

**Bulgaria, welcome to the euro area! – Embracing the common currency in
a changing world**

**Why Bulgaria is joining now and what the country expects from euro
membership?**

Dear

Dear guests,

My name is Iani Ivanov. I am Financial Counsellor at the Permanent Representation of the Republic of Bulgaria to the EU. As an official of the Ministry of Finance, the institution that played central role in Bulgaria's euro area accession, I was involved in the process which was a great privilege for me.

I would like to thank the European Economic and Social Committee for the kind invitation and for the opportunity to participate in today's event.

Bulgaria's accession to the euro area represents a historic milestone for my country. It is not merely a technical change of currency, but a key step in Bulgaria's European integration. Joining the euro area is a strategic, long-term objective that reflects Bulgaria's aspiration to be fully integrated into the core economic and institutional framework of the Union.

In this context, I would like to express our gratitude to our European partners, including the European Commission and the European Central Bank for their close cooperation, guidance, and support throughout this process. Their expertise and constructive dialogue have been instrumental in helping Bulgaria advance towards this goal.

In economic theory, one can find the statement that there is a correlation and alignment between key interest rates and euro area business cycles in non-Economic and Monetary Union countries pegged to the euro. This alignment implies that the business cycles in euro area and non-euro area countries like Bulgaria are predominantly driven by the same common shocks.

Bulgaria's economic cycle has been closely synchronized with that of the euro area for the past two decades, both in terms of the real GDP growth rate and the output gap. Trade, finance, and remittances transmitted euro-area shocks strongly. The currency board, in turn, limited the adjustment options. Thus, the marginal cost of losing monetary autonomy is minimal. This makes an economic argument in favour of Economic and Monetary Union membership.

However, the decision for euro membership extends beyond the realm of economics. There are political choices shaped by a complex interplay of national interests, sovereignty concerns and historical experiences.

I still remember when in 2007 the then Finance Minister stated that his goal was to comply with all convergence criteria by 2009 and adopt the euro in 2012. However, Bulgaria did not meet the price stability criterion and did not comply with the requirement to be an Exchange Rate Mechanism II member. Unfortunately, this was the time when the global financial crisis broke out and Bulgaria had to put its ambitions on the back burner.

Bulgaria's response to the global financial crisis was shaped very strongly by the currency board arrangement. Because of that, Bulgaria could not use many of the tools other countries used, so the strategy was quite conservative. The currency board limited the flexibility, but it also protected Bulgaria from currency collapse. So, the result was recession, but no debt explosion.

At that time Bulgarian banks were well-capitalized and tightly regulated which was one of Bulgaria's biggest strengths during the crisis.

Since devaluation wasn't possible the adjustment happened through lower wages, reduced domestic demand and higher unemployment, the so called "internal devaluation". All this was painful on the social side, but it helped restore competitiveness over time.

After 2009 EU rules became stricter. The euro area changed the rules of the game introducing the European Semester, stricter fiscal surveillance and commitment to the Banking Union. The euro adoption became more political and institutional, and not just technical. This meant that Bulgaria had to meet more conditions than those faced by earlier adopters.

Between 2014 and 2018, Bulgaria implemented a range of structural reforms aimed at strengthening the economy, improving governance and competitiveness, and preparing for deeper integration with the EU and ultimately the euro area. These reforms were partly driven by government programs and partly by EU policy recommendations and technical assistance.

In 2018 the Bulgarian authorities declared intention to join the Exchange Rate Mechanism II and the Banking Union, which required adopting reforms in financial regulation and economic governance.

Progress was made in improving governance and reducing corruption, a long-standing priority under the EU's Cooperation and Verification Mechanism.

Bulgaria also targeted reforms to improve active labour market policies; education and healthcare performance; to enhance workforce quality and social outcomes; as well as to improve social protection coverage.

As a result of its proactive efforts, in 2020 Bulgaria joined Exchange Rate Mechanism II and the Banking Union, a major structural milestone. This required legal and institutional reforms in banking supervision, resolution, and financial regulation.

In more recent years, additional external shocks have further complicated our path. The COVID pandemic placed unprecedented pressure on public finances, health systems, and economies across Europe. Shortly thereafter, Russia's war against Ukraine created new geopolitical, energy, and inflationary challenges.

Despite this challenging environment, Bulgaria pursued a consistent and focused policy aimed at fulfilling the convergence criteria.

Following the entry into the Exchange Rate Mechanism II in 2020, Bulgaria undertook an intensive and comprehensive practical preparation process. This included legislative changes, institutional adjustments, technical readiness of public administrations and financial systems, as well as communication efforts to ensure public awareness and foster confidence. This effort ensured continuity of the technical preparation at expert level, even during periods of political instability.

It was specifically because of the political instability and the EU cautiousness after the COVID pandemic that Bulgaria missed its euro target window. This pushed the euro adoption several years further out.

Achieving the price stability criterion in a period of political stability and maintaining the political commitment to membership proved to be of key importance for sending the request for the preparation of extraordinary convergence reports.

In mid-February 2025, Bulgaria fulfilled all the criteria for the euro area membership. Let me briefly remind you that:

- In 15 of the last 25 years, Bulgaria ended the fiscal year with budget surpluses;
- for the rest of the time, Bulgaria complied with the requirements of the Stability and Growth Pact and maintained budget deficit levels below 3% of GDP;

- For more than 20 years, Bulgaria has occupied one of the leading places in the EU in terms of low levels of public debt;
- We have easily met the criterion for convergence of long-term interest rates.

Since the accession of the Bulgarian lev to ERM II in 2020, Bulgaria has maintained without a problem the unilaterally fixed exchange rate of the lev to the euro.

These achievements and, consequently, the membership itself became hostages to the fragile political stability of the last five years. However, Bulgaria could not afford any more to miss the window of opportunity (covering the price stability criterion) and remain off the board.

We live in extremely complex geopolitical times, and now more than ever it is important for the EU to remain united. It is vital for Bulgaria to be part of this unity, and the country's membership in the Eurozone is yet another proof of our place and the values we share.

It is worth noting here that the efforts that Bulgaria has made in the field of economic and fiscal policy have been subject to unprecedented pressure and hybrid attacks by pro-Russian circles. In recent years, it has largely benefited from political instability, frequent changes of government, as well as from the growing geopolitical tensions.

The good thing is that the Bulgarian economy has shown resilience in these years, characterized by a series of external shocks and geopolitical tensions.

The decision to join the European Monetary Union was essentially political, both at the national and European levels. However, like any other decision, the decision at the national level was influenced by many factors unique to Bulgaria – political, economic, legal, sociological and even emotional. Now it is time to make the best of it.

The euro is not a magic fix, it's a multiplier. Good policies will bring bigger gains. Weak governance will inevitably lead to faster problems.

When Bulgaria began the EU accession negotiations (in the year 2000), in terms of purchasing power its GDP per capita was less than one-third of the EU average; by 2024, it had risen to about two-thirds of the average. While it makes a real difference to people it was not and is not enough. Others have done better.

The euro will help, but it does not on its own guarantee higher standards of living. The challenge goes on. The task now is to pair euro adoption with good policies, and send convergence to the next level. If Bulgaria pairs euro membership with smart reforms, investment focus, and institutional strength, it can lock in higher growth, more jobs, and long-term credibility inside the EU. At the very minimum, Bulgaria should aspire for sustained higher growth levels to reach per capita income equal to the EU average within the next decade.

Looking ahead, Bulgaria expects substantial benefits from joining the euro area. Economically, euro adoption will enhance price transparency, reduce transaction costs, eliminate currency risk, and support investment, trade, and financial integration. Politically, it will strengthen Bulgaria's role within the EU decision-making process and reinforce our position as a stable and reliable partner.

Now Bulgaria's first duty is to decisively tackle its own shortcomings. Bulgaria faces short-term challenges:

- wage growth outpacing productivity growth, squeezing profitability and competitiveness and pushing up near-term inflation;
- booming credit expansion, including for mortgages, with housing prices rising fast;

We should also not forget that Bulgaria faces difficult medium- and long-term challenges: population aging, brain drain, infrastructure and defence needs that

put fiscal spending pressures. Growth, while higher than the EU average, is not enough to generate sufficient high-quality jobs and fiscal revenue.

Today, Bulgaria stands prepared for its further integration in the Economic and Monetary Union, and we do so with a clear understanding of both the responsibilities and the opportunities that the euro area membership entails.

We look forward to contributing actively and constructively to a stronger, more resilient, and more united euro area.

Thank you.