

## **Petar Chobanov: What Bulgaria's entry into the euro area means for the financial stability of this country**

Speech by Mr Petar Chobanov, Deputy Governor of the Bulgarian National Bank, at the award event of the Bank of the Year Association, Sofia, 4 July 2024.

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Ladies and Gentlemen,

Dear colleagues,

Dear friends,

It is a great honour for me to be here with you today for the presentation of the awards of the Bank of the Year Association. Over the past decade, at every opportunity, I have spoken about the need for synergy between monetary policy and fiscal policy, and about partnership and dialogue between regulators and the business. Today I want to elucidate these messages in more detail and present them in the bigger picture – that of overall financial stability.

In my speech today I intend to focus on what Bulgaria's entry into the euro area means for the financial stability of this country, and what risks should be addressed to ensure sustainability of this stability. I will try to analyse these two aspects and will share with you my views on financial stability.

First of all, the stability of the Bulgarian lev, secured by the currency board that has been in place since 1997, is a key factor that has helped pave the way for Bulgaria's integration into the European Union. Bulgaria's integration into the euro area is undoubtedly a crucial event in its economic history. Bulgaria is going to join the chosen group of EU member states which have introduced the single currency. The euro itself not only serves over 300 million people in the EU, but it is also a major international currency and a reserve currency for the rest of the world.

Once Bulgaria enters the euro area in the near future, both its role and its responsibilities in the European Union will increase. The appropriate economic conditions are in place to meet the new challenges – Bulgaria has achieved a good degree of sustained nominal and real economic convergence with the European Union and enjoys a stable rate of economic growth and high levels of employment.

The Bulgarian National Bank will play a pivotal role in ensuring the relevant economic conditions but in a different context through Bulgaria's accession to the euro area. In this way, the BNB as a regulator will be able to participate much more actively in preserving price stability in the entire euro area, which would favour reaching our potential for stable and sustainable economic growth.

After Bulgaria's integration into the common European market has completed, namely through the adoption of the euro in our country, wider opportunities will be afforded for further development and growth. Then, however, we will face new important challenges

and it will be up to us to cope with them and take full advantage of the opportunities presented to improve society's well-being.

The adoption of the euro as the national currency will be a crucial point in the economic history of Bulgaria. Before us is the choice to work together for a better future not only for us, but also for the next generations. Bulgaria's integration into the euro area means that its monetary policy will be identical to that of all other countries sharing a common currency. Thus, the importance of sound fiscal policy for maintaining economic stability will increase even further. Also, priority should be given to structural reforms, which should be aimed at increasing productivity and improving our international competitiveness, and hence our standard of living.

The scale of success, on the other hand, always depends on our choices. The advantages that the adoption of the euro gives us must be used to the maximum. Today, the Bulgarian credit institutions are among the best capitalised in the European Union; they can boast of efficient operations and competitive profitability, which contributes to their ability to withstand serious economic and financial shocks.

On the other hand, Bulgaria's participation in the Banking Union provides us with an additional toolkit necessary to prevent possible future shocks in the financial sector. This way, the supervisory reflex and proactive sensitivity needed to spot the risks arising 'from below' will be built up.

The transposition of the European supervisory framework has led to strict capital and liquidity requirements, an entirely new macro-prudential setup that effectively regulates excessive risk-taking and creates resilience and stability in the system so that it can cope with potential consequences, while remaining highly capitalised and profitable at an aggregated level.

But let's also look at mutual successes. Our preparation for the adoption of the euro has been going through the effective dialogue between the regulator and the businesses for the adaptation of the relevant legislation, the mandatory dual display of prices in BGN and EUR, the adjustment of IT systems, the reconfiguration of ATMs and POS terminals, etc.

Another success factor will be a good communication strategy regarding the adoption of the euro, based on the joint efforts of the public and private sectors, which will lead to strong public support, so that the positive expectations of society are met.

Thank you for your attention!