

## **Dimitar Radev: Bulgaria in the eurozone, when?**

Speech by Mr Dimitar Radev, Governor of the Bulgarian National Bank, at the opening of the conference "Bulgaria in the eurozone, when?", Sofia, 14 May 2024.

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I will begin with the subject of this Conference: Bulgaria in the eurozone: When?

The short answer to this question is: As soon as possible.

Why? Because delaying our full integration into the core of the EU, such as the eurozone, has its price, and it is constantly increasing.

More generally, this cost is expressed in continued marginalization in the political and economic periphery of Europe with the inherent themes of this periphery such as poverty, corruption and external dependencies

These topics are shifting Bulgaria's real agenda, which should focus on its modernisation, outpacing economic growth and people's well-being.

More specifically, the price of delay is expressed in harder conditions for business, trade and investment; less favourable financing conditions; higher non-productive costs for businesses and households.

The scale of losses is measured not in millions, but in billions.

Therefore, the short answer to the question raised by this Conference is: Bulgaria, as soon as possible, must finalise the process of European integration by joining the eurozone.

I will also try to give a bit more detailed answer.

For this purpose I will touch on three issues: the background of the accession process; the current situation; and some necessary steps to successfully complete this process.

Bulgaria has a long history in the European integration process with many lessons learned, but unfortunately also with a few lessons not learned. Due to time constraints, I will not go back that far, but only comment on the period after 2018.

We should remember that Bulgaria was to a very large extent the initiator and leader of the last stage of the enlargement of the eurozone, which, as a rule, has begun with the accession of the national currency to the European Exchange Rate Mechanism.

The formal beginning was made in June 2018 with a letter of intent signed by the Minister of Finance and the BNB Governor and addressed to the Eurogroup, the EC, the ECB and the then 19 eurozone member states.

We proposed an approach that was different from the one applied up till then. The main difference was that, in addition to the inclusion of the Bulgarian lev in the European

Exchange Rate Mechanism, Bulgaria was to join the Banking Union by establishing close cooperation between the BNB and the ECB.

Our partners have supported this approach, and the Eurogroup has announced that this is the approach that will be used for all new member states.

Pursuant to this decision and exactly one year later this approach was also applied to Croatia, and thereafter the two countries moved as a package in the accession process. The first historically significant result was achieved in July 2020 when a European decision was made that the two currencies - the lev and the kuna – would join the Exchange Rate Mechanism and the two countries - Bulgaria and Croatia – would join the Banking Union.

Unfortunately, from the day of that decision, the two countries parted ways. Croatia clearly made the entry into the eurozone its top priority and mobilised all its political and expert capacity to achieve it. At the same time, the day of the decision marked the onset of the political crisis in Bulgaria which is still going on.

The results are known to all. Croatia has been a member of the eurozone since 1 January 2023, and Bulgaria continues to wander in the labyrinth of the political crisis.

What is the situation at the moment apart from the political context?

Now Bulgaria meets all the nominal convergence criteria, except the one of inflation, and the country meets them by a significant positive margin.

The negative margin for the price stability criterion is narrowing, including in the last month, but it is expected to remain above the requirements for this criterion at the date of the forthcoming assessment to be made at the end of May.

Institutionally, the BNB and the banking sector have already become somewhat part of the eurozone by means of the close cooperation established between the BNB and the ECB in 2020. Now the BNB is the only central bank outside the eurozone that is operating in such a mode. This ensures us a full and effective participation in the process of making and implementing the decisions on supervision and resolution of the banks in the eurozone, plus the banks in Bulgaria. The banking sector's results in the last more than three years testify to the success of this participation.

The Bulgarian lev is one of the two currencies, other than the euro, that participate in the European Exchange Rate Mechanism, which is one of the key conditions for joining the eurozone.

The adoption of the new Law on the BNB, which has received the support of the ECB and the EC, has virtually completed the process of legal convergence - one of the unalterable conditions for accession. The draft Law on the introduction of the euro, which establishes the administrative process of introducing the new currency, without being a formal requirement for legal convergence, is actually ready to be presented to, and adopted by, the National Assembly.

The logistical and technical preparations, which are largely within the BNB's competences, have reached a very advanced stage.

The payment, information, accounting and statistical systems, for which the BNB is responsible, are practically ready to operate under the conditions of the eurozone and only need a final fine calibration.

We have ended the process of preparing the minting of the Bulgarian euro coins, which included coordination with the Commission and all member states, and we are moving on to the test minting of 8 million coins, 1 million of each denomination.

The coin blanks, both for the test series and for the regular production, have been contracted and their delivery is about to begin.

We have provided the necessary areas for the exchange process, including in Sofia, Plovdiv and Varna, as well as the necessary machines and technical equipment for this process. By the end of this month, we expect to finalise the decision for Burgas, and by the end of this summer to put into operation the newly built cash centre in Pleven. The construction of this centre is part of our large-scale program for development and modernisation of the system of cash centres, which are practically industrial enterprises.

The Mint is fully prepared in terms of equipment and expertise for the minting of Bulgarian euro coins. It is yet to receive the necessary license for the minting of euro coins, which will take place after the upcoming certification of the test series of euro coins.

The joint venture of our Printing Works with the French company Oberthur Fiduciaire already has a license and prints euro banknotes for the needs of the eurozone central banks.

We are in the process of completely renewing our fleet of armoured and security vehicles, as well as approving the new transport schemes and security systems. To give you a general idea of the scale of the operation, I will point out that the total amount of banknotes and coins in the process of exchange alone amounts to about 12,300 tons, or from the point of view of transportation – the capacity of about 620 TIR trucks.

Over the past year, we have been actively working to create the capacity to conduct an active monetary policy, something that the BNB has not done in the past quarter of a century. The necessary organisational structure will be operational by the end of June.

We have created the necessary organisation to guide and control the entire preparation process. Twice a month, the Governing Council examines four reports of the three deputy governors and the general secretary, respectively, on the progress achieved, potential problems and measures to overcome them.

We are closely monitoring the commercial banks' preparations, which are also progressing according to plan, and reacting as necessary.

With this incomplete list, I want to emphasise that the BNB and the banking sector will be fully ready within the current year for the introduction of the euro in our country.

Is this enough in purely technical, logistical terms? The answer is no. There are a number of, above all, information and accounting systems under the control of the executive and the municipalities, which must be adapted to work in the conditions of the eurozone. These have been identified, but considerable work is still required to be fully completed.

In addition, there are four sets of conditions in the powers of the executive that must be met before joining the eurozone, including in relation to the non-banking financial sector, insolvency, state-owned enterprises and anti-money laundering measures. I highly appreciate the caretaker government's intention to continue work on these topics.

What do we need to do to successfully finalise the joining process?

Above all else, we need a clearly established, sustainable, pro-European political structure. This is something that has been missing since we joined the European Exchange Rate Mechanism and the Banking Union.

In the earlier stage of the political crisis, the executive showed a hesitant position regarding the eurozone. For example, it took nearly a year for the government to adopt the plan drawn up and approved by the Coordination Council for the introduction of the euro, with six ministers voting against and one abstaining, including ministers key to the process. In contrast to the earlier period, the last government stood on a clearly pro-European platform, but as the development of events has shown, it turned out to be extremely unsustainable. I also leave without comment the fact that since our admission to the Banking Union and the Exchange Rate Mechanism, we have had five different Ministers of Finance.

In establishing a sustainable pro-European political structure, we are expected to achieve several goals.

First, re-establishing the political contacts on the subject at the highest level, as we must not forget that in the end it is a political process and a political decision. Unfortunately, in recent years the contacts on this topic have been protocol rather than substantive.

Second, returning to the path of fiscal consolidation, which is important not only for the accession process, but is also the basis of our most important comparative advantages in economic and financial terms. Such a development is also of great importance for the BNB, due to the need to harmonise the monetary and fiscal conditions in our country.

Third, adopting as quickly as possible the Law on the introduction of the euro, which will give clear indications, but also legal guarantees for businesses and households, as to what lies ahead.

Fourth, accelerating the work on the remaining conditions and technical preparation. Here I mean above all the issues of the government's competence, since, as I indicated, the BNB and the banking sector are working according to plan and will be fully ready before the end of this year.

If this scenario materialises as soon as possible after the upcoming elections, the chances of joining the eurozone in 2025 remain strong and entirely realistic.

In conclusion, let me sum up what I said.

As a result of the political crisis of recent years, we have lost both the initiative and the leadership in the process of joining the eurozone. Nevertheless, our readiness in terms of accession conditions, legislative and technical framework remains high. To successfully finalise the process in 2025, we also need a sustainable, pro-European political structure.