



TOPICAL RESEARCH AND HIGHLIGHTS

ASSESSMENT OF THE DEGREE OF FULFILMENT OF THE CONVERGENCE CRITERION ON PRICE STABILITY

(PUBLISHED AS PART OF 'MACROECONOMIC FORECAST',
DECEMBER 2024)



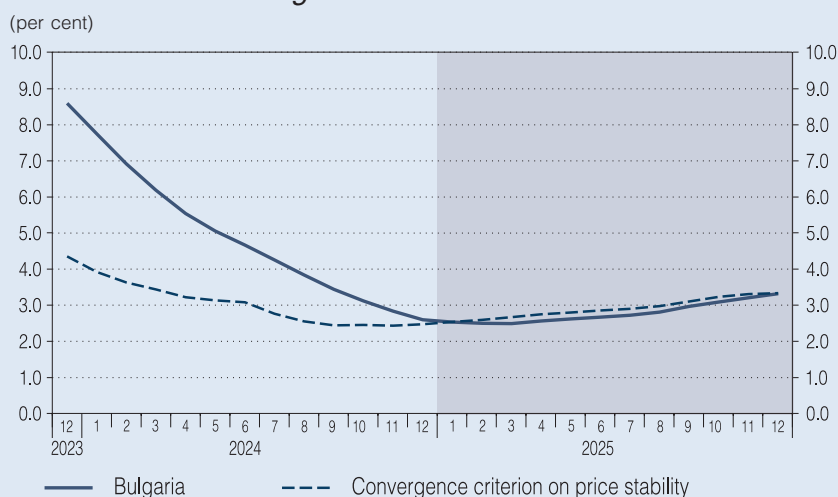
BULGARIAN NATIONAL BANK

Assessment of the Degree of Fulfilment of the Convergence Criterion on Price Stability

Convergence reports of the European Commission and the European Central Bank, providing their assessments of the progress non-euro area Member States have made towards adopting the euro, are based on the convergence criteria referred to in Article 140(1) of the Treaty on the Functioning of the European Union (TFEU) and further elaborated in Protocol (No 13) on the convergence criteria¹. Article 1 of Protocol (No 13) states that 'The criterion on price stability referred to in the first indent of Article 140(1) of the Treaty on the Functioning of the European Union 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 1½ 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.' Convergence reports of the EC and the ECB further clarify the approach to be followed in applying the provisions of the TFEU for preparing convergence assessments.²

Chart 1 illustrates dynamics of the price stability criterion (excluding the identification of outliers in its calculation) and of average annual inflation³ in Bulgaria. Forecast values for 2025 are calculated on the basis of the BNB's current inflation forecast for Bulgaria and the latest forecast of the European Commission of 15 November 2024 regarding inflation in the other EU countries⁴. For December 2023 – December 2024 period, the average annual inflation level in Bulgaria decreased steadily at faster rates than the decline in the price criterion.

Chart 1. Forecast of the Price Stability Criterion and Average Annual Inflation in Bulgaria



Note: The convergence criterion on price stability, as illustrated in the chart, does not include in its calculation the identification of the Member States considered to be outliers.

Sources: NSI, Eurostat, BNB calculations.

¹ See [OJ C 202, 7.6.2016, p 281–282](#).

² See pages 7–8 of the ECB's 2024 Convergence Report: [Convergence Report, June 2024](#).

³ Average annual inflation is calculated as the percentage change in the HICP for the last 12 months as of a given month with reference to the previous 12 months.

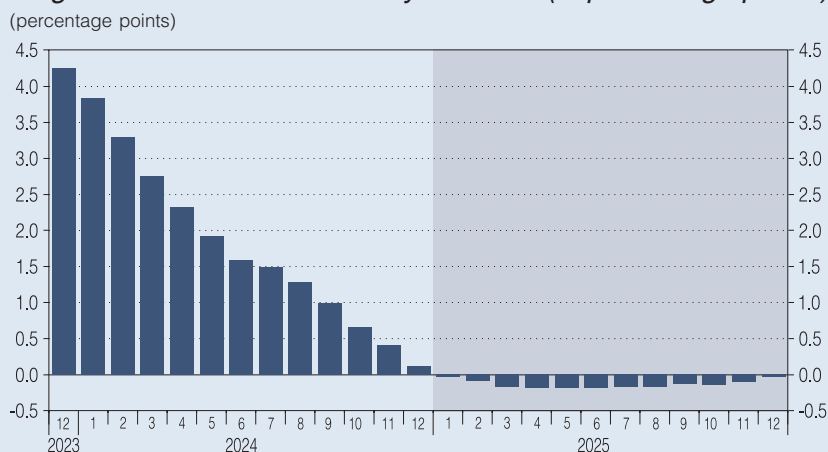
⁴ The BNB and EC forecasts employ quarterly data; therefore, additional conversions of projected values have been made. Quarterly forecast values of annual inflation are mechanically interpolated so as to obtain annual rates of increase in consumer prices by month. Subsequently, on the basis of thus obtained inflation by month, average annual inflation is calculated in each month for the previous 12 months based on reported and forecast data. This mechanical approach to obtain forecast inflation values by month creates an additional uncertainty in presented assessments of the degree of fulfilment of the convergence criterion on price stability.

Chart 2 shows the deviation of Bulgaria's average annual inflation from the price stability criterion (excluding the identification of outliers in its calculation), with the difference between the two gradually declining in 2024. Based on reported data as of December 2024 on all EU countries, including Bulgaria, the price criterion was 2.47 per cent (excluding the identification of outliers), whereby the average annual inflation in Bulgaria (2.60 per cent) exceeded the criterion by 0.13 percentage points.

According to the forecast as of 15 January 2025, average annual inflation in Bulgaria is expected to be 3.3 per cent in 2025, representing an upward revision compared to the November 2024 macroeconomic forecast. Even so, the estimates indicate that Bulgaria can comply with the convergence criterion on price stability in January 2025 and continue to comply with it in the remainder of the year.

Notably, there is a very high degree of uncertainty surrounding the outlook for the price stability criterion and the expected deviation of average annual inflation in Bulgaria from this criterion. Aside from the uncertainty over the inflation outlook in Bulgaria (see Risks to the Forecast Section) and in the other EU countries, thus presented estimates depend also to a considerable extent on the final parameters of the government institutions' measures in Bulgaria⁵ affecting consumer prices, as well as on the extent of the transmission of their effects to the HICP components.

Chart 2. Forecast of a Deviation of Average Annual Inflation in Bulgaria from the Price Stability Criterion (in percentage points)



Note: The convergence criterion on price stability, as illustrated in the chart, does not include in its calculation the identification of the Member States considered to be outliers.

Sources: NSI, Eurostat, BNB calculations.

⁵ For more information on the measures incorporated in the forecast, see the inflation part of the Section 'Forecast of Key Macroeconomic Indicators for 2024–2026'.

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.