May 2023 to 19 May 2025. In its assessment of the exchange rate stability criterion, the Commission takes into account developments in auxiliary indicators such as foreign reserve developments and short-term interest rates. It also takes into account the role of policy measures (including foreign exchange interventions) and international financial assistance (wherever relevant) in maintaining exchange rate stability.

The fourth indent of Article 140(1) TFEU requires *'the durability of convergence achieved by the Member State with a derogation and of its participation in the exchange rate mechanism'* to be *'reflected in the **long-term interest rate levels**'*.

Article 4 of the Protocol on the convergence criteria further states that *'the criterion on the convergence of interest rates [...] shall mean that, observed over a period of one year before the examination, a Member State has had an average nominal long-term interest rate that does not exceed by more than 2 percentage points that of, at most, the three best-performing Member States in terms of price stability. Interest rates shall be measured on the basis of long-term government bonds or comparable securities, taking into account differences in national definitions'*.

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<sup>4</sup> For the purpose of the price stability criterion, inflation is measured by the Harmonised Index of Consumer Prices (HICP) defined in Regulation (EU) 2016/792.

<sup>5</sup> All forecasts for inflation and other variables in this report are from the Commission's Spring 2025 Economic Forecast. The forecasts are based on a set of common assumptions for external variables and on a 'no policy change' assumption, but also take into consideration measures that are known in sufficient detail.

<sup>6</sup> The respective 12-month average inflation rates were 1.2%, 1.3% and 1.4%.

<sup>7</sup> In assessing compliance with the exchange rate criterion, the Commission examines whether the exchange rate has remained close to the ERM II central rate. Reasons for an appreciation may be taken into account, in accordance with the Common Statement on Accessing Countries and ERM2 by the Informal ECOFIN Council held in Athens on 5 April 2003.

The interest rate reference value was calculated as 5.1% in April 2025<sup>8</sup>.

Article 140(1) TFEU also requires the reports to take into account **other factors** relevant to economic integration and convergence. These include the integration of markets, the development of the balance of payments on the current account and of unit labour costs and other price indices. The additional factors to be considered are important indicators of whether a Member State would integrate into the euro area without difficulties. They also broaden the view on the sustainability of convergence.

The assessment of the degree of sustainable convergence for Bulgaria presented in this report draws on the Commission's Spring 2025 Economic Forecast and the policy guidance provided under the European Semester. It is informed in particular by: (i) the fiscal surveillance carried out under the Stability and Growth Pact and (ii) by the Macroeconomic Imbalance Procedure. It also reflects the Commission's assessments of fiscal sustainability risks and of the national fiscal framework, as well as the implementation of the RRP.

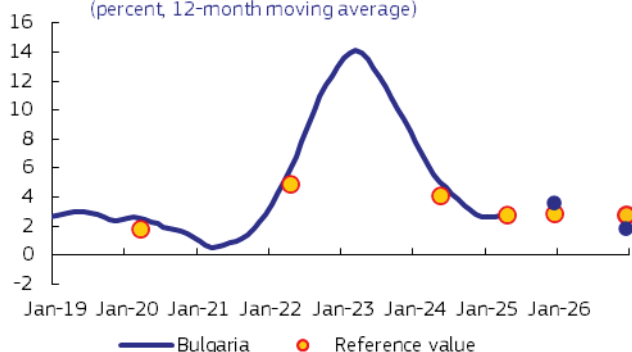
## 2. Bulgaria

**In the light of its assessment on legal compatibility and on the fulfilment of the convergence criteria, and taking into account the additional relevant factors, the Commission considers that Bulgaria fulfils the conditions for adopting the euro.**

**Legislation in Bulgaria** is compatible with the compliance duty under Article 131 TFEU.

**Bulgaria fulfils the criterion on price stability.** The average inflation rate in Bulgaria during the 12 months to April 2025 was 2.7%, below the reference value of 2.8%. A review of a broad range of indicators does not identify causes for concern regarding the sustainability of price stability.

Graph 2a: Bulgaria - Inflation criterion  
(percent, 12-month moving average)



Note: The dots at the right end of the chart show the projected reference value and 12-month average inflation rate of Bulgaria in December 2025 and December 2026. The reference values for 2020, 2022 and 2024 refer to the reference values calculated in the previous convergence reports.

Source: Eurostat, Commission's Spring 2025 Economic Forecast.

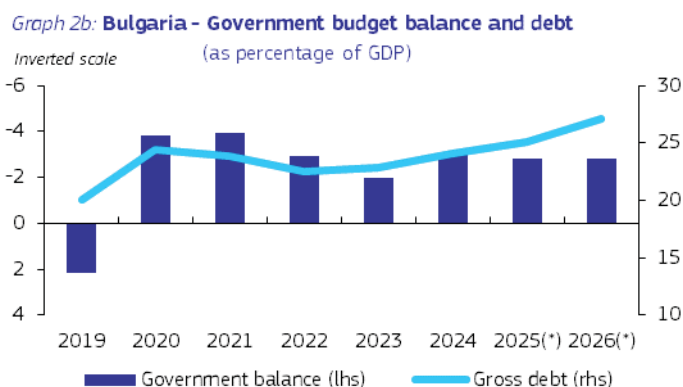
Bulgaria's annual HICP inflation rate averaged 8.6% in 2023 and decreased to 2.6% in 2024. Annual HICP inflation declined from 14.3% in January 2023, flattening at around 2.8% in May–July 2024 before declining further and stabilising at 2.1% in October–December 2024. It then rose significantly at the beginning of 2025, peaking at 4% in March before decreasing to 2.8% in April 2025. At the beginning of 2023, headline HICP inflation was still above HICP inflation excluding energy and food, due to higher energy and food price inflation. With the rapid disinflation of fuel and gas prices in 2023, overall inflation remained below core inflation for the rest of 2023. In 2024, headline HICP inflation and core inflation remained close to each other, as the fall in fuel prices in the second half of 2024 was largely offset by somewhat higher food price inflation. The sharp price hikes at the beginning of 2025 covered items both within and outside the core inflation basket. These price hikes were largely due to: (i) restored higher VAT rates for bread and restaurants; (ii) higher excise duties for tobacco; (iii) increased electricity and gas prices for households; and (iv) higher

<sup>8</sup> The reference value for April 2025 was calculated as the simple average of the 12-month average of long-term interest rates of Ireland (2.8%), Finland (2.9%) and Italy (3.7%), plus two percentage points.

food prices due to increased international food prices. The subsequent decrease in inflation in April was largely due to reductions in hospital fees that are part of core inflation and in gas and fuel prices.

The Commission's Spring 2025 Economic Forecast projects that average annual inflation will increase from 2.6% in 2024 to 3.6% in 2025 and gradually ease to 1.8% in 2026. The 12-month average inflation rate is projected to increase above the projected reference value by the end of 2025, fall back to the reference value in the first months of 2026 and stay below it for the rest of 2026<sup>9</sup>. The higher VAT rates for bread and restaurants, higher excise duties for tobacco and other administered prices, including electricity, are estimated to have a full impact, including second-round effects, of around 1.5 percentage points by the end of 2025. These factors, which explain a large part of the temporary rise of inflation in 2025, are not expected to have a lasting effect on inflation. Moreover, the higher inflation in 2025 also reflects higher international prices for certain food commodities. The growth in unit labour costs moderated significantly in 2024 and, looking forward, the disinflation process in the services sector is set to benefit from wage moderation. Overall, private sector wage growth, which directly influences price formation, is expected to moderate faster than aggregate wage dynamics. On the external side, the pass-through of lower international energy and other commodities prices is also projected to keep inflation down, including via second-round effects to transport services. The relatively low price level in Bulgaria (about 57% of the euro area average in 2023) suggests potential for price level convergence in the long term.

**Bulgaria fulfils the criterion on public finances.** Bulgaria is not the subject of a Council Decision on the existence of an excessive deficit. The general government deficit widened from 2.0% of GDP in 2023 to 3.0% in 2024. The sizeable deterioration of the deficit in 2024 was in one part due to spending increases in public sector salaries and in social benefits, particularly on pensions, which were not fully matched by revenue increases. The other part, 0.5% of GDP, was due to a one-off statistical recording of settled liabilities for road infrastructure works from 2020-2022. The Commission's Spring 2025 Economic Forecast expects the general government deficit to decrease to 2.8% of GDP in 2025 and to remain at 2.8% in 2026. The government debt-to-GDP ratio increased from 22.9% in 2023 to 24.1% in 2024. It is expected to increase further to 25.1% in 2025 and 27.1% in 2026. On 27 February 2025, Bulgaria submitted its national medium-term fiscal structural plan to the Council and the Commission. The plan includes a commitment to fiscal consolidation in 2025-2028 in line with the Stability and Growth Pact requirements. On 12 May 2025, the Commission recommended to the Council to endorse Bulgaria's plan. Accounting for the flexibility under the NEC, the net expenditure growth for 2025 is expected to be in line with the net expenditure growth ceilings contained in Bulgaria's medium-term plan. Despite the low projected debt level by 2035 (39% of GDP), Bulgaria's debt sustainability risks appear medium in the medium term, with high uncertainty on debt dynamics over the next five years based on historical volatility. Bulgaria has the key components of a robust fiscal framework, but some difficulties in implementation remain. Bulgaria has a complex system of national fiscal rules in place and there is scope to improve key aspects, including further strengthening the mandate of the Fiscal Council.



Source: Eurostat, Commission's Spring 2025 Economic Forecast.

**Bulgaria fulfils the exchange rate criterion.** In July 2020, Bulgaria entered the Exchange Rate Mechanism II (ERM II) and had been participating in the mechanism for almost four years at the time of the

<sup>9</sup> The Commission's Spring 2025 Economic Forecast does not include the impact of lower fees for hospital services and of decreases in other administered prices on inflation in April 2025. When taking into account these measures, the average inflation rate in Bulgaria would likely be close to the reference value by the end of 2025.



adoption of this report. The Bulgarian lev observes a central rate of 1.95583 to the euro with a standard fluctuation band of  $\pm 15\%$ . The Bulgarian National Bank pursues its primary objective of price stability through an exchange rate anchor as part of a currency board framework. Bulgaria joined ERM II with its existing currency board framework in place, as a unilateral commitment, thereby placing no additional obligations on the ECB. The lev exchange rate remained at the ERM II central rate for the 2 years covered by the assessment without any signs of tensions or devaluation against the euro. Additional indicators, such as developments in foreign exchange reserves and short-term interest rates, suggest that investors' risk perception towards Bulgaria has remained favourable. The (negative) spread of the Bulgarian benchmark short-term interest rate (i.e. the three-month base interest rate (BIR) to the Euribor) narrowed from -15 basis points at the beginning of 2023 to virtually no differential by the end of that year. It then widened slightly throughout 2024 and stood at 3 basis points in March 2025. A sizeable buffer of official reserves continues to underpin the currency board's resilience. Upon entering ERM II, Bulgaria committed to implement a set of policy measures (known as post-entry commitments) to ensure that its participation in the mechanism is sustainable and that it achieves a high degree of economic convergence before adopting the euro. The measures cover four policy areas: (i) the non-banking financial sector; (ii) the insolvency framework; (iii) the anti-money laundering framework; and (iv) governance of state-owned enterprises.

**Bulgaria fulfils the criterion on the convergence of long-term interest rates.** The average long-term interest rate in the 12-months to April 2025 was 3.9%, below the reference value of 5.1%. The Bulgarian long-term interest rate has been stable at or close to 4% since April 2023, following two stepwise increases in February and March 2023. The long-term interest rate increased from 1.9% in January 2023 to 4.2% in March. Thereafter, it remained unchanged at 4.0% for the rest of 2023 and at 3.9% throughout 2024 and up to April 2025. The yield spread relative to the German benchmark bond remained within a range of 1.4-1.9% from March 2023 to April 2025.

The Commission has also examined **additional factors**, including balance of payments developments, the integration of markets and the institutional environment. Bulgaria's external balance (the combined current and capital account) improved to 0.7% of GDP in 2023 and was almost in balance (-0.1% of GDP) in 2024. The Bulgarian economy is well integrated with the euro area through trade and investment linkages. Selected indicators related to the institutional environment show that Bulgaria performs worse than many euro area Member States. There are significant challenges related to the rule of law, fight against corruption and regulatory quality. However, as part of its participation in the ERM II and in accordance with its RRP, Bulgaria has taken measures to improve its institutional framework and the business environment, including in the four areas covered by the post-entry ERM II commitments. The financial sector in Bulgaria is smaller and less developed than in the euro area. It is dominated by the banking sector, which is well integrated into the euro area's financial sector (particularly through a high level of foreign ownership). The underdevelopment of market-based financing is reflected in the very small markets for equity and private sector debt. Continued policy action, including Bulgaria's entry into a 'close cooperation' agreement with the ECB in 2020, combined with a favourable macroeconomic environment have reduced risks to and vulnerabilities in the financial sector. As part of the Macroeconomic Imbalance Procedure, the Commission concluded in its Alert Mechanism Report for 2025 that it was not necessary to carry out an in-depth analysis for Bulgaria, while pointing to the need to monitor developments in the country's cost competitiveness, house prices and credit flows to households.

Bulgaria's RRP includes measures to address a series of structural challenges, in synergy with other EU funds, including cohesion policy funds, to boost its competitiveness and stimulate sustainable growth, and reduce the country's regional and social disparities. The RRF funding provides Bulgaria with EUR 5.7 billion in grants over the 2021-2026 period. Bulgaria received one disbursement of EUR 1.37 billion on 16 December 2022. In April 2025, Bulgaria submitted a comprehensive revision of its RRP with the aim to bring it back on track. Implementing key outstanding reforms in the areas of decarbonisation, business environment and rule of law remains important for achieving the plan's objectives. It would thus be important for Bulgaria to urgently step up its implementation of reforms and investments in order to deliver on the plan's commitments. In addition, cohesion policy funding provides Bulgaria with EUR 10.7 billion for the 2021-2027 period. Cohesion policy financing aims in particular to further support Bulgaria's competitiveness, green transition, including energy independence, the just transition and climate change resilience. It also aims to support the country's upward social convergence, including by addressing labour shortages, further developing educational and training systems and making them more inclusive for disadvantaged groups. Bulgaria has made progress in implementing EU cohesion policy but challenges remain.