SOME CONSEQUENCES OF BULGARIA'S NON-MEMBERSHIP IN THE EURO AREA

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Abstract: *The accession of Bulgaria to the Eurozone has been a problem for 10 years now, and the non-persistent attempts of the Bulgarian governments have faced the organized opposition of the European institutions. The rules for adopting the European currency are known, but they seem unread, and the political interpretation of the full-scale criteria has placed Bulgaria outside the "inner" European club.*

The deprivation of our country from Eurozone membership has not only social or political, but also financial consequences. The annual losses are significant and the national economy, financial markets and society remain only partially integrated.

Key words*: Eurozone, European Union, euro, interest rate, government debt.*

JEL: *G100.*

Introduction

Two jokes of black humor can explain the potential sources of stability for the European Union –"European Germany, not German Europe" and "Trade, do not fight". This political and economic union, which emerged from the ruins of the devastated by World War II Europe, has continued its development as a currency union as well for almost 20 years since the introduction of the single currency. Today, the euro is the currency of an economic zone with a population of 340 million and one sixth of the world's gross product. The euro is the second most used currency in the world after the US dollar.

Perhaps, the significance of introducing and adopting the single European currency was best presented by Dr. Willem F. Duisenberg, a former President of the European Central Bank, in his two speeches delivered in 1999 and 2001. According to him, it has been a long time since European integration has reached the point of no return and there is no other alternative than ongoing integration, while economic integration generates its own dynamics, it is no longer so dependent on political initiatives to advance. This means that the introduction of the euro is not just an economic event; it is a very important step in the process of European integration. The Eurosystem is not only a single currency, but also monetary policy, designed to meet the unique conditions of the introduction of the new currency. It is a two-pillar strategy, which is based on a common monetary development and price stability. This monetary policy does not always perfectly match the peculiarities of the different regions; however, it definitely increases political integration. The establishment or transition of common political institutions encourages social cohesion and, therefore, development of the elements of the common European culture. The single currency automatically contributes to this process, not only because of the common banknotes and coins, but also because of the common problems. Duisenberg points out that the rapid integration of financial markets in the euro area is a consequence and intended purpose of the introduction of the single currency. This process coincides with the trend of globalization, securitization and financialisation of world markets. The formation of the European financial system is further supported by historical development, technological innovations, common monetary and fiscal policies and specific legal and accounting systems. The common monetary policy in the euro area leads to the immediate integration of non-public segments of the markets - the money market, particularly the interbank segment, short-term deposits and derivatives market. There was a rapid growth of the bond market as well, with the private sector emitting 22% more bonds in 2000 compared to 1998. The market for corporate control was also growing powerfully (Duisenberg (1999, 2001)).

Bulgaria, being sensitive about the issue concerning “its position in the European family”, has not become part of the single currency system yet and has remained out of the important topics on the European agenda. If, currently, the euro is a sign of maximum integration, then Bulgaria has not reached this potential yet.

Non-membership of Bulgaria in the Eurozone has its consequences. They are not only political and social consequences, but financial ones as well. If Bulgarian society has experienced to a limited extent the ‘sweet-bitter taste’ of partial European integration, it is the Bulgarian economy and the state budget that pay the price.

The aim of this paper is to present a different, purely factual view on some of the consequences of the non-accession of Bulgaria to the single European currency, as well as on the regulated mechanism of accession. The object of study is the accession process and some of its consequences, the subject of research - the Bulgarian experience in this field. The solutions that are sought after in the paper are the following:

- to review the requirements for accession;
- to estimate some of the consequences of not joining the European single currency;
- to summarize the process and its effects.

The major econometric methods that have been used are comparison of data and logical conclusions based on the data.

The accession of the new market economies and countries from Eastern Europe, that have already become EU members, to the European Bloc has not been welcomed unambiguously by economic researchers. A number of opinions on possible negative consequences can be found in various scientific forums and publications. Since the aim of the study is to point out the established effects of the delayed membership, what has been a major obstruction is the fact that theoretically possible and negative consequences of the membership have not been tested so far. It is worth mentioning that currently, such consequences are not being monitored in countries that have already adopted the single currency.

1. Bulgarian Governments and the Adoption of the Euro

Back in 2004, two and a half years before Bulgaria's accession to the European Union (EU), the government of Simeon Saxe-Coburg-Gotha and the Bulgarian National Bank declared that Bulgaria would join the EU with the operating exchange rate of BGN 1.9556 for 1 euro. Under the same conditions, right after joining the EU, Bulgaria was to join the two-year currency exchange rate regime in order to introduce the euro as a national currency.

After the accession of Bulgaria to the European Union at the beginning of 2007, the question that logically arose was when the country would take steps to join the Eurozone. At the end of September 2007 the media published opinions that the Stanishev government intended to request entry into ERM-2 with the aim of adopting the euro in 2011 and 2012. Even then, EU experts argued that the European Central Bank (ECB) and some European countries would not support such a step because of Bulgaria's current account deficit, which could have a negative impact on the long-term prospects for economic growth. At that time, the inflation rate in Bulgaria was high (increased to 12 percent in August from 8.4 percent in July of 2007), while Romania, Poland, the Czech Republic and Hungary did not want to rush, either.

The elections in mid-2009 were won by CEDB and the future Finance Minister Simeon Dyankov was planning Bulgaria's application for Eurozone membership in November by using the fixed exchange rate of the euro. Months later, the Prime Minister Boyko Borissov announced publicly that this was a top priority for the government's foreign policy.

In 2010, it was already publicly known that the European Commission (EC) and the ECB were against this because of the serious problems related to the current account deficit and competitiveness. At the same time, EC announced that unlike 2008, in 2010 Bulgaria met only one of the four criteria for the adoption of the single European currency. The excessive deficit procedure was triggered.

Jean-Claude Juncker is one of the few optimists about Bulgaria's future accession to the single currency and at the end of 2009 he believed that the ambitions to successfully replace the BGN with the euro in 2012-2013 were completely realistic. According to him, the situation in Bulgaria was much better in comparison to the period between 2007 and 2008.

At the height of the crisis in 2011 and 2012, the government abandoned the idea. It was believed that it was better to wait until turmoil in the Eurozone had passed. Oresharski's government remained in this position; meanwhile, the three Baltic republics adopted the euro.

Bulgaria resumed its attempts to join the Eurozone again under the third CEDB government. In 2018, the issue was again put to the fore, but only as far as Bulgaria was concerned. “We are currently working on the exact dates, but what we have in mind is months rather than years”, said the Vice-President of the European Commission Valdis Dombrovskis in response to a question regarding the admission of Bulgaria to ERM II.

Pierre Moscovici, the European Commissioner who is in charge of Economic and Financial Affairs, Taxation and Customs, believes that it is really important to have not only a formal alignment but also an actual one with the single currency countries. ‘One of the key lessons we have learned over the past two decades is that real economic convergence is as important as the nominal convergence. Countries should be well prepared for the adoption of the euro, but they also have to continue making efforts afterwards.It is therefore important for Bulgaria to work very hard in terms of increasing productivity and investments, improving employment and tackling inequality. Current growth has been strong, but what is important is that it also benefits the most vulnerable groups in society’. Pierre Moscovici also said: “Bulgaria will be the next country of the Eurozone, there is no dispute on this issue,but this should be cautiously prepared . We mustn’t rush the process.”

In mid-June 2018, the Finance Minister Goranov made a statement, in which he revealed that the plans were changed again and the Bulgarian government was giving way to the pressure of the European institutions to postpone the entry into the exchange rate mechanism for a year and to ask for entry into the banking union before entering the Eurozone.

Despite the intentions of the Bulgarian governments, public support for the introduction of the euro in Bulgaria has been steadily declining since 2004. It is currently under 40%, and it is very unlikely that the state would make any efforts or overcome any potential difficulties in order to achieve its goals.

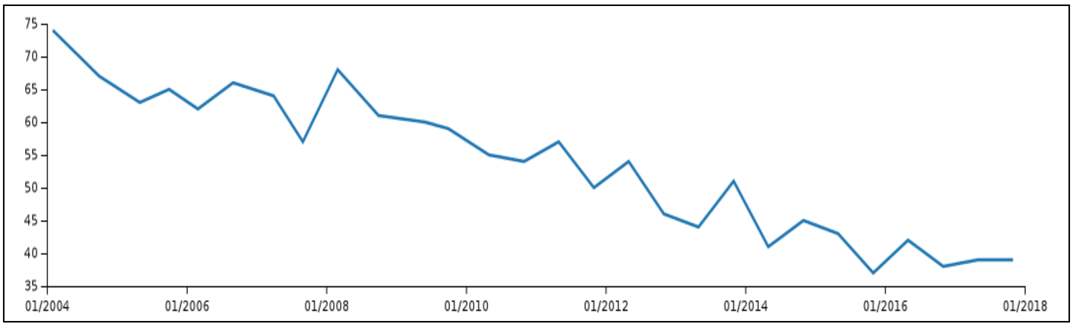

Figure 1. Public support for the euro in Bulgaria.

Source: http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Survey/ index#p=1&instruments=STANDARD&yearFrom=1999&yearTo=2017

2. Requirements for Joining the Eurozone

The path to euro adoption as a national currency includes a requirement for a stay of minimally two years in the Exchange Rate Mechanism, (ERM II). The Exchange Rate Mechanism was introduced in early 1999 with the sole purpose of maintaining stable exchange rates of the national currency of the euro-area candidate country and the euro. Additionally, the mechanism helps candidate countries prepare for membership. A two-year participation in the exchange rate mechanism is a requirement to meet the convergence criterion.

Joining ERM II is voluntary, it does not provide for the implementation of any formal criteria and does not require admission. The purpose of participation in the mechanism is preparing for the euro-area membership and ensuring that the value of the national currency to the euro is appropriate and stable in the chosen "corridor". Furthermore, EU members, with the exception of the UK and Denmark, are obliged to join the Eurozone; they are required to adopt the euro. In this regard, their willingness to join ERM II is in compliance with the contracts they have signed (EC: ERM II).

Exiting ERM II and joining the euro area by replacing the national currency with the euro requires the fulfillment of several criteria. These criteria were adopted in Maastricht in 1991. and represent required values for a set of four macroeconomic indicators.

First of all, inflation should be mentioned. It is believed that low inflation rate ensures price stability. The required rate is no more than 1.5 percentage points above the average inflation rate of the three best performing Member States. The second criterion is the stability of public finances, measured by the value of the national debt and deficit. Deficit requirements are no more than 3% as a share of GDP, and for the government debt - no more than 60% of GDP. The third criterion is the stability of the exchange rate to the euro, which requires having been a member of the ERM II for a minimum of two years without the presence of 'severe tension' in the ERM II. The exchange rate stability criterion aims at showing that the country can cope with pressure situations without serious fluctuations in the value of the national currency to the euro. This is a guarantee of stability, once the control of monetary policy has moved to the European Central Bank after the euro has been adopted. Furthermore, the properly chosen course of conversion has to be confirmed. The fourth criterion is the compliance of long-term interest rates. By fulfilling this criterion, the long-term convergence achieved in meeting the other criteria is assessed. The numerical requirement for long-term interest rate deviation is no more than two percentage points over the three best performing Member States (EC: ERM II).

The fulfillment of the criteria is assessed by the European Commission and the European Central Bank at least every two years or at the request of the candidate country. The reports have to include an examination of the compatibility of national legislation, including the statutes of national central banks, namely Articles 130 and 131 of the Treaty on the Functioning of the European Union and the Statute of the ESCB and of the ECB (texts in the legislation certifying the independence of the employees and bodies of the ECB and the national bank), as well as the achievement of a high degree of sustainable convergence. This sustainable convergence is demonstrated by the fulfillment of the following criteria by each Member State:

- achievement of a high degree of price stability – this will be apparent from a rate of inflation which is close to that of the three best performing Member states;
- sustainability of the government financial position; this will be evident from the achievement of a government budget position without excessive deficit;
- observance of the normal fluctuation margins, as provided for by the exchange rate mechanism of the European Monetary System, for at least two years without devaluation against the euro;
- the durability of convergence through long-term interest rates (EU law, Treaty on the Functioning of the EU, 2012)

The requirements of the four criteria are further developed in Protocol 13. The requirement for the rate of inflation is that the criterion is to be met within one year of the review. Inflation is measured by the consumer price index on a comparable basis. The ‘budgetary position’ criterion requires that the country is not in excessive deficit procedure during the review. Participation in ERM II has to establish that the national currency has undergone normal fluctuations against the euro and has not been a subject to severe pressures for at least two years. It is required that devaluation has not occurred during the period under review. Interest rate compliance means that in a one-year period before the review, the candidate country has a nominal long-term interest rate that does not exceed that of the three best-performing euro area countries by more than two percentage points. The long-term interest rate is associated with the income on long-term government debt (EU Law, Protocol 13, 2008.)

The reports of the Commission and the European Central Bank should also include the results of market integration, the state and evolution of current account balances and the examination of the development of labour costs per unit of production and other price indices.

After consulting the European Parliament and a following discussion in the European Council, the Council, acting on a proposal from the Commission, shall decide whether there is a compliance. The Council shall act after receiving a recommendation of a qualified majority of those of its members representing the Member States whose currency is the euro. The final adoption of the country in the Eurozone requires unanimity of the Member States whose currency is the euro and consultations with the European Central Bank. What follows is fixing the rate at which the euro replaces the currency of the Member State concerned (EU Law, Treaty on the Functioning of the EU, 2012).

The so-called ‘soft’ accession criteria (market integration, state and development of balances on current payments, labour costs per unit of production and other price indices) are the key points in the talks on the accession of Bulgaria to the Eurozone. According to the representatives of the European authorities, these criteria are part of what is needed for the adoption of the euro and their fulfillment is imperative. However, the text of Article 140 of the Treaty on the Functioning of the European Union does not require this. The Article mentions that the report recognizes the values, which is different from the requirement to meet certain criteria. The same conclusion is made in the text of the Reflection Paper on Deepening Economic and Monetary Union, drafted by the EC in May 2017 (European Commission, 2017). There is a distinction between real and nominal convergence. Real convergence is formulated as ‘similar income levels’,while the nominal convergence is measured by the criteria of the Maastricht Treaty - interest rates, inflation, exchange rates, deficits and government debt ratio to GDP. The document explicitly states that the fulfillment of the nominal (not the real criteria) criteria is a prerequisite for membership in the Eurozone.

The conclusion that can be drawn from the review of the above-mentioned requirements is that the Bulgarian government should submit an application rather than a request for inclusion in ERM II. At the end of the two-year period and in accordance with the Maastricht requirements, our country should instantly become part of the ERM II having previously adopted texts in its legislation certifying the independence of the authorities and bodies of the ECB and the national bank (as required by Article 130 and Article 131 of the Treaty on the Functioning of the EU). The integration of markets, the state and development of balances on current payments, labour costs per unit of production and other price indices are indicators that are taken into account but they are not an accession criterion that has been set.

3. Consequences of the Postponed Membership

One of Bulgaria's major pre-accession issues is related to the currency board and the foreign exchange reserves of the Issue Department of the BNB. The Currency Board was introduced in 1997 with an amendment to the texts of the Bulgarian National Bank Act. According to this Act, the total amount of monetary liabilities of the bank cannot exceed the BGN equivalent of the gross international reserve - the BGN equivalent is determined on the basis of the official exchange rate of the BGN to the euro (upon the adoption of the law - to the German mark), which limits the issuance policy of the Bulgarian National Bank. The total amount of monetary liabilities of the BNB includes all banknotes and coins in circulation and balances on accounts held by other persons in the Bank, except for the International Monetary Fund accounts. The gross international foreign exchange reserve is equal to the market value of the bank assets (there are also restrictions for them). This law also fixes the official exchange rate of the Bulgarian lev to the German mark, as 1 lev for 1 DEM, now converted into 1.95583 lev per euro after the legal tender in the Federal Republic of Germany becomes the single currency of the European Union - the euro (BNB Bank Act, 2018).

When Bulgaria joins the single currency, the BNB will become part of the system of the European Central Banks and the Bulgarian lev will be replaced by the euro. On June 8 2018 the Reserve of the Issue Department amounted to BGN 42, 033, 832, 000 (according to BNB data) or approx. EUR 21.5 billion. About BGN 16 billion of this money covers money in circulation, about BGN 10 billion is money of the commercial banks, about BGN 8 billion is money of the government, BGN 6 billion is the reserve of the Banking Department and about BGN 2 billion - from other depositors (BNB, Weekly Balance of the Issue Department, 2018). Special attention is paid to the deposit of the Banking Department. According to Kamelarov (2017), this deposit distinguishes the currency board in our country from the typical currency boards. The deposit of the Banking Department is formed as the difference between the BGN equivalent of the gross foreign exchange reserves and the monetary liabilities of the BNB. Therefore, the amount of the deposit of the Banking Department corresponds to the net foreign exchange reserves of the BNB – foreign exchange reserves, against which there are no monetary liabilities of the BNB. This deposit can also be considered as a kind of net value of the currency board.

After the adoption of the euro, Bulgaria will stop following the requirements of the currency board and maintaining a reserve according to the current requirements of the BNB Act will not be needed. According to Harsev (2016), at the time of the accession, it is imperative to separate the reserve and put it into a new state structure, in order to be stored and managed, not to remain part of the assets of the BNB. According to Staykov (2011) changes in the assets of the BNB will be only accounting changes – part of them, deposits and investments in euros, will be renamed in financial assets, while another part of them, monetary gold and investments in foreign currency, will continue to be called foreign exchange reserves. At the same time, the BNB will have to transfer some of its foreign exchange reserves to the ECB's balance sheet, against which a new account is created in the Bank's assets - “ECB receivable”. As part of the single currency market, Bulgaria has a specific quota of total money in circulation, which is calculated on the basis of the GDP of the country and its population, and it will replace the existing account “Banknotes and coins in circulation”.

According to Kamelarov (2017), when joining the Eurozone, the BNB will have to contribute to the capital of the ECB. At present, the total amount due is 0.859% of the ECB's capital, which is EUR 10,825,007,069.61 or EUR 92,986,810.73 (data from the ECB). The Bulgarian National Bank has already paid part of this capital, EUR 3, 487, 005.40, with remaining amount of EUR 89.5 million (ECB, 2018).

After the fulfillment of the obligations to the ECB, about BGN 22 billion of own funds remain at the disposal of the BNB . These funds will be available for investments and the income from them will be allocated according to the regulations of the ECB. This is where Harsev’s idea of establishing an external authority for the purpose of the vault and finance management can be materialised. In this regard, the first aspect of the Bulgarian non-membership is the limit set by the currency board on any amount exceeding 20% of the gross product.

The second important aspect of Bulgaria’s non-membership in the Eurozone is the loss from the foreign exchange transactions. According to the data from the National Statistical Institute (NSI) for 2016, Bulgaria's exports to EU countries amounted to BGN 31, 158 billion and imports from EU countries – BGN 33.989 billion (NSI, 2018). The average Euro to Bulgarian lev “buys” exchange rate of the banks on 30 May 2018 was BGN 1.94874 with a deviation from the central exchange rate of the Bulgarian National Bank by 0.36%. This deviation, applied to the value of imports, means a loss, due to the exchange rate, amounting to BGN 122, 361, 480. The average Euro-BGN exchange rate “sells” for the same day was BGN 1.95938 for one euro and the deviation from the central rate was 0.18%. For exports to the EU, amounting to more than BGN 31 billion, currency losses amount to BGN 56, 083, 680. Likely losses due to imports and exports for one year amount to BGN 178,445,160.

The calculations of the Institute for Market Economics (IME) have shown a higher amount - EUR 450 million per year, which, in their view, is equivalent to a 50% reduction in corporate tax. Apart from the calculations of IME, a positive effect of EUR 5-6 million is expected every year due to bank transfer fees to the euro area (Nikolova, Angelov, Staykov, 2018).

In addition to the problem related to exchange rate fluctuations due to the trade turnover with EU countries, Bulgarians living abroad send approximately 1 billion euros annually to the country. The exchange of this currency in BGN means that exchange losses amount to BGN 3.6 million.

The third important aspect is the difference in interest rates and it is crucial to pay attention to both the private and the public debt. According to the data presented by the Bulgarian National Bank, at the end of March 2018, household loans in Bulgaria are about BGN 20 billion, and loans to non-financial enterprises – approx.BGN 32 billion. (BNB, 2018). The average difference in interest rates on all loans and borrowers is 1.852 percentage points (Table 1). With a total amount of loans in Bulgaria amounting to BGN 51, 645, 106, 000 Bulgarian citizens and businesses pay an average amount of BGN 956, 467, 363 (approx.BGN 1 billion) per year more than the citizens and companies in the Eurozone.

Table 1
Data on the average bank interest rates

Interest rates of:	Eurozone	Bulgaria
consumer loans in euro up to 1 year	4.66	4.75
consumer loans in euro up to 5 years	4.8	6.91
consumer loans in euro over 5 years	6.3	7.63
housing loans over 5 years	1.95	5.49
non-financial corporations over 5 years	1.73	3.92
deposits of companies	0.1	0.3
deposits of citizens	0.37	0.3

Source: Data as of 31 March 2018 by the BNB and the ECB; http://www.bnb.bg/; https://www.ecb.europa.eu; http://sdw.ecb.europa.eu.

As far as government debt is concerned, there is an interest margin as well. Only Luxembourg, which is one of the old member states of the EU, has comparable indebtedness to Bulgaria, as a percentage of the public debt of its GDP. It has a debt level similar to the debt level of Bulgaria (Table 2). However, the percentage of income paid by Luxembourg is only 0.62% compared to the percentage paid by Bulgaria - 1.02%. The new EU Member States that have already joined the euro area are Estonia, Lithuania, Latvia, Slovakia and Slovenia. The debt levels of Slovakia and Slovenia are much higher and the comparison of interest rates is not appropriate. The indebtedness of Lithuania and Latvia is to some extent comparable, since both countries are maintaining a debt of less than 40% of the gross product. The cost of debt in these countries is 0.31% for Lithuania and 0.8% for Latvia. Apparently, both figures are much lower than the Bulgarian ones. In Slovakia and Slovenia, despite the more serious debt figures, the interest rates are 0.75% for Slovakia and 0.89% for Slovenia.

The levels of debt as a percentage of GDP are quite high in the old member states of EU. In Belgium, France and Spain they are about 100%, but the cost of debt is about 0.8% for Belgium and France and 1.21 percent for Spain. Spain pays a higher amount than Bulgaria, but has three times higher indebtedness. Austria, Finland, Germany, Ireland and the Netherlands have debt levels above the maximum allowable (60%), between 62% and 84%, but the cost of long-term debt is below 1% for Ireland, less than half percent for Germany and about 0.7% for the others.

Several conclusions can be drawn from the data shown in Table 2:

- Eurozone countries pay less on their debt than members of the European Union which are outside the currency union;
- The market does not penalize countries with ratios of debt / GDP above the allowable, except in the cases of Greece, Cyprus and partially,Portugal;
- The new eurozone countries pay interest on their long-term debt at an average of 0.69%, which is the normal market price for the currency union countries.

According to NSI data Bulgaria has a public debt amounting to BGN 25,064 million at the end of 2017 (NSI, 2018). The difference in long-term interest rates of 0.33% (calculated as the difference between the Bulgarian debt of 1.02% and the average cost of debt of the new member states of the Eurozone - 0.69%) represents an additional annual cost to the budget of almost BGN 83 million per year.

The interest rate is, of course, the result of a number of market and institutional factors.The major institutional factor is the view of the central bank on the state of the economy and the need for intervention. If the bank decides that the economy is overheating, it may increase the interest rate on its operations with commercial banks and thus affect the rise in market interest rates, which in turn increases the interest rates on loans and leads to a reduction in consumer demand. This is also what higher interest rates on deposits and bonds lead to. An instrument with the same effect is the increase in the percentage of the minimum reserves required. Inflation, as well as the return on alternative investments, are also factors; liquidity preferences are often included. Naturally, risk remains the leading element in the price of the debt.

The above-mentioned is valid for the interest rate on long-term government debt as well, but the result can also be influenced by additional factors. The risk of sovereign default is not measured only with standard instruments, it is also necessary to assess the political outlook, as well as the general state and expectations of the national economy, the regional and global conditions of its development. Undoubtedly, if the government debt issuance is in a currency other than currency with the status of reserve currency, then the interest rate can also be affected by currency risk.

The difference between the interest rates in new and old member states of the Eurozone is insignificant, despite the fact that the debt levels of the old member states are higher. Exceptions are Cyprus, Greece, Italy, Portugal and, to some extent, Spain. However, their indebtedness is much higher. Nevertheless, the difference in interest rates between countries outside the Eurozone and Member States is substantial despite the expectations for similar levels of political risk and economic development.

Table 2
Comparative data on interest rates on long-term government debt

Country	interest rate on long-term government debt, 2018 г.	government debt / GDP, 2017
Austria	0.76	83.6
Belgium	0.81	105.7
Bulgaria	1.02	28.6
The Czech Republic	1.74	36.8
Croatia	2.12	82.9
Cyprus	2.12	107.1
Denmark	0.55	37.7
Estonia	-	9.3
Finland	0.69	63.1
France	0.78	97
Germany	0.48	68.1
Greece	4.04	180.8
Hungary	2.47	73.9
Ireland	0.94	72.8
Italy	1.77	132
Latvia	0.8	38.9
Lithuania	0.31	38.9
Luxembourg	0.62	20.8
Malta	1.24	57.6
Netherlands	0.69	61.8
Poland	3.06	54.1
Portugal	1.66	130.1
Romania	4.46	37.6
Slovakia	0.75	51.6
Slovenia	0.89	78.6
Spain	1.21	99
Sweden	0.71	42.2
Great Britain	1.44	88.3

Source: ec.europa.eu/eurostat.

An explanation of the different assessment of the value of interest rates on the government debt of EU countries at similar levels of indebtedness, is likely to be found in trust. On the one hand, it is a matter of confidence that the national currency will not depreciate against the world reserve currency. This is currency risk and it exists, however, it does not apply to Bulgaria due to the fixed exchange rate. A second aspect of credibility is the stability and growth rate of the national economy. This is an area in which Bulgaria is traditionally among the first. Political risk is likely to remain, but rather that part of it, which is related to non-belonging to the “inner” club of the European Union. Last but not least, banking supervision should also be mentioned, since it is an important part of the greater confidence in Eurozone members, which is particularly true as far as Bulgaria is concerned in the context of the events in 2014.

According to an IME report on this issue, the rise in credit ratings in most countries has been already observed on entry into ERM II, and normally, there is a further increase when adopting the euro. This increase leads to lower interest rates for the state, businesses and individuals and provides easier access to finance and more investments in the economy (Nikolova, Angelov, Staikov, 2018).

Another important aspect of non-membership in the Eurozone derives from the different requirements of the BNB and the ECB regarding bank reserves in the central bank. In Bulgaria, the minimum required reserves amount to 10% of attracted deposits by individuals and firms, while post-2012 Eurozone banks hold only 1% of the the borrowed funds. With a total amount of deposits of companies and individuals amounting to approx. BGN 70 billion, the banks operating in Bulgaria hold as minimum required reserves about BGN 7 billion. Upon the accession to the Eurozone, banks will charge minimum reserves of 1%, which is BGN 700 million; over BGN 6.3 billion will flow into the national economy in the form of loans or financial investments.

To sum up, Bulgaria does not invest more than 6.3% of the gross domestic product in its national economy and loses more than BGN 1 billion annually because of the exchange rate differences and higher interest rates on its private and public debt. These annual and one-off effects are due only to the fact that Bulgaria is not a member of the Eurozone.

Conclusion

The consequences of the Bulgarian non-membership in the Eurozone can be summarized as follows: first, the adoption of the common currency will lead to an instant positive change in a significant macro indicator of the Bulgarian economy, but the event will not cause recurrent effects. The most likely effect is that BGN 6.3 billion will be available to banks, which is the difference between the minimum required reserves at the moment and those required by banks in the Eurozone. If they flow through investments or loans in the economy, they will create conditions for further growth. The second effect may occur if some of the reserve of the Bulgarian National Bank is used.

Next, the annual losses we suffer because of our non-membership in the Eurozone. The biggest loss is the result of higher interest rates on loans to households and companies in Bulgaria compared to the average interest rates in the Eurozone countries. The amount was approx. BGN 1 billion (BGN 956,467,363) only for the last year. Bulgaria loses an additional amount of BGN 83 million every year because of the higher interest rates on Bulgarian government debt.

The third group of annual effects is the exchange rate losses. Bulgarian business loses annually an amount of over BGN 178 mln due to the foreign exchange differences on imports and exports. Bulgarian citizens lose more than BGN 3.5 million when exchanging the money they have received from their relatives living in Europe. According to the report of IME, this amount is higher and is approx. 500 million euros.

The balance shows that BGN 6.3 billion is blocked as minimum required reserves and the annual loss due to exchange differences and interest rates amounts to minimum BGN 1,221,512,523. The amount is bigger than the one mentioned by Prime Minister Borisov (half to one billion levs) at the end of May.

A comparison between figures leads to the conclusion that funds amounting to not less than 6% of Bulgaria's gross product are blocked rather than invested in the national economy and annual losses amount to 1.2% of the gross product.

A review of the Eurozone membership documents makes it clear that the Bulgarian government can voluntarily join the exchange rate mechanism straight away, without having to fulfill the condition for inclusion in the banking union. Upon a successful two-year participation in ERM II and the fulfillment of the Maastricht criteria, the adoption of the euro should be a fact.

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