Philip R Lane: Bulgaria and the euro

Keynote speech by Mr Philip R Lane, Member of the Executive Board of the European Central Bank, at the opening of "The World Ahead 2026: Sofia Gala Dinner", organised by The Economist Magazine, Sofia, 12 February 2026.

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I welcome the invitation to speak in Sofia as it provides an opportunity to offer my own congratulations to Bulgaria on joining the euro area. I understand that the euro cash changeover was smoother than expected, with no disruptions to payment systems. The withdrawal of lev cash is proceeding well and, by the end of the dual lev/euro circulation period (31 January 2026), euro banknotes and coins accounted for 70 per cent of total cash (lev and euro) in circulation in Bulgaria. Preliminary analysis suggests that the changeover had a minor impact on the overall price level, comparable in magnitude to the experiences of other countries joining the euro.

While the lev tracked the euro for many years, Bulgaria had no role in the setting of monetary policy. Bulgaria now has a seat at the table and is helping to shape ECB policymaking.[1] I valued the contribution of Governor Radev to the Governing Council's monetary policy meeting last week and the staff of (Bulgarian National Bank) are now active in the array of Eurosystem committees that underpin the ECB policy process across a wide range of topics.

In what follows, I will first outline the common policy challenges facing all euro area member countries. I will then turn to the national policy challenges facing Bulgaria.

Monetary union and common challenges

By and large, the structural changes facing Europe can be interpreted as common policy challenges: forces such as revisions to the global geopolitical equilibrium (including the global trading system), digitalisation, artificial intelligence, demography, the threat to environmental sustainability and shifts in the international financial system have broadly similar implications across EU Member States.

While the full impact of each of these structural trends will play out over an extended time horizon, these factors are also prominent in our current risk assessment, as highlighted in our monetary policy statement last week. It should be clear that a common monetary policy constitutes the best response to the external risks associated with geopolitical tensions (in particular, Russia's unjustified war against Ukraine), shifts in global financial market sentiment or further frictions in international trade.

In particular, a monetary union acts as an embedded coordination mechanism by enabling a common monetary policy to respond effectively to the evolution of common trends and common shocks. Moreover, many of these structural changes and risk factors are more easily handled in a larger-scale monetary system than under the hypothetical alternative of a collection of stand-alone national monetary systems.[2]

Several factors contribute to the increasing importance of scale in monetary systems. First, all else equal, a larger-scale monetary system means that a greater proportion of trade and financial transactions will be denominated in domestic currency – both among domestic counterparties and with external counterparties. In turn, this provides considerable insulation against shifts in the exchange rate or changes in foreign monetary systems: the more severe are external risks, the more valuable is this insulation.

Second, scale matters for the efficiency, breadth and liquidity of the financial system. Compared to the narrow scope of national financial systems, the common currency enables euro area households and firms to benefit from deeper and more diversified bond markets and money markets and a more integrated banking system without taking on currency risk. The scale of the euro-denominated financial system also attracts global investors, including due to the superior currency hedging opportunities provided by the size of the euro market. This is reinforced by the ECB's capacity to provide swap and repo lines to key partners. The provision of such liquidity lines ensures the smooth transmission of monetary policy, prevents euro liquidity shortages abroad and strengthens global trust in the euro.

Third, the existence of considerable fixed costs in running the market infrastructure and payment systems that underpin the monetary system means that larger-scale monetary systems can be operated more efficiently and with greater autonomy. For instance, larger-scale monetary systems can afford to undertake infrastructural innovations that might not be viable for smaller-scale monetary systems. Prime examples include the digital euro project and the Pontes and Appia projects: together, these projects will modernise central bank money at both retail and wholesale levels. For smaller-scale monetary systems, such projects would be more daunting and incur higher unit costs, increasing the likelihood of transactions migrating to foreign currency systems.

The increasing importance of scale in modern monetary and financial systems also highlights the high returns to building a more resilient European financial architecture. Unlocking the full potential of the Single Market is crucial, together with making progress on the savings and investments union and the completion of banking union. The broadening and deepening of financial and trade integration would also support the effectiveness of monetary policy in this evolving environment.

These scale benefits from a monetary union are put at risk if internal imbalances and financial fragilities give rise to fragmentation dynamics. These lessons were learned at a high cost during the sequence of crises over 2008-2013. However, the euro area financial architecture is now far more resilient, thanks to the significant institutional reforms that were introduced in the wake of these crises and the track record of financial stability Europe has shown over the last decade.

The list of reforms include: an increase in the capitalisation of the European banking system; the joint supervision of the banking system through the Single Supervisory Mechanism; the adoption of a comprehensive set of macroprudential measures at national and European levels; the implementation of the Single Resolution Mechanism; the narrowing of fiscal, financial and external imbalances; the introduction of the fiscal backstops provided by the European Stability Mechanism; solidarity shown during the pandemic through the innovative Next Generation EU programme; the demonstrated track record of the ECB in supplying liquidity in the event of market stress; and the expansion of the ECB policy toolkit (Outright Monetary Transactions, Transmission Protection Instrument) to address a range of liquidity tail risks.

In view of the importance of high-quality national policymaking in all member countries for the fundamental health of the monetary union, I will now turn to national policy challenges, with a particular focus on Bulgaria.

National policy challenges in a monetary union

Naturally, the set of common policy challenges I discussed in the previous section will not play out in an identical manner in all member countries. Each member country has a different economic structure and different trade and financial linkages, determined to a large extent by geographical location, historical factors and the level of development.

Moreover, in addition to common policy challenges, each member country has a set of country-specific policy challenges. In our monetary policy statement last week, we reiterated our recommendations that national governments should prioritise sustainable public finances, strategic investment and growth-enhancing structural reforms.

The ECB's 2025 Convergence Report highlights a number of key issues for Bulgaria.[3] In terms of structural reforms, improving the quality of institutions and governance would boost economic resilience and the sustainability of convergence.[4] Making progress in relation to institutional quality and governance would help to improve the business environment, the efficiency of public administration, tax compliance, transparency, judicial independence, social inclusion and access to online services, while also reducing corruption. A more robust institutional framework would raise potential output growth and improve Bulgaria's ability to implement policy measures. The missed opportunities in relation to the take-up of the Next Generation EU grants underscore the costs of insufficient reform momentum. Political stability will play a crucial role in fully capitalising on these opportunities.

Managing the ongoing convergence process also presents challenges for Bulgaria. In particular, we should expect Bulgaria's economy to continue to grow more quickly than the euro area average, since there is still considerable scope for catch-up income convergence dynamics. In turn, the operation of the Balassa-Samuelson mechanism means that inflation and wage growth can be expected to be somewhat higher than the euro area averages.[5] It can also be expected that credit growth and house price appreciation will be stronger than the euro area average.

However, there is always a risk that these adjustment dynamics can overshoot, generating a painful boom-bust cycle. For these reasons, it is imperative that national policymakers monitor these developments closely and implement the appropriate precautionary measures. In particular, it is very welcome that the Bulgarian National Bank has implemented a macroprudential policy framework that includes borrower-based restrictions on the size of mortgages and a countercyclical capital buffer for the banking system.[6]

In relation to fiscal policy, Bulgaria has a robust domestic fiscal framework. In terms of the composition of public expenditure, capital spending should be increased, with a focus on improving its quality and efficiency through enhanced public investment management, including the development of a long-term investment strategy. To further ensure medium-term fiscal sustainability, continued efforts to combat the informal economy are necessary to improve tax collection. It will also be vital to strengthen the governance and profitability of state-owned enterprises in a durable manner, as well as increase the sustainability of the pension system.

Conclusion

In summary, 2026 is a milestone year both for Bulgaria and for the entire euro area. The expanded membership of the monetary union contributes to a self-validating positive feedback loop, with an increase in the scale of the monetary union and the euro area financial system increasing the benefits both to the member countries and to the global economy.

For Bulgaria, its new active role in the decision-making bodies of the Eurosystem constitutes an expansion in its effective sovereignty. As is the case for all member countries, these jointly decided area-wide policies need to be complemented by high-quality domestic policies and a high-quality domestic institutional framework.

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[1] See also Lagarde, C. (2025), "Bulgaria on the euro's doorstep: towards a shared future", speech at the high-level conference on "Bulgaria on the Doorstep of the Eurozone", Sofia, 4 November; and Baez Seara, D. and Deyanova, D. (2026), "A new member at the table: how Bulgaria's euro adoption reshuffles the ECB", *The ECB Blog*, ECB, 6 February.

[2] This material draws on Lane, P.R. (2026), "The euro in a changing world", speech at the Danish Economic Society Conference, Kolding, 9 January.

[3] See ECB (2025), *Convergence Report*, 4 June. See also Falagiarda, M., Gartner, C. and Osterloh, S. (2025), "Bulgaria adopts the euro", *Economic Bulletin*, Issue 8, ECB.

[4] Various comparative measures (such as the World Bank's Worldwide Governance Indicators) point to a need for improvement in Bulgaria's institutional quality and governance.

[5] That said, the strength of this mechanism should not be overstated.

[6] An excellent analysis of the role of national policy frameworks in macroeconomic stabilisation in a monetary union, see Martin, P. and Philippon, T. (2017), "Inspecting the Mechanism: Leverage and the Great Recession in the Eurozone", *American Economic Review*, Vol. 107, No 7, pp. 1904-1937.