Dimitar Radev: Accession to the euro area - a catalyst for social and economic prosperity

Summary of a statement by Mr Dimitar Radev, Governor of the Bulgarian National Bank, at the Annual Government Meets the Business conference, Sofia, 29 January 2019.

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During the Annual Government Meets the Business conference dedicated to Bulgaria's path to the eurozone, the Bulgarian National Bank's Governor, Mr. Dimitar Radev, outlined the activities of the central bank in this process and the anticipated effects for the economy and the business from the national currency's entry into the Exchange Rate Mechanism (ERM II) and the adoption of the euro in Bulgaria.

Provisionally, the work will be conducted in two stages: a short- and long-term. The short-term stage is linked to the preparation for simultaneous accession to the Banking Union and lev's entry into ERM II. The second stage is Bulgaria joining the euro area.

Mr. Radev underlined that the BNB is currently focused on the first stage, the outcomes of which will determine the next steps to follow. In terms of content, the first stage consists in joining the Single Supervisory Mechanism and the Single Resolution Mechanism.

As regards the Single Supervisory Mechanism, the BNB is concentrated on three work blocks. The first one is creating the necessary regulatory framework. Overall, work in this direction was completed with the adoption of the necessary package of legislative amendments by the National Assembly at the end of last year. The second block relates to synchronising the BNB supervisory practices with those of the ECB. This includes an enormous amount of activities, among which supervisory regulations, statistics, and IT systems. The BNB's efforts in this area are a logical development of the banking sector reforms launched in 2015. The third work block is linked to organising and conducting the asset quality review and the stress test, which is a widely discussed topic. The preparatory phase in this respect has been completed. The banks that will be covered by the review and stress test have been designated, as well as the auditors, methodologies and macroeconomic scenarios used for the stress test purposes. The results are expected to be announced in July, Mr. Radev said.

Work on the Single Resolution Mechanism has been organised in very much the same way. An essential element in the first work block in this area – amendments to the legal framework – is the preparation of a Draft Law amending and supplementing the Law on the Recovery and Resolution of Credit Institutions and Investment Firms. The part involving the BNB was finalised at the end of last year and is due for submission to the National Assembly with legal amendments likely to get adopted by the end of this quarter. The BNB Governor also outlined the second work block in this direction, on which the BNB is currently working, i.e., the overall framework of determining the amount of funds to be contributed by banks to the Single Resolution Fund and the amount and way of transferring funds from the Bank Resolution Fund in Bulgaria, which was set up in 2015, to the Single Resolution Fund. The third work block covers the overall activity of planning and conducting resolution activities, including the distribution of responsibilities and tasks between the Single Resolution Board and the BNB after our country joins the Banking Union.

With regard to the expected effects on the economy and the business, the BNB Governor highlighted that it was positive to reaffirm Bulgaria's strategic course, and that the process is already being filled with content and specific timeframe. The whole process stands as a positive counterbalance against the more general uncertainty from the global and European economic environment.

Among the more direct positive effects from this first stage on the path to the euro area is the anticipated improvement of the country's credit rating, as announced by the credit agencies, should the process run successfully in the short-term. That would improve the funding conditions in the country.

At the same time, the effects of joining ERM II will not be tangible in regard to the macroeconomic policy and neither will our monetary regime change. The BNB Governor made it clear that the only exit from the current regime would be the replacement of the lev with the euro at the currently fixed exchange rate.

The whole process of accession – first to the Banking Union and ERM II, and next to the euro area – could not substitute for the good macroeconomic practices and business projects, Mr. Radev said. A country refusing to comply with this is sure to suffer serious economic and financial difficulties whether inside or outside the euro area.

The two proven pillars of good macroeconomic policy in Bulgaria are the fiscal stability and the monetary regime stability. Should these conditions, together with the continuous improvement of institutions, be present, the preparatory process and subsequently the accession to the euro area would be a catalyst for the social and economic prosperity of our country.