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EXPECTED EFFECTS OF THE EURO ADOPTION IN BULGARIA

This article interprets facts regarding the accession to the euro area of selected (representative) EU Member States and the expected effects on the Bulgarian economy. In addition, the main risks of myths are identified, and the objective is to provide an objective view of the benefits and risks of the introduction of the euro in Bulgaria, respectively joining the euro area. The identification of the "critical zones" of possible negative effects is based on a precise examination of the experience gained in countries that have already introduced the single currency. This enables the measures aimed at joining the euro area to incorporate the necessary measures so that the positive effects dominate, which would justify the introduction of the euro in Bulgaria.
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Introduction

The object of the study is the introduction of the euro in Bulgaria, and the subject is the expected effects for the Bulgarian economy. The main purpose of the study is to present an objective analysis of the possible effects, direct and indirect, of the possible integration of our economy into the euro area, based on theoretical achievements in this direction and supported by available and relevant empirical data. Successful achievement of this objective results in the identification of "critical (risk) zones" in the economy of the country, which is the most vulnerable and, in this sense, pose a certain risk for a smooth and unhindered changeover to euro-denominated currency. This means that on the basis of the analysis, the necessary preliminary steps – as part of the accession process – will be outlined and formulated so that the risks of the identified risks will be minimized/eliminated, and in the case of any of them, be prepared in advance to overcome any undesirable effects. The thesis overlaid with this study is to say that there are a number of objective prerequisites – derived specifically and thoroughly examined – that can generate such effects of the introduction of the euro that would have a negative impact in the medium to long term. Thus, the main tasks that are set are: (1) to examine the

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experience of the newly admitted members of the euro area (adopted after 2007), as well as that of the countries in the waiting room (i.e. non-euro area countries to come to join); (2) to evaluate the economic and accession effects and (3) to summarize and systematize the main conclusions, based on which recommendations to the negotiators (from Bulgaria) should be formulated.

The Nobel Laureates in Economics – Joseph Stiglitz and Paul Krugman, draw grim forecasts for the future of the Eurozone, based on its fundamental inconsistencies with Robert Mundell's theoretical statement of the "optimal currency zone". They point to two main groups of reasons: first, the deep differences in the economic structure and level of development of the euro area countries, and second, the inability to pursue a single fiscal policy. Paul Krugman (2016) believes that the creation of a "working euro area" requires reforms in two main directions: reforming the structure of the European Union; and crisis policy reforms. Thus, the question is to what extent political consensus will be reached between the euro area countries, which will allow radical reforms and gradual harmonization of the fiscal policies of the Union countries. With its development so far, the euro area has not convincingly denied the destructive potential of these discrepancies. So far, in our opinion, the answer is no. In an interview for Central banking (Oct.16, 2016) the former Chief Economist of the ECB Prof. Otmar Issing stated the “the house of cards is set to collapse” thus predicting a dark future for the Eurozone.

Bulgaria's accession to the euro area is a political commitment made upon our accession to the EU. However, the Accession Treaty does not specify the specific timeframe or date on which this obligation is to be fulfilled. The main reason for this is that, at the time of our accession to the EU in 2007, our economy is still far from the Union average for economic development. At this time, we are only meeting some of the key indicators that each country should meet in order to discuss its adoption in the euro area.

From a procedural point of view, Bulgaria's accession to the euro area is preceded by our inclusion in ERM II, simultaneously (or preceded) by our inclusion in the so-called. Banking Union, adherence to certain criteria (the so-called Maastricht criteria), negotiation process, etc. On the content side: the "exchange" of the lev with the euro is not simply an act of change in the denomination of prices – it is a rejection of the opportunities offered by the currency denominated in national currency. At the same time, the introduction of the euro brings with it the advantages that a currency denominated in national currency does not provide. Bulgaria's "accession deal" to the euro area can be a justified balance between the two trends.

Bulgaria has been a member of the European Union for over 12 years, and within this relatively short period, the necessary degree of cooperation and policy coordination in all spheres has been achieved, which has enabled the country to sustainably fulfil the necessary prerequisites for its full integration into the EU, Schengen, the Banking Union and eventually the euro area. Bulgaria strictly adheres to the requirements for convergence, and by some indicators, it is even among the leading countries, which shows that our country is ready to fulfil the permanent commitments related to the adoption of the euro (Hristozov, 2016). One of the underlying factors that contribute to the eurozone’s travails is the lack of economic convergence among its members. This problem is far from new, as it was a central argument of the opponents to the Maastricht Treaty (Mourlon-Druol, 2014). The topic of joining the euro area is sporadically emerging in the public space, but in the light of economic conditions, it has been put on the "agenda" for the first time in 2018, thanks to the efforts of a number of politicians and public figures who have reflected in their actions public consensus – on the issue of joining the euro area; and resulted in the submission of an application to the ECB regarding Bulgaria's wish to join ERM II. With this step commitments have been made, some of which have already been fulfilled but for the implementation of others – in particular, the possibility of "negotiating the course", with which Bulgaria joins the ERM II, required legislative changes. This happened in early 2020 – through an amendment to the BNB Act. This legislative change triggered heated discussions which resulted in the decision that Bulgaria would refuse to join the euro area if it failed to negotiate an entry at the current BGN/EUR exchange rate of 1.955830, fixed with the introduction of the regime of the Monetary Council. This "path" episode of the "path to the euro" is the subject of a separate analysis – in the relevant part of the study, but it should be noted here that it is particularly indicative of the actual state of the degree and aspects of the euro's readiness for adoption. Thus, in economic terms, the country is on the alert, with stable prospects for meeting the economic criteria; but at the same time, in the "technological aspect" directly affecting economic stability, and hence affecting the medium and long-term ability to adhere to the levels of indicators determined by the criteria for membership of the euro area, there is no degree of preparedness (Moździerz, 2019). What has become indicative is that the problems that arise and the changes that are needed (including legislative ones) will be solved ad hoc: the trial-and-error principle, which is unacceptable when it comes to such a crucial issue, not just the economy of our country, and for society as a whole. Therefore, not only economic logic but also a significant political commitment to society and other EU Member States is behind one country's decision to join (Kamelarov, 2018). This calls for a careful examination of the positive examples of countries that have already taken this path, as well as of other countries preparing for accession to Bulgaria.

The main part of the benchmarking study (point 1) of pre-accession strategies identifies and interprets the main "crisis zones (risks)", with attention to one of the most significant – the potential pro-inflation effects of the adoption of the euro. Other effects of the introduction of the euro in the newly acceded euro area members are commented on individually, some main "scenarios" were synthesized upon our accession to the euro area, with detailed options as well as potential options effects and risks of Bulgaria's accession to the Eurozone.

1. Pre-accession strategies, following the example of Lithuania and Slovenia

The purpose of this part of the study is to compare the experiences and good practices of selected countries in drawing up strategies prior to joining the euro area and subsequently adopting the euro. The strategies and plans of the selected countries vary significantly in content and purpose. Such a strategy in Bulgaria is missing at this time, and it should have been drawn up years ago. We regard this omission as a significant disadvantage, leading to the creation of unrealistic myths and the emergence of unfounded fears in society – as the example above. The Bulgarian state, represented by the public authorities, should take the necessary urgent action to overcome this significant omission.

In Lithuania's pre-accession strategy, the impact that the introduction of the euro would have on the Lithuanian economy is defined in two categories, direct and indirect (indirect). "Direct" impact is understood to mean effects that will automatically manifest themselves in the short term, allowing them to continue in the medium to long term. The impact is understood as 'indirect' impact through other variables, which depends on different circumstances, and in most cases, they occur over a longer period. Concrete:

- direct impact: replacing the local currency with the euro would reduce interest rates due to a reduction in currency risk, while reducing currency and accounting costs, strengthening the balance sheet structure of public and private sector assets and expanding liquidity management capabilities in the banking sector.
- indirect impact: adopting the euro can have a positive impact on the country's credit rating (which would further reduce interest rates), encourage investment and foreign trade, accelerate economic growth and citizens' well-being. The Central Bank of Lithuania (BoL) looks at two scenarios (Table 1).

Table 1

Scenarios on currency risk, interest rates and credit rating

Scenario 1	Scenario 2
Currency risk will decrease, and credit risk will be reduced the country will receive a better credit rating than BBB of A.	• only the currency risk will decrease. • the credit risk and the country's rating will remain unchanged
Interest rates will decrease: • as interest rates on transactions in Lithuanian litas will be replaced by lower one’s interest rates on similar transactions in euro. • interest rates on euro transactions in Lithuania will also decrease	Interest rates will decrease: • as interest rates on litas transactions will be replaced by lower interest rates on similar transactions in euro. • interest rates on euro transactions in Lithuania will not decrease.

Source: http://www.lb.lt

According to the BoL, the likelihood of an increase in the country's credit rating is increasing since international credit rating agencies see the introduction of the euro in Lithuania as a factor that reduces credit risk. The following specific aspects of the positive impact of the changeover to the euro are outlined:

- the risk to the country and the risk to households and businesses related to the currency structure of their income and liabilities will decrease, as their main income is currently in litas and the share of liabilities are in euro;
- improving access to the financial markets and liquidity management capacity in the banking system;

- the predictability of the country's economic policy will be increased.

➢ *The impact of the adoption of the euro on interest rates and interest rates due*

The strategy for joining the Eurozone of Lithuania states that adopting the euro would reduce the average interest rate that the Government of the Republic of Lithuania would borrow in 2015 by 0.80 percentage points according to scenario 1; respectively 0.18 percentage points in scenario 2 (see Table 2).

Table 2

Interest rate change scenarios after the adoption of the euro

Average interest rate due from debtors	Change in percentage point (2015)	
	Scenario 1	Scenario 2
Loans to non-financial corporations and households	-0.80	-0.18
Loans to non-financial corporations and households	-0.53	-0.31
• Non-financial corporations	-0.49	-0.26
• Households	-0.56	-0.34
Weighted average interest rate at which the Lithuanian Government and local businesses and households will receive a loan.	-0.56	-0.29

Source: http://www.lb.lt

These conclusions are justified by an analysis of the impact of the introduction of the euro on interest rates on long-term (maturity 10 and over) debt securities of the governments of Slovenia, Cyprus, Malta and Slovakia, on an individual basis. It is concluded that joining the euro area lowers these interest rates by an average of 0.51 percentage points. Thus, after assessing the impact of the introduction of the euro on interest rates on loans to non-financial corporations from Lithuania and households, it follows that the average interest rate in 2015 will be lower by 0.53 points – a forecast found in the right direction.

➢ *Impact of adopting the euro on currency exchange costs*

The strategy for joining the Eurozone of Lithuania indicates that the introduction of the euro would reduce the cost of currency exchange in the non-banking sector in Lithuania. With the removal of the local currency, there will be no cost for currency and hedging transactions against currency risk. Based on Lithuania's foreign exchange market data for 2010-2012, it is estimated that the cost of exchanging Euros and Litas (LTL), as well as for hedging against fluctuations in the Litas exchange rate, will be 0.14% of GDP per year.

Calculations show that in 2015-2022, the non-banking sector will save around LTL 1.9 billion. Reducing the cost of the bank in the non-banking sector in Lithuania would limit the banks' income in the country in the short term, which would limit both credit risk and foreign exchange risk. Banks could develop their business in Lithuania at a lower cost of capital and expect a more stable return. In the medium to long term, bank revenue could increase as a result of credit developments, driven by probably stronger economic growth and the expected higher debt-to-GDP ratio.

- *Impact of the adoption of the euro on Lithuania's exports and investments*

According to Lithuania's pre-accession strategy, the introduction of the euro would have a positive impact on Lithuania's foreign trade due to lower trade and entry costs, business attitude towards the euro area market, increased foreign investment, market transparency and competition. The experience of the euro area countries shows that the introduction of the euro has increased foreign trade of these countries by 5-10%. In assessing the likely impact of the introduction of the euro on Lithuania's exports in 2015, the summary assumes a conservative assumption, that real exports (excluding mineral products) as a result of the introduction of the euro in 2015-2022 should increase by 5%. For now, the data justify this prediction.

The impact of the euro on foreign trade and foreign direct investment (FDI) has been examined through the effect of the euro on foreign trade. The introduction of the euro would provide prerequisites for an increase in FDI, and FDI and foreign trade are closely linked. The results of international studies of the experience are very different; therefore, the choice of quantification in the case of Lithuania is difficult. Given this, the increase in FDI was not quantified during this study. The cautious attitude towards the impact of joining the euro area on FDI in Lithuania is motivated by the fact that Lithuania has been a member of the EU for more than a decade and the lithium rate against the euro has been fixed for a long time.

- *Impact of the euro adoption on the country's GDP and employment*

The impact of the interest rate cut on Lithuania's real GDP, in the long run, would be greater if corporations in the country were actively investing in activities, significantly enhancing the competitiveness of the economy. The period after the introduction of the euro could be more favourable for such investments because of the expected lower real interest rates, which will allow corporations to invest at a lower price for a longer period.

The euro would increase employment in the medium term but increasing it in the long term would require structural reforms to harmonize labour supply and demand. Unemployment in 2014-2022 is estimated to be on average 0.4-0.5 pp. lower and employment higher by 6.9-7.4 thousand people. In the medium term, a reduction in the unemployment rate will be the result of a strong increase in labour demand. As corporations will need time to accumulate the necessary amount of physical capital, the increased demand for their products would initially be met by hiring more new workers. However, the impact of the euro on unemployment and employment will decrease later. In order to reduce structural unemployment, targeted structural reforms to harmonize labour supply and demand would need to be continued.

➢ *One-off and additional costs of adopting the euro.*

In order to assess the overall impact of the targeted adoption of the euro on the Lithuanian economy, Lithuania's pre-accession strategy quantified the one-off costs for the changeover to the euro and the additional financial contributions that the country would have to pay to international institutions. The one-off costs of adopting the euro include the increase in the one-off price level and the cost of adopting the single European currency. According to the results of international studies, it is estimated that the introduction of the euro in Lithuania should have a short-term one-off effect on the price level: it will increase by 0.2-0.3 p in the first months of 2015. Such estimates were obtained from Eurostat, which looked at the situation in Estonia and other countries that have adopted the euro after 2007. International studies show that a one-off increase in prices when countries join the euro area is triggered by four key factors:

- rounding off prices and the desire of sellers to make them attractive.
- the transfer of some of the costs of adopting the euro to consumers.
- the so-called "rational non-compliance" of consumers (it is difficult for consumers to evaluate all price changes simultaneously and in some cases even try to remember them because of their small size, and sellers can take advantage of this).
- synchronization of price changes (usually prices will be revised gradually, while prices will be revised at the time of adoption of the euro).

Lithuania's accession to the euro area would increase the country's financial contribution to international institutions – in particular, the capital of the European Stability Mechanism (ESM), but this is seen as an investment rather than cost. Because the income generated from ESM operations and the successful repayment of creditors' debts will receive a return, which will increase the value of the share of capital invested by Lithuania. While the repayment capability is low in the coming years, it is generally foreseen that when the ESM reaches a common credit position and the euro area countries no longer need their assistance, the ESM may pay dividends (reduction of operating income) in a proportion of the country's contributions. The Lithuanian Central Bank (BoL, Bank of Lithuania) will transfer an additional contribution of EUR 43 million (around LTL 148 million) to the European Central Bank (ECB) capital. This amount would not require additional funds as it would use a small portion of BoL's assets (compared to the end of August 2013, BoL's assets amount to LTL 20.7 billion). If any, losses to the ECB as well as losses to the ECB.

When Lithuania joins the euro area, BoL will be entitled to a share of the ECB's annual financial result in proportion to BoL's share of the ECB's paid-up capital. He would have earned the right to a proportionate share of the ECB's profits and the Euro system’s monetary policy earnings, regardless of how many monetary policy transactions he would have made. The ECB's net profit in 2012 amounted to almost EUR 1 billion. If Lithuania were a member of the euro area (as of 2012), it would receive a payment of 0.61% of its profit, i.e. LTL 21 million. National central banks (NCBs) outside the euro area are not entitled to distribute ECB profits. The total amount of one-off costs for adopting the euro in

Lithuania, considering the experience of foreign countries, can reach 0.5-0.7% of GDP (LTL 0.6-0.9 billion).

- *Inflationary concerns*

Various instruments are provided in the National Transition Plan approved by the Lithuanian Government, considering international experience, which will help prevent unjustified price increases and strengthen consumer positions. One of the main instruments is the requirement to indicate the double pricing of sheets and euros for goods and services before the changeover. The national plan for the changeover to the euro stipulates that double pricing will be completed 60 days after the Council of the European Union decides to fix a fixed exchange rate for litas and the euro and will continue one year after the adoption of the euro. It will play a particularly important role during the adoption of the euro by the controlling institutions, which will check how prices are translated and whether they are correctly quoted, will address consumer complaints, impose sanctions for infringements and publish infringers. The National Switchover Plan also stipulates that price changes for major commodities will be actively monitored and announced. Public organizations and consumer organizations should also be actively involved in price monitoring. Under the National Switchover Plan, businesses will be encouraged to sign the Code of Good Business Practice. Economic agents who sign this code are committed to refraining from using the euro as a pretext for price increases. Such businesses will have clear identification marks.

With its accession to the EU, Slovenia (just like Lithuania) is committed to accepting the euro as its currency. The first step towards achieving this goal is to participate in ERM II for two years. Slovenia acceded to this mechanism on 28 June 2004 and, having successfully fulfilled the convergence criteria (nominal), the country acceded to 1 January 2007. In January 2005, the Government of the Republic of Slovenia and the Bank of Slovenia adopted the introduction of the euro ", which sets out all the essential procedures for the introduction of the euro.

Driven by the understanding that the introduction of the euro is a large and complex project, several bodies are directly involved in the development of the strategy, which are directly involved in the process of joining the euro area and have the relevant decision-making and activities powers. Technically, the preparation for the introduction of the euro is the responsibility of the coordinating body – the Technical Preparation Committee for the introduction of the euro. This is a body set up at the initiative of the Slovenian Ministry of Finance to join the country in ERM II. The Committee consists of several working groups, each responsible for a specific substantive area for which it has prepared an appropriate action plan and, in the implementation of which, regularly coordinates its work with the other working groups. Other ministries and government departments, heads of individual parts of the financial system, professional associations of financial service providers and business representatives also participate in the activities of these working groups.

➢ *Common feature of the "Euro introduction plan"*

The original "Plan for the Introduction of the Euro" drafted by the Government and the Central Bank of Slovenia was presented to the public for broad public consultation, as a result of which the document was updated twice – the first time in January 2006 and the second (Masterplan of introduction of the Euro, Government of Republic of Slovenia, 2006) – in October 2006. There is no structural change. In both variants, the Plan… contains four main strands: General; Legal framework; Euro adoption standards and best practices and Sector training: Banking sector; Public Sector and Capital Market.

But the same structure reveals profound developments in the areas identified. Without going into detail, it can be noted that the interpreted areas of concern are public expenditure (incl. Taxes), debt instruments (respectively interest rates), social transfers and more. It is noteworthy that the fears arising in the euro area candidate countries, declared after the 2008/09 global financial and economic crisis – such as: fear of inflation, labour market problems, competitiveness (including FDI, level) export), price stability, etc. – have not been interpreted in detail (http://www.evro.si/en/faq/slo-euro/index.html). Particular attention was paid to informing the population, with a central focus on the so-called. "Communication strategy for the introduction of the euro", developed by the Central Bank of Slovenia (https://bankaslovenije.blob.core.windows.net/publication-files/gdgetGfgsfd ggo_communication_strategy.pdf). As for the information – the last document is valuable, we pay special attention.

➢ *Working Party on Communication and Information to the Population*

The European Commission prepares special assistance provisions for the implementation of communication programs for the introduction of the euro by the new Member States. Basically, recommendations and principles for support and cooperation with the new Member States can be seen in two communication strategies (Implementing the Information and Communication Strategy for the European Union, 2004): umbrella communication strategy – COM (2004) 196 and COM (2004) 552 final (http://www.evro.si/en/faq/slo-euro/index.html). The main differences regarding the first introduction of the euro are as follows:

- euro banknotes and coins are already in circulation and are well known and are often used in the new Member States.
- due to probably a small number of ATMs, POS terminals (there is still widespread use of cash.

The European Commission recommends the conclusion of different partnerships for the implementation of the communication strategy. The most appropriate type of partnership within a campaign to support the introduction of the euro is the so-called ad hoc partnership whereby the government of a Member State and the EC enter partnerships within individual projects where necessary.

Providing information to the public is one of the priorities of the Euro Introduction Plan, which is why a Communication Working Group has been set up within the Coordination

Committee. Its members include representatives of the Government of the Republic of Slovenia (Office of the President of the Government of the Republic of Slovenia, Government Office for Public Relations and Media, Ministry of Economy, Statistical Office of the Republic of Slovenia, Bank of Slovenia, Bankers Association of Slovenia, the Slovenian Chamber of Commerce and the Slovenian Chamber of Crafts). The group is managed by the press service of the Government and the Bank of Slovenia. The group's most important task is to develop a national multi-annual communication strategy to support the introduction of the euro, its implementation and coordination of communication and information activities.

In informing the public about the introduction of the euro, Slovenia takes into account the experience of countries that have successfully switched to the new currency, as well as some important facts that are particularly specific to its social environment: Slovenian citizens are already familiar with euro coins and banknotes; the introduction of the euro at that time was considered to be extremely favourable and is eagerly anticipated. The main objective of the campaign is to inform and educate the public during the transition period and during the introduction of the euro and to provide follow-up advice. An important objective of the campaign is also to build people's confidence in the euro and ensure a smooth transition to the single currency. In building this confidence, Slovenia also takes advantage of its positive attitude and experience gained in the introduction of its own national currency (upon separation from the SFRY), as well as the experience of the euro area Member States. Initially, the campaign is primarily informative and educational, aiming to highlight the benefits of the common currency, the common monetary area and the functioning of the European Central Bank, the Euro system's rules of operation and finding people familiar with euro banknotes and coins.

In the last months before the changeover, information activities have focused on attracting people and developing technologies that will help the changeover, training cash workers to identify counterfeits, and more. The introduction of the new currency is expected to be followed by consultative activities, as it was believed that the public would need assistance in the form of practical information, data, advice, instructions on how to proceed with the changeover to the euro, where to go old banknotes and coins are exchanged, etc. a schedule of campaigns is set out that includes five stages:

- preparatory phase (June – December 2005): it involves the provision of information to the public on the start of the dual-display of price prices, including procurement procedures necessary for follow-up, regular media monitoring, activities carried out together with the selected twinning country, setting up a common website (www.evro.si), indicating the logo and eventual slogan of the campaign (provided that the ECB may determine a common logo and slogan for all countries adopting the euro in the same time);
- an introductory phase (1 January 2006 – 1 September 2006) in which information and education activities are envisaged to be at the forefront of the overall procedures;
- the final phase of two years of participation in ERM II (June 2006) and the definition of currency exchange: general information for the public on the functioning of Economic

and Monetary Union and compliance with the convergence criteria and, at the same time, disclosure of the first concrete activities, related to the adoption of the euro;

- the period between the termination of two years of participation in ERM II and the adoption of the euro (foreseen for the period July 2006 to January 2007): essentially the continuation of the transitional stages for public awareness of the progress and preparation of banks, design of coins and banknotes and the preparation of practical tips for exchanging national currencies for the euro;
- the period between the introduction of the euro (1 January 2007) and the end of currency exchange and conversion with banks: public communication, mainly focused on providing practical exchange/conversion advice.

The comparative analysis between the Strategy of Lithuania and the Plan of Slovenia gives an opportunity to outline the main features of this type of documents: Formal characteristic: An official government document prepared jointly with the CB of the respective country. Adopted after a wide discussion, with the participation of representatives from academia, industry chambers, employers 'and workers' organizations, NGOs, etc.; led by a specially created body/committee. Structurally: the document consists of separate parts, each of which analyses the identified direct/indirect impacts of the introduction of the euro. It includes guidance for public authorities and information for the general public. It results in a "Plan/Strategy for the Introduction of the Euro" which includes several significant areas of impact: prices and interest rates, employment, GDP dynamics, banks and the capital market (including credit ratings) and more. The preparation of the document is the responsibility of a specially created body/committee, which: structurally consists of a number of working groups (identified by major areas of impact of the euro: cash and credit institutions), business environment, technical preparedness in the public sector, consumer protection, legal issues, communications (informing partner institutions, business, the public) and information activities (attracting people and identifying technologies that will help with the transition Anne to the euro, learning to identify counterfeit); a Maastricht criteria monitoring group. Each group is responsible for a specific material area for which it has prepared an appropriate action plan and, in the implementation of which, regularly coordinates its action with the other working groups. This specially created body includes experts from the public sector, representatives of the private sector, academia, industry chambers, organizations of employers and workers, NGOs, etc.

Substantive characteristic: The following are considered as direct effects of the introduction of the euro: inflation, liquidity, balance sheet structure of assets in the public and private sectors, money supply and banking, etc .; so are the indirect effects of the introduction of the euro: credit rating, foreign investment, business climate, economic growth, foreign trade, labour costs, employment, etc. Based on the outlined direct/indirect impacts, scenarios are reproduced, outlining the impact and measures (to overcome the negative effects) developed jointly by the government and the Central Bank.

Later strategies always identify a separate analysis of one-off and additional costs of adopting the euro: the overall impact of targeted adoption of the euro on the economy requires the review to quantify the one-off costs of converting to the euro and the additional financial contributions that the country will it must pay to international institutions (for example: ESM, change in the contribution to the ECB's capital, etc.). An institutional mechanism is being developed and instruments are being put in place to prevent unjustified price increases and to strengthen consumer positions (usually concentrated in the "legal framework" part).

2. Policies Against the Inflationary Effects of the Adoption of the Euro

Inflationary uncertainty is considered to pose risks to the real economy. One of the most frequently asked questions when joining countries in the euro area and adopting the single currency is will this process lead to price increases? Many comments and analysis can be found on the topic; for the most part, they diverge and are at opposite poles. Some sources undoubtedly see high inflation, others say inflation is moderate and even deflation may be observed in the first months after accession. Public opinion has its own position, which often diverges from that of experts, and this is normal, as it is formed mainly based on read articles on the Internet or analysis of any commentators on television channels. These analysis and articles are not always credible and are supported by credible sources and information (Hristozov, 2019).

Price stability allows us to consider the lags in the manifestation of monetary policy, based on the lack of a long-term link between inflation on the one hand and unemployment and growth on the other, helps to solve the problem of time inconsistency (Chobanov, 2018). Concerns that the introduction of the euro will trigger an inflation wave are fuelling one of the basic myths about a possible "price jump". These concerns assume that traders will benefit from currency changes to speculatively increase the prices of goods and services.

The assumption is that this may happen when the prices are rounded off after the exchange rate is calculated against the euro and even by making a speculative addition to the price. These concerns have not yet been realized in any country that has joined the Eurozone. Comparative analysis shows that this was possible due to the introduction of a set of institutional (administrative control) and economic measures that did not allow deliberate price manipulation in favour of traders. It should be explicitly emphasized that this is possible after detailed preparation of the state institutions, coordination and harmonization of their activities, so that attempts for speculative pricing are blocked a priori. The main instruments of these policies are:

- *Advance announcement of the conversion rate of the national currency into euro* – three to six months before the introduction of the euro.

This is an enough period for producers and consumers to get used to the price conversion from the respective national currency to the euro. The pre-announcement of the exchange rate of the national currency precludes the possibility of speculation based on lack of information on the element of surprise. So far, this instrument has been applied only to countries that have used the managed exchange rate of their national currency – Slovakia, Slovenia, Cyprus, Malta and others. However, it is not necessary for countries where the Monetary Council and/or the fixed exchange rate were applied before joining the Eurozone, as was the case with the Baltic Republics of Latvia, Lithuania and Estonia. Obviously, this also applies to Bulgaria. There is no need to announce a pre-exchange rate here since it has been fixed since mid-1997 at a ratio of two levs per euro, i.e. we are greatly facilitated from this point of view.

- *Simultaneous use of the national currency and the euro as a payment instrument within one to three months after the introduction of the euro*

The ECB generally recommends that this period be as short as possible; within a month or two. In most cases, this recommendation was followed. This transition period guarantees peace in society and allows price control by the buyers themselves. Under these conditions, it is impossible to carry out a speculative pricing policy, since in addition to controlling state authorities, the comparison of prices in levs and euros will be made by millions of buyers. In view of the specifics of the Bulgarian conditions, this period may be a month or two, i.e. in full compliance with the ECB's recommendations. At the same time, this will provide conditions for the gradual withdrawal of BGN from circulation and smooth replacement with the new single currency. We should also consider the experience of other countries that have enforced the principle (with a legal guarantee) of an unlimited in time exchange (redemption) of other euro banknotes.

- *Establishment of target organization and coordination in the work of the state control bodies against possible attempts at price speculation*

As soon as it submits its application for ERM2 membership, the government, in close cooperation and coordination with the BNB, should take steps to adequately organize, regulate and control the overall mechanism for the introduction of the single currency. The experience of other Eurozone countries shows that it is not necessary to create new state bodies, but rather to coordinate existing institutions, including National Revenue Agency, State Financial Inspection Agency, Consumer Protection Commission, Competition Protection Commission, Financial Supervision Commission. Price controls can involve municipal authorities as well as non-governmental organizations and citizens.

- *Widespread public consultation with the participation of experts, NGOs and business representatives prior to joining the Eurozone*

Introducing to the public the various aspects of the introduction of the single currency, the expected effects, risks and challenges, the economic, social and political benefits, etc. is a prerequisite for the success of the whole process. But in Bulgaria, this issue is highly underestimated. The government has stated its intention to submit a formal application for ERM II membership, but public hearings are limited and sporadic. The government has not yet provided detailed economic estimates of the effects of the introduction of the euro – on imports and exports, on competitiveness, on the development of individual sectors of the economy, on employment and labour productivity, on economic growth and resilience in economic crises, on living standards etc. The government could use extensively in these discussions and evaluations the teams of economic universities and faculties, the potential of the Economic Institute of the Bulgarian Academy of Sciences, trade unions and business organizations, NGOs and others. This preparation will be particularly useful regardless of the length of the preparatory period and the final decision of the Bulgarian Government to become a member of the EU Banking Union and the Eurozone.

3. Effects of the introduction of the euro in the newly adopted members of the euro area

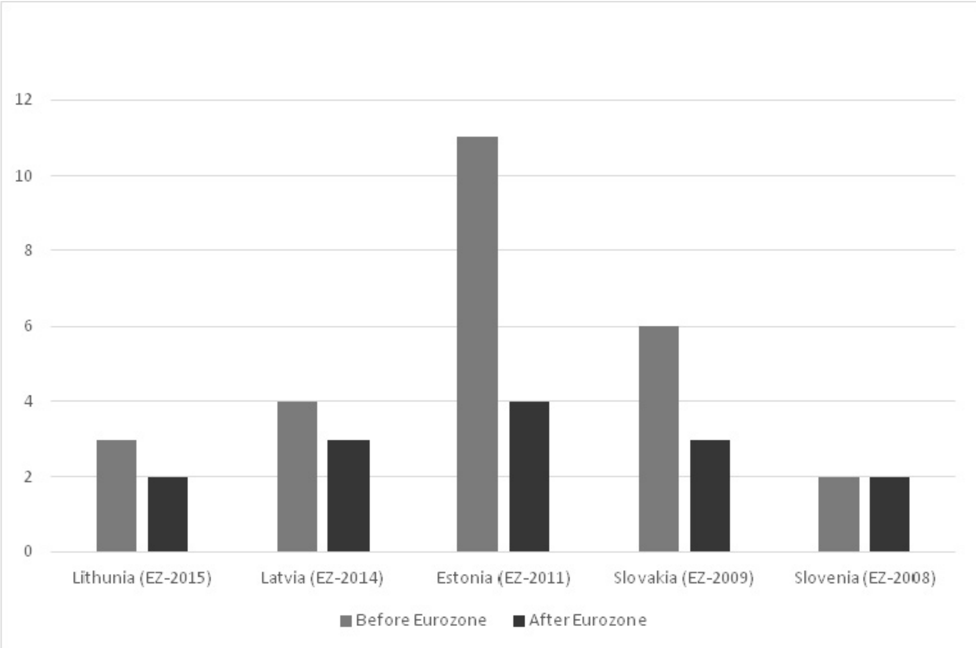
The effects of the introduction of the euro on the national economy have different dimensions. The level and structure of foreign direct investments (FDI) and portfolio investment are one of them. FDI is a key indicator not only and not so much because it increases the total volume of investments (domestic plus foreign). FDI also has other significant macroeconomic effects, including:

- Transfer of technologies, know-how and innovative products; knowledge and experience;
- Providing access to new markets guaranteed by foreign investors;
- Development of import substitute production and improvement of trade balance;
- Increasing market competition;
- Increase in foreign exchange reserves and thus improve the stability of the national currency;
- Accelerating GDP growth and raising living standards;
- Improving the image and position of the country in the world economy.

From this point of view, the changes in the flows and structure of FDI after the introduction of the single European currency are a particularly important indicator for countries like Bulgaria, which are eager to join the Eurozone.

Foreign direct investments decline in% of GDP (Figure 1) in the years after the adoption of the euro in all the analysed countries, except for Slovenia. The most significant decline is observed in Estonia, followed by Slovakia. However, it would be wrong to accept that the introduction of the single currency is the reason for this decline. Undoubtedly, as evidenced by comparative analysis of the global economy, the decisive cause of the downturn is the global financial and economic crisis of 2007 and, accordingly, the difficulties of the post-crisis period. As a rule, there is always a sharp decline in FDI volume in major regional and even more global crises. This applies to both investment from developed to developing countries and from developed to developed economies. But the decline from developed to developing countries is always more pronounced. In the countries mentioned above, it should also be borne in mind that, for most of them, joining the Eurozone coincided with the difficulties of the post-crisis period.

Figure 1
FDI before and after admission to the Eurozone (average for the period 2006-2019; as a percentage of GDP)

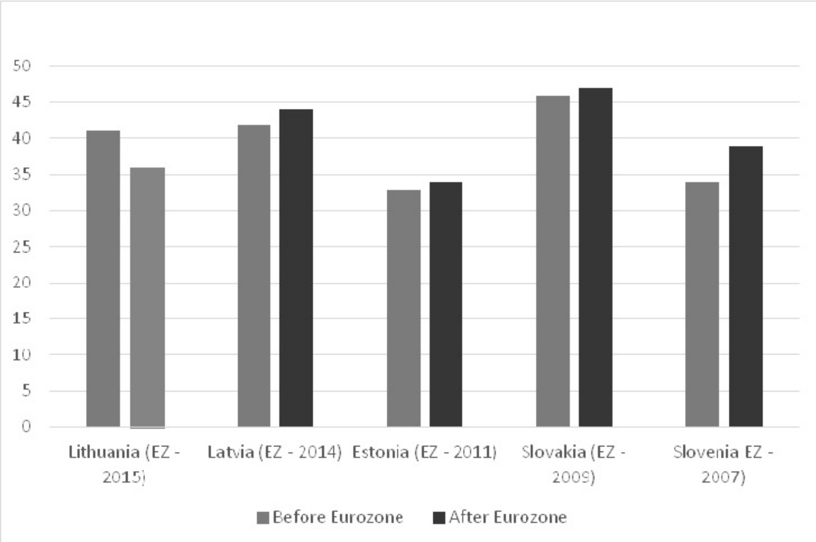


Source: Eurostat.

Considering the decline in FDI in others. countries outside the euro area, it can be concluded that the single European currency has rather helped to curb (reduce) the decline in FDI flows. And a typical example of this is Bulgaria. In Bulgaria, FDI of nine billion euros in the pre-crisis year 2007 shrunk to half a billion levs in 2017 and 2018, or almost ten times. Growth is noticeable in 2019 and they are close to BGN 1 billion, but they are mainly from loans to parent companies. And even though the lion has a fixed exchange rate against the euro, i.e. there is no foreign exchange risk for foreign investors. Therefore, the reasons are not related to whether a single or national currency is used. This is the subject of another analysis, but it is pertinent to point out that the decline in FDI in and outside EU countries is smaller in those of those with highly developed industrial production. Typical examples of this are Germany, Poland, Slovenia, etc., where there was no economic crisis or it was weakly expressed, which logically limited and outflows of FDI. Conversely, a weaker outflow of foreign investment was one of the factors behind the sustainability of growth. Similar are the conclusions regarding changes in the country's competitiveness rank before and after joining the Eurozone. Of the five selected countries (Figure 2), one, Lithuania, has improved its position, and the other two are more likely to demonstrate their ability to remain competitive. Change is only in a few positions.

Figure 2

Chart Global Competitiveness Index (World Economic Forum)



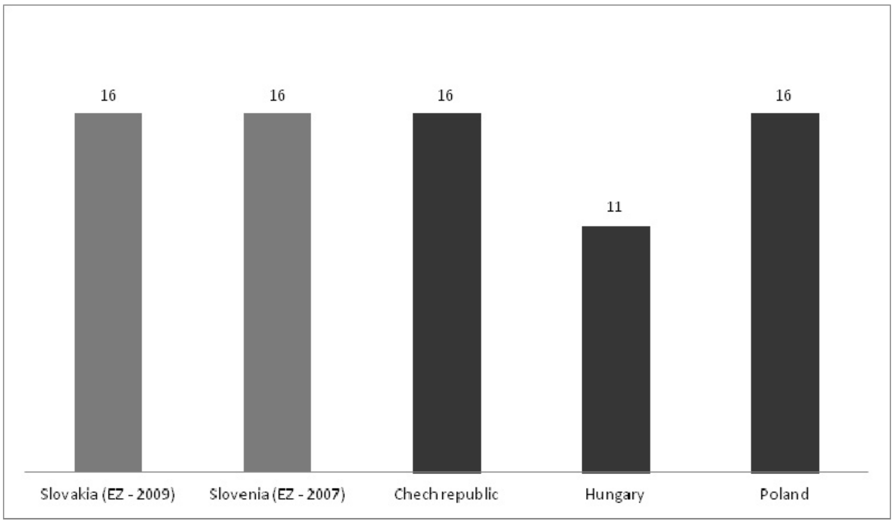
Source: World Economic Forum.

For Estonia and Latvia, the "deterioration" of the position is symbolic – with only one, two positions, and Lithuania comes forward with five positions. The choice of these countries for comparison is important for Bulgaria because they are also on the Monetary Council. Our conclusion is that the single currency guarantees relative stability in terms of competitiveness. But at the same time, the concrete results of each country depend on the relationship between price and non-price competitiveness. It is well known that changes in the euro's exchange rates have different effects on individual Member States. The differences are due to the structure and technological level of a national economy. On the other hand, the share of foreign trade turnover inside and outside the euro area is essential. For intra-euro area trade, a change in production costs and product non-price competitiveness is crucial. Another possible factor is the ability to enter markets that are less affected by changes in exchange rates – mainly between the euro and the dollar.

Average changes in GDP export share (Figure 3) for the five selected countries show that joining the euro area of Slovakia and Slovenia did not lead to any different results than those of the Czech Republic and Poland, which remain outside the European Monetary Union. In the 20-year period considered, the share of exports to GDP of the four compared countries increased at the same rate of 16%. For Hungary, it is noted to be slightly abandoned by about 5% compared to other countries. Of course, the demand for a correlation between entry into the Eurozone and the share of exports should be differentiated for each country. Because the selected five countries have different economic potential and respectively different market potential in their internal market. The rule is that the smaller an economy, in terms of production capacity and number of consumers, the more it depends on international markets, it is in full force. It is worth mentioning here that there are no grounds for unrealistic expectations that joining the Eurozone will automatically improve competitiveness. The truth is that the single currency only creates conditions for higher competitiveness, but the utilization of these conditions depends on several other factors.

Figure 3

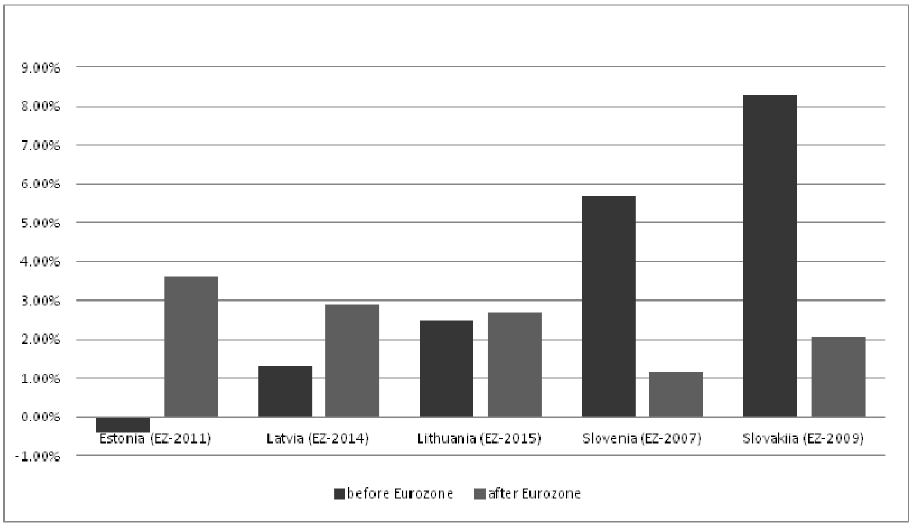
Increase in the share of exports in GDP (2008-2019)



Source: Eurostat.

Figure 4

GDP rate before and after admission to the Eurozone (2006-2019 average)



Source: Eurostat.

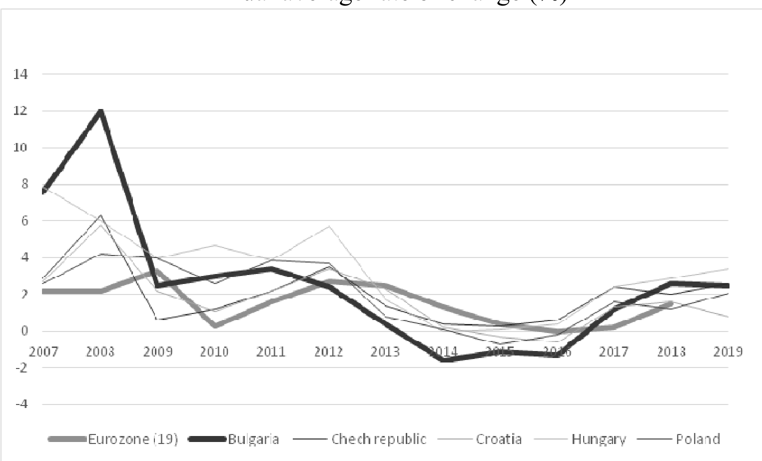
In Figure 4 looks at the average rate of GDP growth before and after the euro area countries. Growth in the Baltic States is most significant in Estonia, followed by Latvia and Lithuania. Of interest to the figure is the pace of Slovenia and Slovakia, which has seen a significant decline, and at times. This confirms our view that the Eurozone only creates the conditions. It is up to the individual countries and precisely their economic policies to determine how their national economy will adapt to changing market conditions. Eurozone membership leads to mixed results in a crisis – the example of Slovakia (Židel, Melioris, 2016). From 2009 to 2018, real GDP per capita in Slovakia has increased by 10%. But the Organization for Economic Development and Cooperation (OECD) analysis show that if the country had delayed entry into the Eurozone by one year, that is, the OECD for 2010, GDP decline in 2009 would have been 2% lower. The reason is that by regulating the floating exchange rate, the Slovak Central Bank could more adequately "adjust" the national economy to the deteriorating business environment.

The advantage of a managed exchange rate to mitigate the effects of a crisis and thus to get out of the crisis has not been discussed in the economic literature and has been proven many times in a series of crises. It influences the price competitiveness of exports and imports respectively. Typically, the goal is to increase exports and limit imports by enhancing the price advantages of local producers. Thus, several effects are achieved: improving the trade balance, stimulating domestic and foreign investment, maintaining and expanding local production of goods and services, maintaining and increasing jobs, keeping the decline in the standard of living, and creating conditions for raising it, leaving the economy in crisis. A typical example of comparison in the case of Slovakia is Poland, which avoided the economic crisis of 2007-2008, including because of the ability to manage the exchange rate of the zloty.

In Figure 5 lists non-euro area and ERM II countries. It is noted that inflation rates in most countries except Bulgaria (after 2012) are above the euro area average. After 2014, inflation in countries is approaching between 1.5 and 2.5%.

Figure 5

Annual average rate of change (%)



Source: Eurostat.

International studies show that a one-off increase in prices when countries join the euro area is triggered by four key factors:

- rounding prices and the desire of sellers to make them attractive;
- transferring some of the costs of adopting the euro to consumers;
- so-called "rational non-compliance" of consumers (it is difficult for consumers to evaluate all price changes simultaneously and in some cases even try to remember them because of their small size, and sellers can take advantage of this);
- synchronization of price changes (usually prices are revised gradually, while prices will be revised at the time of adoption of the euro).

4. Expected scenarios, effects and risks of Bulgaria's accession to the euro area

One of the most significant problems of the euro area is the uneven development of the national economies of the Member States, including significant differences in technological and product levels, in the qualifications of the workforce, in the scope and effectiveness of applied research, in access to markets, in the level of competition, in the economic structure, etc. It is these differences according to leading economists, incl. and the Nobel Prize winners in economics, Joseph Stiglitz and Paul Krugman, quoted in the introduction, do not allow the effects of the "optimum currency zone" to be achieved.

There is no way that the common exchange rate policy pursued by the ECB is in line with the interests of individual euro area countries, which have such wide differences. Therefore, in addition to the problem areas outlined by Krugman (see above), we believe that limiting these undesirable effects is necessary:

First, to extend EU cohesion policy to less developed EU countries, so that – quickly bridge the technological gap and the gap in labour productivity and standard of living.

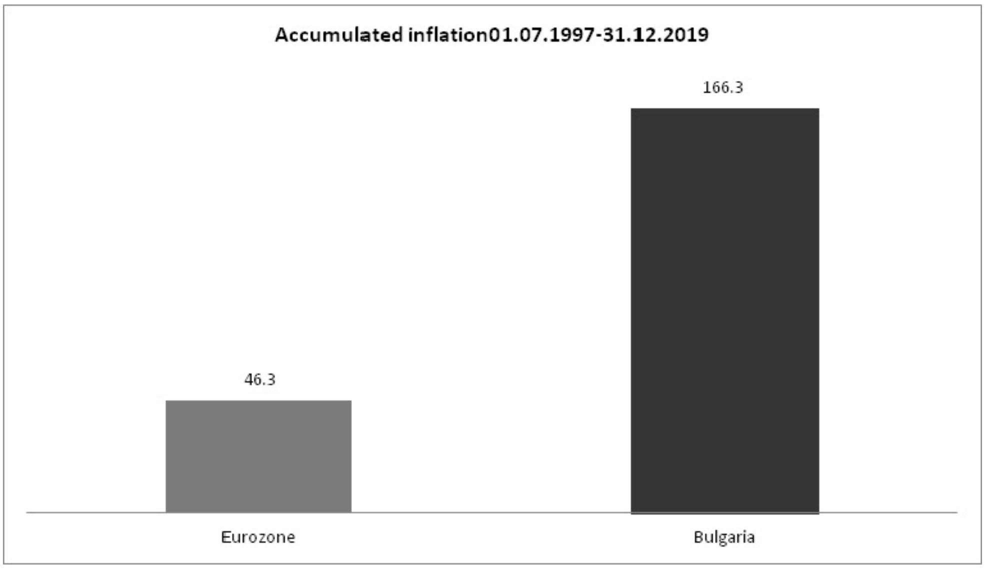
Secondly, to improve the efficiency of the use of cohesion funds and to strengthen their role in generating additional "national investment" through public-private partnerships.

Third, a better balance is achieved in protecting the national interests of all euro area countries when the monetary policy of the European Central Bank is formed and implemented.

The replacement of the local currency with the euro has led to several discussions, comments, disputes, the most common of which are related to questions about rising general levels of prices for goods and services (Hristozov, 2019). The main problem is that, at this stage, there is a lack of a prepared strategy by the Central Bank and / or the government (or at least the Ministry of Finance), for example, of all countries that have so far adopted the euro or are about to do so. The data in the above figure 6 is of great importance for the possible scenarios and the consequences for Bulgaria of its possible admission to the Eurozone.

Figure 6

Accumulated inflation 01.07.1997 – 31.12.2019



Source: National Statistics Institute, Bulgaria

There is a very large difference of about 110% in the accumulated inflation in Bulgaria (166.3%) and the Eurozone countries (46.3%) for the period since the introduction of the Currency Board in Bulgaria (mid-1997 – until now). And all things being equal, it is the inflation differential that has always and everywhere played a major role in changes in floating exchange rates. The lev-euro / German mark has not changed for more than 20 years, despite the significant difference in the accumulated inflation. If we were in a floating exchange rate regime, all things being equal, the inflation differential would have led us to depreciate the lev to about four levs for one euro. But there is no such depreciation here because through the Monetary Council Act the rate was "anchored". There are two scenarios (variants) with fundamentally opposite consequences for us:

Scenario "A". The most desirable scenarios for us: we enter the Eurozone with the same exchange rate of BGN 1.955583 for Euro, or

Scenario "B". Possible scenarios: Bulgaria joins at a market rate of about four leva per euro or another like that rate agreed with the European Council, the European Central Bank and the finance ministers of the euro area countries.

Option A has its chances because there is a precedent: all three countries with the Currency Board and/or fixed exchange rate – Estonia, Latvia and Lithuania were admitted to the Eurozone with the same fixed exchange rate as when the Currency Board was introduced in those countries. This option would guarantee us a smooth and hassle-free transition to the new unit of exchange, without inflationary pressures and without losing the real purchasing power of the lev.

Option B would have extremely negative consequences for Bulgaria. Among other things, this would devalue the savings in levs of companies and citizens and generate serious inflation problems. This would be "sufficient" to cause serious macroeconomic imbalances and lower living standards, at least in the medium term.

There is a third hypothesis that some economists have advocated in recent days in Bulgaria. Namely, that the lev is also undervalued in case of "decoupling" of the exchange rate, its real value is higher and the exchange rate against the euro would become 1.7-1.8 levs per euro. In this way, the Bulgarian economy would benefit. To us, these are unsubstantiated statements that do not rely on any real numbers or studies. Such claims are dangerous to the security and stability of the Bulgarian lev and the currency board and should not be commented at all. In addition, it should be borne in mind that determining the exact value of a currency requires statistics that must meet a number of requirements, which, in view of the dynamics of changes in their reporting methodology (leading to their permanent revision), if not nearly impossible, it is certainly extremely difficult to accomplish this task. In this view, the historically established (fixed rate) decision seems the most reasonable and in this sense the topic of the adoption of the euro at a different rate of 1.9558830 should not be commented on. In this sense, the decision of the Parliament of 30.01.2020 to refuse accession to the eurozone, if it fails to negotiate entry at the current exchange rate of the lev to the euro, is a step in the right direction.

As noted above in the text (see Introduction), more attention should be paid to this "episode" of Bulgaria's first real steps towards the euro. The change states that from the date of Bulgaria's entry into ERM II, the official lev to euro exchange rate should be carried out at the rate agreed at the relevant resolutions between the ECB and the other euro area countries, plus Denmark, which is currently in the mechanism. It was felt that this would allow other countries and institutions to address this issue. The official position of the BNB (http://www.bnb.bg/PressOffice/POPressReleases/POPRDate/PR_20200126_BG) is that the purpose of the bill is to ensure that the internal regulatory framework complies with the European, governing the administrative process and the operational procedures for the approval of the exchange rate under the conditions of the ERM II exchange mechanism, which is a mandatory condition for accession to ERM II. In our opinion, this change does not lead to such a risk, because the mandate that the government will give to the negotiating parties on the part of Bulgaria is important and, in the event of an attempt to implement Option B, Bulgaria will abandon ERM II by this time. Obviously, referring to the ECB's current practice of adopting Monetary Council countries in the Eurozone, Bulgaria should insist and expect membership in the single currency system under Option A (as applied to other countries). Only in this case will the serious risks of an inflationary wave with severe economic and social consequences be eliminated. However, the risks inherent in the Council of Europe's 1997 regulatory framework should not be underestimated, where it is explicitly emphasized that the exchange rate of national currencies against the euro, when adopted in the euro area, is decided after confidential negotiations. What the exchange rate has set in law does not in any way oblige the negotiating parties to adopt such a rate. Therefore, we explicitly emphasize that it is essential at what exchange rate the ERM II will exit, not what the rate at entering this "waiting room". In addition, Bulgaria does not have an option to exit the ERM II mechanism. The minimum stay is two years, but there is no guarantee that the lion will stay there for three, five or fifteen years. In these pessimistic scenarios, all elements of our national monetary policy will be blocked. The consequences can be dire, especially in the face of a new financial and economic crisis in the euro area. If, by the example of Croatia, Bulgaria prepares a forecast for the expected effects of the introduction of the euro, through the cost-benefit model, they can be synthesized as follows (see Table 3):

Table. 3

Cost-benefit analysis of the introduction of the euro

Costs	Benefits
• Loss of opportunity for independent monetary policy; • Increase in the price level in the conversion process; • Risk of macroeconomic imbalances; • Different one-off costs; • Participation in financial support mechanisms.	• Elimination of currency risk; • Reducing the cost of credit servicing; • Reducing transaction costs; • stimulation of foreign trade and investment; • Reduction of the risk of currency collapse and banking crises; • Access to financial support mechanisms.

Source: own Analysis.

Comment on the explicit "benefits":

1. Elimination of transaction costs for the purchase and sale of euro. According to a several analysis by reputable think tanks, this saves from 0.2 to 0.4% of GDP, depending on the share of foreign trade turnover in GDP and the degree of openness of the economy. The share of trade with and outside the euro area is essential. Our expert estimate is that with the current GDP of about BGN 100 billion, we would save about BGN 400 to 500 million a year.

2. The possibility of direct comparability of the prices of goods sold domestically with those sold in other euro area countries. This will make it easier for our users and manufacturers, and it will also limit the possibility of raising the prices of goods and services imported into our country.

3. Decrease in the cost of investment capital as a result of lowering interest rates to the levels of the euro area countries. (In Greece, corporate loan interest rates have fallen by almost 4% since its entry into the Eurozone. In the Baltic Republics, Cyprus and Slovenia, the decline is about 1.5%). This is one of the most important positive effects on our national economy. Because cheaper investment means lower overall production costs and higher price competitiveness in the domestic and international markets. And citizens will be able to rely on significantly lower interest rates on consumer and mortgage loans. Because now the interest rate differential between the interest rates in Bulgaria and the Eurozone remains unreasonably high.

4. Attracting more foreign direct and portfolio investments due to the significant reduction of investment risk and improvement of the business environment. Joining the Eurozone would mean more integration of our country into the EU. In this way, the overall

benefits of the EU will be "transferred" to investment climate assessments in Bulgaria. This would undoubtedly increase the interest in the transfer of capital to Bulgaria.

The positive effects of a possible accession of Bulgaria to the euro area are related to expectations for increased investment activity, enhancing the integration of Bulgaria into the euro area economy and the EU. These effects will gradually begin to be felt and will be reflected mainly in improving the internal business climate and increasing external confidence, strengthening the banking system, stability of the Bulgarian economy, reducing investment risk, reducing foreign exchange costs for businesses.

No significant inflationary effects are expected to occur and there is no risk of high inflation, as other countries have shown. Since the last polls, an attempt has been made among the citizens to instil an opinion and manipulate the results of dubious organizations, as it turns out that they largely do not want the changeover to the euro (over 50%) and the main argument is the expected high inflation. We are firm on this point, it is not expected that the prices of goods and services in Bulgaria will increase significantly after the adoption of the euro.

There are also no risks in terms of savings and there is no need for a panic change in the euro. The BNB's foreign exchange reserves amounted to almost BGN 48 billion as of January 31, 2020, which shows significant coverage of the currency board and the monetary base with international reserves, there is no risk to the banking system.

Conclusions

Eurozone membership is a political commitment, but its implementation may not be "at any cost" because:

1. Eurozone membership creates favourable conditions for the economic development of Member States, but the actual indicators depend on the economic structures of the countries concerned and the effectiveness of the implemented national policies – fiscall, export, investment, employment policy, etc.
2. Some of the countries that, for one reason or another, do not prepare for the recent entry into the Eurozone – Denmark, Sweden, Poland, Hungary and the Czech Republic – demonstrate sufficient potential to overcome the banking and economic crisis of 2008-2009 and maintain a comparable dynamic its main macroeconomic indicators, incl. real GDP, exports, GDP per capita, stability of public finances, accessibility to investment loans, share of foreign direct investment in GDP, etc.
3. The main challenge facing the Eurozone is related to the varying degrees of economic development of the Member States and the significant differences in their fiscal policies. This limits the manifestation of enough advantages – typical of the optimal currency area. The euro area's insufficiently strong performance is also due to the delayed and ineffective intervention of the European Commission, the ECB and the IMF to mitigate the effects of the severe debt and banking crisis in the euro area.

Recommendations to monetary authorities

Bulgaria's interest in membership of ERM II, backed by concrete actions by public authorities, was announced in April 2018, but a final decision should only be made after:

1. In-depth econometric and political-economic analysis of the possible effects on our national economy, individual industries, on the elements of the balance of payments, standard of living, etc. It is imperative to examine the analysis and arguments of countries that refrain from joining the Eurozone at this stage. These tasks should be entrusted to a specially created interagency body/committee whose task is to secure the necessary powers, and which include representatives of science and public figures.
2. To develop and implement new, specific economic policy instruments to improve the degree of development and adaptation of the Bulgarian economy to the specific environment of the Eurozone, which will result in the development of the Bulgarian Strategy for joining the Eurozone.
3. We believe that there is a risk in Bulgaria's accession to the Banking Union at this stage, because Bulgaria will bear joint and several liabilities in the event of banking crises in the euro area member states, while this will not be the reverse until Bulgaria becomes a member of the euro area. In other words, Bulgaria could be exposed to liquidity risk in the event of the need to pay several billion euros in cash (an estimated 5-6 billion euros) in the eventual need to rescue the banking sector in a foreign country. It is our recommendation that Bulgaria joins ERM II without joining the Banking Union at this stage.
4. We believe that an agreement with the European Council will be crucial, which, in consultation with the ECB, should determine the exchange rate of the lev to the euro. These negotiations will be difficult because the accumulated inflation in Bulgaria since the introduction of the Monetary Council is three times higher than the one for the Eurozone. But Bulgaria has every reason, based on the precedent with the adoption in the Eurozone of Lithuania, Latvia and Estonia with their fixed exchange rates, to demand the same approach when introducing the euro. Only in this way will we protect our economic interests and limit the challenges posed by the change of national currency to the euro. Following the example of the first "episode" of Bulgaria's path to the euro (see above), effective protection of these interests is only possible with a parliamentary mandate. In other words, a sufficiently flexible mechanism must be devised to empower the negotiators – in the course of the negotiations themselves – to defend the Bulgarian position by virtue of a parliamentary term on the issue.

At the same time, it is important for states and civil society structures to actively involve their citizens in these processes, helping them to adapt to new realities (Bystryakov, Nenkovski, Ponomarenko, 2019). The most optimistic outlook is for Bulgaria to join ERM II in 2020, or 2021. To maintain the currency board until the actual adoption of the euro, which can happen earlier in 2023-2024 and should only take place at the current exchange rate. It is difficult for the Bulgarian governments, whoever they are during this period, would agree to the devaluation of the Bulgarian lev because this act would constitute political suicide. However, meeting the criteria for nominal convergence does not mean that

Bulgaria has consistently fulfilled all EU requirements for joining ERM II. The ECB has repeatedly stressed that Bulgarian legislation fails to fully protect the independence of the banking system, as well as restrictions on public sector funding from the central bank and legal compatibility with the Euro system. Despite the successes in achieving nominal convergence with the euro area countries, Bulgaria still demonstrates a low degree of real economic and social convergence. The main task of the Bulgarian state is to prepare an in-depth analysis of the possible effects and strategy for the changeover to the euro, to conduct an appropriate educational campaign for the population in order to eliminate the risks and myths about the euro. We believe that the implementation of the recommendations outlined above will generate the necessary institutional environment through which the impact of the outlined negative effects will be minimized or even avoided (i.e. avoided), such as thus, the positive effects will dominate, which would justify the introduction of the euro in Bulgaria.

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