Bulgaria and possible Euro Introduction

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Abstract The Present manuscript is presenting the economic history of Bulgaria as a candidate country to join the Eurozone. The difficulties have been overcome under the bond to Deutsche Mark scheme back in 1997. European Union participation in 2007, fiscal health and ERM II participation since 2020 have encharged country’s plans to be a part of Euro in 2024 despite any current members disbelief, divided public opinion and global tension.

Keywords— Euro, Maastricht criteria, HCPI Inflation, debt, public deficit.

I. INTRODUCTION

Macroeconomic tensions and turbulences especially after Oil Crises and Cold War tension led Eastern economies to extensive arms rally along with the coexistence of labour lack with high unemployment rate. The transformation from central plan to a market scheme for these countries was really harsh. Where political and economic liberalization came along with high inflation, unemployment transformation from public sector indoors to the open market, social and economic disruptions. The international trade liberation from Central bank monopoly regime to a free international trade one, also conducted to the need for free interest market guided by demand and supply agreement. A set of early agreements among Eastern countries and Eu has been signed. The path to the EU and EMU full membership has been paved since 1993. A set of countries as Bulgaria didn’t innately meet the criteria for economic integration. The obligation to join Euro under the EU legislation steer countries to seek Maastricht’s criteria fulfill. The country reached the ERM II participation goal in 2020. Bulgaria is expected to join Eurozone on January 1st 2024. A short presentation from money market integration to Euro is following to the present manuscript.

II. 1996-97 CRISIS

Bulgarian private banking system had a long and interesting history lying back to its foundation in early 90s. Saving banks number reached 30 plus 5 private foreign schemes. Public sector controlled the vast majority (2/3) of the market but their market view was limited on both industries and areas in order to manipulate the sector. The free market allowed also the coexistence of small banks under the privilege of lending even though their liquidity was limited. Under this framework government decided to actively fund banking activity by issuing T-bonds but due to maladministration it become the major banking crisis cause. The era’s framework didn’t allow the Central Bank not even to intervene and close a non-performing bank. Regularity authorities could not even temporarily stop their subvention. They also didn’t follow the companies in difficulty law of 1994 because they didn’t meet any liquidity requirements. By the end of 1995 non-performing loans increased by 72% and the majority of the public sector banks were technically collapsed but the Central Bank kept exchange rate on hold.

On April 12 1996, national currency Lev lost an intraday 2% where cumulative decline since January 1st reached 13.7%. This was the signal for a speculative attack reaching a 22% decline over next 10 days (1 $ equid 100 Lev) and a 47% recession on May. By the end of August U.S. dollar reached 200 Lev. After a Government - IMF agreement for stabilization and lending Stand-By, country lost its credit ability and a new turbulence cycle begun. Lev losses were 33% on November, 39 % on December, 110 % on January and 187% within February’s two first weeks respectively. Aggerate fall reached 3,500 %.

The consequences on economy were very intensive. Capital flight has extended and government’s efforts were ineffective. Public deficit was also high jumping from 16 to 61 billion Lev by the end of June 1996. External debt reached 102.9% from 78.1% in 1995 and public debt reached 60.2% from 39.2%. Monetary policy was based on supply control. The interest rates were extremely high and corrected only after introducing a bonded currency board scheme. The restrictive policy didn’t keep the price level nor exchange rate. Trade of
balance was extensively negative and the country didn’t manage to attract foreign investors and boost national production-based growth.

Political situation also fluctuated during crisis. Country had a coalition government since 1993 which introduced financial remedies and privatizations. The socialistic government took power in 1995 prioritized reforming and social structuring according to international organizations plans. Unfortunately plans development and application delayed and turbulences effecting especially the banking sector. Government took strict measures which proven ineffective and to lead to its fall after 1997 presidential election.

Governments tries during crisis as described focused on lending Central Bank resulting a long high inflation period. The unlucky efforts of attracting foreign investment led government to an IMF lending program. Organization responded and loan has been approved in September 1996, but country didn’t meet fund’s requirements, payments stopped and loan corrupted. Without external economic support Central Bank processes Leva to bond to Deutsche Mark. Hyperinflation exceeded 100% and Central Bank remissioned its debt. New ruling party in 1997 applied for a new loan and finalized bonding process to DM equal to 1 to 1,000 rate. The bonding process had been supported and GNP seem to rebound on 1997’s second quarter. This scheme works satisfactorily till nowadays.

III. REFORMS TO JOIN EU AND 2009 CRISIS

Major reforms along with monetary board have taken place under the IMF guidance. The structural reform program included:
- Liquidation or privatization of State-Owned Enterprises (SOE)
- Agricultural policy has been liberated mainly by improving conditions for an organized land market.
- Social Insurance programs were reformed
- Contract enforcement has been reformed and crime has been fought
- Corruption has been reduced

The economy had hit the trail and on EU entrance prospective. Average growth between 2003 and until 2008 crisis economy grew rapidly, as high as a 6% per year. The international trade liberation following the EU joining was smooth. Public debt reduced significantly to 22.8% of GDP from 67.3% while current account deficit was high but it seems to fluctuate during this period. Low interest rates and a growing real estate market paved the ground for a possible eurozone accession. Due to 2008 financial crisis and Russia – Ukraine crisis dispute in 2009 country faced a major economic decline shown on GNP decline and unemployment growth occurred from 2008 last quarter and 2009 delaying euro introduction due to budget deficit raise. The eurozone sovereign crisis in early 2010’s postponed the EMU participation. In 2015 country begun a co-ordination council process with Eurogroup in order to path the road to Eurozone membership. The plan for the introduction of the Euro was put on track after 2017 when Bulgaria begun to:
- Follow the procedures of integrating itself to the Banking Union simultaneously to the ERM. Where banks have to successfully and continuously pass the stress – tests.
- Non – Banking Sector must comply with EU anti money-laundering rules.
- Implement proposed reforms from Cooperation and Verification Mechanism (CVM)

Initially government’s target was the ERM II entry to be launched by April 2020 following a Euro adoption in 2023, but the covid-19 pandemics and the following rescue package agreed by Eurogroup delayed further the decision. Finally, country joined ERM II on July 10th 2020 along with Croatia. Bulgaria under its newest government (2022) plans to introduce Euro in 2024 gaining from business costs reductions and boosting investors’ confidence.

IV. THE PROSPECTIVE OF INTRODUCING EURO IN 2024

Under the Maastricht treaty Euro Joining consists of five requirements in order to ensure that a new member state won’t impact negatively the price stability along with criteria limiting deficit and reassuring exchange rate stability for a term before entering the EMU. New members are obligated to join Euro and they have to fulfill the following criteria:
1. HICP inflation on 12-month average rate as unweighted average of the three EU member states with lowest HICP inflation plus 1.5 average points. In 2021 HICP inflation for Bulgaria was 6.6%. Countries with lower rates were Malta (2.6%), Portugal (2.8%) and Finland (3.2%) respectively, 2.87% on average. Thus, target inflation rate for Bulgaria is 4.36%. Inflation seem to raise within 2022 for all and energy dependence from Russia is high as shown and in 2009 Ukraine crisis which caused the economic delay in late 00’s.

2. Government Budget Deficit is the ratio of the General Government Deficit to GDP (market prices) cannot exceed 3% at the end of preceding year or two subsequent years. In other words, deficit must reach a maximum of 3 -3.5%. A possible breach could initiate a deficit EDP, when the state evades deficit limit a remedy process is implied. State can abrogate this rule when both deficit and debt criteria complied. The examined state had government surplus for the years 2019 (0.96%) and 2020 (2.98%) following by margin to maximum allowed 3.0% deficit in 2021.

3. Government debt to-GDP ratio where the nominal gross government debt relative to GDP at market prices cannot exceed 60% at the end of the previous fiscal year or if the limit has passed the state must guarantee that at least a 5% yearly reduction can be achieved until ratio reaches the 60% target. If none of the criteria can be fulfilled Commission can name exemptions. Possible breech of the debt criterion will commence the EDP process to compile to debt and deficit criteria. Currently (2021) Bulgaria has the lowest debt to GDP ratio in EU (20.4%).

4. Exchange stability on the applicant country is assured by the pegging to the Euro for at least two years without turbulences and the participation to the ERM II. Bulgaria will complete the two-year period on April 2022.

5. Long term (10 year) interest rates as average yield for the past year should not exceed 2% than the unweighted average of the 3 countries with the lowest HICP Inflation. This rate cannot be weighted if the country has not complete funding access to the financial lending markets. The countries under consideration long term rates for 2021 are Finland (0), Portugal (0.39%), Malta (0.69%) respectively consisting an average of 0.36% when Bulgaria had a 0.44% rate.

Eurobarometer recent opinion research (2020) on public opinion in countries not yet adapted Euro included Bulgaria. Across the survey 73% of the questioned has already used Euro notes or coins.
On the other hand, 54% of Bulgarians declare to be inadequately informed about Euro.

Bulgarians are sceptic about Euro introduction in their country. 50% is not favour to the idea of introducing Euro.

The majority of the country’s public opinion (52%) feels that Euro will have negative effect on their lives.
Q10.1. Do you think the introduction of the euro would have positive or negative consequences for your country?

Total: 45, Inner pie: 43, Outer pie: 47

Total ‘Positive consequences’: 45
Total ‘Negative consequences’: 47
Don’t know: 8

Diag. 4 Public Opinion on euro effects in their life

The vast majority of the questioned (69%) believes that their country is ready to introduce the Euro.

Q4b. In your opinion, is (your country) ready to introduce the euro?


- Yes: 24 +3 27 +2
- No: 71 -1 69 -2
- Don’t know: 5 -1

Diag. 5 Euro introduction readiness

On the question about the time of introduction the greater part asks for as soon as possible or after a certain time integration.
V. CONCLUSIONS

As we have seen on present analysis Bulgaria is one of the healthiest countries in European Union. It has the lowest debt to GDP ratio; government budget deficit is under control. The major fears have to do with the current global rising inflation trend and its effect on Bulgarian economy. Officers feel that their dependence from Russia is now lower than before 2009 used to be. Even more they suggest that their European counterparts will face higher CPI and the inflation Maastricht criterion will be fulfilled. The monetary stability under the bond to Euro scheme seems to work for many years practically simulating the future Euro participation. The corruption rates have significantly fallen. Government has the certainty of joining the ERM in 2024 under the proposed prerequisites. Besides the ambiguous or negative public opinion for the Euro introduction and a deemed lack of knowledge of the public opinion, the uncertainty about Eurozone participation expressed by current Eurozone members and their delay on difficult decision-making processes and their inflexibility, Bulgaria can already see Cyril writing on Euro notes is and it should be optimistic about its European future.

REFERENCES


