

# Bulgaria's Path to the Euro: The Role and Legacy of the Currency Board\*

Charles Enoch  – Anne-Marie Gulde 

*Bulgaria's monetary integration with Europe started with the creation of the currency board in 1997. This paper traces how hard constraints on central bank financing and money creation, combined with political consensus forged in crisis, restored credibility, helped to attract investment, and supported deep structural change and privatisation. Despite the early success, however, Bulgaria's trajectory from crisis stabilisation to EU accession in 2007 and eventually to ERM II entry in 2020 and euro adoption was unusually long, shaped by a combination of persistent pre-crisis imbalances, the global financial crisis and the resulting stricter post-crisis European prudential demands. While Bulgaria's monetary policy after the creation of the currency board was determined by the anchor currency, euro entry still brings additional gains, such as representation in ECB decisions, lower currency and country risk, deeper financial market access and reduced transaction costs, while remaining costs are mostly transitional. Monetary success, however, does not fully resolve Bulgaria's broader institutional and demographic challenges.*

**Journal of Economic Literature (JEL) codes:** E42, E52, E58, F31, F33

**Keywords:** hyperinflation, currency board, stabilisation, euro adoption, monetary integration

## 1. Introduction

The common currency, the euro, is a hallmark achievement of EU integration. It visibly signals progress in institutional and economic convergence within the block, and all but guarantees forward-looking monetary stability. Fifteen years ago,

---

\* The papers in this issue contain the views of the authors which are not necessarily the same as the official views of the Magyar Nemzeti Bank.

Charles Enoch: Consultant on Central Bank Issues and Regional Integration. Email: [Cenoch99@gmail.com](mailto:Cenoch99@gmail.com)  
Anne-Marie Gulde: Consultant on International Financial and Debt Issues. Email: [Aguldewolf@gmail.com](mailto:Aguldewolf@gmail.com)

Charles Enoch is a former Deputy Director at the IMF's Western Hemisphere Department and a previous fellow at St. Anthony's college Oxford. Anne-Marie Gulde is a former Deputy Director at the IMF's Asia and Pacific Department and previously at the European Department. Both worked on Bulgaria's economic stabilisation in previous positions at the IMF's Monetary and Capital Markets Department and European Department. The authors acknowledge helpful discussions with Piroska Nagy, colleagues at the IMF's European Department, and participants at an LSE sponsored workshop on euro adoption, and comments from two anonymous referees. All remaining errors are the responsibility of the authors.

The first version of the English manuscript was received on 29 December 2025.

DOI: <https://doi.org/10.33893/FER.25.1.5>

observers were questioning whether the euro itself would survive amidst turmoil in the financial sectors in southern Europe. Now the issue is whether it can be a reserve currency, on par with or even surpassing the role that the US has held for the past eighty years.

For new EU member states, acceptance of the euro is mandatory once economic and institutional conditions are achieved; for many countries this was an important objective and was achieved quickly, while some others continue to show reluctance.

Bulgaria expressed its desire to adopt the euro very soon after joining the EU. Its path has been longer than others', but its entry on 1 January 2026 as the 21st member of the euro area represented a substantial achievement for the country, and was a further sign of the euro as a magnet for economic and political integration.<sup>1</sup> Bulgaria had a currency board arrangement (CBA) starting in 1997, and the country's entry into the euro area also shows that a well-designed CBA can serve to underpin a country's transition to a market economy even in the face of periodic headwinds.

## 2. Bulgaria: the path to the currency board

In 1989, Bulgaria began a tumultuous transition to a market economy. The overwhelming challenges of operating a new market-based economy while the necessary legal, institutional and supervisory frameworks were yet to be built led to a complex, crisis-prone start.

The extrication of the monobank Bulgarian National Bank (BNB, the central bank of Bulgaria) from its commercial banking operations left it to focus on its central bank responsibilities, while the commercial banking sector was mainly covered by a number of state-owned banks, largely the former branches of the BNB as well as the financing arms of some state-owned enterprises (SOEs).

Difficulties, however, were building up. There was a high degree of bank concentration, with the five largest banks (four state-owned, one private) owning 60 per cent of total assets in early 1996, and with some banks regionally or sectorally focused ("pocket banks" of particular enterprises). Privatisation progressed very slowly. The BNB had almost no supervisory powers over the state banks, and exercised limited authority over the private banks. For a while, the banks' situations were concealed through the unrealised capital gains that the banks reported as the currency fell, but the system became increasingly fragile (*Kojschev 1996*).

---

<sup>1</sup> *Enoch (2021)* discusses different forms of inclusive EU integration, noting that agencies such as the European Systemic Risk Board include both euro area members and non-member states.

The situation in the banking sector deteriorated as the state enterprise sector continued to run large losses. These corporate losses, together with the absence of effective bankruptcy procedures and a lacking repayment culture led to non-performing loans (NPLs) exceeding 60 per cent at many banks (*Sugarev 1996; IMF 1996*). These were accommodated by increasing credits from the banks as non-performing loans continued to rise and by bail-outs by the government, leading to an increase in government debt. Insider lending was prevalent, and none of the state enterprises was structurally reformed or declared bankrupt.

The many losses at the banks led to payment delays, eventually freezing activity in many sectors. As a result, growth reversed in 1996, with a decline of over 6 per cent in activity in the first half of that year. Inflation accelerated, and the concomitant rise in interest rates proved devastating for enterprises and hence for the banks. In July 1996, annualised inflation rose to 165 per cent.

Transparency in the Bulgarian economy was relatively high, and there was public awareness of the dire straits of the banking system, with lines forming outside several banks as rumours spread about the failing health of the banking system. The IMF was providing extensive technical assistance at the time, but was becoming increasingly concerned.

The closure of two large banks, Mineral Bank and First Private Bank, and three smaller banks in May 1996 proceeded relatively smoothly, but fuelled concerns about the weakness of the rest of the banking system, and the assurance of Prime Minister Videnov that there would be no more bank closures was not viewed as being credible. The BNB struggled in court to close the banks it had deemed insolvent, and some continued to operate ("zombie banks"). There was a continuing flight of depositors to the State Savings Bank (SSB), which was the only bank with an explicit depositor guarantee. The declaration of a full guarantee across the banking system was not held to be credible, given the level of public indebtedness. In July 1996, the IMF approved a reform programme with the Bulgarian authorities, but it quickly went off track, due to the larger-than-expected decline in economic activity, lack of progress in the SOEs and general lack of confidence in the programme.

By November 1996, Bulgaria faced not only an economic and banking crisis, but also a political crisis caused by the victory of the opposition party in the presidential elections. Confidence in conventional economic reform measures had evaporated. Debt had risen to over 120 per cent of GDP. High inflation and interest rates, together with continuing declines in economic activity as well as the ongoing financial crisis, indicated a need for a substantial change in policy direction. By March 1997, Bulgaria's annualised inflation was above 2,000 per cent and the country was in full-blown hyperinflation.

There was therefore from at least the summer of 1996 an increasing interest in establishing a CBA for Bulgaria, particularly after the failure of the July 1996 IMF programme. A currency board, an arrangement which had been widespread during the days of the British Empire, had recently been introduced for the Baltic states and (less successfully) for Argentina.<sup>2</sup> The advantage of a CBA would be to constrain the monetary authority's ability to expand the money supply – meaning its ability to lend to banks and the government – to the size of the country's foreign exchange reserves. The expected immediate fall in inflation would bring about the critical reduction in interest rates that would be needed to reverse the ongoing economic decline.<sup>3</sup>

By the autumn of 1996, the IMF had decided that credibility of a renewed stabilisation programme was critical. It would therefore only support another programme if it was on the basis of a CBA, ensuring that the central bank's ability to lend to the government or the commercial banks would be abolished or severely restricted.

As discussions continued, Bulgaria went into full hyperinflation. The leva, which had been around 70 to the USD in autumn 1996 fell to more than 3,000 to the USD by year-end. The hardship for the population, especially those on fixed nominal incomes, led to large street demonstrations calling for a change of government. Prime Minister Videnov resigned office on 13 February 1997, and Peter Stolyanov, Mayor of Sofia, was appointed as interim prime minister. Opposition leader Ivan Kostov won the ensuing parliamentary election in May. Discussions went forward on the basis of establishing a stabilisation programme with a currency board.

Discussions on a currency board intensified. One important goal was to find a design that would provide credibility, while maintaining some limited lender-of-last-resort facility (see *section 2.1.*) to backstop the still-fragile banking system. While economically devastating, the hyperinflation facilitated designing the currency board, in that domestic monetary liabilities had been reduced significantly (“inflated away”), so that foreign reserves could cover domestic liabilities without restrictions. Eleven of the weakest banks had been closed, and there was confidence in the government's ability to stand behind the remainder as necessary. Probably most importantly, there was confidence – internally and externally – in the newly elected government.

---

<sup>2</sup> *Appendix 1* shows some of the other countries that have or have had CBAs.

<sup>3</sup> For a detailed summary of Bulgaria's banking crisis and the banking sector's role in the development of the hyperinflation, see *Enoch et al. (2002)*.

## **2.1. Design issues in setting up the Bulgarian currency board**

When setting up the Bulgarian currency board there were several important design issues.<sup>4</sup> The goal was to go for a system that was sufficiently transparent and credible in reining in monetary growth, while at the same time retaining some flexibility and allowing for limited intervention to avoid a further banking crisis. Three core decisions were essential:

- *Legal basis:* On 5 June 1997, the Bulgarian parliament passed the new law on the Bulgarian National Bank which established the legal basis and operational principles for the currency board. Enshrining a significant number of details in law ensured that any changes would require a transparent and possibly lengthy legal process. Importantly, the law retained the bank supervision department within the BNB, with emphasis given to the enforcement of the newly enhanced laws and regulations.
- *Organisational design of the central bank:* In contrast to a number of earlier cases (including initially Singapore and the Republic of Ireland as they emerged into independence), there was not to be a stand-alone monetary authority, mechanically adjusting the monetary base to changes in international reserves, but rather the BNB would be retained, with both an “Issue Department” responsible for maintaining the CBA and a “banking department”, where resources could be used to manage the monetary supply within the CBA constraints. The intent was to give the BNB some limited flexibility to provide lender-of-last-resort support to the banks, hence helping to ensure confidence in the banking system, and reducing the risk of overspill to the fiscal side in the event of bank difficulties.
- *Anchor currency:* One remaining issue was the choice of currency to which the CBA should be pegged. Choices elsewhere differed, with Estonia’s CBA pegged to the Deutsche mark, Latvia’s CBA to the composite SDR and Lithuania’s to the US dollar. Despite outside pressure for a peg to the US dollar, Bulgaria’s overwhelming trade links to Europe, in particular Germany, led to the adoption of the Deutsche mark as its peg. On 1 July 1997, the currency board was introduced linking the leva at 1,000 to the Deutsche mark. This also enabled a smooth transition to a euro peg when Germany adopted the euro.

---

<sup>4</sup> See also *Enoch and Gulde (1997)*

### 3. Regaining stability: from the crisis to EU accession

Transparency and expectations of the sustainability and durability of the planned CBA, particularly in light of the election of the new government in May 1997, led to rapid stabilisation once the currency board was announced, with stabilisation starting even before the regime was implemented. Once in place, inflation rapidly came under control, and interest rates fell accordingly. After continuing to fall for some months, economic activity started to recover. GDP rose by 3.5 per cent in 1998 after declines of 10.9 per cent and 6.9 per cent in 1996 and 1997, respectively. Inflation dropped from four digits to 22 per cent in 1998. Debt fell to less than half its pre-crisis levels (*Ghosh et al. 1998; Gulde 1999*). Foreign investment started to flood in, rising to over 20 per cent of GDP by 2007, with confidence further enhanced by Bulgaria's NATO entry in 2004.

Bulgaria saw deep changes in the ten-year period between the currency board stabilisation and joining the EU.<sup>5</sup> The IMF remained a major partner, and Bulgaria successfully completed three main Stand-By Arrangements during 1997 to 2007, with active programme involvement nearly continuous throughout the period. The IMF, World Bank, EU and bilateral providers also supported the country's institutional and structural reform through ongoing technical assistance (*IMF – World Bank 2003; IMF 2007, 2009, 2017*).

Following the crisis, the economy returned to substantial monetary stability and achieved solid growth: by 1999 inflation remained contained, but – as in other transition economies – it was mostly above the level of the anchor currency (*Figure 1*).<sup>6</sup> Real growth remained variable in the immediate aftermath of the crisis, but became consistently positive after 2000 (*Figure 2*), averaging 5.8 per cent per year between 2000 and 2007, which was particularly remarkable as the population fell by around 7 per cent over this period (mainly through emigration of people of working-age), thus generating an even larger increase in per capita income.<sup>7</sup>

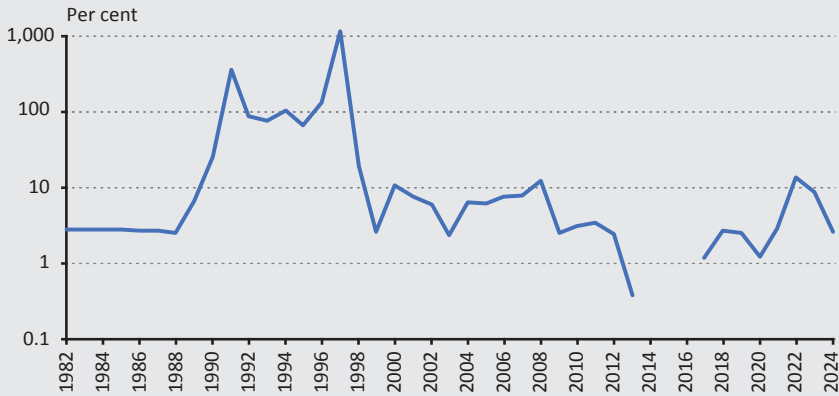
---

<sup>5</sup> See *Bechev (2010)*.

<sup>6</sup> The Maastricht inflation criterion for joining the euro requires that a country's inflation rate be close to the average of the three best performing EU members, meaning not to exceed that value by 1.5 per cent.

<sup>7</sup> Bulgaria's population fell throughout this period, but at a faster rate after 2007, declining in total from around 8.5 million in 1995 to 6.5 million in 2025.

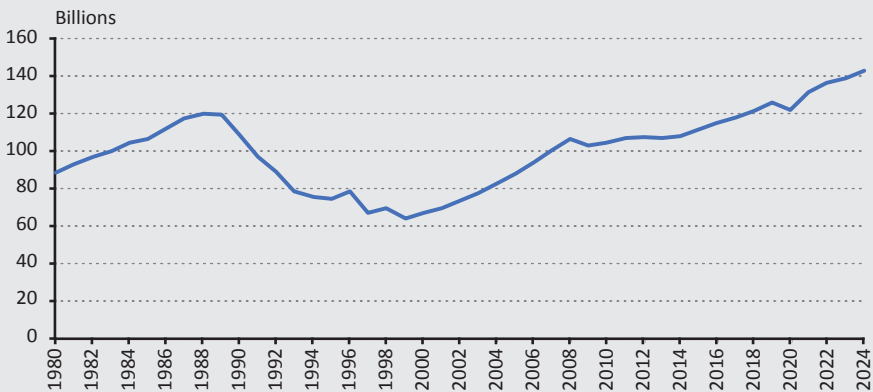
**Figure 1**  
Inflation, average consumer prices (1982–2024)



Note: A logarithmic scale is used to illustrate the vast differences in inflation levels. Periods with negative inflation (deflation), specifically between 2014 and 2016, are not plotted due to the mathematical constraints of the logarithmic scale.

Source: IMF World Economic Outlook Database

**Figure 2**  
Real GDP in national currency (1980–2024)



Source: IMF World Economic Outlook Database

The fiscal balance stayed strong throughout, with incomes policies ensuring that public sector wage growth stayed below that elsewhere in the economy. Public debt declined from nearly 70 per cent of GDP in 1998 to less than 20 per cent in 2007 (Table 1).<sup>8</sup>

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP <sup>1</sup>	-14.1	3.8	-8.4	4.6	3.8	5.9	5.2	6.5	7.1	6.8	6.7
Per capita GDP <sup>2</sup>	12,743	13,319	12,259	12,692	13,608	14,491	15,336	16,420	17,675	18,974	20,340
CPI <sup>3</sup>	1,061.2	18.7	2.6	10.3	7.4	5.8	2.3	6.1	6.0	7.4	7.6
Fiscal balance <sup>4</sup>	n/a	1.1	0.2	-0.6	-0.6	-0.6	0.0	1.6	2.2	3.2	3.1
Government gross debt <sup>4</sup>	67.3	78.7	73.3	67.1	53.4	45.4	37.8	28.5	22.6	17.6	14.7
Current account <sup>4</sup>	13.5	1.1	-2.9	-3.1	-3.6	-0.6	-3.4	-4.3	-9.4	-15.3	-23.9

*Note:* <sup>1</sup> Per cent change; <sup>2</sup> International dollars, PPP basis; <sup>3</sup> Per cent change, period average; <sup>4</sup> Per cent of GDP. To ensure a sufficiently long and consistent time series for international comparison, purchasing power parity (PPP) data sourced from IMF.  
Source: IMF WEO database

Deep structural changes led to a marked shift away from agricultural employment and a different ownership structure of banks and enterprises. By 2007, 75 per cent of the economy was privately owned, including 100 per cent of the banking sector. Capital markets started to develop. Bulgaria's per capita GDP on a PPP basis, which had been only 30 per cent of the level of the major EU member states before the crisis, reached 40 per cent in 2007.

### 3.1. EU membership, but lengthy efforts towards euro adoption

Bulgaria joined the EU in 2007, together with Romania in a bespoke membership process. The two countries followed an earlier group of Central and Eastern European Countries that had gained membership in 2004. More deep-seated structural challenges than these earlier entrants and, importantly, a different global economic environment led to a distinctly different membership path compared to the earlier entrants. Specifically, it was recognised that Bulgaria and Romania had not yet fully converged to all critical EU standards, which in the past had to be achieved by the time of membership. Nevertheless, acknowledging the importance of achieving membership, the EU took the view that the deep structural and institutional changes that were still needed could be achieved while the countries already were members.

<sup>8</sup> Wolf *et al.* (2008) discuss the performance of currency boards compared to other exchange rate regimes. Their results for a large panel show that countries with CBAs on average have lower inflation and better fiscal outcomes, but also lower growth. They emphasise that once stabilisation has been achieved, the challenge for a CBA would be to find a credible exit mechanism.

To ensure the necessary momentum, the EU instituted country-specific Cooperation and Verification Mechanisms (CVMs) for both countries. In the case of Bulgaria, this was based on a series of judicial reforms, as well as significant efforts to fight corruption and organised crime. Progress would be monitored through regular reporting, benchmarks and annual European Commission Assessments. Commitments under the CVM guided both the membership process and the key steps in Bulgaria's journey for sixteen years; following achievement of the stated goals, the CVM process was formally closed in September 2023.<sup>9</sup>

	2006	2007	2008	2009	2010–2015	2016–2020	2021	2022	2023	2024	2025 <sup>4</sup>
GDP <sup>1</sup>	6.8	6.7	6.1	-3.3	1.4	1.8	7.8	4.0	1.9	2.8	2.5
CPI inflation <sup>2</sup>	6.1	11.6	7.2	1.6	0.9	1.3	6.6	14.3	5.0	2.1	3.1
Import volume <sup>1</sup>	15.9	22.6	4.9	-21.5	4.8	3.7	9.0	13.6	-4.3	2.0	4.4
Export volume <sup>1</sup>	7.7	19.6	2.5	-11.7	7.5	2.1	8.2	8.3	3.4	-0.2	0.7
Current account	-15.3	-23.9	-22.1	-8.3	0.2	1.8	-1.1	-2.6	0.9	0.2	-1.5
Fiscal balance	3.1	2.2	1.0	-0.5	-2.2	0.1	-3.5	-1.4	-3.2	-3.2	-3.1
Government gross debt	22.6	17.6	14.7	14.5	19.0	22.2	22.4	21.5	21.9	23.4	28.0
<b>Memo items:</b>											
Per capita GDP <sup>3</sup>	13.2	14.6	15.8	15.4	17.8	23.3	29.7	35.1	37.0	39.4	41.9
EU average per capita GDP <sup>3</sup>	32.8	34.7	35.6	34.2	37.6	45.1	52.6	58.2	60.3	62.3	64.5
<i>Note: <sup>1</sup> Per cent change; <sup>2</sup> Per cent change, end of period; to assess convergence criteria the ECB and EU use the European HIPC which can differ somewhat from CPI, due to compositional difference; <sup>3</sup> In thousands of international dollars, PPP based; <sup>4</sup> Estimate.</i>											
<i>Source: IMF WEO database</i>											

After joining the EU, Bulgaria's government expressed strong interest in joining the euro area as early as possible.<sup>10</sup> To do so, the first step was to join the ERM II mechanism. ERM II is the EU framework to promote exchange rate stability and assess real convergence in preparation for euro adoption. To enter ERM II, an EU country's finance minister and central bank governor jointly apply. Exiting from ERM II into the euro is possible once exchange rate stability has been achieved and the Maastricht convergence criteria are met. The process requires that both the ECB and European Commission issue positive Convergence Reports, and existing euro area members together with the ECB must approve the country's entry into the euro area. ERM II is set for a period of at least two years and is often informally called the "waiting room for the euro" (*Appendix 3*).

<sup>9</sup> See *Appendix 2* for details on the CVM process for Bulgaria

<sup>10</sup> Economic analyses also supported the goal of early accession (*Yorgova 2011*).

Noting that other CEE accession countries with the intention of joining the euro had acceded to ERM II after a relatively short period after EU membership (*Table 3*), Bulgaria's finance minister expressed his hope to enter into the ERM II by 2009.<sup>11</sup>

<b>Table 3</b>		
<b>EU Accession Countries and ERM II time</b>		
<b>Country</b>	<b>Date of EU membership</b>	<b>Date of entry into ERM II</b>
<b>Accession countries with expressed strong interest in joining the euro</b>		
Estonia	2004	2004
Latvia	2004	2005
Lithuania	2004	2004
Slovakia	2004	2005
Slovenia	2004	2004
Bulgaria	2007	2020
Croatia	2013	2020
<b>Accession countries which have not yet applied to ERM II yet<sup>1</sup></b>		
Czech Republic	2004	n.a.
Hungary	2004	n.a.
Poland	2004	n.a.
Romania	2007	n.a.
<i>Note: <sup>1</sup> Outside of accession countries, Sweden is the only other member still to apply for ERM II.</i>		

Early optimism in Bulgaria about the speed of entry to ERM II as a first step to the euro proved premature. Given the widening macroeconomic imbalances around 2007 and with inflation significantly above the EU average and substantial current account deficits (see *Table 2*), a formal request to join ERM II at the time of membership did not look feasible. When the domestic situation stabilised, the global economy became an obstacle. With the euro area in crisis, sentiment about expansion in the European institutions clearly shifted to one of extreme caution.

The Bulgarian economy was severely impacted by the global financial crisis (GFC), but the authorities initially remained interested in quickly joining ERM II. Signals from the EU, however, were not supportive. Accordingly, the Bulgarian finance minister, following a meeting in 2009, revised earlier more optimistic announcements, saying that the process was going to take longer than expected.<sup>12</sup>

<sup>11</sup> On the monetary integration of the CESEE countries at that time, see (*Backe 2009*).

<sup>12</sup> <https://www.novinite.com/articles/107615/Bulgaria+Finance+Minister+Takes+ERM+2+Application+to+Brussels+Next+Week>.

Only in 2015 the government under Prime Minister Borisov shifted back toward a more active stance on euro adoption. To accelerate the process, the administration created a coordination council, headed by the Minister of Finance and including the BNB to develop a national roadmap. The high-level committee was supported by a group of technical experts to design the necessary legal and institutional changes called for by ERM II.

The EU and ECB were officially supportive, but in the aftermath of the GFC there was a sense of caution, and concern that any decision needed to be well-founded. The Bulgarian government and the relevant European counterparts discussed how to best address remaining concerns about institutional and structural issues, while allowing ERM II participation in the near future. To demonstrate its interest, in mid-2018 Bulgaria made prior commitments to be fulfilled before ERM II entry.<sup>13</sup> Pre-ERM II commitments on monetary issues (to be assessed by the ECB) included strengthening banking supervision, improving the macroprudential toolkit and transposing EU anti-money laundering directives into national law. A second set of commitments was to be assessed by the EU Commission and included improvements in supervision of the non-banking financial sector, adaptations to the insolvency framework and strengthening the anti-money laundering framework as well as the governance of state-owned enterprises.

On 30 April 2020, Bulgaria officially submitted documents showing the successful completion of the pre-ERM II accession commitments. As a result, the EU approved Bulgaria's accession and the country entered ERM II on 10 July 2020. Under a June 2020 ECB decision, Bulgaria also became a member of the European banking union under a close cooperation agreement, which entered into force on 1 October 2020 (*Dorrucci et al. 2020*).

Bulgaria entered ERM II with its currency board unchanged. In general, the exchange rate mechanism under ERM II allows for a member country's exchange rate to fluctuate within a  $\pm 15$ -per cent band around the central rate. Like for the previous currency board countries (Estonia, Lithuania and Latvia), Bulgaria was not expected to change its monetary arrangement and instead was able to retain its currency board arrangement.<sup>14</sup> Given the still strong memories of hyperinflation and the related popularity of the currency board, there had not been any serious discussion

---

<sup>13</sup> Croatia went through the same process at this time and agreed to a very similar set of pre-commitments. The EU institutions justified the need for pre-commitments given that the entry of these two countries into ERM II would be the first such move since the GFC, which had led to a general tightening of regulatory and prudential requirements.

<sup>14</sup> In the context of the Baltic currency boards, it had been decided that a membership applicant could retain a currency board during ERM II and floating in a band was not required. The issue was raised again in the context of Bulgaria before the European Commission and the ECB reaffirmed their earlier position. For applicant countries whose currencies are in the standard 15 per cent band during ERM II, the ECB and national central bank are expected to intervene if a currency hits the edge of the band; in the case of a currency board, however, where the country has adopted a much tighter band (i.e. zero), the ECB has no obligation to intervene to protect that band.

about changing the exchange rate regime in the context of ERM II. The central exchange rate of 1.95583 leva per euro with a zero band stayed in place, with the BNB remaining committed to full coverage of its reserves (*Coordination Council for the Preparation of the Republic of Bulgaria for Euro Area Membership 2022*).

### 3.2. Meeting the euro area criteria

Early hopes for a brief ERM II period did not materialise. Having entered the system at the very outset of the Covid-19 pandemic, inflation proved to be a major concern.<sup>15</sup> The 2022 biannual convergence reports by the ECB and EU Commission – issued in June 2022, just a month short of the minimum two-year ERM II period – found Bulgaria not ready to adopt the euro (*European Commission 2022; ECB 2022*). In part resulting from Covid-19, the budget deficit was above the 3-per cent reference value (as indeed it was for member states already using the euro). Inflation was also above the reference value, exacerbated by external shocks, and remained volatile, limiting readiness.<sup>16</sup> In addition, legislation – especially regarding central bank independence, monetary financing prohibition and ECB/ESCB integration – needed further alignment with EU legal requirements. Meanwhile, Bulgaria met other Maastricht criteria including on exchange sustainability, public finances and interest rates.

The regular 2024 report (*European Commission 2024; ECB 2024*) noted significant progress, but inflation remained above the reference value and the earlier hope of euro adoption in January 2025 proved unattainable. The report also noted, however, that Bulgarian law was now deemed compatible with EU requirements for euro adoption, subject to interpretations and ongoing vigilance.

In February 2025, Bulgaria requested an updated convergence assessment from the EU Commission and the ECB. The request followed the Eurostat release of inflation data which indicated that the country had met the price stability criterion, removing the last barrier to joining the euro area. On 4 June 2025, the 2025 convergence reports by the European Commission and ECB concluded that Bulgaria fulfilled the economic and legal criteria for adopting the euro (*European Commission 2025; ECB 2025*). The positive assessment set in motion all needed legal and institutional steps which were completed by early July (*Appendix 3*).

---

<sup>15</sup> For economic analysis regarding Bulgaria and Croatia fulfilling criteria, see *Walko (2022)*.

<sup>16</sup> Convergence reports covering all EU members not participating in the euro are prepared on a biannual basis. However, countries are free to request special convergence assessments outside of this cycle.

Convergence Criterion	Key Indicator	Reference Value	Bulgaria (2025 Assessment)	Status
Price stability	12-month average HICP inflation	Based on best performers	Met the stability criterion	Fulfilled
Fiscal deficit	Net lending/ borrowing	≤ 3 per cent of GDP	Below reference value	Fulfilled
Government debt	Gross Debt	≤ 60 per cent of GDP	23.1 per cent <sup>1</sup>	Fulfilled
Exchange rate	Participation in ERM II	≥ 2 years	Member since July 2020	Fulfilled
Long-term interest rate	10-year government bond yield	Based on best performers	Within reference range	Fulfilled
Legal convergence	Central Bank legislation	Full compatibility	Deemed compatible by June 2025	Fulfilled

*Note:* <sup>1</sup> 2024 estimate  
*Source:* Compiled by the authors based on the 2025 Convergence Reports European Commission (2025) and ECB (2025)

## 4. Euro membership

### 4.1. Benefits of euro adoption

With its currency board, Bulgaria had already captured some of the benefits of a joint currency with the main European partners. The euro, however, will bring a number of further benefits (*Enoch and Gulde 2025*), including the following:

- *Regaining a voice in monetary policy decisions:* As a member of the euro club, Bulgaria will for the first time participate in making monetary policy decisions. Since 1997, Bulgaria was indirectly affected by those decisions, but was not able to weigh in on monetary policy.
- *Reducing currency and country risk:* The euro, a reserve currency, will help to further reduce foreign currency risk. While Bulgaria's currency board was stable and legally anchored, other countries have exited currency boards, and hence there continued to be a degree of currency risk. Following the positive news on the upcoming euro adoption, several rating agencies upgraded Bulgaria (*Fitch Ratings 2025; Morningstar DBRS 2025; S&P Global Ratings – Fitch Ratings 2025; Scope Ratings GmbH 2025*), noting lower currency and country risk with Bulgaria's currency now part of a reserve currency. Euro adoption also demonstrates the international acceptability of the legal and institutional framework, supporting trade and investment due to lower country risk.

- *Supporting banking/financial stability:* Under the currency board, the BNB did not have an unlimited “lender of last resort” facility, which – in periods of extreme pressure – could have led to a liquidity crisis. As part of the euro, Bulgarian banks will have access to ECB facilities, making their liquidity supply in a crisis situation much more secure.
- *Participating in deep money and capital markets:* With euro adoption, Bulgarians will be able to directly tap into the deep euro financial markets. Euro members have more seamless, resilient and lower-cost access to euro capital markets, especially during periods of volatility, while non-euro countries can access these markets only through EUR-denominated issuance and usually trade at higher spreads.
- *Facilitating trade and travel:* Notwithstanding a fixed exchange rate, every foreign transaction required currency exchange, with costs in the range of 1 to 3 per cent of the transaction. The euro will eliminate these costs for all transactions with the rest of the euro area, which is Bulgaria’s predominant trading partner. Deeper markets for the euro compared to the leva will also reduce transaction costs with non-euro currencies.

#### **4.2. Expected costs: transitory versus structural impacts**

Given Bulgaria’s currency board, the economic costs of adopting the euro are limited. In general, adopting a regional money implies an end to a country’s ability to make independent monetary policy decisions. Bulgaria, however, had already given up the ability to use active monetary policy with the adoption of the currency board and has not used active policy since. Once the country adopts the euro, monetary policy will continue to be made outside, but – in contrast to the currency board situation – Bulgaria will be part of the ECB Council and have some input on regional policymaking.

Other more tangible costs of euro adoption relate to the necessary operational changes for businesses and for the government. For businesses, this includes the need to adapt accounting systems, change denomination in contracts and retail price signs, and provide staff training. For the government, it entails reflecting the new currency in all laws and regulations. The impact on inflation is feared as a major cost, but in other countries this has been shown to be small and temporary.<sup>17</sup>

---

<sup>17</sup> This phenomenon has been widely studied. With regard to Germany, research found that the changeover from the Deutsche mark to the euro raised aggregate inflation rates on a one-time basis by about 0.05 to 0.23 percentage points, mainly due to rounding (“menu” costs) and pricing strategies for services such as catering and restaurants. Similar results were found for other countries; in all cases, the effect on individuals and groups was found to differ depending on their consumption basket, and in most countries inflation perception exceeded the actual increase in prices (see *Mastrobuoni 2004; Sturm et al. 2009, and Petrylė – Bunevičiūtė 2023*).

## **5. Summary and conclusions**

Bulgaria was hit particularly hard at the outset of its transition towards a market economy, because of its heavy industrial legacy and lack of clear political commitment. By 1996, the conventional approach to economic transition seemed to have failed, as inflation was becoming embedded, public indebtedness rising and the government discredited. The descent into hyperinflation towards the end of the year made a radical change in strategy urgent.

The CBA met the needs of the moment. The scope for discretionary policies was severely constrained. Monetary expansion was limited to the size of the country's foreign reserves and gold holdings, and fiscal policy was constrained to be consistent with these restrictions. Legal passage of the CBA gave the arrangement credibility, and thus inflation expectations plummeted, and inflation and interest rates fell rapidly. After a period of economic slowdown growth resumed again. That said, some flexibility was built into the system, so there would be some scope to respond to economic shocks. Moreover, incorporation of the CBA within the BNB meant, importantly, that the institution regained credibility as the economy stabilised.

Economic pressures in the following years meant that Bulgaria experienced multiple changes of government. Nevertheless, memories of the pain inflicted by hyperinflation meant that the CBA was never seriously threatened. The economy was challenged by the emigration of 20 per cent of its population during this period, with this occurring largely among the marketable, younger population. On the other hand, the Bulgarian economy benefitted from remittances from abroad, which rose from zero in 1996 to around 8 per cent of GDP in 2003, as confidence in the new economic arrangements took hold, before dropping to around 3 per cent and staying at that level thereafter.

Bulgaria took time to overcome its many structural challenges, and thus it was not yet ready to enter the EU at the same time as many of the other transition economies. However, in 2007 after further reforms and agreeing to a post-membership monitoring process Bulgaria (together with Romania) achieved EU membership.

Bulgarian governments hoped to join the ERM II, the precursor to euro area membership, soon thereafter, as other transition economies had done. The following period, however, was characterised by a series of negative external events – the global financial crisis, the euro crisis, and Covid-19 – which knocked the Bulgarian economy off course and made the EU more cautious about widening participation in the euro. During this period, the purely economic case for the CBA was perhaps less clear – Romania grew faster than Bulgaria for much of the period between 2007 and 2020 – but the credibility of the CBA continued to underpin

economic stability, and the adoption of the euro would be the only feasible exit from the arrangement that would ensure this credibility would be maintained. As of 1 January 2026, this was achieved, and Bulgaria became the 21<sup>st</sup> member of the euro area.

Thus, the CBA served a critical role in 1997 at a time when alternative strategies had been tried and were seen to have failed. The memory of the pre-CBA hyperinflation was an important component for maintaining support for the CBA in the following decades. The limited flexibility in the non-traditional design of the CBA and the embedding of the CBA within the BNB added to the strength of the arrangement. Finally, the prospect of joining the euro area provided an end-point for managing the CBA and for the country's ultimate exit from it. The benefits of the euro area membership should further advance Bulgaria's economic progress.

## References

- Backe, P. (2009): *The monetary integration of CESEE EU member states: Achievements and prospects*. Focus on European Economic Integration, 2009(5): 73–81. [https://econpapers.repec.org/scripts/redir.pf?u=https%3A%2F%2Fwww.oenb.at%2Fdam%2Fjcr%3A-84baa968-30b7-4e06-af71-89fece02422e%2Ffee\\_i\\_2009\\_si\\_10\\_backe\\_tcm16-143559.pdf;h=repec:onb:oenbfi:y:2009:i:5:b:10](https://econpapers.repec.org/scripts/redir.pf?u=https%3A%2F%2Fwww.oenb.at%2Fdam%2Fjcr%3A-84baa968-30b7-4e06-af71-89fece02422e%2Ffee_i_2009_si_10_backe_tcm16-143559.pdf;h=repec:onb:oenbfi:y:2009:i:5:b:10)
- Bechev, D. (2010): *Bulgaria's Path to EU Membership – and beyond*. In: Katsikas, S. (ed.): *Bulgaria and Europe: Shifting Identities*. Anthem Press, pp. 113–128. <https://doi.org/10.7135/UPO9781843318286.008>
- Coordination Council for the Preparation of the Republic of Bulgaria for Euro Area Membership (2022): *National euro changeover plan of Bulgaria (updated for euro introduction on January 1, 2025)*. <https://evroto.bg/upload/532/National%20Plan.pdf>
- Dorrucci, E. – Fidora, M. – Gartner, C. – Zumer, T. (2020): *The European exchange rate mechanism (ERM II) as a preparatory phase on the path towards euro adoption: The cases of Bulgaria and Croatia*. ECB Economic Bulletin, 8/2020. [https://www.ecb.europa.eu/press/economic-bulletin/articles/2021/html/ecb.ebart202008\\_01~035eb0fb07.en.html](https://www.ecb.europa.eu/press/economic-bulletin/articles/2021/html/ecb.ebart202008_01~035eb0fb07.en.html)
- ECB (2022): *Convergence Report 2022*. European Central Bank. <https://www.ecb.europa.eu/press/other-publications/convergence/html/ecb.cr202206~e0fe4e1874.en.html>
- ECB (2024): *Convergence Report 2024*. European Central Bank. <https://www.ecb.europa.eu/press/other-publications/convergence/html/ecb.cr202406~475c2172bc.en.html>
- ECB (2025): *Convergence Report 2025: Bulgaria*. European Central Bank. <https://www.ecb.europa.eu/press/other-publications/convergence/html/ecb.cr202506~8941e288b6.en.html>

- Enoch, C. (2021): *Europe beyond the euro. Building protection for Europe's economies in the time of risks*. Palgrave Macmillan. <https://doi.org/10.1007/978-3-030-77115-7>
- Enoch, C. – Gulde, A.-M. (1997): *Making a Currency Board operational*. IMF Paper on Policy Analysis and Assessment, PPAA/97/10. <http://www.imf.org/external/pubs/ft/ppaa/ppaa9710.pdf>
- Enoch, C. – Gulde, A.-M. (2025): *From hyperinflation to the euro*. Finance & Development, 62(4). International Monetary Fund. <https://www.imf.org/en/publications/fandd/issues/series/analytical-series/from-hyperinflation-to-the-euro-enoch>
- Enoch, C. – Gulde, A.-M. – Hardy, D.C.L. (2002): *Banking crises and bank resolution: Experiences in some transition economies*. IMF Working Paper No. 02/56, International Monetary Fund. <https://doi.org/10.5089/9781451847710.001>
- European Commission (2018): *Convergence criteria for joining the euro area*. Directorate-General for Economic and Financial Affairs. [https://economy-finance.ec.europa.eu/euro/enlargement-euro-area/convergence-criteria-joining\\_en](https://economy-finance.ec.europa.eu/euro/enlargement-euro-area/convergence-criteria-joining_en)
- European Commission (2022): *Convergence report 2022*. Institutional Paper 179. <https://doi.org/10.2765/804537>
- European Commission (2024): *Convergence report 2024*. Institutional Paper 294. <https://doi.org/10.2765/77665>
- European Commission (2025): *Convergence report 2025 on Bulgaria*. Institutional Paper 320. Directorate-General for Economic and Financial Affairs, European Commission. <https://doi.org/10.2765/0736961>
- Fitch Ratings (2025): *Fitch Upgrades Bulgaria to 'BBB+'; Outlook Stable*. <https://www.fitchratings.com/research/sovereigns/fitch-upgrades-bulgaria-to-bbb-outlook-stable-10-07-2025>
- Ghosh, A.R. – Gulde, A.-M. – Wolf, H.C. (1998): *Currency Boards: The Ultimate Fix?* IMF Working Paper, WP/98/8. <https://doi.org/10.5089/9781451927955.001>
- Gulde, A.-M. (1999): *The Role of the Currency Board in Bulgaria's Stabilization*. IMF Finance and Development, September, 36(3). <https://doi.org/10.5089/9781451974102.003>
- IMF (1996): *Bulgaria: Recent economic developments* (IMF Staff Country Report No. 96/13). <https://www.elibrary.imf.org/view/journals/002/1996/013/article-A001-en.xml>
- IMF (2007): *Bulgaria: Selected issues*. IMF Staff Country Report No. 2007(390). <https://doi.org/10.5089/9781451804584.002>

- IMF (2009): *Bulgaria: 2008 Article IV Consultation – Staff Report. Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Bulgaria*. IMF Staff Country Report No. 2009(96). <https://doi.org/10.5089/9781451804591.002>
- IMF (2017): *Bulgaria: Financial Sector Assessment Program: Technical Note on Financial Safety Net and Crisis Management*. IMF Staff Country Report No. 2017(202). <https://doi.org/10.5089/9781484308493.002>
- IMF – World Bank (2003): *Bulgaria: Financial Sector Assessment Program: Review, issues and lessons going forward*. International Monetary Fund and World Bank, February 24. <https://www.imf.org/external/np/fsap/2003/review.pdf>
- Kojshev, N. (1996): *Bankrott des Staates zu Erwarten?*. Bulgarisches Wirtschaftsblatt, May, Number 5(46): 1.
- Mastrobuoni, G. (2004): *The effects of the euro-conversion on prices and price perceptions*. CEPS Working Paper No. 101. <https://gceps.princeton.edu/wp-content/uploads/2017/01/101mastrobuoni.pdf>
- Morningstar DBRS (2025): *Morningstar DBRS confirms Republic of Bulgaria at BBB (high) stable trend*. Morningstar DBRS, 28 August. <https://dbrs.morningstar.com/research/461759>
- Petrylė, V. – Bunevičiūtė, K. (2023): *Gainers and Losers of Euro Adoption: The Case of the Baltic States*. Proceedings of the 13th International Scientific Conference Business and Management 2023. <https://doi.org/10.3846/bm.2023.1010>
- S&P Global Ratings – Fitch Ratings (2025): *S&P Global and Fitch upgrade Bulgaria's credit rating to 'BBB+' following eurozone accession approval*. The Sofia Globe, July 10. <https://sofiaglobe.com/2025/07/11/sp-global-fitch-raise-bulgarias-credit-rating-to-bbb-on-euro-adoption-approval/>
- Scope Ratings GmbH (2025): *Republic of Bulgaria issuer rating report: Upgrade to A- stable following euro area entry*. Scope Ratings GmbH, 18 September. <https://scoperatings.com/ratings-and-research/rating/EN/179051>
- Sturm, J.-E. – Fritsche, U. – Graff, M. – Lamla, M. – Lein, S. – Nitsch, V. et al. (2009): *The euro and prices: Changeover-related inflation and price convergence in the euro area*. Economic Paper No. 381, European Economy. [https://ec.europa.eu/economy\\_finance/publications/pages/publication15287\\_en.pdf](https://ec.europa.eu/economy_finance/publications/pages/publication15287_en.pdf)
- Sugarev, E. (1996): *White Paper on the Financial Bankruptcy of Bulgaria*. Parliamentary Anti-Corruption Committee.

- Wahl, T. (2023): *Commission Formally Closes Cooperation and Verification Mechanism for Bulgaria and Romania*. <https://eucrim.eu/news/commission-formally-closes-cooperation-and-verification-mechanism-for-bulgaria-and-romania/>
- Wolf, H.C. – Ghosh, A.R. – Berger, H. – Gulde, A.-M. (2008): *Currency Boards in Retrospect and Prospect*. CESifo Book Series, MIT Press. <https://doi.org/10.7551/mitpress/9780262232654.001.0001>
- Yorgova, N. (2011): *The Eurozone and Bulgaria: Interrelations and future perspectives*. Economic Policy Analyses, Friedrich Ebert Stiftung. <https://library.fes.de/pdf-files/bueros/sofia/08494.pdf>
- Walko, Z. (2022): *Ready for the Euro? The Case of Croatia and Bulgaria*. Österreichische Nationalbank, Occasional Paper number 3. [https://www.oenb.at/dam/jcr:3323a25c-3eff-48a0-ab3e-da88150fe744/occasional\\_paper\\_no-3\\_ready-for-the-euro.pdf](https://www.oenb.at/dam/jcr:3323a25c-3eff-48a0-ab3e-da88150fe744/occasional_paper_no-3_ready-for-the-euro.pdf)

## Appendices

### Appendix 1: Some examples of currency board arrangements

Currency board arrangements (CBAs) have a long history as colonial monetary arrangements, but regained popularity in the late 20<sup>th</sup> century. As a colonial instrument, they aimed to both limit money creation while also avoiding the need to transport currency between the home country and the colony. In their more recent use, they were intended as either an instrument to help curb and stabilise inflation, or to support new currencies in gaining credibility and acceptance. The following table lists historic and current CBAs.

Country/Territory	Start Year/End Year	Notes
Mauritius	1849 mid–20th c.	First currency board (British colony)
Falkland Islands	1899–present	British Overseas Territory; still operates board
Gibraltar	1914–present	British Overseas Territory; still operates board
West African Colonies	1912–1964	Board applied to multiple colonies
East African Colonies	1919–1869	Board applied to multiple colonies
St. Helena	1904–present	British Overseas Territory; still operates board
Ceylon/Sri Lanka	1884–1950	Linked to Indian rupee, then own currency
Hong Kong	1935–present	Peg to US dollar since 1983
Argentina	1991–2002	Peg to US dollar, not strictly orthodox
Estonia	1992–2011	Peg to DEM, then EUR; ended with euro adoption
Lithuania	1994–2015	Peg to DEM, then EUR; ended with euro adoption
Latvia	1994–2014	Peg to SDR, operated like a currency board but not legally anchored
Bulgaria	1997–2025	Adoption of euro on 1 January 2026
Bosnia and Hercegovina	1997/1998–present	Peg to DEM, now EUR; mandated under the Dayton agreement
Djibouti	1949–present	Peg to US dollar, ongoing
Cayman Islands	1972–present	Peg to US dollar, ongoing
Bermuda	1972–present	Peg to US dollar, ongoing
Macao	1983–present	Peg to Hong Kong dollar (indirectly to US dollar), ongoing

*Source: Wolf et al. (2008) and authors' updates*

### Appendix 2: EU Membership and Monitoring of Legal and Institutional Progress in Bulgaria

In previous membership cases, convergence towards EU standards had to be achieved at the time of membership. Given the deeper-seated problems and expectations of a possibly longer reform process, the EU took the view for Bulgaria and Romania that some of the key changes, if closely monitored, could take place in the context of membership.

To achieve the necessary changes, the EU instituted a bespoke Cooperation and Verification Mechanism (CVM) for Bulgaria and Romania as a special post-accession monitoring tool to track progress on judicial reform, fighting corruption and (specifically for Bulgaria) tackling organised crime. It involved regular reporting, country benchmarks and an annual European Commission assessment. The process was formally closed in September 2023 after fulfilling its benchmarks.

#### CVM Contents

- The mechanism measured progress via six key benchmarks for Bulgaria, focused on judicial independence, combatting high-level corruption and improving the prosecution of organised crime.
- The CVM process produced regular (typically annual) public reports with detailed progress evaluations and recommendations.
- These reports incorporated consultations with Bulgarian authorities, civil society, and the EU Council and Parliament.

#### CVM Process

- Bulgaria was subject to scheduled reviews and Commission country visits, producing regular public reports available online.
- The Commission determined closure only after all benchmarks were satisfied, with a formal notification to the EU Council and Parliament for their observations before repeal.
- Since September 2023, Bulgaria now follows the standard EU Rule of Law cycle, with annual reporting and recommendations applying to all member states.<sup>18</sup>

### **Appendix 3: Legal and procedural process of entering into the EU's Exchange Rate Mechanism (ERM) II**

ERM II is a framework established by the European Union to manage the exchange rates between the euro and the currencies of EU countries not yet using the euro, aiming to achieve convergence and exchange rate stability as part of the preparations for euro adoption. A period of at least two years in ERM II is a precondition for euro adoption. The ECB and European Commission monitor compliance, and publish "Convergence Reports" at least every two years to assess readiness to advance to euro membership.

---

<sup>18</sup> Source: <https://www.pubaffairsbruxelles.eu/eu-institution-news/college-meeting-cooperation-and-verification-mechanism-cvm-reports-for-bulgaria-and-romania/> (downloaded: 19 September 2025) and Wahl (2023)

Specific conditions and the process are as follows:

- *EU membership* is a formal precondition for joining ERM II, but no timeframe for joining is specified. If a member state desires to join ERM II, the country's finance minister and central bank governor apply jointly to both the Eurogroup and the ECB.
- *Central exchange rate agreement*: ERM II allows the currency of a non-euro EU member to fluctuate against the euro within agreed limits, typically  $\pm 15$  per cent around a central rate coordinated by the ECB and the national central bank. Currency board countries linked to the euro can maintain their arrangement (in practical terms a 0-per cent band).
- *Convergence commitment ("Maastricht Criteria")*: To move from ERM II to euro adoption, a country must meet the Maastricht criteria:
  - *Price stability*: Inflation rate no more than 1.5 percentage points above the average of the three best-performing EU member states.
  - *Sound public finances*: Government deficit must not exceed 3 per cent of GDP, and government debt should not exceed 60 per cent of GDP or be sufficiently diminishing towards that level.
  - *Exchange rate stability*: Participation in the Exchange Rate Mechanism II (ERM II) for at least two consecutive years without severe tensions or devaluation against the euro.
  - *Long-term interest rates*: Nominal long-term interest rates not more than 2 percentage points above those of the three best-performing member states in terms of price stability.
- *Approval by euro area partners*: Once the ECB and Eurogroup issue supporting Convergence Reports, existing euro and finance ministers and ECB must agree to the country's entry.<sup>19</sup>

---

<sup>19</sup> Source: *European Commission (2018)*