



Republic of Bulgaria
ECONOMIC
AND SOCIAL COUNCIL

OPINION

on

"Accelerating the Preparations for Bulgaria's Accession to the Eurozone"

(own-initiative resolution)

Sofia, 2017

The Economic and Social Council (ESC) included in its Action Plan the elaboration of an opinion on: "**Accelerating the Preparations for Bulgaria's Accession to the Eurozone**".

The development of the opinion was assigned to the Budget, Finances, Insurance and Social Security Commission of ESC.

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At its plenary session held on 21 December 2017, ESC discussed and adopted this opinion.

ABBREVIATIONS USED

- GDP - Gross Domestic Product
- MS - Member States
- SG - State Gazette
- EU - European Union
- BNB - Bulgarian National Bank
- EC - European Commission
- ECB - European Central Bank
- ESC - Economic and Social Council
- CoM - Council of Ministers
- MF - Ministry of Finance
- NA - National Assembly
- DCM - Decree of the Council of Ministers
- CB - Currency Board
- ComB - Commercial Banks
- CEE -Central and Eastern Europe
- ERM II - Exchange rate mechanism II

Key findings and recommendations

1. After the introduction in 1997 of the Currency Board, the Republic of Bulgaria implemented a number of key reforms that have led to the sustainability and credibility of the current monetary system and sectoral institutions.¹ Financial stability was achieved through painful economic and social restructuring, a depressed labour market and income, with a parallel demographic, internal and external emigration crisis, a slow pace of convergence to average levels of labour productivity and income in the Member States of the European Union, especially in comparison with the group of economic leaders in Central and Eastern Europe.
2. By joining the EU in 2007, Bulgaria assumed the obligation and acquired real legislative right after meeting the requirements to join the Eurozone. The essential process of accession is not just replacing the national currency with the Euro², but a radical change in the monetary regime, a decisive step towards full integration into the European community (parallel to the entry into the Schengen area), making it a virtually irreversible process. There is no sphere of public activity, sector and branch of the economy, which will remain unaffected, directly or indirectly, by this radical change.

¹ The Currency Board was put in place in Bulgaria on 1 July 1997 in the context of a severe economic and financial crisis. It was introduced by virtue of the adopted on 10 June 1997 Bulgarian National Bank Act, which also determined the fixed exchange rate of the Bulgarian lev.

² At the moment, the euro is the official currency in 19 Member States and is used by almost 337.5 million EU citizens. The euro was introduced as a currency for accounting purposes in 11 Member States on 1 January 1999, and euro banknotes and coins were put into circulation on 1 January 2002.

3. In this regard, ESC supports the view that accession to the Exchange Rate Mechanism (ERM II) and the Eurozone should be seen as an immediate national goal and a leading strategic priority of economic policy. It should be in line with the new EC proposal after Brexit - the single currency should be open to all EU Member States, although there is no deadline for their accession to the ERM II and the Eurozone as it is not yet a mandatory process.
4. In this context, ESC appreciates the state's efforts to meet the Maastricht criteria for joining the currency area, as confirmed by the periodic evaluations of the ECB Convergence Reports from 2012, 2014 and 2016. The "Sustainable Development Programme of the Republic of Bulgaria 2014-2018" of the previous regular government envisages "the establishment of an institutional mechanism and the preparation of a plan for implementation of the activities necessary for the successful introduction of the single currency in Bulgaria". Similar commitments were also made during the election campaign in the months of February and March 2017, as well as by the most recent caretaker government, which publicly declared the need to accelerate the preparations for rapid accession to ERM II.
5. Governance priorities of the current ruling coalition also include active policies for accession to the Eurozone as a primary objective. ESC supports the government's initiative to accelerate diplomatic talks in this direction through the formal meetings held during recent months with the President and Finance Minister of France, the President, Chancellor and Federal Finance Minister of Germany with the Deputy Speaker of the European Commission, responsible for the euro and social dialogue, with the European Commissioner for Economic Affairs and others. The integration process requires that priority discussions should be held with politicians from all Eurozone Member States.³
6. The analysis of the experience of the recently acceded countries to the Eurozone justifies the conclusion that if Bulgaria formally starts the procedure for entry into the Exchange Rate Mechanism, there are chances for it to be admitted as it has fulfilled the formal accession criteria. Moreover, significant difference between the political cost of the decision taken by the EC and the ECB concerning these countries and the forthcoming decision concerning the Republic of Bulgaria should not be expected. At the same time, the realities require to pay attention to the very active, systematic and continuous work to solve the two problem areas, most frequently noted by EC with

³ The official statement of the newly elected government in 2017 was also in this direction, it declared that "Bulgaria will ask Eurozone politicians to support its bid to join the ERM II - a step preceding the adoption of the common currency, that it is "our natural path of development after meeting all the criteria. Until then, the Currency Board has no alternative and cannot but remain in place. "

respect to Bulgaria - the insufficient degree of convergence of the economy to the average European levels and the presence of certain imbalances in it that are familiar to the society.⁴

7. ESC accepts EC's announced idea of deepening integration in the single currency area after Brexit, the liberalization and transparency of the decisions of the entry into the single currency union and the opening opportunities for an accelerated acceptance of all candidate countries in the Eurozone on the basis of successful multi-directional structural reforms. This requires targeted action by all institutions to accelerate the preparation, adoption and implementation by the executive of a national preparatory action plan and roadmap. There is an opportunity to join ERM II with a 2018 horizon, i.e. the year of the most remarkable European event in the country - Bulgaria's first in the national history presidency of the European Council. If there are general conditions in place, there should be no further obstacles, as the political decision for our country to join ERM II and the Eurozone has already been taken by the ratification of the Accession Treaty of Bulgaria to the EU by all Member States.
8. ESC expresses its unanimous position that all necessary strategic actions must be taken for the shortest possible downtime in the so-called "Eurozone waiting room" (ERM II) as a result of the preliminary process of convergence towards the economic realities of the integration centre (the Eurozone). This requires, during the period of participation in the ERM II, Bulgaria to adjust in advance its economic and, above all, monetary policy so that its accession to the Eurozone will not create additional risks for EU Member States.
9. A number of official documents of the Government and BNB state firm positions - the accession of the Republic of Bulgaria to the Eurozone to take place at the current exchange rate.⁵ Procedural entry to the Eurozone to include the following steps: *First*, assessing the willingness of the candidate country to join the Eurozone on the basis of periodic convergence reports at least every two years from the ECB and the EC;

⁴ European Semester 2017, Report on Bulgaria, EC, 2 February, Brussels, 2017

⁵ See: Positions on Chapter 11 "Economic and Monetary Union" in the EU accession negotiations presented to the EC in 2000 and 2002; Pre-accession Economic Programme 2005-2008, presented to the EC in 2004; "Agreement between the Council of Ministers of the Republic of Bulgaria and the Bulgarian National Bank for the introduction of the euro in the Republic of Bulgaria"
http://www.bnb.bg/bnbweb/groups/public/documents/bnb_law/agreements_bnb-cm_en.pdf

Second, decision by the European Council to admit it to the currency area, upon receiving a proposal from the EC, opinions from the Member States of the Eurozone, consultations with the European Parliament and discussion in the European Council; *Third*, the Council shall fix the exchange rate at which the euro will replace the currency of the acceding country on a proposal from the EC after consultation with the ECB. The final decision will be taken by all Member States of the Eurozone, through a unanimous vote in the Council.

10. The central bank of a Member State joining the currency area becomes part of the Eurosystem, which includes the national central banks of the Eurozone and the ECB, conducting formal monetary policy independently of national governments. Thus, Eurozone Member States lose the right freely to use the domestic currency appreciation or devaluation mechanism in order to manage their economies and to cope with the emerging economic shocks.
11. The Exchange Rate Mechanism (ERM II), created on 1 January 1999 as the successor to the ERM, is a buffer to alleviate the exchange rate fluctuations between the euro and the other EU currencies before the single national economy joins the Eurozone. The aim being to ensure that the country's future real accession to the Eurozone will not create risks for the economic stability within the single market after for sufficient time it has been "tested" outside the Eurozone and prepared in the "waiting room" for the accession process. By providing the framework for exchange rate management between EU currencies, ERM II requires the country's exchange rate of the applicant country to be fixed against the euro subject to fluctuation within $\pm 15\%$.
12. Formal entry into ERM II is based on an agreement between finance ministers and central bank governors of Member States outside the Eurozone and Member States of the Eurozone and the European Central Bank. This ensures that the currency of the Member State can, if necessary, be supported by intervention mechanisms (purchase or sale) in order to maintain its exchange rate against the euro within $\pm 15\%$ fluctuations. The Governing Council of the ECB monitors the activities of ERM II and ensures policy coordination, including monetary and exchange rate interventions.
13. ESC draws attention to the importance of the integral part of the Euro-integration process of the country in the Eurozone, namely the membership of Bulgaria in the Banking Union as a system for banking supervision and for restructuring under common rules operating at the EU level. It includes all Eurozone countries as well as EU Member States wishing to participate in it. The main objectives of the Banking Union are: to ensure the stability of banks, incl. in the face of emerging financial

crises; to prevent situations where taxpayers' money is most often used to rescue commercial banks from failure; restrict market fragmentation by harmonizing rules in the financial sector and ensure financial stability in the Eurozone and throughout the EU. As a rule, countries that adopt the euro automatically become members of the European Banking Union.⁶

Introduction

14. The introduction in 1997 of the Currency Board system after signing an agreement with the International Monetary Fund (IMF) was preceded by key processes, reforms, measures and decisions implementing the basic principles of the so-called Washington Consensus. In their entirety, they predetermine the whole course and the main consequences of the market transition, including:
 - the beginning of the market transformation, accompanied by a unilateral declaration of a moratorium on the payment of external debts (1990) instead of concluding an agreement with private and sovereign creditors;
 - accelerated market reforms and the restructuring of the economy since February 1991, accompanied by the liberalization of most of the prices of basic goods and services, the exchange rate and interest rates;
 - making an agreement with private creditors (1994) for the restructuring and securitization of sovereign debt through the issue of the so-called Brady bonds;

⁶ The pillar of the Banking Union is the Unified Supervisory Mechanism, representing a system for prudential supervision of banks in the Eurozone and non-member countries of the Eurozone, but EU Member States elected to join it. Supervision is carried out through an integrated structure that includes the European Central Bank and the national supervisors of countries working closely together in accordance with uniform high standards and requirements. The purpose of the second pillar of the Banking Union - *the Single Restructuring Mechanism*, is to ensure an organized restructuring of insolvent banks, with the costs of taxpayers and the real economy being minimized through the use of the General Restructuring Fund. New legislative changes are foreseen by 2024 to reduce the risk in the euro area banking sector, risk mitigation and deposit protection, incl. a regulation establishing a European Deposit Insurance Scheme, etc.

- the new debt crisis in the period 1996-1997, accompanied by escalating inflation and devaluation of the national currency;
 - the introduction of the CB in July 1997.⁷ as part of the terms of the IMF credit agreement to contain the country's severe hyperinflationary processes;
 - the reorganization of the BNB functions, the management of the money supply, the budgetary process, the pension insurance model, the acceleration of the privatization process and the implementation of other important key reforms in the country;
 - the subsequent accession of the Republic of Bulgaria to NATO and the European Union.
15. With the adopted amendment to the Bulgarian National Bank Act (prom. SG 46, 1997), the Emission Department of the BNB assumed the main functions and operations of the CB, reflected in its weekly balance sheet. Bulgaria adopted the experience of a small number of countries (most of them at the periphery of global economic exchanges and relations), which have withdrawn over the past 40-50 years from discretionary monetary policy⁸. The Bulgarian Currency Board differs from the orthodox CB model⁹, insofar as the liquid foreign exchange assets cover the total liabilities, including, in addition to the banknotes and coins in circulation, also the minimum required reserves on deposits of commercial banks, the fiscal reserve and other "quasi-state" institutions, in the balancing position of the deposit of the Emission Department of the BNB. There is also an opportunity for the CB to credit commercial banks in the event of systemic risk, but under very strict constraints as defined by the BNB Act.¹⁰ At the same time, the BNB exercises a very limited

⁷ Already in 1990 the first proposal for introducing the Currency Board, respectively for dollarization of the Bulgarian economy, was made. See: Kurt Schuler. Currencyboardsanddollarization www.dollarization.org. The introduction of a specific mechanism for the creation of a currency anchor and a (partial) currency cover of the lev is a central element of the economic programme for Bulgaria's transition to a market economy, known as the "Rahn-Utt Plan".

⁸ Discretionary policy is a deliberately conducted government policy by using government budget expenditures, taxes, and transfer payments to achieve optimal levels of production, maintaining full employment and achieving stability (by controlling inflation), making it an anti-cyclical policy.

⁹ The currency reserves cover 90-100% only the money in circulation and, in many rare cases, with an increase of no more than 10%. See Kurt Schuler and D. Dobrev. Currency Board in Bulgaria: Structure, features and management of the foreign exchange reserve. Sofia, June 2000 etc.

¹⁰ Practically, there is a factual ban - restrictions are unrealistic and not accidental for 20 years the "refinancing opportunity" in question has never been used regardless of the needs that have arisen.

monetary policy with the only available instruments - setting minimum reserve requirements, capital adequacy requirements, and other administrative restrictive measures. Through the Banking Supervision Department, the BNB also administers the main licensing, regulatory and control functions with respect to Commercial Banks.

16. The advantages of the CB as a tool for effective control of money circulation in economies entering the hyperinflationary spiral for short periods of time are numerous. They are visible in the three Baltic countries, part of the so-called "BELLS group" (Bulgaria, Estonia, Lithuania, Latvia) applied a similar system to the CB until their accession to the Eurozone. At the same time, the high creditworthiness and fiscal sustainability of these countries, as well as other positive aspects of the long-standing system of the CB, were achieved at the cost of the so-called "internal bleeding"¹¹ or internal devaluation (according to ILO and UNCTAD 2014 surveys), limited possibilities for sectoral restructuring and adequate implementation of national comparative competitive advantages, a depressed labour market and income, a parallel demographic and emigration crisis.
17. The accession of the three Baltic states to the Eurozone has allowed them to overcome or mitigate the effects of the global economic crisis, the famed "property bubble", the deteriorating political and economic ties with the Russian Federation, etc. There are other positive effects achieved both in the countries of the first wave of joining the Eurozone (Slovenia, Slovakia), and the second wave (Estonia - 2011, Latvia - 2014, and Lithuania - 2015.). At the same time, it should be noted that in the last group of countries there are many similarities with the current economic, social and demographic environment in the Republic of Bulgaria.¹²

¹¹ Apart from internal devaluation, the direct negative effects of the CB may also be attributed to the "monetary press" - the artificially created credit deficit, respectively the increased price of the loan, forming to a certain extent the artificial environment in the country with increased interest rate, constant export of foreign currency assets from the country, etc.

¹² The most recent, 19th country to join the Eurozone acceded on 1 January 2015 is Lithuania with a fixed exchange rate that corresponds to the central rate of Litas in the EU currency mechanism by the year of accession. In parallel, Lithuania automatically becomes a member of the Banking Union / Banking and Restructuring System at EU level /, the Chairman of the National Bank Board joins the Governing Council of the ECB. The Minister of Finance participates in the meetings of the Eurogroup and the President of the country - in the Summits of the Eurozone countries. On 3 February 2015 Lithuania became also a shareholder of the European Stability Mechanism.

18. Considering these arguments, ESC assumes that after joining the EU in 2007 the main question for the Republic of Bulgaria is not whether but when, under what conditions, under what procedure and with what preparation the country will join ERM II and the Eurozone.¹³ Any delay would generate growing uncertainties for the country, external and internal risks to the EU's external political support for joining the currency area. Additional difficulties may arise over the prospect of sustainable economic growth, long-term macroeconomic and fiscal stability, reversing labour market and income trends, and deepening demographic imbalances.

Public attitudes

19. The latest Eurobarometer survey from April 2017¹⁴ conducted in the six recent EU Member States and Sweden - that are not members of the Eurozone - shows that the highest public support for entering the Eurozone is observed in Romania - 64%. Reverse attitudes exist in the Czech Republic and Poland, where 70% and 55% of respondents do not wish to adopt the euro. In Bulgaria, 76% of the respondents considered that our country is not prepared to join the Eurozone, while 50% support entry into the Eurozone (a decrease of 5% points relative to month of May 2015). A significant part - 44% believe that this will happen within five years, 24% give it up to ten years and 22% of Bulgarians think that the country will never enter the Eurozone.

Relatively constant remains the share of respondents in the seven countries who consider that the adoption of the euro will have a positive effect on the economy of their country - a total of 42% (compared to 41% in the month of May 2015). Similar is the trend in Bulgaria - 41% in April 2017 compared to 40% in May 2015. Citizens of Bulgaria demonstrate the highest level of non-awareness regarding the use of the euro - 59%, against an average of 54% for the seven countries in the survey. The survey shows that although Bulgarians are among the EU's biggest supporters, 20% of the respondents do not want the introduction of the euro and prefer to maintain the national currency probably because of the high level of unawareness, unfounded

¹³ The euro is used by nearly 337.5 million EU citizens. To be able to join the Eurozone, EU Member States must fulfil the so-called "Convergence criteria". These are the economic and legal conditions laid down in the Treaty of Maastricht in 1992 and also known as the "Maastricht Criteria". The main related documents for joining the Eurozone are: the EU Treaty / Maastricht Convergence Criteria, Protocol 13 on Convergence Criteria, Economic and Monetary Union / Legal and Political Texts /. In parallel to this, the non-EU countries members of the Eurozone include Monaco, San Marino and the Vatican.

¹⁴ „Flash Eurobarometer 453: Introduction of the euro in the Member States that have not yet adopted the common currency“ http://data.europa.eu/euodp/en/data/dataset/S2157_453_ENG/resource/29d6818a-063f-4c5b-9bbb-ed6abdd1c9d - accessed on 30.05.2017.

fears of a change in the fixed exchange rate of the lev against the euro, and expectations of high inflation (69% against an average of 66% for the seven countries surveyed).

Main concerns and risks

20. Public opinions in the country are dominated by the relatively high unawareness and the formation of some convictions, delusions and concerns directly related to:
- the expansion of fragmentation and segmentation forces in the EU through the restructuring of Europe at two or more speeds, the proposals for further institutionalization of the Eurozone, respectively through the establishment of a fiscal institution, a separate budget, a parliament, etc.;
 - changes in the general conditions and the environment in the EU after "Brexit", uncontrollable economic, social and refugee crisis, debt imbalances (the so-called "Grexit"), the rise of some European nationalist parties, delayed institutional reforms in the EU, etc.;
 - strengthening the dependence of the Bulgarian economy on long-term and short-term cycle of functioning of the economies of the countries in the Eurozone, incl. on the basis of the achieved synchronization in their cyclical development;
 - the further limitation of national sovereignty on the basis of expanding centralized control and management from Brussels. This means harmonizing the banking system (through participation in the Banking Union) and fiscal policy, notably the tax system, financial pressure on the EU's common interests, etc.;
 - doubts about the effectiveness of control over short-term inflation expectations in the initial accession period in the Eurozone;
 - the specificity of the euro area's common monetary system in the absence of a common European fiscal and taxation policy;
 - the premature convergence of economic policies (in taxation, customs and social systems), with significant differences in labour productivity, prices and incomes;

- step-by-step efforts since 2007 to ensure unconditionally the necessary foreign policy support from existing Member States of the Eurozone for Bulgaria's entry into ERM II, the additional "cooperation and verification mechanism" in force for Bulgaria and Romania, the postponed accession to the Schengen area, the work on the implementation of the so-called "specific recommendations" of the EC, as well as the procedure for dealing with the macroeconomic imbalances in the country pointed out by the EC, etc.

Macroeconomic and financial effects and benefits for the labour market and incomes

21. ESC assumes that the expected benefits for the country from joining the currency area, which are confirmed by the experience of the newly acceded Baltic states, Slovakia and Slovenia, include:

- reduction of transaction costs, general systemic risk for the banking system, facilitation of refinancing of the banking sector, inclusion of the ECB as a lender of last resort, use of additional guarantees for bank deposits, more effective external regulatory pressure and supervision will undoubtedly increase overall confidence in the banking sector in the country¹⁵;
- decrease in the overall level of interest rates on loans (of government, companies, households) and government debt, facilitating access to finance for small and medium-sized enterprises, introducing lower minimum reserve requirements for banks, creating opportunities for refinancing accumulated debts, etc.;
- the release of the foreign reserves representing assets of the Emission Department of BNB amounting to about BGN 46 billion from their fundamental role to ensure the full coverage of the monetary base under the currency board arrangement. At present, the funds raised are only invested by the Central Bank in risk-free debt instruments on the external financial market. Removing the currency board allows them to be invested in instruments with different risk profile and maturity, and

¹⁵ This may also include the possibility for all troubled countries in the currency union to receive anti-crisis assistance from the permanent rescue fund - the European Stabilization Fund, which replaced in the Eurozone the European Financial Stability Fund, and provides financial support to troubled countries such as Greece, Portugal, Ireland and others. The total capital of the rescue fund is about 700 billion euros, formed by contributions from the euro area Member States.

some of them in constructed special funds with specified investment characteristics to be used for direct investment in the national economy¹⁶;

- an increase in foreign direct investment and total investment activity in the country as a result of creating conditions for greater stability of the national economy and reduction of investment risk (as long as the euro remains a stable currency that does not lead to the depreciation of national currencies). At the same time, the risk of inadequate monetary policy is minimized because it is managed by a powerful integration centre - the ECB, which creates prerequisites for the country's credit rating to grow and to improve the internal business climate;
- providing additional secure buffer, rescue mechanisms and financial assistance opportunities for potential public finance problems or systemic risks in the financial system by members of the Eurozone and the ECB, within the framework of the European Stability Mechanism;
- enhanced competitiveness, facilitating structural change in the economy and increasing the innovative potential of business organizations;
- improved opportunities for greater nominal and real convergence, supported by the trend of higher labour productivity and income growth;
- reducing pressure on the labour market and wages, creating the conditions for the gradual reduction of demographic imbalances;
- overcoming speculation about devaluation and loss of savings in the event of a "drop out of the CB", mainly by increasing the effectiveness of budgetary policy, control of quasi-public debt, inflation, commercial banks' stability, external capital and current transfers;
- accelerating EU integration and partly reducing risk, dependence and pressure from third country leading regional economies;
- increasing the importance of the Bulgarian economy as a link between the EU, the Balkans, the Black Sea Basin and the Middle East, as well as creating the

¹⁶ Currency buffers of the Emission Department of BNB performing monetary board functions include: Available cash in foreign currency; foreign securities available to the BNB; receivables from foreign banks and international financial institutions; special drawing rights with the IMF; monetary gold.

conditions for building a successful regional model for stability and prosperity in the Western Balkan countries.

22. The main group of Central and Eastern European Member States that are outside the Eurozone (i.e. Poland, the Czech Republic, Hungary, Romania) but have significant economic and demographic potential and a higher degree of economic, price and social convergence compared to the EU-28 average, declare official intentions for postponement of accession. For example, Poland stated its intention to postpone accession to the Eurozone with 10 to 20 years.¹⁷ In the words of the Minister of Finance of the Czech Republic A. Babis, the government does not need a coordinator for the introduction of the euro as it does not prepare to join the Eurozone.¹⁸ There is a cooling of Hungary's initial intentions to join the Eurozone.¹⁹ The Hungarian prime minister systematically opposes a rapid entry into the Eurozone and does not raise this issue on the public agenda of the country. Romanian Prime Minister S. Grindeanu said that "the country will adopt the euro after the incomes of Romanian citizens reach a level close to those of the other EU member states"²⁰. On the occasion of the accession of Croatia to the EU (01/07/2013), the Governor of the Croatian Central Bank B. Vuicic said that the country hopes to join the Eurozone as quickly as possible, not earlier than 4-5 years, indicating that there are problems in meeting the criteria, but hopes to resolve them within the next 4-5 years²¹.

¹⁷ According to Bloomberg (<https://money.bg/economics/polsha-otlaga-vavezhdaneto-na-evroto-s-10-godini.html>) as of 16/03/2017

¹⁸ According to information from:
(<https://nova.bg/news/view/2017/01/13/170847/%D1%87%D0%B5%D1%85%D0%B8%D1%8F-%D0%BD%D0%B5-%D0%BD%D0%B8-%D1%82%D1%80%D1%8F%D0%B1%D0%B2%D0%B0-%D0%BA%D0%BE%D0%BE%D1%80%D0%B4%D0%B8%D0%BD%D0%B0%D1%82%D0%BE%D1%80-%D0%B7%D0%B0-%D0%B2%D1%8A%D0%B2%D0%B5%D0%B6%D0%B4%D0%B0%D0%BD%D0%B5-%D0%BD%D0%B0-%D0%B5%D0%B2%D1%80%D0%BE%D1%82%D0%BE/>), as of 13/01/2017.

¹⁹ According to information from "*The New York Times*", Submitted by Vesti.bg (<https://vesti.bg/temi-v-razvitie/tema-gryckata-kriza/niu-iork-tajmsi-i-bylgariia-ohladnia-kym-evroto-6039447>), to 15/07/2015).

²⁰ Information from the Romanian weekly "*Business-review*", Submitted by MANAGER.NEWS (<http://www.manager.bg/politika/rumniya-shche-vlezem-v-evrozonata-kogato-dohodite-ni-stanat-evropeyski>), as of 11/04/2017

²¹ In an interview in "*Frankfurter allgemeine*", delivered by Dnes.bg (<http://www.dnes.bg/balkani/2013/06/29/hyrvatiia-iska-da-prieme-evroto-vyzmojno-nai-skoro.192237>), as of 29/06/2013

23. ESC draws attention to the fact that over the last twenty years in the Bulgarian economy there have been fundamental profound differences in the application and operation of the monetary systems at a floating exchange rate in the above-mentioned countries. These differences, as well as other specific starting points and advantages, require the Republic of Bulgaria to form and follow its own identical national policy of accelerated accession to ERM II and the Eurozone taking the example of the newly acceded Baltic republics.

Preconditions, problematic sectors and necessary reforms

24. ESC notes that, from a procedural point of view, accession to the Eurozone will be preceded by at least a two-year period of exchange rate monitoring of the respective national currency during the time spent in ERM II. The length of stay of the three Baltic States was between seven and ten years.²² During this time, the economy will be "tested" and adapted to the new environment in the Eurozone by maintaining the Maastricht Treaty (1992):

- an average inflation rate of less than 1.5% against the three lowest-priced countries;
- low long-term interest rates (yield on 10.5-year government securities) that do not exceed by more than 2 percentage points the yield in the three EU countries with the lowest interest rates;
- following a floating exchange rate policy with deviations of up to 15% (for Bulgaria maintaining the current exchange rate);
- a budget deficit of less than 3% of GDP, except for short periods and under the terms defined by the Maastricht Treaty;
- government debt lower than 60% of GDP, except for countries pursuing a sustainable finance policy and fulfilling all other criteria.

²² This is a contractual clause, i.e. a subjectively imposed condition that does not constitute an imperative economic necessity with regard to the monetary system in force in the country. It should also be added that some of the advantages of Eurozone membership will be manifested by entering the ERM II.

25. According to the information in the ECB's Convergence Report of June 2014 Bulgaria has covered the four nominal quantitative criteria. The latest ECB report of June 2016 also confirms the existence of the required compliance, noting the need for purely technical measures, respectively adequate amendments to the BNB Act.
26. ESC emphasizes that, in addition to meeting the convergence criteria, it is essential to provide foreign policy support to Member States in the Eurozone, the ECB and the EC. The Bulgarian position in the process of accession to the Eurozone should avoid binding with new "unofficially" imposed additional preconditions. Such an approach would be a de facto unilateral revision of the Treaty on the Accession of Bulgaria to the EU, entered into and ratified by all Member States.
27. ESC draws attention to the rules introduced in 2011 to ensure "closer coordination of economic policies and sustainable convergence of Member States' economic indicators", which adopt a new oversight procedure - the Macroeconomic Imbalance Procedure (MIP). The initially adopted ten macroeconomic monitoring indicators were later supplemented by four more indicators. The ECB explicitly emphasizes the so-called "other major factors" for exemption from derogation and introduction of the euro. In particular "... EU Member States with a derogation²³ which are subject to excessive imbalance procedures can hardly be regarded as having achieved a high degree of sustainable convergence, as stated in Art. 140 (1) of the Treaty"²⁴. For the European Semester 2017 Bulgaria has been assessed (together with five other countries) as having excessive imbalances.²⁵ In addition, the candidate country concerned must meet the requirements of the Eurozone countries for structural reforms and economic stability. Formally, the 14 indicators for assessing macroeconomic imbalances do not add to the Maastricht criteria for Eurozone

²³ Derogation is a legal term meaning a partial cancellation of a specific law. In acts relating to European Union law, it is also used to indicate cases where a Member State is delayed in applying elements of EU legislation in its own legal system, provided that there are agreed deadlines, or in cases where a Member State has chosen not to apply a clause in its accession treaty due to internal circumstances. In Bulgarian legal terminology, an equivalent expression is used - "as an exception to ..." or "in a deviation from ...".

²⁴ Art. 140 (1) of the Treaty requires that "The reports of the Commission and the ECB should also take into account the results of market integration, the status and evolution of current account balances and the study of the development of unit labour costs and other price indices" .

²⁵ https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/macroeconomic-imbalance-procedure/mip-surveillance-2017_en - as of 12/04/2017 At the same time, according to latest data, the Bulgarian economy does not meet only one criterion - a net international investment position. This is a reason for excluding the country from the group of EU Member States with excessive macroeconomic imbalances.

membership but can be used to postpone or block the country's accession to the Eurozone in foreseeable future.

28. In this regard, ESC calls for rapid unfolding and acceleration of long-delayed key reforms in education, the judiciary, health, pension, labour market, business environment and burdensome regulations, as well as effective countering of crime and corruption in the country. The effects and results of these reforms should further support fiscal consolidation in the long term and achieve a sufficiently high, catch-up to long-term growth in labour productivity, GDP per capita, employment, incomes and consumption. Expectations are that the country's accession to ERM II and the Eurozone will give further impetus and accelerate reforms in these areas.
29. At the same time, ESC draws attention to the fact that the implementation of these reforms has no alternative regardless of whether and how long it will take for Bulgaria to be admitted to the Eurozone. Their realisation, as well as the evaluation of the final results achieved, should not be placed as a precondition for joining the Monetary Union or to be used as an argument for its delay or blocking.
30. Furthermore, ESC notes that there are no formal international legal bases (negotiated prerequisites) requiring specific economic or institutional reforms outside the monetary system as a condition and prerequisite for Bulgaria's accession to the Eurozone. The necessary reforms in the banking sector are aimed at restoring the implementation of the monetary policy instruments of the Central Bank, mainly related to the open competitive money market operations. For Commercial Banks, these instruments are not new, money market infrastructure exists and is being used actively even today. There are no particular problems for the Central Bank to immediately engage in money market operations as well as to accept the required changes to existing legislation for the BNB and the Commercial Banks.

Time frame and need to speed up the preparation

31. Several times, following the accession of our country to the EU, (2007, 2009-2010, 2016-2017) Bulgaria has stated its formal intention for an accelerated joining to ERM II and the Eurozone in order to secure the necessary foreign policy support. At the end of 2009 and early 2010 in the context of a sharp drop in employment and GDP, specific measures were undertaken as sequential, preparatory, pre-accession steps in this direction. Unfortunately, various internal and external causes of

economic, financial and social nature have exacerbated the effects of the global economic crisis unlocked in September 2008 and the procedural preparation for accession.

32. ESC recalls that in November 2014 social partners adopted a common position on "Accelerated preparation and submission of an official application for entry of the Republic of Bulgaria into the European Banking Union (until 2016), in ERM II (2016) and the Eurozone (2018) while maintaining the exchange rate, according to the commitments of the Treaty of Accession of Bulgaria to the EU"²⁶. The Programme of the Council of Ministers for Stable Development of the Republic of Bulgaria for the period 2014-2018 is also committed to "creating an institutional mechanism and drawing up a plan to carry out the activities necessary for the successful introduction of the single currency in Bulgaria" (Priority 4.4, Goal 8). Similar commitments were made during the last election campaign of early 2017 and the latest caretaker government, which publicly declared the need to speed up preparations for joining ERM II. Governance priorities of the new ruling coalition again include the important issue of entering the ERM II and the Eurozone, perceiving it as "our natural path to development after meeting all the criteria".
33. In 2015 after several preliminary statements by the MoF and the BNB Decree of the Council of Ministers No 168 of 03.07.2015 was adopted establishing a Coordination Council for the Preparation of the Republic of Bulgaria for euro Area Membership, in force from 10.07.2015 (SG, issue 52 of 10.07.2015). The main functions of this Council include the general coordination of preparations for Eurozone membership, the submission of a proposal to the Council of Ministers for a target date for the adoption of the euro, the elaboration of a draft National Implementation Plan, the coordination of the work of the seven expert working groups implementation of other measures.²⁷ In this regard, ESC calls for more publicity and accessible information on the work done, on the decisions taken and on the results achieved by the previous actions under this coordination mechanism.
34. At the same time, fundamental and rapid changes in institutions and the general economic and political environment in the EU have unfolded in recent years - the

²⁶ "Address of the nationally representative organizations of employees and employers at the 43rd National Assembly and the Council of Ministers", November 2014.

²⁷ In the preparation for the introduction of the euro and the establishment of the Coordination Council, the Minister of Finance designated the staff to be assigned to the project - Deputy Minister of Finance, Deputy Governor of the BNB, Member of the Financial Supervision Commission, Deputy Ministers of the Economy, Foreign Affairs, Transportation, Justice and others.

UK referendum on leaving the EU, the lack of coherent common solutions to the EU migration crisis, the growing political risks in the Black Sea region and the Middle East, presidential elections in France and the latest publicly announced proposals of German Finance Minister Wolfgang Schäuble to "create a parliament of the Eurozone countries to advise the European Stability Mechanism". There are more and more increase in the EU that the rate of expansion of the Eurozone in particular is unwarrantedly accelerated.

35. The debate on the future of Europe is gaining momentum and will probably find a solution through changes to some of the basic rules of action of the EU institutions. In fact, it is a Europe that does not have two speeds but two or more levels of integration. Such a situation may increase the risks from expanding the Eurozone, to put the debate in the background or to freeze indefinitely the accession of the candidate countries, even if they meet the Maastricht criteria.
36. In this regard, ESC draws attention to the fact that the basic principle of the *acquis communautaire* is the inviolability of the signed contracts (*pacta sunt servanda*). Compliance with international agreements with Member States is guaranteed by current institutions and procedures, including the possibilities for judicial resolution of disputes, financial sanctions and other mechanisms in the EU, and cannot be replaced by placing it as a matter of expediency.
37. The accession of Bulgaria to the Eurozone is already a negotiated and resolved issue. The country's membership agreement is bundled, Bulgaria adheres to the fulfilment of the preconditions, covers the running costs of its membership in the EU and is entitled to avail itself of the terms agreed upon under the conditions of the already signed contract. Joining the Eurozone is an integral part of the EU Accession Treaty ratified by the parliaments of all Member States. There is no legal mechanism for this part of the treaty to be reconsidered without the consent of the Bulgarian side.
38. According to ESC, it should be noted that these changes in the EU place on the agenda the need for adequate steps to accelerate the accession of Bulgaria to ERM II and the Eurozone. In pursuing this logical approach, in keeping with national interests, the expertise and resource provision and decisive action by the relevant institutions, these new circumstances can increase the chances and be used to provide foreign policy support, to attract allies and supporters among the leading Eurogroup countries in favour of the necessary practical co-operation.

39. The newly-elected government has a great chance and the challenging responsibility to continue to take the important steps towards achieving the priority goal by stating to the EC, the Eurogroup²⁸ and the ECB the intention of Bulgaria to exercise its contractual rights to join ERM II and the Eurozone according to the procedure and the rules applied to the newly acceded Member States.
40. ESC believes that broader and more effective participation of academics, social partners and non-governmental organizations is needed in expert and civic debate and in the process of public monitoring of preparations for the implementation of the accession process. General public awareness and political support should also be enhanced by discussing:
- the main obstacles, benefits and effects of Bulgaria's accession to ERM II and the Eurozone;
 - the time frame, as well as the main measures, actions and reforms to join ERM II;
 - the role of the Bulgarian foreign policy and of the diplomatic representations for the accession of the Republic of Bulgaria to the Eurozone, deepening EU integration and increasing guarantees for regional economic and political security.
41. According to ESC, the good preliminary, pre-accession organization and the procedure for the submission of Bulgaria's application for admission to ERM II and the Eurozone can mobilize the public and the institutions to improve the manageability and overall performance of the country's economic and social development, raise awareness of the extent, benefits and progress of convergence in European economic structures. The expected significant benefits of overall convergence justify the timely adopting of relevant decisions and taking effective actions for their implementation.
42. EC's announced new proposal to reform the Eurozone and the accession of all candidate countries may give new, unexpected so far possibilities for the accelerated accession of Bulgaria. Although further and detailed information, analyses, consultations, deadlines and decisions on the specific procedure are needed, the responsible institutions should ensure a reliable degree of preparedness of Republic of Bulgaria to take advantage of the newly created favourable environment.

Conclusion

²⁸ The Eurogroup is an informal body in which the ministers of the Eurozone member states discuss issues related to their shared responsibilities for the euro.

43. ESC expresses its conviction that by the creation by 2025 of the completed Economic and Monetary Union with its two pillars: *monetary policy*, including the single currency - the euro and the ECB, and – *economic policy* - encouraging the development of economic policy coordination in the EU with a view to introducing the euro in all EU Member States, together with the single market, will contribute to more economic stability, balanced economic growth, a higher level of quality employment and the sustainability of public finances. The use of the euro in Eurozone Member States(which also concerns the future of Bulgaria), is particularly convenient for all consumers as it facilitates the comparison of consumer prices and the elimination of currency exchange fees and transaction costs when purchasing goods and services in other countries in the Eurozone, as well as for the realization of international transactions, the lowering of interest rates in the country and the use of cheaper resources by the ECB. Last but not least, it undoubtedly supports the development of the single market for the free movement of goods, services, capital, people and knowledge in the EU. At the same time, according to Mario Draghi, the single currency will have a significant impact on the return of confidence in the Eurozone and on the efforts to further implement the forthcoming reforms in the European Union.²⁹

/signed/

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²⁹ See Economic and Monetary Union, Council of the EU, Luxembourg, 2014