Dimitar Radev: Bulgaria's forthcoming entry into the euro area is not just an important step in its European integration

Speech by Mr Dimitar Radev, Governor of the Bulgarian National Bank, at the conference "Financial policy and competitiveness of the Bulgarian economy", organised by the American Chamber of Commerce in Bulgaria and the British Bulgarian Chamber of Commerce, Sofia, 15 April 2025.

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Ladies and Gentlemen,

I would like to thank the American and British Bulgarian Chamber of Commerce for organising this event and for inviting me to participate. Such events are a good platform for discussions, especially in times of uncertainty.

The uncertainty we are facing today is a huge challenge for the global economic order and global trade, but also a good opportunity to consolidate the European and, in perspective, the Euro-Atlantic agenda. It takes two things to achieve this consolidation: composure and common sense.

For Bulgaria, the global context is complemented by the forthcoming fundamental change of our monetary regime with lasting economic, financial and social, but also political consequences.

The current developments have many aspects that will be the subject of today's discussion. In my opening remarks, I will address three of them: (1) the effects on the Bulgarian economy of what many commentators define as a trade war; (2) Bulgaria's readiness in this global context to introduce the euro as its national currency; and (3) the macroeconomic outlook for the country.

Effects of the change in customs tariffs

The magnitude and dynamics of the changes in customs tariffs since the beginning of this month have sharply increased the uncertainty in global financial markets and have considerably aggravated the outlook for the global economy.

What we, as a central bank, are trying to do is to assess the direct and indirect effects of these developments on our country. Overall, the direct effects are limited.

This conclusion is mainly based on the assessment of the main channel for possible impact, namely foreign trade.

The U.S. share of our total goods exports in 2024 was about 2.5%, or $1.2 billion. If we look at the added value movement of all Bulgarian exports, we will see that around 4% of these exports is consumed in the US – so it can be concluded that Bulgarian exports worth around $1.8 billion are potentially exposed to the new customs regime.

It is important to clarify that the trade balance in goods between Bulgaria and the United States, for 2024, was positive and amounted to about $154 million. This year, however, our trade balance is likely to turn negative, after taking into account the value of imports that constitute military equipment. For example, the value of the eight fighter aircraft that have already begun to arrive this year is $ 1.2 billion, and eight more such aircraft worth $1.3 billion are expected to arrive in 2027.

Therefore, generally, our trade exposure to carry-over effects of new tariffs is relatively limited.

However, more tangible could be the indirect effects of a possible redirection of global trade flows and a possible restructuring of supply chains. For small and open economies, such as ours, such transformations can be challenging, and at this stage the relevant effects are difficult to quantify due to ongoing changes in foreign trade policies.

The good news for Bulgaria is that in this complex global environment, the country's macroeconomic position is stable. Economic activity in Bulgaria is expected to remain in positive territory. The banking sector has robust indicators in terms of capital adequacy, liquidity, and profitability, and these indicators remain above the EU average. Also, the country's fiscal position in terms of debt-to-GDP is still one of the strongest in the EU. At the same time, we need to regain control over annual budgets, including by building up explicit and implicit buffers.

Of course, as a central bank, we will continue to monitor inflation developments very closely. The net effect of recent developments on inflation in Bulgaria is difficult to predict, even in terms of direction, as it depends on a number of interlinked factors, including changes in global supply chains and shifts in trade flows, effects on the euro exchange rate and commodity prices, changes in the behaviour of economic agents, and the monetary and fiscal policy responses of the major economic regions.

Many of these factors are expected to have a short-term upward impact on inflation. But there are also factors that influence in the opposite direction. In the period since 2 April, for example, due to the sharp deterioration of the global economic outlook, the international oil price has fallen well below the assumptions in our current forecast, which, with all other things being equal, is an external factor for lower inflation in Bulgaria over the short term.

The best development we are hoping for, of course, is that the European Union and the United States will reach an agreement, and the sooner the better, which would ease customs barriers and, at best, introduce zero tariffs.

Readiness to adopt the euro

The final phase of Bulgaria's process of joining the euro area is running relatively smoothly and has the potential to become a counterpoint to the negative implications of global developments.

In terms of logistics and technical preparations, the BNB and the banking sector are fully prepared both to carry out the changeover to the euro and to operate in the euro area.

With the latest amendments to the Law on the BNB, made in March, the process of legal convergence has been completed.

As regards the nominal criteria, we have consistently fulfilled the price stability criterion since the beginning of this year. The 2024 budget has been implemented within a 3% deficit. In terms of currency stability, debt-to-GDP, and long-term interest rates, we have traditionally met these criteria, and with a significant positive margin.

These developments put the country in a very solid starting position to join the euro area. Especially in a context of global uncertainty, the integration into strong alliances, such as the euro area, becomes all the more important. These are profound and multi-layered positive effects – both on competitiveness and on the country's medium- and long-term economic prospects.

One of the effects that we expect to see over the short term is better accessibility and lower cost of financing for both the public and private sectors. There are two reasons for this: the expected upgrade of Bulgaria's credit rating and the lowered minimum reserve requirements of banks.

More strategically, euro area membership also means greater price and economic stability, as well as greater security – factors of key importance, especially in a complicated geopolitical environment. All these elements would improve the attractiveness of Bulgaria as an investment destination and would create prerequisites for accelerated investment activity and a higher growth of potential GDP.

Therefore, Bulgaria's forthcoming entry into the euro area is not just an important step in its European integration – it is a strategic opportunity to enhance the country's competitiveness and long-term economic potential. Of course, the short- and long-term positive effects can fully materialise if we pursue sound macroeconomic policies, if we restore budgetary discipline, and if we implement the long-delayed structural reforms aimed at improving human capital, innovation and the institutional environment.

Macroeconomic forecast

Because of the factors described above, and, in practice, the impossibility of quantifying them precisely at this stage, our current macroeconomic forecast is subject to a greater than usual degree of uncertainty.

The baseline scenario forecasts that real GDP growth will again remain resilient this year and will be 2.8%. In 2026 we expect a temporary slowdown to 2.2%, and in 2027 - a renewed acceleration to 3.1%. The main drivers behind this growth will be private consumption, government investments, and net exports, with different contributions from year to year.

Private consumption is expected to remain strong at nearly 4% per year, supported by rising employment and higher real household incomes.

Investments will grow relatively strongly this year, influenced by military supplies, but will fall temporarily in 2026, before increasing in 2027, and this dynamics will also be influenced by the completion of projects funded by EU funds, including under the National Recovery and Resilience Plan.

As regards the external sector, we expect export growth to remain subdued this year due to elevated global uncertainty and the expected historically low growth in global trade, but also due to planned maintenance works at large industrial plants. These developments will very likely lead to a temporary build-up of inventories in the economy in the current year. Over the next two years, however, we expect Bulgaria's export growth to rebound.

With regard to inflation, we forecast it to reach 3.5% at the end of this year and average annual inflation to reach 3.8%. The main drivers of consumer price growth will be the prices of foodstuffs and services, and the prices of services will continue to be influenced by rising labour costs and strong consumer demand. Next year, we expect inflation to slow down to around 2.5% and then remain at a similar level in 2027.

Conclusion

We are observing a sharp increase in global financial market volatility and a significant deterioration in the outlook for the global economy. The good scenario for us to work on is to turn this difficult period into a catalyst not for demolition, but for consolidation of the European and, in perspective, the Euro-Atlantic project.

For Bulgaria, the final stage of euro area accession and the effective membership have the huge potential to counteract negative global scenarios. This rightly makes the euro area the main political, economic and financial priority of today.

Looking ahead, we expect that economic activity in Bulgaria during this year and over the next two years, despite the uncertainty and the divergent influence of individual factors, will remain in positive territory.