THE ADVANTAGES OF THE EURO FOR THE BULGARIAN ECONOMY AND FOR INVESTORS

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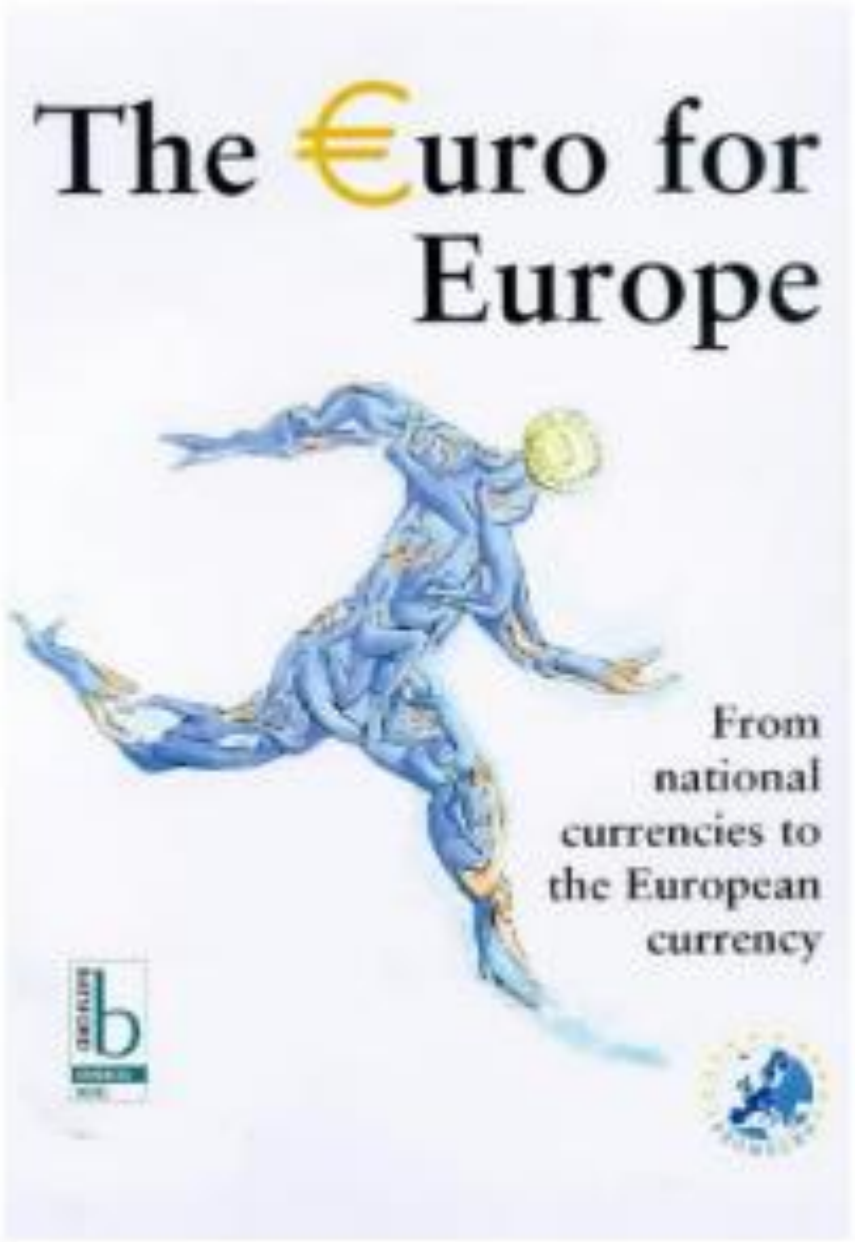
CONTENTS

TARGET DATE of EURO ADOPTION: January 1 2026

How it all started?

* - **The Association of citizens for the promotion of European currency (Promeuro)**



Commitment to Eurozone Accession

- Bulgaria is legally obligated to adopt the euro as part of its EU accession treaty (2007).
- The country has been in the Exchange Rate Mechanism II (ERM II) since July 2020, a necessary step before joining the eurozone.
- The lev (BGN) has been pegged to the euro at a fixed exchange rate of 1.95583 BGN/EUR since 1999, ensuring monetary stability.

Public opinion vs. the Eurogroup

A survey by the sociological agency Myara (published on 01/02/2025 shows that Bulgarians are sceptical about the introduction of the euro. While 41% of Bulgarians do not want the country to adopt the euro, 30.8% of Bulgarians accept the introduction of the euro after 2026 and only 25.7% are in favour of immediate entry into the euro zone.

Source: https://www.euractiv.com/section/politics/news/new-bulgarian-government-confirms-commitment-to-eurozone-entry/

https://www.consilium.europa.eu/en/meetings/eurogroup/2025/02/17/

Public opinion vs. the Eurogroup

Business

Eurogroup discusses Bulgaria's progress towards euro zone accession

February 18, 2025 · The Sofia Globe staff · euro zone

> In the current complex economic environment, the euro area recommendation is as relevant as ever, in particular where it relates to competitiveness, resilience and macroeconomic and financial stability.
>
> — Paschal Donohoe President of the Eurogroup

https://www.consilium.europa.eu/en/meetings/eurogroup/2025/02/17/

Economic and Convergence Criteria (Maastricht Criteria)

- Price stability: Inflation must not exceed the average inflation of the three lowest-inflation eurozone countries by more than 1.5 percentage points. Bulgaria has struggled with inflation fluctuations. 2,6% is the inflation for Jan. 2025 (Lithuania, Finland, Italy), currently Bulgaria exceeds the target with only 0,03%.
- Public finances: Government deficit is below 3% of GDP, and public debt is below 60% of GDP. Bulgaria meets these conditions.
- Exchange rate stability: As a participant in ERM II, Bulgaria maintains exchange rate stability without tensions.
- Long-term interest rates: These should be in line with the eurozone's stable economies.
- Legal compatibility: Bulgaria’s legislation must align with the European Central Bank (ECB) requirements. A law on the introduction of the euro in Bulgaria has passed on 7-th Aug. 2024.

Political and Institutional Considerations

- Political instability and frequent elections slowed down the progress of legislative and economic reforms.
- Public opinion is divided—some fear inflation and loss of monetary sovereignty, while others see economic benefits.
- The government and BNB are working to ensure a smooth transition and public trust in the process.

Expected Timeline and further Challenges

- Bulgaria initially aimed for 2024, but due to high inflation and incomplete legal reforms, the target was postponed.
- Current expectations suggest 2026, provided inflation stabilizes and legislative requirements are met.
- The country must finalize preparations, including updating financial systems, ensuring price transparency, and preventing speculative price hikes.
- On February 25 2025, the Governor of BNB and the Minister of Finance signed a joint letter containing a request for the preparation of extraordinary convergence reports, which was sent to the President of the ECB, Christine Lagarde, and the President of the European Commission, Ursula von der Leyen.

Technical details: The letter was prepared and sent in accordance with the decision of the Parliament of 26 July 2024 to accelerate and complete the process of preparation for the adoption of the euro in the Republic of Bulgaria, in accordance with Article 140 of the Treaty on the Functioning of the European Union, and in accordance with Decision of the Council of Ministers of the Republic of Bulgaria No 92 of 24 February 2025 to request the European Commission and the ECB to prepare extraordinary convergence reports for the Republic of Bulgaria.

Economic Benefits and Risks

Potential benefits:

- Lower interest rates and better credit conditions.
- Increased foreign investment and economic integration with the eurozone.
- Elimination of currency exchange risks and transaction costs.

And generally: deeper integration with the European Market.

Potential risks:

- Short-term price increases (inflationary effects).
- Loss of independent monetary policy (Bulgaria currently follows the ECB’s policies due to the currency board but will have no direct control post-euro adoption).
- Public skepticism and adaptation challenges for businesses and consumers.

Potential benefits:Lower interest rates and better credit conditions.

Why Interest Rates are expected to Decrease?

Currently, Bulgaria operates under a **currency board** where the Bulgarian lev (BGN) is pegged to the euro at a fixed rate. Despite this stability, interest rates on loans and financing in Bulgaria are higher than in eurozone countries due to factors such as:

- **Higher country risk premiums** – Investors consider Bulgaria to be riskier than eurozone economies.
- **Limited access to ECB liquidity** – Bulgaria's banking sector currently lacks direct access to ECB funding, which means higher borrowing costs.

Expected Benefits from the reduction of the IRs:

- **Lower borrowing costs** – After adopting the euro, Bulgaria will gain access to ECB liquidity, leading to reduced interest rates on loans for businesses and consumers. This will make credit more affordable for investments and economic growth.
- **More favorable mortgage and business loans** – Lower interest rates will reduce the cost of financing for businesses, stimulating economic activity.
- **Improved financial stability** – Banks in Bulgaria will have greater access to ECB support in case of financial crises, thus increasing confidence in the banking system.

Potential benefits: Increased foreign investment and economic integration with the eurozone.

Foreign Direct Investment (FDI) Growth

The adoption of the euro would make Bulgaria more attractive to foreign investors for several reasons:

- **Elimination of currency-related uncertainties** – Investors will no longer face exchange rate fluctuations, reducing the risks associated with doing business in Bulgaria.
- **Lower financing costs for companies** – With improved credit conditions, businesses in Bulgaria will have better access to capital, attracting more multinational corporations.
- **Improved credit ratings** – A more stable economic environment and euro adoption would likely lead to higher sovereign credit ratings, increasing investor confidence.

Stronger Integration with the Eurozone

- **More trade opportunities** – With the euro as the national currency, trade with eurozone countries (which account for a large share of Bulgaria's exports) will become more seamless and cost-efficient.
- **Stronger economic partnerships** – Bulgaria will have a more direct role in European economic decision-making, leading to better alignment with EU economic policies.

Potential benefits: Elimination of currency exchange risks and transaction costs.

Reduced Exchange Rate Risks

Currently, businesses operating in Bulgaria must factor in exchange rate risks when dealing with international transactions. Even though the lev is pegged to the euro, there could be uncertainties about future exchange rate policies if the euro is not introduced. By adopting the euro:

- Businesses that trade with the eurozone will no longer need to hedge against currency fluctuations.
- Investors will have greater confidence in the stability of the business environment.
- Bulgarian companies operating internationally will have more predictable financial planning.

Lower Transaction Costs

- **Elimination of conversion fees** – Bulgarian businesses will no longer pay for currency exchanges when dealing with eurozone partners, reducing costs for trade.
- **Simplified accounting and pricing** – Companies operating in Bulgaria and the eurozone will benefit from easier financial management without the need for dual-currency accounting.

Examples from the Eurozone countries

Over the past years, countries that adopted the euro have experienced tangible benefits, particularly in areas such as financial stability, currency risk reduction, improved credit conditions, reduced transaction costs, and deeper integration with the European market. Here are examples:

Ireland's Economic Recovery Post-Euro Adoption:

Ireland, after adopting the euro, faced a severe financial crisis in 2008. The support mechanisms of the eurozone, including financial assistance and monetary policy measures, facilitated Ireland's recovery. By 2024, Ireland's economy had not only stabilized but also experienced significant growth, showcasing the financial stability afforded by eurozone membership.

Examples from the Eurozone countries

Decline in Interest Rates in Eurozone Periphery Countries:

Countries like Portugal, Italy, Ireland, Greece, and Spain (collectively referred to as PIIGS) experienced a significant decline in borrowing costs after adopting the euro. By 2024, these nations were outpacing traditional European powerhouses in economic growth, benefiting from improved credit conditions that attracted investors.

Intra-Eurozone Foreign Direct Investment (FDI):

The introduction of the euro eliminated exchange rate fluctuations among member countries, reducing currency risks for investors. Studies have shown that intra-eurozone FDI stocks increased by about 20% during the first four years of the Economic and Monetary Union (EMU), indicating that investors were more willing to commit capital without the concern of currency volatility.

Examples from the Eurozone countries

Lithuania's Economic Resilience Post-Euro Adoption:

Lithuania adopted the euro on January 1, 2015. This move bolstered the country's financial stability, as it became part of the ECB's monetary system. Access to the ECB's support mechanisms enhanced confidence among foreign investors, contributing to a stable investment environment.

Estonia's Elimination of Exchange Rate Fluctuations:

Estonia adopted the euro on January 1, 2011. Prior to this, foreign investors faced currency risks associated with the Estonian kroon. Euro adoption eliminated these risks, providing a more predictable financial environment and encouraging increased foreign direct investment.

Examples from the Eurozone countries

Slovakia's Access to Lower Interest Rates:

Slovakia adopted the euro on January 1, 2009. This led to improved credit conditions, as the country benefited from the eurozone's monetary policies. Foreign investors experienced reduced borrowing costs, facilitating business expansion.

Latvia's Savings on Currency Conversion:

Latvia adopted the euro on January 1, 2014. This eliminated currency conversion costs for businesses engaged in trade with eurozone countries. The reduction in transaction costs made Latvia more attractive to foreign investors, particularly those from other eurozone nations.

Increased Trade Within the Eurozone:

The adoption of the euro led to increased price transparency and eliminated currency conversion costs, thereby stimulating cross-border trade. Studies showed that the euro increased trade within the eurozone by 5% to 10%, highlighting the cost benefits for businesses operating across member countries.

Conclusion

By adopting the euro, Bulgaria will become **more attractive to foreign investors** due to a **more stable economy, reduced currency risks, better access to financing, lower costs, and stronger integration with the European market**. These factors will create a **more predictable, efficient, and profitable investment environment** for businesses looking to expand in Bulgaria.

QUESTIONS & DISSCUSSION

THANK YOU !