



Weekly Briefing

Bulgaria economy briefing:

**Draft National Plan for the Introduction of the Euro in Bulgaria
has been Published for Public Discussion**

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Summary

Bulgarian government has confirmed the country's plans to adopt the euro as its official currency on 1 January, 2024, without a transitional preparatory period – all institutions and shops in the country will be obliged to accept payments in euros from the first moment of its adoption. After the introduction of the euro within a month, the Bulgarian lev and the euro will be both legal currencies. The strategic document for the introduction of the euro is the draft National Plan for the Introduction of the Euro in Bulgaria. The project was prepared by the Coordination Council for Preparation of the Republic of Bulgaria for Euro Area Membership and was published this month for public discussion.

The euro is currently the currency in 19 EU Member States, and is used by nearly 341.9 million people. The countries that have adopted the euro are: Austria, Belgium, Germany, Greece, Estonia, Ireland, Spain, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, Finland and France. In order to be able to adopt the euro, EU member states must meet the so-called "Convergence criteria". These are economic and legal conditions agreed in the Maastricht Treaty in 1992 and also known as the "Maastricht criteria". The final decision on the accession of an EU country to the euro area is taken by the Council of the EU. The decision is based on a proposal from the European Commission and is taken after consulting the European Parliament and after the European Council has discussed the proposal.

In addition to meeting the other convergence criteria, each EU member state must participate smoothly in the monetary mechanism - ERM II, at least two years before it can adopt the euro. On July 10, 2020, the Bulgarian lev and the Croatian kuna were included in the currency mechanism (ERM II).

Meanwhile in 2015, Bulgarian government established a Coordination Council for the preparation of Bulgaria for membership in the euro area. The task of this Council is the organization and coordination of the preparation of the country for membership in the euro area, as well as the development of a draft National Plan for the introduction of the euro in the Republic of Bulgaria, to be proposed for adoption by the Council of Ministers.

At its meeting on June, 30 this year, the Coordination Council for Preparation of the Republic of Bulgaria for Euro Area Membership, co-chaired by the Governor of the Bulgarian National Bank and the Minister of Finance, adopted a **draft National Plan for the Introduction of the Euro in Bulgaria**.

Preparations for Bulgaria's accession to the euro area are with the target date 1 January 2024. The date for the planned introduction of the euro, launched by the current caretaker government, is a continuation of the plans of the third government of Boyko Borissov. The date 1 January, 2024 was mentioned as possible for Bulgaria a year earlier by the Vice President of the European Commission Valdis Dombrovskis, who is one of the most consistent supporters of the country on the road to the single European currency.

The very introduction of the euro as a date depends almost entirely on the consent of the Eurogroup - the European Central Bank and the eurozone countries. Therefore, the dates in the plan are indicative.

According to the draft of the National plan the introduction of the euro is planned without a transitional period, and the date of adoption of the euro will coincide with its introduction as an official unit of payment. The currency conversion will be done by means of applying the irrevocably fixed exchange rate between the euro and the lev. After the introduction of the euro, both the lev and the euro will be legal tender for one month.

The National Plan for the Introduction of the Euro in Bulgaria is the strategic document on the basis of which the operational work for the replacement of the lev with the euro will be performed. This document has been published for public discussion before its submission for consideration by the Council of Ministers.

The National Plan describes the principles, the institutional and regulatory framework for the adoption of the euro, as well as the main activities for the successful introduction of the euro from 1 January 2024.

The document addresses all important operational activities and measures that those involved in the preparation for the introduction of the euro – the private and the public sector and the citizens – should carry out as part of the process of euro introduction. It defines the rules for recalculation of prices and other values and explains the procedures for replacement of cash and for conversion of BGN-denominated deposits and loans with fixed and variable interest rates. It also specifies the procedures for the supply and distribution of euro notes and coins and describes the necessary legislative changes.

This document also includes the main principles and stages of the information campaign aimed at raising Bulgarian citizens' awareness about how to replace the lev with the euro, the

visual and security features of euro notes and coins, consumer protection measures and other important issues related to the introduction of the euro.

The specific tasks to be performed in the process of preparation for euro area membership, with the specific deadlines and institutions responsible for implementation will be subsequently detailed in the Action Plan to the National Plan for the Introduction of the Euro in the Republic of Bulgaria.

One of the biggest problems countries face when joining the euro is that they can no longer use the exchange rate as a cushion from any economic shock, but Bulgaria already pegs its lev currency to the euro and plans to adopt the single currency at its current fixed rate. As it was already mentioned, according to the plan, the conversion should be done by applying the irrevocably the fixed exchange rate between the euro and the lev.

However, one of the questions that logically emerge from the comprehensive reading of this project is why it is not recorded anywhere the exact number of the fixed exchange rate between euro and Bulgarian currency which is BGN 1.9558 per euro. The Minister of Finance stated that in case of possible introduction of euro as the only means of payment in Bulgaria, the levs will be replaced by European banknotes at the current fixed exchange rate set by the Law of the Bulgarian National Bank. In this case, however, the words of the Minister of Finance are not a legally binding state commitment, so according to some experts there must be some guarantees that If there is a proposition for another exchange rate, the Bulgarian government would refuse entry into the euro area.

Another important detail is that according to the draft Plan, when the euro is introduced, in cases where due taxes and fees cannot be accurately converted according to the rounding rules, they will be rounded down and payments to citizens will be rounded up. This rule should not apply to payments and debts to the State arising from infringements in which the standard rounding mathematical rules apply.

With regard to loans in BGN, it is written that the introduction of the euro will not change or cancel the validity of existing contracts. All contracts, including loans, deposits, as well as financial instruments in BGN or with references to BGN will continue to operate after Bulgaria's accession to the euro area. The value of the lev will be equivalent to the value in euro, converted by applying the irreversibly fixed exchange rate between the lev and the euro.

According to financial experts, the risk of rising prices after Bulgaria's entry into the eurozone is minimal, as to a large extent, if someone try to change the prices, competitors will immediately react. Financial analysts also comment that joining the euro is an economic but also a political process.

From the date of Bulgaria's membership in the euro area all current accounts, deposit accounts, current budget accounts, savings accounts, savings accounts, liquidation accounts and other accounts in local banks, as well as payment accounts with other payment service providers (payment institutions and companies for electronic money) will be automatically and free of charge converted into euros. There will be no transition period for these accounts.

This means that from the first day of adoption of the euro, account holders will be able to withdraw only EUR from their BGN accounts, regardless of whether the withdrawal will be made via an ATM / POS device or in the office of the payment service provider (bank, payment institution or electronic money company). This is a quick and extremely convenient way to exchange levs for euros, without a special commitment for the account holder himself.

Conclusion

Bulgaria meets the nominal criteria for joining the euro zone at present and expects to be compliant when the euro is adopted, despite eventual inflationary pressures as it converges with the richer euro zone economies. Bulgaria is one of the least indebted EU states. Its fiscal deficit was only 3% of economic output last year, despite increased spending to reduce the impact of the coronavirus on jobs and businesses.

At the same time Bulgaria's successful membership in the euro area requires good preparation of business and society for a smooth and fast transition from payments in BGN to payments in EUR. It is important to know that this draft National plan does not discuss the most important strategic issues concerning the benefits and risks for the Bulgarian economy, finance, companies and citizens from the adoption of the euro. These topics should be the subject of a highly expert public debate, which will allow politicians to make the most informed decision in favor of society. This debate must begin immediately after the constitution of the new National Assembly on July, 11 and the election of a new regular government.