



# STRATEGIES FOR JOINING THE EURO AREA

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**H**ave you ever managed to reach a certain place, to achieve a certain goal, when you have initially adopted a strategy of temporizing? It is hardly probable.

Bulgaria also will not manage to adopt the euro if it does not take more active actions in this field. And it is now when is the moment for such actions. A moment that should not be missed if we want to switch to a higher gear in the process of European integration within the EU.

The Exchange Rate Mechanism II – ERM II, in which Bulgaria is to have membership before adopting the euro (also called “the waiting room of the euro area”), requires the maintenance of a stable exchange rate of the national currency to the single European

currency. The participation in this mechanism is one of the so-called nominal criteria for membership in the Euro area. Bulgaria performs comparatively well with the rest of the nominal criteria – stable inflation and interest rates, low public debt and budget deficit. Of course, if we have to analyse the actual and the social convergence with the states from the euro area, the things already would not look so positive.

From the nominal euro area membership criteria, during the recent years, Bulgaria has not met mainly that for participation in the Exchange Rate Mechanism II. Including because of the fact that the European Central Bank (ECB) and some of the Member States in the euro area, on which the decision for such participation depends, do not want to admit us



to it. In practice, it happens that we are waiting to be admitted to “the waiting room”. The latter should not doom us to passive waiting to receive such a permission.

Where is the problem? The problem is not in the fact that we lay stress on the expectations, but we pay less attention on the actual actions. Such actions are not absent. However, the question is how purposeful and successful they have been in the recent decade.

Strategies for joining the euro area are also available. In the beginning these were publicly announced strategies, which were adopted as early as in 2004 and which set the goal for us to become members of the euro area in 2009-2010. After it became clear that this is unfeasible, both because of internal and external factors for the state, we decided to stress on the quiet diplomacy and on the talks with leading figures on whom depends our accession to the ERM II and to the euro area. The reason for that was that before we submit a request for membership in the Exchange Rate Mechanism ERM II, and subsequently in the Euro area, we should have a certain clarity on the support on principle for our accession. This second strategy also didn't turn out to be completely successful because it didn't bring out for discussion the major issues and reasons because of which we are not admitted even to the anteroom of the euro area.

The present strategy seems as if it is the most appropriate. At its implementation such talks continue to be held actively, but they are given more publicity in the society, however without setting objective dates for going through the

stages for the preparation of euro area membership. Recently there has also been renewed the debate on what the benefits and the disadvantages from the accession to the single European currency are for the state.

Actually, during the state's preparation for membership in the euro area there has not been an absence of paradoxes as well. One of them is namely the rules of the Exchange Rate Mechanism ERM II, according to which the states participating in it have to maintain for at least two years a stable rate of the national currency, which should not exceed fluctuations of +/-15 % to the euro. The paradox lies in the fact that Bulgaria has been maintaining currency board for as long as 20 years, as it has its national currency completely fixed to the euro (initially to the German mark). And while in the ERM II the maintenance of a stable currency rate within this wide currency corridor would happen with the ECB support, Bulgaria maintains its currency board stability unilaterally. It does this without counting on any significant external support, applying stable fiscal, economic and financial discipline, of which most of the present euro area member states cannot boast. This is also one of the next paradoxes – Bulgaria meets the nominal criteria significantly better than most of the countries that have already adopted the single currency.

The Exchange Rate Mechanism ERM II is wrongly called „the euro area's waiting room”. The only element of „waiting” is that while the accomplishment of the other criteria is monitored in the previous year, before making the evaluation of state's readiness for being a euro area candidate, the participation in this

mechanism ought to be longer – at least two years.

Actually, these most recent years before the euro area membership are the most intensive period, in which is prepared the accession to it and the introduction of the single European currency. During this period an enormous specialised preparation should be done: a number of rules to be changed; the states' participation in a number of new for it institutional and financial mechanisms to be prepared, a plan for the national currency withdrawal and for the single European currency introduction into circulation to be developed, an intensive communication campaign for the citizens and the business on the effects of the participation in the euro area to be conducted.

If we try to play with the words, we can conclude that the Exchange Rate Mechanism is actually not „the euro area's waiting room“, but „a fitness centre“ (as Prof. Ingrid Shikova also calls it), in which the warming-up for the final track (the date for the euro area membership) and for the participation in the actual sports competition (the participation in all the policies and reforms within the euro area) is hastened even more. But as it is in real life, you shouldn't go too far with the fitness as well, and the load (the policies and the reforms) should be increased cleverly, gradually and reasonably. The time of the shock therapies in the Central and Eastern European states has gone. So has the time of the passive expectations.

There are several very significant reasons why Bulgaria has to adopt a more active strategy on

the accession to ERM II, and then – to the very euro area as well.

Firstly, the economic situation in Bulgaria and in the EU, and in the euro area in particular, at this moment is suitable for such strategic actions. In the recent almost two years there has been accomplished a comparatively stable economic growth, the unemployment has decreased, the markets development has been restored, and the economic forecasts for the following several years are also favourable at this stage. A few days ago two rating agencies increased the country's credit risk, which is an additional testimonial for the trust in it. In such an environment of comparative stability and trust it is much easier to undertake measures for hastening the preparation for euro area membership.

Secondly, at the moment some of the EU's major reforms in the economic, fiscal, financial, social and political area are concentrated in the euro area. It is true that some initiatives are open for participation also for the EU Member States that haven't adopted the single European currency yet, but most of them are directed and are developed only by the euro area member states. The last economic and financial crisis showed that the architecture of the EU Economic and Fiscal Union hasn't been completed yet, which imposed so many reforms to be implemented and planned at this stage, including those for developing an economic, fiscal, financial and political union for the states in the euro area. Bulgaria ought to try now to hasten its own reforms for accession in the euro area, so that it can participate also in its further development. One more argument can be

added to these arguments – if we let ourselves to apply a waiting strategy for longer in order to see in which direction the changes in the euro area will go, it may turn out that it has strayed too much and in this way to make the objective for adopting the euro as a legal means of payment in the country even more difficult to achieve and more complex.

Thirdly, the very hastening of the steps for joining the euro area should lead also to stimulation of the reforms in the country. This should be done in two major lines. Meeting the criteria and achieving actual convergence with the euro area would require undertaking specific economic and social reforms, including in such areas as enhancing the competitiveness, power engineering, pension reform, education, healthcare and others. Although no direct reference to specific policies is done in the euro area membership criteria, it is much possible the preparation for the euro area membership to stimulate at least to a certain extent also the actions in the field of justice and internal affairs. At least because it is not much possible a EU Member State in which a cooperation and verification mechanism is applied to be able to have the trust of the other states. And when you want to share a common monetary unit and common policies with other states, as it has been already mentioned, their trust is always of key importance.

Accelerating the reforms during the preparation for the euro area membership can be accomplished in one more line. With the last package of legislative proposals and discussion documents, which were published by the European Commission on 6th December 2017

and which aim to deepen the EU Economic and Monetary Union, there is proposed a comparatively new approach to the EU Member States, which would strive for joining the euro area. This new approach should additionally support the euro area candidate states and should be implemented in two stages.

The first of them is for the period 2018-2020, as within these several years the financial funds should be increased for the newly created European Structural Reforms Support Programme. With the increase of these funds its power should be increased as well, as it would be able to provide technical support for reforms initiation, which would lead to more stable convergence to the euro area, including in the area of the public finances, the business environment, the financial sector, the labour market, etc. For such purposes could be used also the funds for technical support within the European structural and investment funds.

The second stage is bound with the next Multiannual Financial Framework, which is expected to be for the period 2021-2027. The European Commission intends to propose a new special financial mechanism for the Member States outside the Euro area that are to strive for adopting the single European currency. This mechanism should also be directed towards implementing policies and carrying out reforms that are to bring countries like Bulgaria closer to joining the Euro area.

Fourthly, the United Kingdom's withdrawal from the EU is also a significant moment for a balance-sheet of the strategy for Bulgaria's accession to the euro area. The referendum in

the United Kingdom and the beginning of the negotiations for withdrawal from the EU, also known as Brexit, at a first glance shouldn't have a great significance for Bulgaria's strategy for adopting the euro. But this is not completely true. After the withdrawal of the second biggest economy in the EU, which also has the most developed financial centre in Europe, the economy of the Member States outside the euro area will make a little more than one tenth of the whole EU's economy. Or, in other words, the Member States outside the euro area will turn into a real minority, and their voice most probably will be heard less and less. This will be valid not only for the reforms and the change in the euro area policies, which would be logical, but also for the rules and standards that shall be applied for the whole internal market in the EU.

Last but not least, from a strategic point of view, the forthcoming Bulgarian Presidency of the Council of the EU in the first half of 2018 should also be used for more active lobbying for Bulgaria's accession to the euro area. The Bulgarian Presidency does not have a direct relation to the preparation for the accession to the euro area. On the contrary, during these six months the state should play the role of a mediator and of an honest broker between the other EU Member States, should represent them in the negotiations and in the relations with the European Parliament, etc. But this is also the period, in which the state's high-ranking politicians conduct shuttle diplomacy and meetings on a highest level, almost every day, with the high-ranking representatives of the other Member States and of the EU institutions. Due to this reason, this is the precise moment in which we have to convince

them that Bulgaria is ready to join the euro area. Of course, we should also have a successful presidency, with which to increase the trust of our European partners that we can deal with such challenging tasks. If we don't succeed as presiding the Union, we could hardly convince them that we would be able to carry out changes in order to adopt also the single European currency.

To all these structural and political arguments we can also add one more. Recently there has come a somewhat unexpected support by the European Commission for the country's preparation for the accession to the euro area. On the first place, the President of the European Commission, in his State of the Union Address, on 13th September 2017, firmly declared himself on a more recent accession to the euro area of countries such as Bulgaria and Romania. In the Commission's *Reflection Paper on the Deepening of Economic and Monetary Union* there were also proposals which to stimulate the states outside the euro area to join it. In the package for reforming the Economic and Monetary Union, which the Commission published in the beginning of December 2017, some of these ideas, including providing more serious pre-accession technical and financial support for the states striving to adopt the euro, got clearer dimensions. Other high-ranking officials of the European Commission, including commissioners such as Valdis Dombrovskis (who is also a Vice-President of the EC) and Pierre Moscovici, also stated their positive opinion on a possible expansion of the euro area, but in case of meeting the criteria for that. Support for the forthcoming accession of the state to the ERM II

mechanism and to the euro area was received from Kristalina Georgieva as well, who at the moment is an executive director of the World Bank.

And yet, if we want Bulgaria to join the Euro area soon, our strategy shouldn't be to collect positive statements, even if they are from leaders of EU institutions and international financial institutions. The strategy of waiting for better times for the accession to the euro area, which was applied initially due to the global economic and financial crisis, and after that due to the crisis with declaring bankrupt the fourth biggest bank in the country, also has to be abandoned.

Now it is the time to proceed to more serious actions for convincing those who don't have enough trust in the Bulgarian application for the euro area. But not convincing with words, but with specific reforms. The society in Bulgaria should also be convinced in the necessity of undertaking these steps.