

Yannis Stournaras: The adoption of the euro is a historic milestone for Bulgaria - lessons from Greece

Speech by Mr Yannis Stournaras, Governor of the Bank of Greece, at "The World Ahead 2026: Sofia Gala Dinner" organised by The Economist Magazine, Sofia, 12 February 2026.

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Ladies and gentlemen,

It is a great pleasure to be here in Sofia and to participate in the Economist Gala Dinner.

To begin, I want to add my voice to the many that have welcomed Bulgaria into the euro area. The adoption of the common currency is a historic milestone for Bulgaria, and a step towards further integration, making the euro family stronger. The entry of Bulgaria into the euro area will allow the country to reap the full benefits of participating in the Monetary Union, eliminate any potential concerns for the resilience of its former currency board peg under stress (thus reducing *ceteris paribus* country risk) and further anchor Bulgaria into European institutions. Bulgaria had already joined the Single Supervisory Mechanism (SSM) on 1 October 2020. Since the creation of the euro area in 1999, the participation almost doubled, proving its success. I firmly believe that more European countries will join sooner rather than later.

The introduction of the euro in Greece in 2001 has provided significant benefits by eliminating exchange rate risk with its trading partners, reducing the direct transaction costs of exchanging currencies, and facilitating trade, tourism, and investment. Membership in the euro area has greatly strengthened monetary credibility and helped anchor inflation expectations, while providing access to a large and liquid financial market. It also deepened Greece's economic and political integration within the EU, supporting long-term growth and stability. I am sure Bulgaria will experience similar benefits.

Nonetheless, Greece's participation in the euro area did not come without setbacks and policy mistakes. And we, in Greece, but also in the euro area, have grasped the opportunity to learn from them. This is why my remarks today will focus on the need to maintain a prudent fiscal policy, prudent wage and price formation, strong institutions, structural reforms and strong banking supervision. These are required for successful participation in a common currency, in the context of an ever-deepening integration among Member States.

Euro area entry coincided with a period of strong economic growth, low inflation, and declining unemployment in Greece between 2000 and 2007. The first years saw macroeconomic stability, deeper financial integration, and strengthened trade and investment links. These developments contributed to rising living standards and real convergence with euro area partners.

However, Greece entered a profound sovereign debt crisis almost a decade after it adopted the common currency. Its main root causes were an overly expansionary fiscal

policy in the second half of the 2000s led by the political cycle and real wage developments which exceeded productivity growth by far. These resulted in gigantic 'twin' deficits (that is a fiscal deficit and a current account deficit) of 15% of GDP each. On top of these, structural, long-term problems such as large tax evasion and a non-viable social security system aggravated the situation.

With the cost of borrowing having fallen to levels below those justified by the economic fundamentals, financial conditions approached a situation mirroring what former Federal Reserve Chairman Alan Greenspan in 1996 called 'irrational exuberance'. Between 2001 and 2007, the 10-year interest rate spreads between the Greek and German sovereigns narrowed to very low levels, at times close to zero, facilitating the weakening of fiscal discipline, and the expansion of fiscal deficits.

At the same time, large capital inflows and the rapid credit growth across all business segments, notably, retail lending, contributed further to the creation of current account deficits.

Rapid credit expansion came with close interlinkages between the sovereign and the banking system, as banks held significant government debt, giving rise to adverse feedback loops.

Greece subsequently lost market access and entered a period of official sector financial assistance. Banks underwent large-scale recapitalisation and restructuring, while undergoing consolidation alongside balance-sheet repair.

The subsequent years were marked by a sharp economic contraction, an unprecedented fiscal adjustment and significant structural reforms, accompanied by interventions aimed at safeguarding financial stability, restoring confidence in the banking system, and providing large government debt refinancing. Extensive mergers and liquidations reduced the banking system from almost twenty banks to four systemic banks, controlling over 95% of the market.

We have come a long way since then. The Greek crisis, along with crises in other Member States, unmasked vulnerabilities in both a number of national economies and in the architecture of the euro area. The reforms taken to address these vulnerabilities, both in Member States but also in the euro area, have paved the way for a stronger, more resilient, monetary union, that Bulgaria has joined compared to the one which Greece entered in 2001.

Central to the reconstruction of the euro's architecture has been the creation of the Banking Union. In parallel, the European Stability Mechanism was created as a permanent crisis management tool. At the same time, a macroprudential policy framework has been developed, notably through the European Systemic Risk Board, to address systemic risks and limit the build-up of financial imbalances.

Experience has demonstrated the effectiveness of this strengthened architecture. Supported by stronger capital and ample liquidity buffers, the banking sector has shown remarkable resilience in the face of severe shocks, including the pandemic and geopolitical tensions.

What are the key lessons?

- Emphasis must be placed on a well-balanced economic policy, including a sound fiscal policy and a structural policy that unleashes competitive forces. Reliance only on nominal convergence criteria, without structural reforms, can mask vulnerabilities and delay necessary adjustments. Countries joining a monetary union need to strengthen institutions, governance and structural competitiveness in parallel with achieving the nominal convergence criteria. In particular, structural competitiveness is equally important to labour cost competitiveness.
- Supervisors and banks must pay attention to the bank/sovereign nexus, as imbalances in public finances can be exacerbated by an overly extended banking system.
- The cost of a banking crisis is enormous; financial stability is not only a banking issue, but also a social and economic priority.
- Strong supervision and transparency are critical. Strong governance is of utmost importance and, as a former SSM chairman once said, 'well-run banks don't fail'.
- A robust crisis management framework and resolution mechanism should be in place.

We have certainly come a long way, but the job of creating a more resilient monetary union – one whose currency can play a more important role in the international stage – has not yet been finished. Completing the banking union – especially through the establishment of a European deposit insurance scheme – and launching a Savings and Investments Union would significantly reduce financial fragmentation. Building on the success of NextGenerationEU, the issuance of a common EU safe asset could boost cross-border investment, strengthen the international role of the euro and decisively enhance Europe's long-term competitiveness.

To conclude, the Greek sovereign-cum-banking crisis, occurring about a decade after the adoption of the euro, was caused by an overly expansionary fiscal policy driven by the political cycle, real wage formation exceeding productivity growth by far, as well as by structural vulnerabilities such as high tax evasion and a non-viable pension system. Once these vulnerabilities were addressed, along with government debt refinancing, participation in the single currency became an anchor of stability. Greece is now growing much faster than the rest of the euro area, its debt-to-GDP ratio is falling rapidly, its banking sector is thriving and the loans provided during the crisis are being repaid comfortably in a front-loaded way.

Greece has benefited greatly from being a member of the euro area, and the monetary union itself has benefited by strengthening its financial architecture. With Bulgaria's entry, the euro area has grown to twenty-one members. Henceforth, the level of Bulgaria's interest rates will reflect the ECB's credibility, as Governor Radev joins fellow governors in participating in the Governing Council. Our monetary union has become larger and even stronger.