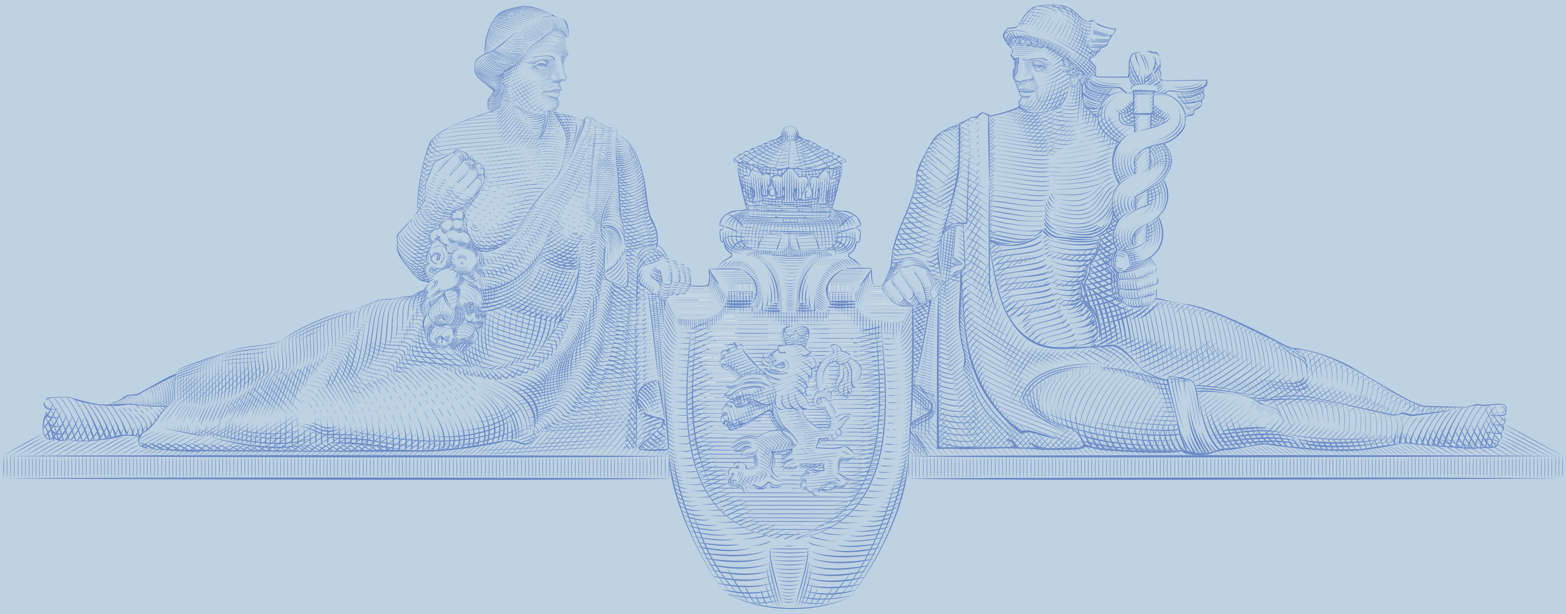

# Topical Research and Highlights

## European Union's Revised Economic Governance Framework and Its Potential Implications for Bulgaria's Fiscal Policy

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# European Union's Revised Economic Governance Framework and Its Potential Implications for Bulgaria's Fiscal Policy

A revised economic governance framework, which includes the most comprehensive reform of the Stability and Growth Pact rules since the global financial and economic crisis, started to apply in the European Union (EU) from the end of April 2024. The new framework takes a differentiated approach to country-specific debt sustainability risks, while preserving the application of the reference criteria for budgetary discipline set out in the Treaty on the Functioning of the European Union (TFEU). The implementation of this reform took four years and, following a review of the effectiveness of the existing framework, the European Commission (EC) published legislative proposals for amendments to the fiscal rules in April 2023, with a final agreement between EU Member States reached in December 2023. The aim of this topical research is to present the main changes to the EU's reformed economic governance framework and to analyse their potential implications for Bulgaria's fiscal policy.

## *Main Features of the Stability and Growth Pact in Force until the End of April 2024*

The Stability and Growth Pact (SGP) is the regulatory framework for the coordination of national fiscal policies of the EU Member States. Since its entry into force in 1997, the SGP includes a preventive arm aimed at limiting the emergence of excessive budget deficits and a corrective arm aimed at ensuring that Member States take appropriate measures to correct excessive budget deficits and/or excessive public debt. The SGP has been amended several times over the years, with more substantial changes introduced in the aftermath of the global financial and economic crisis and the European debt crisis. At that time, the constraints of the EU budgetary framework in preventing unsustainable fiscal behaviour and accumulation of excessive public debt in some countries, as well as the limited scope of the rules to prevent countries from pursuing pro-cyclical fiscal policies became apparent. It also became clear that **flexibility was needed in the application of fiscal rules** in times of crisis[1].

The so-called **medium-term budgetary objective (MTO)** calculated on the basis of the structural budget balance[2] was at the core of the SGP **preventive arm** in force until the end of April 2024. The definition of the medium-term budgetary objective should have been made with a view to: (1) ensuring an adequate buffer for the operation of automatic fiscal stabilisers without jeopardising compliance with the budget deficit limit of no more than 3 per cent of GDP; and (2) taking into account country-specific long-term factors affecting its fiscal sustainability, including the economic and fiscal effects of population ageing. With the changes to the EU fiscal framework in the period after 2011[3] and the entry into force of the Fiscal Compact of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, the role of the MTO has been strengthened along the following lines:

- Introducing an 'expenditure benchmark' as a tool to reach the MTO;
- Introducing a stricter MTO requirement (structural deficit of no more than 0.5 per cent of GDP) for countries that have ratified the Fiscal Compact. For countries with debt significantly below 60 per cent of GDP and a low risk to long-term fiscal sustainability such as Bulgaria, which also ratified the Fiscal Compact, the lower limit of the MTO was kept at a structural deficit of 1 per cent of GDP;
- The Fiscal Compact introduced the requirement for Contracting Parties to include in their national legislation corrective mechanisms that should be automatically triggered in case of significant

[1] The amendments to the SGP adopted in 2011 define cases where a general or Member State-specific escape clause is applied. These include cases where there is a significant economic downturn in the EU as a whole or in the euro area or in exceptional circumstances outside the control of an individual Member State.
[2] The structural budget balance is the cyclically adjusted budget balance net of one-off and other temporary fiscal measures.
[3] The changes to the EU fiscal framework include the so-called 'six-pack' and 'two-pack' legislative packages, which comprise regulations 1173/2011, 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013, as well as the Commission's additional 2015 guidance on making full use of the flexibility within the existing rules of the Stability and Growth Pact (COM/2015/012 final).

deviations from the MTO or the adjustment path towards it;

- The 2015 EC Communication introduced a matrix for specifying the annual fiscal adjustment towards the MTO, depending on the cyclical condition, economic growth and debt level of the country concerned.

A key feature of the **corrective arm** of the SGP, effective until the end of April 2024, was related to the criterion that determines whether the general government debt, which exceeds 60 per cent of GDP, is sufficiently diminishing and approaching the reference value at a satisfactory pace, as required by the TFEU. The criterion was considered fulfilled if differential with respect to the debt reference value was reduced at an average rate of one twentieth per year over the previous three years.

Following the review of the EU 2020 economic governance framework[4], the EC highlighted several key weaknesses related to its implementation: (1) the persistently high levels of public debt in some countries; (2) the frequent conduct of pro-cyclical fiscal policies; (3) the insufficient differentiation between Member States with different fiscal positions and varying levels of risks to debt sustainability; (4) an increasing complexity of rules; and (5) the lack of a mechanism to preserve the level of public investment in periods of fiscal consolidation. The EC's 2021 Communication on EU economic governance[5] noted that these shortcomings became even more apparent during the COVID-19 pandemic, taking into account the funding constraints of long-term EU priority policies, including those related to the green transition and digital transformation requiring an increase in the amount of public investment.

Other analyses of the effectiveness of the fiscal framework in place until the end of April 2024 suggest that a significant weakness of the fiscal framework is its actual implementation. For example, an ECB publication of 2024[6] found that, in full compliance with fiscal rules, even using inaccurate real-time estimates of the deviation of economic activity from its potential level, euro area countries should have been able to build up sufficient liquidity buffers prior to the global financial crisis to enable them to pursue counter-cyclical fiscal policy in crisis years. In addition, according to European Fiscal Board data, between 1998 and 2019, fiscal rules were respected by euro area countries in only 52 per cent of all cases (for all countries, years and types of fiscal rules), while for EU countries this indicator is estimated at 55 per cent on average[7].

### *Main Features of the EU's 2024 Revised Economic Governance Framework*

The revised EU's economic governance framework, which entered into force on 30 April 2024, comprises three pieces of legislation: a new regulation on the preventive arm of the SGP[8], an amendment to the Regulation on the corrective arm of the SGP[9], as well as a Council Directive amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States[10]. The implementation of the new framework is mainly aimed at increasing the sustainability of the public debt of EU Member States. The framework is based on the two reference criteria contained in the TFEU, in particular in Protocol (No 12) on the excessive deficit procedure[11], of 3 per cent of GDP for the budget deficit and 60 per cent of GDP for the general government debt, respectively. The escape

[4] European Commission Communication SWD(2020) 210 final, February 2020.
[5] European Commission, Communication COM(2021) 662 final, October 2021.
[6] See: Haroutunian, Stephan Krikor and Abraham, Laurent and Hauptmeier, Sebastian and O'Connell, Marguerite and Bańkowski, Krzysztof and Bouabdallah, Othman and Leiner-Killinger, Nadine and Bischl, Simeon and Trzcinska, Agnieszka and Arruga Oleaga, Iñigo, The Path to the Reformed EU Fiscal Framework:A Monetary Policy Perspective. ECB Occasional Paper No. 2024/349 https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op349~f7c689d019.en.pdf, p. 17-21.
[7] For details, see: Tracking compliance with EU fiscal rules: A new database of the Secretariat of the European Fiscal Board | CEPR.
[8] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97.
[9] Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure.
[10] Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.
[11] Consolidated version of the Treaty on the Functioning of the European Union – Protocols – Protocol (No 12) on the excessive deficit procedure, Official Journal No 115, 09/05/2008 p. 0279-0280.

clauses adopted in 2011 are also maintained. At the same time, the reformed framework focuses on countries with general debt and/or budget deficits exceeding 60 per cent of GDP and/or 3 per cent of GDP, respectively, with the aim of reducing these indicators to prudent levels in a gradual, realistic, sustained and growth-friendly manner. The framework distinguishes between different fiscal positions and different risks to the sustainability of sovereign debt in individual countries, taking a differentiated approach to each country. In addition, the changes aim to promote reforms and investments in strategic areas, such as digital and green transitions, security, defence and other common EU priorities. The revised framework maintains the macroeconomic imbalance procedure unchanged, but reinforces the interaction between the framework and the Member States' national medium-term fiscal-structural plans, information on which is presented below.

### *Preventive Arm of the Revised SGP*

The main changes introduced in the preventive arm of the reformed EU's economic governance framework are:

(1) At the core of the framework is the preparation of national medium-term fiscal-structural plans (MTPs) covering a period of four or five years depending on the length of a country's legislative cycle. The plans bring together the fiscal policy objectives, structural reforms and investments of each Member State.

(2) A single operational indicator[12] is introduced to frame the preparation of each country's MTP and to carry out annual monitoring of its fiscal position by the EC. This is the net expenditure indicator: it includes all budgetary expenditure under the control of the government and which is not affected by the operation of automatic stabilisers. In particular, net expenditure is defined as general government expenditure net of: (i) budgetary interest expenditure; (ii) budgetary revenue from discretionary measures; (iii) budgetary expenditure on programmes of the EU fully covered by revenue from EU funds; (iv) national budgetary expenditure on co-financing of programmes funded by the EU; (v) unemployment benefit budgetary expenditure; (vi) one-offs and other temporary fiscal measures.

(3) For countries with general government debt exceeding 60 per cent of GDP and/or general government deficit exceeding 3 per cent of GDP,[13] the EC provides as a preliminary technical guidance a multi-annual net expenditure plan called the reference trajectory. This trajectory is country-specific, based on a public debt sustainability analysis[14] and covers a four-year adjustment period. The adjustment period may be extended by a maximum of three years. An extension of the adjustment period is only allowed if the country concerned underpins its MTP by a set of reforms and investments and if specific criteria are met[15]. The reference trajectory should ensure that by the end of the adjustment period, provided no additional fiscal measures are initiated, the general government debt is on a plausibly downward trajectory or stays at prudent levels of below 60 per cent of GDP over the medium term (defined as a period of ten years following the adjustment period in the EC's methodology for public debt sustainability), even under adverse scenarios[16]. In the cases where the budget deficit criterion is not met, the reference trajectory should

[12] As the MTO drops, the matrix for setting an annual fiscal adjustment towards the MTO will also fall.
[13] The new fiscal framework does not provide more detailed information on the data to be used in determining whether the two reference criteria are met. In accordance with Article 126(2) of the TFEU, the EC establishes compliance with the budget deficit criterion by examining whether the ratio of the planned or reported government deficit to GDP exceeds the reference value, unless: (a) either the ratio has declined substantially and continuously and reached a level that comes close to the reference value; or (b) alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value. According to the same Article, the EC determines the compliance with the general government debt criterion by examining whether the ratio of government debt-to-GDP exceeds the reference value, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace. In addition, according to Article 126(3) of the TFEU, the EC may prepare a report if, notwithstanding the fulfilment of the criteria, it is of the opinion that there is a risk of an excessive deficit in a Member State.
[14] The methodology used to analyse the sustainability of public debt is presented in the EC Debt Sustainability Monitor 2023 publication.
[15] The criteria for extending the adjustment period are set out in Article 14 of Regulation (EU) 2024/1263 of the European Parliament and of the Council.
[16] To assess the plausibility of the downward trend or that the projected general debt-to-GDP ratio remains below 60 per

ensure that the deficit falls below 3 per cent of GDP over the adjustment period and is kept below this value in the medium term, provided that no additional fiscal measures are taken. In addition, a requirement was introduced that the fiscal adjustment effort over the period of the MTP should not be postponed to the end of the period, but it should be at least proportionate to the total amount of the adjustment needed over the period. The reference trajectory should also correspond to a minimum annual improvement in the structural budget balance by 0.5 per cent of GDP as a rule in the cases where the deficit exceeds 3 per cent of GDP and an excessive deficit procedure has been opened.

(4) The preventive arm of the SGP provides for **two preventive mechanisms**, which need to be fulfilled in addition to the criteria based on an assessment of debt sustainability: (i) a **debt sustainability safeguard** and (ii) a deficit resilience safeguard. The first mechanism introduces the requirement for the projected government debt-to-GDP ratio to fall by a minimum annual average of 1 percentage points of GDP when the debt-to-GDP ratio exceeds 90 per cent and by a minimum annual average of 0.5 percentage points of GDP where the debt-to-GDP ratio remains between 60 and 90 per cent. The second mechanism introduces the requirement to gradually reduce the structural deficit until it reaches a resilience margin in structural terms of 1.5 per cent of GDP, relative to the 3 per cent of GDP deficit reference value. The annual improvement in the structural primary balance to achieve the required value should be 0.4 percentage points of GDP, and it is reduced to 0.25 percentage points of GDP in the case of an extension of the adjustment period.

(5) For Member States complying with deficit and debt requirements (a budget deficit not exceeding 3 per cent of GDP and debt not exceeding 60 per cent of GDP), the revised SGP does not provide for any restrictions other than compliance with these two criteria. The EC, on request of these countries, transmits guidance in the form of **technical information** on the structural primary balance, which ensures that their budget deficit is kept below 3 per cent of GDP in the medium and long term, provided that no additional fiscal measures are taken. Such technical information should be in line with the requirement for the deficit resilience safeguard.

(6) The Member States to which the EC has provided a reference trajectory for the net expenditure should draw up their MTPs with a trajectory that includes net expenditure values not higher than those in the trajectory provided by the EC, unless they provide a due justification. The EC should provide, at the request of Member States, technical information on the structural primary balance, allowing to keep the deficit below 3 per cent of GDP and debt below 60 per cent of GDP over a period of 14 to 17 years[17], with the EC indicating whether a fiscal adjustment is required.

(7) The new framework sets up the so-called control account, so that the EC can keep track of cumulative upward and downward deviations of observed net expenditure from the net expenditure path as set by the relevant MTP approved by the EU Council. In cases where escape clauses are applied, no deviations are recorded in the control account. The control account is to be reset after the endorsement by the Council of a new MTP.

cent of GDP, the following conditions shall apply: (1) the general government debt ratio declines or stays below 60 per cent under the deterministic scenarios of the EC's medium-term government debt projection framework, which cover a ten-year period following the adjustment period; (2) the probability for the ratio to decrease in the five years following the adjustment period covered by the MTP is sufficiently high (at least 70 per cent), with the assessment being based on the EC's stochastic debt sustainability analysis.

[17] Following the initial period of a possible adjustment of four years (with an option to extend it up to a maximum of seven years), the EC considers a period of additional ten years assuming that there are no changes in the policies over the additional period.

*Corrective Arm of the Revised SGP*

The corrective arm of the revised SGP maintains the requirements imposed on Member States under a deficit-based excessive deficit procedure (the requirement for a minimum annual improvement in the structural budget balance of at least 0.5 per cent of GDP as a reference value[18] in the years when the deficit is projected to exceed 3 per cent of GDP). At the same time, the rules for opening a debt-based excessive deficit procedure are changed and clarified. The main changes introduced in the corrective arm of the new fiscal framework can be summarised as follows:

(1) Where the government debt-to-GDP ratio exceeds the reference value, it is considered for it to be sufficiently diminishing and approaching the reference value at a satisfactory pace in accordance with Article 126(2)(b) of the TFEU if the relevant country complies with the net expenditure path approved by the Council.

(2) Where the government debt-to-GDP ratio exceeds the reference value, the budget balance is not close to balanced[19] or in a surplus, and where the deviations recorded in the control account exceed 0.3 percentage points of GDP *per* year or 0.6 percentage points of GDP cumulatively, the European Commission should prepare a report in accordance with Article 126(3) of the TFEU.

(3) The increase of government investments in defence is included in reporting of the so-called relevant factors[20] when assessing the existence of an excessive budget deficit or an excessive level of government debt in accordance with Article 126(3) of the TFEU. Inflation developments will also be considered as a relevant factor. The assessment of significant risks to the sustainability of a country's sovereign debt is deemed a key aggravating factor. Favourable cyclical economic, budgetary and financial developments will not be seen as mitigating factors, while adverse trends can be considered as mitigating factors.

(4) When the excessive deficit procedure is initiated on the basis of the debt criterion, the adjustment path of net expenditure should be at least as stringent as the net expenditure path established in the preventive arm of the SGP. The relevant country must also correct cumulated deviations in the control account by the deadline determined by the Council.

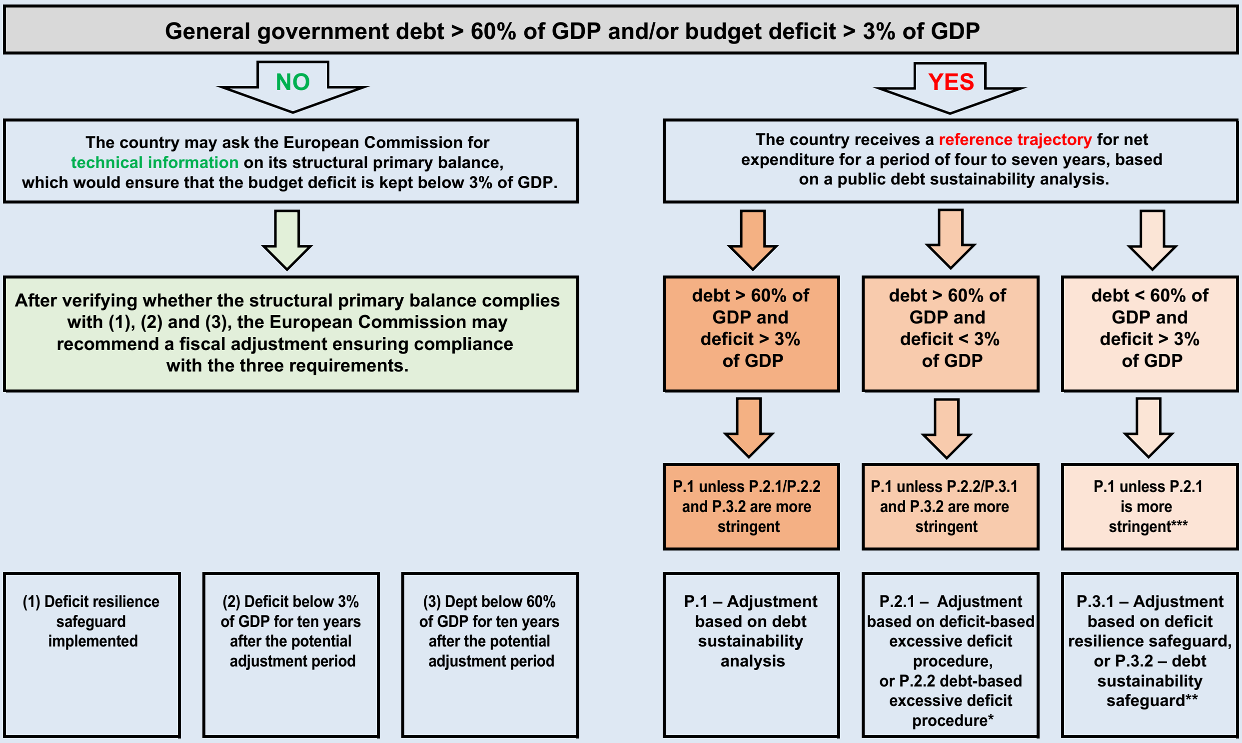
The main change introduced by the amended Directive on requirements for budgetary frameworks of the Member States is that it no longer includes the requirement that national fiscal rules of individual countries should support the achievement of their specific medium-term budgetary objective due to the removal of this indicator from the EU's fiscal framework. At the same time, the amended Directive maintains the requirement for Member States to have in place their own national fiscal rules within their budgetary frameworks that effectively underpin compliance with the reference criteria for budget deficit and general government debt.

[18] Over a transitional period from 2025 to 2027, the consolidation effort is projected to be lower as the Commission can adjust the reference value related to the requirement to improve the structural budget balance by at least 0.5 per cent of GDP, excluding interest expenditure (*i.e.* the requirement will apply to the structural primary balance).

[19] A close to a balanced budget balance is considered where the budget deficit does not exceed 0.5 per cent of GDP.

[20] As required by Article 126(3) of the TFEU, if one or both of the budgetary discipline criteria are not met, the European Commission prepares a report. This report takes into account whether the budget deficit exceeds government investment expenditure and all other relevant factors, including the medium-term economic and budgetary developments of the country concerned. The relevant factors and their reporting by the European Commission are described in more detail in Articles 2(3) and 2(4) of Regulation (EC) No 1467/97.

Chart 1. Steps in the Implementation of the Revised SGP




Source: Own illustration based on the examples on p. 113–115 of the European Commission's Debt Sustainability Monitor 2023.
* Under a debt-based excessive deficit procedure, the country is required to make at least as much fiscal adjustment as imposed by preventive arm of the SGP, and the cumulated deviations in the control account should also be corrected within the deadline set by the procedure.
** The adjustment based on the debt sustainability safeguard should apply from the year in which the country ceases to be subject to an excessive deficit procedure or from the year before the start of the reference trajectory if no such procedure is opened for the country (whichever of the two events occurred later).
*** This adjustment should also ensure that the debt remains below 60 per cent of GDP within ten years after the end of the adjustment period.

## *Potential Effects of the 2024 Revised Stability and Growth Pact on Bulgaria's Fiscal Policy*

The potential effects of the new EU's fiscal framework on Bulgaria's fiscal policy cover several dimensions.

First, **the revised SGP introduces less restrictive rules at EU level for countries with a low fiscal risk, such as Bulgaria** (which currently have general government debt below 60 per cent of GDP and a general government deficit below 3 per cent of GDP). Under a hypothesis where these countries do not request technical information from the European Commission, the only fiscal rules in the revised SGP for these countries remain the reference deficit and debt criteria. For countries with a low fiscal risk requesting technical information, the EC would recommend a structural primary budget balance target to ensure that the country will remain at a low fiscal risk within ten years after a possible adjustment period (see Chart 1). Based on the assumptions of the macroeconomic and fiscal developments in Bulgaria as set in the European Commission's May 2024 forecast and the European Commission's 2024 Ageing Report[21] for Bulgaria, like other low-debt countries[22], it is likely mainly the budget deficit resilience safeguard to be binding. The budget deficit resilience safeguard is similar to the currently applied limit to the MTO, but it would cover a longer period of time. In practice, the implementation of the budget deficit resilience safeguard would allow low-debt countries to maintain a structural deficit not exceeding 1.5 per cent of GDP, which over a longer period of time would increase their government debt to levels closer to 60 per cent of GDP.

[21] See: European Commission, 2024 Spring 2024 Economic Forecast: A gradual expansion amid high geopolitical risks and European Commission; 2024. 2024 Ageing Report. Economic and Budgetary Projections for the EU Member States (2020-2070), Institutional Paper 279, Directorate-General for Economic and Financial Affairs.
[22] See: Haroutunian, Stephan Krikor and Abraham, Laurent and Hauptmeier, Sebastian and O'Connell, Marguerite and Bańkowski, Krzysztof and Bouabdallah, Othman and Leiner-Killinger, Nadine and Bischl, Simeon and Trzcinska, Agnieszka and Arruga Oleaga, Iñigo, 'The Path to the Reformed EU Fiscal Framework: A Monetary Policy Perspective'. ECB Occasional Paper No. 2024/349, p. 55–56.

Another consequence for Bulgaria of the revised SGP is that the country will have **more flexibility to make investment expenditure**, while budget balance and government debt levels do not exceed the respective reference values. This flexibility could provide more opportunities for investments and reforms with expected positive effect on Bulgaria's economic growth. At the same time, however, it should be taken into account that such positive effects would only materialise if the government has a longer-term focus in managing public finances and takes a prudent policy with regard to increasing current expenditure, including wages and transfers to households. The experience of the other EU Member States shows that it was namely the increase in current expenditure that was the more frequent reason for an increase in budgetary expenditure leading to non-compliance with the applicable EU fiscal rules in the 2016 to 2019 period.[23]

Potential positive economic effects for Bulgaria could materialise also in the case of **possibly stronger external demand** as a result of accelerated economic growth in the country's main EU trading partners. Such a favourable scenario would only materialise on the condition that changes to the fiscal framework lead to a more effective fiscal policy in the EU through a stronger credibility of fiscal rules and use of the option for higher flexibility in implementing investment plans and reforms that enhance the EU's economic growth potential. At this stage, there is a very high uncertainty surrounding the effects of the revised fiscal framework on economic growth and inflation in the euro area. According to an ECB's analysis,[24] consolidation measures can be expected to be taken by euro area countries in the short term, ranging from 0.3 percentage points to 0.6 percentage points of GDP on average over the 2025–2026 period, against a baseline scenario without such measures. Estimates show that consolidation measures would have a limited negative impact on economic growth and close to a neutral effect on inflation in the euro area.

On the other hand, the new fiscal framework poses risks of a significant **accumulation of government debt**, even under the hypothesis of maintaining budget deficits below, but close to, 3 per cent of GDP for an extended period of time. A possible protracted and/or rapid increase in government debt, even if not reaching levels above 60 per cent of GDP, would increase interest expenditure and pose a serious risk to the sustainability of the country's public finances with potential negative effects on economic activity, especially in a context of a heightened uncertainty surrounding the economic environment development. Such upward debt dynamics would limit the available fiscal space for meeting future structural budgetary risks, such as population ageing risks, rising defence and security expenses, *etc*.

Setting budget deficit targets of below, but close to, 3 per cent of GDP in the latest medium-term budgetary projections of the Ministry of Finance and potential risks to their implementation in view of the uncertain international environment, as well as the trend of rising budgetary expenses of a permanent nature increase the likelihood of a scenario in which **Bulgaria's budget deficit exceeds 3.0 per cent of GDP**. Under such a scenario and a possible opening of an excessive deficit procedure, the country would receive a 'reference trajectory' from the European Commission for its net expenditure, ensuring a minimum fiscal consolidation of 0.5 per cent of GDP in structural terms, according to the requirements of the SGP corrective arm. In view of the possibility given that the net expenditure limit thus imposed may be achieved through revenue-increasing measures, the negative effects of such consolidation on economic activity could be particularly strong if it is primarily reached through an increase in direct taxes. There is also an additional uncertainty regarding the implementation of the control account for the countries subject to an excessive deficit procedure. This new mechanism within the reformed SGP envisages resetting of the cumulative deviations of the control account when a new government takes power and a new national medium-term fiscal-structural plan (MTP) is prepared, which would make it possible for the relevant country to postpone over time the required consolidation efforts.

Last but not least, it is important to note that there is a considerable uncertainty about the potential effects of implementing in practice the revised EU's fiscal framework. On the one hand, this uncertainty

[23] See: Thygesen et al. (2020), 'Reforming the EU fiscal framework: Now is the time'. VOXEU column, October 2020.
[24] See: *The reformed EU fiscal framework – potential macroeconomic implications for the euro area.* ECB Economic Bulletin, Issue 3/2024.

is linked to the budgetary surveillance process and the implementation of the rules by the EC (e.g. regarding the technical dialogue to be held with individual countries on their fiscal plans and the possible extension of the plans; the combination of individual budgetary constraints, which increases the complexity of the fiscal framework; the nature and timing of the implementation of corrective measures) and, on the other hand, to the actual compliance with the new rules by individual countries. In line with the European Commission's May 2024 forecast, which is relevant for the launch of the current budgetary surveillance procedure, Bulgaria would be currently subject only to the preventive arm of the revised SGP. Accordingly, as a country with a low fiscal risk, Bulgaria has discretion in whether to request technical information from the EC. The non-binding nature of the request for technical information creates uncertainty as to whether the fiscal policy stance in the country will be based on the Commission's recommendations on structural primary budget balance targets or whether it will be set independently. In a scenario in which our country requests technical information or receives a reference trajectory, potential changes in the EC forecast of Bulgaria's budgetary position would also affect the applicable fiscal consolidation requirements for Bulgaria after 2025.

There is also an uncertainty regarding the **simultaneous implementation of the reformed EU's fiscal framework and national fiscal rules**, which is likely to lead to changes to the national budgetary framework. The national fiscal framework currently in force sets out a more ambitious trajectory of fiscal consolidation than the one implied by the new fiscal rules for the EU countries with a low fiscal risk, which is still the case of Bulgaria. In view of the weak restrictive nature of the new European fiscal rules applicable to countries with a low fiscal risk and to maintain the country's fiscal sustainability, it is important for Bulgaria to preserve the prudence of the current national fiscal rules.

### *Conclusion*

Changes to the EU's fiscal framework, which entered into force in 2024, are intended to prioritise a risk-based approach to assessing debt sustainability and EU country-specific fiscal adjustment plans which should increase the likelihood for EU Member States to comply with the new fiscal rules. This reform seeks to strike a better balance between strengthening debt sustainability, given the high levels of public debt in some countries, and the possibility for countries to finance their medium-term policies aimed at boosting potential economic growth and delivering on common EU priorities. While the new European rules focus on achieving and ensuring the fiscal sustainability of EU countries with high levels of government debt, they are less restrictive for the countries with currently low indebtedness, such as Bulgaria. In view of the less restrictive nature of the new European fiscal rules for countries with a low fiscal risk and in order to preserve Bulgaria's fiscal sustainability, it is important that the national fiscal rules remain sufficiently conservative.

The sculptural composition by Kiril Shivarov depicting Hermes and Demeter on the southern façade of the Bulgarian National Bank building is used in cover design.