



Agreement

between

the Council of Ministers and the Bulgarian National Bank on the introduction of the Euro in the Republic of Bulgaria

In accordance with the officially declared Negotiation Position and the Additional Information on Chapter 11 “Economic and Monetary Union”, and with the Pre-accession Economic Programme of the Republic of Bulgaria (PEP), 2002–2005 and PEP 2004–2007, as from the date of its membership of the European Union (EU) the Republic of Bulgaria shall also join the Economic and Monetary Union (EMU) taking the irrevocable commitment to become a member of the euro area and to introduce the single European currency - the Euro - in compliance with the procedures provided for in the Treaty on the European Community, in the Report of the Council of Economics and Finance Ministers (ECOFIN Council) of 7 November 2000 regarding the aspects of the exchange-rate policy during the enlargement process, and in accordance with the position of the Governing Council of the European Central Bank (ECB) of 18 December 2003.

The Republic of Bulgaria shall adopt and fully comply with the European legislation and practices until its accession to the euro area, respectively until the introduction of the Euro, implementing a strategy for the fastest possible accession. The Government and the Bulgarian National Bank intend to apply for joining the interim stage of the Exchange-Rate Mechanism II (ERM II) immediately after the date of Bulgaria’s official EU membership. Upon the fulfilment of the commitments provided for in this Agreement, we expect that in the second half of year 2009 or on 1 January 2010, Bulgaria will join the euro area, and the BNB – the Eurosystem.

The Government and the BNB shall accept the framework model of ERM II and shall uphold that the membership of the Republic of Bulgaria thereof should be based on:

- 1) keeping the currency board arrangement until we join the euro area under the current fixed exchange rate of the Bulgarian Lev to the Euro – 1.95583 BGN for 1 Euro;
- 2) taking a unilateral commitment by the Bulgarian Government and the BNB that

during the ERM II the Republic of Bulgaria will not use the possibilities of changing the exchange rate regime;

3) keeping the minimum term, provided for in the EU legislation, for participation in the ERM II and promptly taking all the necessary steps under the procedure for membership in the euro area;

4) introducing the Euro as a national currency from the time of joining the euro area.

This Strategy is based on an in-depth analysis of the nature of the EMU, its specific requirements for the countries and for the development of the Bulgarian economy and economic policy.

In order for the Republic of Bulgaria to carry out the above Strategy,

The Council of Ministers undertakes:

First, in accordance with the commitments taken during the negotiation process, to prepare and submit for discussion and approval to the National Assembly all required laws relating to Bulgaria's participation in the EMU;

Second, to follow a principled policy of a balanced budget on a consolidated basis until Bulgaria's membership in the EU and its participation in the ERM II.

Third, during its participation in the ERM II, not to propose changes in the indirect taxes and administered prices, which would lead to higher inflation, other than the commitments made in the negotiations process with EU and in the PEP;

Fourth, to develop the necessary institutional and analytical capacities that would ensure the country's full-fledged participation in the process of co-ordination of EU member countries' economic policy, and for drawing on the Structural Funds and the Cohesion Fund.

Fifth, from the time Bulgaria joins the euro area, to pursue a consistent principled policy based on compliance with the requirements of the Stability and Growth Pact.

The Bulgarian National Bank undertakes:

First, to contribute to the maintenance of the existing currency board regime until Bulgaria's EU membership and during the time of its participation in ERM II.

Second, to the time of this country's membership in the euro area and its own membership in the Eurosystem, to develop the necessary institutional and administrative capacities for full-fledged participation in the process of designing and implementation

of the monetary policy of the Community.

Third, to invest in the development of a secure and efficient technological infrastructure, which would allow for:

- full-fledged participation in the process of implementation of the Community's monetary policy;
- management of the international reserves made available by the ECB;
- integration of the national payment system into the European one.

Fourth, to ensure reliable and efficient arrangements for the changeover from the Lev to the Euro from the time of euro area accession, as well as for the smooth distribution of the Euro and its protection against counterfeiting in compliance with the ECB requirements.

Fifth, to perform its supervision function targeting its efforts into two main directions:

- preparation and introduction of the European *acquis communautaire* in the area of banking;
- maintaining a high degree of stability in the banking system, adequately serving the growing banking intermediation, and the free competition of EU financial institutions.

Until the time of EU membership, the Ministry of Finance and the Bulgarian National Bank shall have the long-term goals of the Central Bank as an agent of the Government clearly defined in compliance with the European requirements for institutional, personal, and financial independence of the Central Bank in full agreement with the commitments made by this country in the negotiation process.

**FOR THE COUNCIL OF
MINISTERS**

**FOR THE BULGARIAN
NATIONAL BANK**

**MILEN VELCHEV
MINISTER OF FINANCE**

**IVAN ISKROV
GOVERNOR**