IS THERE A NEW MOMENTUM FOR THE DEVELOPMENT OF THE EURO?

Kaloyan Simeonov[1],
Slaveya Vasileva[2]

e-mail: kaloos.simeonov@gmail.com, kdsimeonov@phls.uni-sofia.bg[1],
e-mail: slaveya.bizheva@gmail.com[2]

Abstract

After the establishment of the euro in 1999, the single currency became the second most important currency in the global markets. However, the euro has never been the single currency of the whole EU as there are always Member States of the Union that do not belong to the Euro Area. In the paper we will argue that there is a new momentum for the development of the euro both internally at EU level and globally. The internal development of the Euro Area has two main dimensions – current Euro Area enlargement as well as financial and EU economic reforms that are targeted specifically to the Euro Area. The global development of the euro is linked with the current global political and economic challenges. Last but not least, the development of the digital euro will also increase further the role of the single currency inside and outside of the EU.

Key words: Euro Area, single currency, international role of the euro

JEL: E0, F 36

1. Introduction

After the establishment of the euro in 1999 and after the introduction of the euro banknotes and coins in 2002, the single currency became the second most important currency in the global markets. The latter is relevant for the global trade, financial, debt, foreign exchange and other markets.

However, the euro has never been the single currency of the whole EU. There are always Member States of the Union that do not belong to the Euro Area. Currently the Euro Area comprises twenty EU Member States out of the EU-27.

---

[1] Associate Professor, European Studies Department, Faculty of Philosophy, Sofia University "St. Kliment Ohridksi".

[2] PhD Student, European Studies Department, Faculty of Philosophy, Sofia University "St. Kliment Ohridksi". The current paper is mutual work between the two authors. The introduction and the conclusions are written by both authors. Kaloyan Simeonov has prepared sections 2, 3, 5 and 8. Slaveya Vasileva has prepared sections 4, 6 and 7.

There are seven Member States that are not part of the Euro Area – Bulgaria, Poland, Czech Republic, Hungary, Sweden, Romania and Denmark. Denmark has an opt-out clause allowing it not to adopt the euro even if it fulfils the Maastricht convergence criteria. The other six EU Member States are obliged to adopt the euro but there is no deadline or specific timeframe.

In the current paper we argue that there is a new momentum for the development of the euro. This new momentum is relevant both internally at EU level as well as at a global scale.

The internal development of the Euro Area has two main dimensions. The first one is the enlargement of the Euro Area – after Brexit and the accession of Croatia to the Euro Area in 2023 there are prospects that Bulgaria may join the euro in 2025. The second EU dimension is the fact that after the global economic and financial crisis in 2008-2009, many EU financial and economic reforms are targeted specifically to the Euro Area and not for the whole EU.

The global development of the euro is linked with the current global political and economic challenges. The euro is expected to hold firmly its second position in the world markets. Last but not least, after the COVID-19 pandemic, there is ECB project and European Commission legislative proposals for the development of the digital euro. The digital euro will further increase the role of the euro inside and outside of the EU.

The paper is structured as follows: The next section describes the current development of the Euro Area. The two sections afterwards comment the role of Brexit and the actual process of enlargement of the Euro Area. The fifth section list some of the EU economic and financial reforms that are targeted specifically for the Euro Area. The two sections afterwards describe the international role of the euro and the link between the global challenges and the single currency. The following section presents the ideas for the establishment of the digital euro and its importance for further enhancing the role of the euro. The last section concludes.

2. Current developments of the Euro Area

The establishment of the euro in 1999 marks a new momentum in the European economic and monetary integration process. After the deepening of the EU Internal Market and the development of the common EU economic policies, the introduction of the single currency is another milestone and key reform in the EU integration process.

The euro was first established only in electronic form. However, during this initial period the exchange rates between the euro and the participating national currencies were irrevocably fixed. The euro banknotes and coins were introduced after three years transition period, i.e. from the beginning of 2002.

The birth date of the euro is considered to be the 1 January 1999. In that date eleven out of the then fifteen EU Member States became members of the Euro Area. United Kingdom and Denmark negotiated in the Maastricht Treaty opt-out clauses, i.e. clauses that allow them not to adopt the euro even if they are ready for that. Sweden and Greece are the other two countries that did not participated in the single currency area from its outset.

Greece was the first EU Member State to join the Euro Area after its establishment. The first enlargement of the Euro Area took place on 1 January 2001, two years after the establishment of the euro. Since then, several other EU Member States joined that area: Slovenia in 2007, Malta and Cyprus in 2008, Slovakia in 2009, Estonia in 2011, Latvia in 2014, Lithuania in 2015 and Croatia in 2023. Currently the Euro Area comprises twenty out of the EU-27 Member States. There are different reasons for the non-Euro Area Member States for refraining from the adoption of the euro.

Almost two decades and a half after the establishment of the euro, the single currency area reinforced its resilience and sustainability. Before the introduction of the euro in 1999 and immediately after its establishment, there were many voices that the single currency area may not be stable in the long run, that the euro may not survive more than few years after its inauguration. The two and a half decades after its establishment proved just the opposite. The Euro Area became a sustainable political, monetary and economic project of the EU.

The crises that were triggered in the EU did not weaken the euro. The opposite tendencies might be observed after the initial shock of those crises. After the global economic and financial crisis in 2008-2009 the single currency area was strengthened by several reforms. The COVID-19 pandemic reinforced the efforts of the EU to introduce the digital euro.

After the introduction of the euro, it became immediately the second most important currency in the world, after the US dollar. It is the second most used currency in global trade markets as well as in world financial markets. The euro is also the second most important currency in the global debt and foreign exchange markets. Its role is expected to be further reinforced with the future EU and Euro Area enlargement as well as with the consolidation of its role in the global scene.

The process of Euro Area enlargement, the reforms in that area as well as the increase of the international role of the euro will be further analyzed in the next sections of the current paper. They demonstrate the new momentum for the development of the single currency.

3. The impact of Brexit for the development of the Euro Area

After the Lisbon Treaty there is a possibility for an EU Member State to withdraw from the European Union. An interesting fact is that the EU law still does not have provisions for possible withdrawal from the Euro Area.

The United Kingdom is the first EU Member State that withdrew from the European Union after a referendum in the country in 2016. The withdrawal of the United Kingdom is well known as Brexit (from Britain and exit). It happened in early 2020 after long and sometimes very difficult negotiations between the

United Kingdom and the EU-27. This is the first time in EU history when an EU Member State leaves the Union, i.e. the first contraction compared to the long and successful history of EU enlargement.[3]

Brexit has clear negative consequences for both the United Kingdom and the EU-27 – the remaining 27 Member States of the European Union. It is considered that Brexit has more negative effects for the leaving country – the United Kingdom. However, there are clear negative effects also for the Member States of the EU-27. These negative effects are related to decrease in the mutual trade, the introduction of barriers for the free movement of people between the United Kingdom and the EU, negative consequences for the freedom to provide different types of services. The financial centre in the London city also experienced loss of influence in the EU and some financial institutions have changed their headquarters from UK to EU-27. However, the EU financial services sector also experienced problems after Brexit and some loss of markets and financial benefits.

Although Brexit has mainly negative effects for the development of the EU, it has also some positive consequences. One of these positive consequences is the possibility for the consolidation of the Euro Area. The United Kingdom was the second largest economy in the EU-28 (the EU before Brexit) and the largest non-Euro Area economy. Due to the opt-out clause as well as due to its unwillingness to adopt the euro, it was clear that there are no prospects for the United Kingdom to give up the British pound and to accede to the single currency area.

After Brexit, there are much more prospects for a consolidation of the Euro Area. Currently, only around 15% of the EU-27 economy and a little bit more than 20% of the EU population are part of the non-Euro Area countries.[4] Before Brexit, more than one third of the EU-28 economy was outside the Euro Area. The latter means that after Brexit there is further consolidation of the Euro Area within the EU and that only a small part of the EU economy is now outside this area. With the opportunity for further Euro Area enlargement, the consolidation of the area of the single currency may further progress.

---

[3] The other contraction of the European Communities might be considered the self-determination of Greenland from Denmark in 1985. Denmark became member of the European Communities in 1973. However, the common fishery policy was not accepted by the population of Greenland. The island comprises a vast territory but its population account a little bit more than 55 000 people. Nevertheless, the self-determination of Greenland from Denmark might not be considered as a pure example of contraction of the European Communities. Therefore, the withdrawal of the United Kingdom from the EU in the beginning of 2020, the first withdrawal of a Member State, is considered to be the first contraction of the EU.

[4] These figures are based on the following data plus some authors calculations: EUROSTAT, 2023a. Gross domestic product at market prices, last visited on 20.08.2023 and EUROSTAT, 2023b. Population and social conditions; Demography, population stock and balance; Main population indicators, data as of 1 January 2023.

4. Current enlargement of the Euro Area

Since the previous enlargement of the Euro Area with Lithuania in January 2015 there was not a new accession to the single currency for a very long period of time. It shall be stressed that the Euro Area has been enlarged even during time of economic crises and post crises developments.[5] Croatia became the 20th Euro Area member in January 2023, eight years after the previous enlargement. This is the longest period in the Euro Area history without enlargement of that area.[6]

However, as already discussed, Brexit provided the opportunity for even further consolidation of the area of the single currency. After the recent accession of Croatia, Bulgaria may become the 21st member of that area. Bulgaria has already joined the ERM II and the Banking Union in 2020. So at least procedurally this is the most advanced non-Euro Area country in terms of prospects for the adoption of the euro. The earliest possible date for euro accession by Bulgaria is January 2025. The assessment of its readiness will be done in the 2nd quarter of 2024 and by mid-2024 it will be known if Bulgaria meets the Maastricht convergence criteria and the post-ERM II commitments. Currently the most difficult criteria to be met by Bulgaria is the price stability criterion.

Romania has also expressed interest in becoming a member of the Euro Area. Since 2007, Romanian governments successively expressed political will to join the Euro Area. In 2021, the National Bank of Romania announced 2029 as a realistic deadline at the earliest. However, in March 2023 Romanian Finance Minister Adrian Câciu shared government's ambitious plan to join earlier the Euro Area – until 2026, in case the National Recovery and Resilience Plan is fully implemented. A few days later, the Romanian President Klaus Iohannis stated it is not realistic for Romania at this point to set a deadline as the country does not meet "several pre-accession criteria" (Smarandache, M, 2023).

At the same time, the last European Commission's Convergence Report from June 2022 states that Romania and Bulgaria are not ready to join the Euro Area. However, to date Bulgaria has a significant advantage ahead of Romania as the latter should first become a member of the Exchange Rate Mechanism (ERM II) and the Banking Union.

On the other side, currently Czech Republic, Hungary, Poland, and Sweden does not show significant interest in becoming a part of the Euro Area so far, while Denmark still has an opt-out clause.

An interesting findings of recent Eurobarometer survey deserve mention along these lines. The survey was conducted in Spring 2023 in six EU Member States which have not yet joined the Euro Area – Bulgaria, Czech Republic, Hungary, Poland, Romania and Sweden. On a general basis, 60% of respondents are of

---

[5] We refer to the accession of Slovakia that took place in 2009, Estonia in 2011 and even Latvia in 2014.

[6] The second longest period is six years, between the accession of Greece in 2001 and Slovenia in 2007.

the opinion that the euro has had a positive impact on the Euro Area countries, 53% consider that introducing the euro will also have positive impact for their own country and 58% are favorable their country join the Euro Area, although only around half of the respondents feel informed about the euro (Eurobarometer, 2023). On a country level, the table below provides a short overview of some of the results in the survey:

Table: Public opinion on the euro in the non-Euro Area Member States

Non-Euro Area Country	Informed or uninformed about the Euro? (%)			In favor or against the idea of introducing the Euro in the country (%)			The introduction of the Euro would have positive or negative consequences for the country (%)		
	Informed	Not informed	Don‘t know	For	Against	Don‘t know	Positive	Negative	Don‘t know
Total	54	45	1	58	40	2	53	43	4
Bulgaria	60	40	0	49	49	2	43	51	6
Czechia	55	43	2	44	54	1	46	50	3
Hungary	60	39	0	72	25	3	62	31	7
Poland	58	41	2	55	44	2	51	45	4
Romania	41	58	1	71	28	1	60	38	2
Sweden	50	49	1	54	43	2	55	39	7

Source: Eurobarometer, Survey "Introduction of the euro in the Member States not yet having adopted the common currency - Spring 2023"

The study finds that Hungarians express greater support among the other states with 72% of them wanting to introduce the euro, followed by 71% of Romanians, 55% of Polish people, 54% of Swedes, and 49% of Bulgarians and last – 44% of the Czech people favoring the adoption of the single currency.

The reasons for the other Member States not to join the Euro Area have different ground although some arguments are similar from one country to another. Denmark and Sweden are well developed EU countries. Their economies and financial sectors are also well integrated to the Euro Area. However, they decided not to join that area even after referendums that were organised in both countries as the people rejected euro adoption. With reference to the above presented survey data, we can conclude that maybe it is time these Member States to consider holding new referendum on the topic, in view of the expressed current significant public support. Poland, Czech Republic and Hungary, similarly to Sweden, are also obliged to adopt the euro but there is no deadline in their Accession Treaties. Romania is willing to adopt the single currency but it did not have started the ERM II and the Banking Union accession process, the ones that precede euro adoption.

5. EU economic and financial reforms targeted for the Euro Area

If one looks at the EU economic and financial reforms, it is without doubt that there is a new momentum for the development of the euro in the last 10-15 years and in the years to come. After the last global economic and financial crisis that erupted in 2008-2009, in the EU many reforms are targeted directly or predominantly to the Euro Area. Some of these reforms are targeted to both Euro Area and non-Euro Area EU Member States but they have strong implications for the first group applying the single currency. These reforms strengthen further the role of the euro in the EU and even globally. The tendency that many economic and financial reforms are designed mainly for the Euro Area countries within the EU is expected to continue in the future, thus further enhancing the role of the single currency. It is not possible this short paper to list all these reforms but in the lines below we will provide information for some of them.

The *European Semester* is one of these reforms that is targeted to both Euro Area and Non-Euro Area Member States but that has strong effects for the first group of EU countries. The aim of the European Semester is to enhance the coordination of economic policies of the EU Member States along with further strengthening also of the coordination of their fiscal, social and employment policies. It was introduced in 2011, immediately after the peak of the last global economic and financial crisis. Coordination of these policies existed even before the introduction of the European Semester but the latter strengthens substantially the cooperation among EU Member States. There are some stronger implications for the Euro Area Member States compared to Member States outside that area in terms of the application of the fiscal rules and the control on the macroeconomic imbalances. This is due to the fact that potential instabilities in one country may affect the stability of the other Member States that apply the single currency. After the COVID-19 pandemic the European Semester helps also the coordination and the control of the fulfillment of the national recovery and resilience plans (Council of the EU, 2023a).

The *European Stability Mechanism (ESM)* is another EU reform that was launched after the global economic and financial crisis. It is operational after 2012 and replaces some temporary previous mechanisms. The ESM is designed only for the Euro Area Member States. In practice it represents an intergovernmental organisation that is functioning only by the single currency Member States. Therefore, currently there are twenty Member States that are participants in the ESM. The main purpose of the ESM is to prevent future economic and financial crisis. For that purpose, the ESM extends loans as well as other different methods of financial assistance to the participating Euro Area Member States. Therefore, the Member States within the single currency area have more instruments and tools to safeguard their economic and financial markets, thus influencing further the role of the euro (European Stability Mechanism, 2023).

Another EU reform that is specifically targeted to the Euro Area is the establishment of the *Banking Union*. Participation in the Banking Union is obligatory for the Euro Area Member States. For the non-Euro Area Member States the participation is only an option but not an obligation.[7] The Banking Union consists of several elements that form an integral part of it. The first element is the Single Supervisory Mechanism where the European Central Bank performs everyday supervision on the systemically important banks. The ECB is responsible also for the most important decisions for the remaining banks in the Banking Union. The Single Resolution Mechanism is the second element of the Banking Union. The Single Resolution Board together with national resolution authorities is responsible for the resolution of banks within the Banking Union. The Single Rulebook, comprising rules on capital and other prudential requirements, deposit guarantee (insurance) and other common provisions for the whole EU single market, is another element of the Banking Union. The last element of the Banking Union, the European Deposit Insurance Scheme, is still not finalized (Council of the EU, 2023b).

Other EU reforms such as the establishment of European Monetary Fund (EMF), the introduction of the position of a minister of finance of the Euro Area, the establishment of specific budget for the euro area, the completion of the Economic Union and of the Fiscal Union and many others, are in their initial phase of discussion, or there are still some Member States that are reluctant to deepen further the level of integration in the EU. However, it is quite likely that some of these as well as other reforms will be further triggered in the Euro Area. They will further increase the role of the euro not only within the EU but also globally.

6. The international role of the Euro

The euro is a strategic asset in the EU's foreign policy. It is not by chance an important part of the strategic autonomy concept (Simeonov, K. and S. Vasileva, 2022). The strong position of the euro defines the place of the EU on the international stage. However, the growing influence and economic weight of the euro in the global markets is not reflected in its external representation. Although proposals for a single external representation of the euro have been part of the European Commission's political agenda for a long time, there has

[7] Notwithstanding the fact that there is no legal obligation for the non-Euro Area Member States to participate in the Banking Union, after the start of the Euro Area accession process of Croatia and Bulgaria it became an important political pre-commitment in order to enter in the Exchange Rate Mechanism II (ERM II). Participation for at least two years in ERM II without a certain level of devaluation of the national currency against the euro is one of the Maastricht convergence criteria to adopt the euro. Croatia and Bulgaria were obliged to accede simultaneously to the Banking Union and the ERM II. Both accessions take place for these two countries in 2020. As already mentioned, Croatia afterwards managed to adopt the euro from the beginning of 2023.

been no significant progress to date. Most recent ambitious plan of the European Commission envisions achievement of better international representation of the euro until 2025. At the same time, European Parliament's elections are ahead in 2024. Currently, there is some progress with differing EU (not even specifically Euro Area) representation in frames of the International Monetary Fund (IMF), the World Bank (WB), the G7, the G20, the Financial Stability Board, (FSB), the Organisation for Economic Co-operation and Development (OECD) and the Asian Infrastructure Investment Bank (AIIB) (European Parliamentary Research Service, 2019). However, all of these examples are just an illustration of a cursory attempt for some kind of EU coordination, position consolidation or partial representation in the relevant financial institutions and fora.

Among the above mentioned, most advanced representation of the EU is observed within the IMF, although still far from satisfactory. Currently, even in the frames of the IMF, the coordination mechanism is suboptimal due to several reasons: (i) according to the Articles of Agreement of the Fund, the IMF membership is country-based (the latter necessitates an amendment of the IMF's regulations); (ii) the existing EU coordination mechanism aims to coordinate Member States' positions at EU level but fails to achieve a unified Euro Area representation; (iii) Euro Area members are divided between different constituencies, in which they are grouped with other, not even necessarily EU countries; due to the already mentioned (iv) there is a huge probability that Member States prioritize going for national positions instead of a common EU one.

To date, thirty years after the Maastricht Treaty, despite the historical path of the euro, the fact that it is the second strongest and mostly used currency in the world, and the dynamic nature of the international relations, the euro is still not the single currency of the whole EU. As the former President of the European Commission Jean-Claude Juncker once said "The future of the European Union is the future of the euro, and the future of the euro is the future of the European Union as a whole." (Smith-Meyer, B, 2018). Two inescapable arguments support this claim: i) even if an EU country is not a member of the Euro Area, its aspiration or apathy towards accession is tremendously affecting the international role of the single currency; ii) regardless the EU Member States or institutions have big or modest foreign policy ambitions, the euro has been fighting for its place on the international stage for decades, and the experience of recent years shows that the quest for dominance of other currencies is becoming more and more fierce. The latter is as much a threat, as it is an opportunity. The threat is, as Ulrich Beck stated, "paradoxically, the success of the EU is also the reason for its underestimation" (Beck, U., 2012). He noted that when the achievements of the EU are so self-evident to people, or even become a habit, a natural part of their everyday life, only the absence of these amenities can be noticed. Hopefully, the one of the most recent surveys - in March 2021, shows public support in the Euro Area for the single currency reaching highest levels as 80% of the surveyed answer the euro is a good thing for the EU, compared to just 14% who are of the opinion it is a bad thing (European Commission, 2023). This is the highest expressed overall support for the single currency since the beginning of these yearly surveys in 2002.

The opportunity, on the other hand, is that the international role of the euro has tremendously grown to the second position in the global markets in the last two decades in terms of global payments, foreign exchange reserves, international debt share, global share of the international loans, foreign exchange turnover, financial markets, as well as commodity and energy markets (European Commission, 2023f). The latter means that with timely, conscious and much needed measures, the euro can retain its second-best place in the global markets after the US dollar. If the international role of the euro ameliorates towards a better reflection of its weight, improved representation in international fora, strong presence in international markets, increasing support by EU citizens and expanding role beyond the EU borders, then we can be optimistic, that the euro advantage will be maintained.

7. The global challenges and the euro

When one looks at the design of the euro banknotes and coins, the intertwining national and supranational features leave an astonishing impression. At the same time, to date, 30 years since the Maastricht Treaty, we must also recognize the imprint of the global challenges on the euro. Although the EU's Economic and Monetary Union is still incomplete, without any doubts, all these years of ups and downs, prosperity or austerity, much needed or complicated measures which formed or, let optimistically say, upgraded the initial project, proved that the euro is a matter of common geostrategic interest for the Union and each and every EU Member State. The 2007 global economic and financial crisis, which has turned into debt crisis in some Euro Area countries, the effects of the Covid-19 pandemic, the growing global weight of China, Russia's invasion of Ukraine and the escalating EU sanctions, are just examples of the global challenges in the recent years, some of which continue to resonate in the agenda of the international community.

Lately, it seems that the more Western anti-dumping measures against China or sanctions against Russia escalate, the more they seem to push the BRICS[8] countries closer. The latter declares itself as an opposite force to the Western politics, established dialogue in international formats and reliance on the U.S. dollar for global trade. In this regard, within the 15th BRICS summit which took place in August 2023, in Johannesburg, South Africa, some key messages were spread. Oil heavyweights like Saudi Arabia and the UAE, as well as Iran, Ethiopia, Egypt and Argentina, were announced to join the alliance in 2024. The forum has repeatedly shared its ambition to erode the dollar's decades-old dominance in the international oil trade. Brazil's president Luiz Inácio Lula da Silva has been among the

[8] BRICS is an informal group of states referring to Brazil, Russia, India, China, and South Africa.

most initiative participants calling for creating a single currency with the aim to diminish the dominance of the US dollar in global trade, i.e., reduce the reliance on the US dollar, and increase the presence of regional currencies. As a result, some see a possible future confrontation between the BRICS and the G-20.

Some analyses consider these initiatives as counterproductive for the international dialogue, as they will have the sole purpose of being an opposition to the established dialogue forums such as the G20 and the IMF. Others believe that the transformation of BRICS into a closer union is impossible, in view of the political, historical and religious differences between countries. Moreover, the creation of a common currency without supranational institutions seems to be an impossible task, even more so given the competition between some BRICS countries, which like China are more likely to seek dominance of their own currency in international markets rather than creating a thoroughly new supranational one. It should not be neglected that the ambitions of individual members tend in different directions, namely China and India. In India, the concerns about the growing influence of the Chinese yuan are not unfounded. This is just one of the reasons why India is taking a more cautious position to date. Excellent example is the meeting of G20 in India, 9-10 September 2023, where the consolidation of the concluding document from the meetings was a delicate balance of compromises, especially in the part about the war in Ukraine. While China's relations with the US and the EU have been quite escalating in recent years, India has definitely been able to attract more and more investments, as evidenced by the European Commission's President Ursula von der Leyen in her State of the Union speech on 13 September 2023. She welcomes the India-Middle East-Europe Economic Corridor with the aim to "make trade between India and Europe 40% faster" (European Commission, 2023g).

The next BRICS summit is expected to be hold in Kazan, Russia, in October 2024, where it would be possible for the Russian President Vladimir Putin to participate in the meetings in person as during the meeting in Johannesburg, he participated virtually because of the International Criminal Court arrest warrant over alleged war crimes in Ukraine. IMF analysis show that the war in Ukraine and the imposed sanctions are creating incredible tensions in the region, especially for oil importers – "the magnitude of cross-border spillovers is larger for countries with relatively high bilateral trade concentration, low export diversification, and weak external buffers." (Arzoumanian, S., 2023). The latter has an amphibious effect for the EU. From the BRICS meeting in Johannesburg, it became clear the intention of the forum to expand with more and more countries, becoming BRICS+. So far, however, we do not see participating countries from the Commonwealth of Independent States that are also heavily affected by the events taking place on the agenda. On the one hand, if the EU succeeds to achieve its goals to diversify the energy sources, it will limit its long-term dependence and increase its attractiveness for the countries in the Western Balkans. On the other hand, if the EU does not balance its energy policy and crystallise its enlargement policy, there is a great opportunity for Russia and China to increase their influence, including through BRICS. Is there a specific threat to the euro? At the moment, the main BRICS confrontation seems to be USA's geopolitics and the dominant position of the dollar rather than the search for a competitive equivalent to the euro or the EU. However, recent confrontations make the current global situation too unclear. But one thing remains certain – there will always be global challenges. Nevertheless, if the issue of currency competition is on the table again, then this should only act as a consolidator for the Euro Area in order the euro to become a common currency for the entire Union. As hopefully there are already some lessons learned.

8. The digital euro – another opportunity to develop the role of the single currency

The European Central Bank and the European Commission together with national authorities started the preparation for the introduction of the digital euro. Other central banks in the world also have launched their investigations whether to introduce their digital currencies. Taking into account the need for digital transformation also in the monetary area, especially after the effects from the COVID-19 pandemic and the streamlining of digital financial services, the question is not whether to introduce the digital euro but rather when and how to introduce it. Some of the questions in relation to this process are already clarified, other are still searching for their answers. The introduction of the digital euro will further enhance the importance of the single currency of the EU and its international role.

The most important features of the future digital euro are already described by the European Central Bank and the European Commission. Some of these features are as follows:

- the digital euro will not replace cash but it will rather complement it;
- as the cash in the form of banknotes and coins, the digital euro will also be a legal tender;
- digital euro will be just another payment method, providing more choice for consumers and business;
- digital euro will be guaranteed by the ECB, thus being much more secure and reliable than virtual currencies and virtual assets from private providers;
- digital euro will be issued by the ECB and national central banks of the Euro Area but its distribution to citizens and business will be facilitated by the banks (credit institutions) and the other providers of payment services (European Central Bank, 2023 and European Commission, 2023a).

In order to allow the future introduction of the digital euro, the European Commission has published in late June 2023 a legislative package comprising three legislative proposals. The adoption of these three legal acts by the European Parliament and the Council will permit the introduction of the digital euro once the ECB takes a decision to establish it and once the ECB prepares all the other monetary and technical specifications.

The first legislative proposal is a draft Regulation that will allow the *establishment of the digital euro*. This legal act will regulate the status of legal tender of the digital euro. The adoption of the same proposal will facilitate the distribution of the digital euro, its use by consumers and business as well as the introduction of its most important technical specifications (European Commission, 2023b).

The second proposal of the European Commission in the digital euro legal package is a draft Regulation that aim to safeguard the legal status of the euro banknotes and coins after the introduction of the single currency in a digital from. The purpose of the future legal provisions is that the cash in euro will continue to be accepted as a legal tender and it will be easily used by both citizens and business (European Commission, 2023c).

The third proposal by the European Commission provides some rules for Member States outside the Euro Area to use the digital euro under certain conditions. Thus the digital euro will have impact across the EU but its use in non-Euro Area Member States will depend on additional requirements (European Commission, 2023d).

The digital euro will be used not only in the European Union but also in third countries. In order the digital euro to be used in third countries as well as in the non-Euro Area Member States there will be a need of specific agreements to be signed between the ECB and the respective central bank. The use of the digital euro in third countries, subject to such an agreement and additional provisions, will be again possible for public authorities, citizens and business.

As it is recognised by the European Commission, currently more than sixty percent of the people are willing to continue to use cash (European Commission, 2023e). Therefore, even after the introduction of the digital euro people will not stop to use cash. However, the establishment of the digital euro, that may take several years, will further increase not only the influence of the single currency of the EU but also the use of the digital financial services. The introduction of the digital euro as a legal tender will facilitate also the single currency to keep its second position in global trade, financial, debt and foreign exchange markets.

9. Conclusion

The current developments in the Euro Area, the EU and at a global scale provide a new momentum for the enhancement of the role of the euro. It is expected this role to be further strengthened both within the EU and also in the world scene.

The role of the euro will be streamlined in the EU as a result of two main processes. The first one is the enlargement of the Euro Area. After the recent 2023 accession of Croatia, it is expected that Bulgaria will become the next member of the area of the single currency. The Brexit in 2020 helped further the consolidation of the Euro Area. Before Brexit a little bit more than one third of the EU economy was outside the Euro Area and now, after the withdrawal of the largest non-euro economy from the EU, the non-Euro Area economy accounts only for 15% from the whole EU economy.

The second dimension that increases further the role of the single currency in the EU is the fact that many EU economic and financial reforms are targeted in the last decade and a half specifically to the Euro Area. These are the establishment of the European Stability Mechanism, the introduction of the Banking Union and the European Semester, the completion of the Economic and Monetary Union. There are many other EU reforms that are planned or are possible to be triggered and that affect predominantly the Euro Area. All these reforms will increase further the role and the importance of the euro.

The international role of the euro also increases in the recent two decades and a half. Since its establishment, the euro became the second most used currency in the world after the US dollar. It is expected that the euro will keep this strong position as the consolidation of the Euro Area continues to play an important role an as the third and fourth most important currencies have very little influence compared to the euro.

The later global changes and crises also provide some perspectives and momentum for the development of the euro. The spread of the digital financial services, for example, further streamlined the efforts to introduce a digital euro as a legal tender. Although this project will take some years to be finalized, the introduction of the digital euro with the opportunity to be used also under certain conditions in the non-Euro Area and third countries will further enhance the role of the single currency.

There is a new momentum for the development of the euro. This momentum shall be used by the EU institutions and Member States as the achievement of the ultimate goal to have a strong and resilient single currency will be beneficial for EU citizens and business. As once Jean-Claude Juncker, the former President of the European Commission, said "The euro is a political project for our grandchildren" (European Commission, 2019). Bulgaria has also a role to play in that process.

References

1. Arzoumanian, S. "Spillovers from Russia to Neighboring Countries: Transmission Channels and Policy Options", 2023. IMF Working Paper 23/185
2. Beck, U., "Das deutsche Europa. Neue Machtlandschaften im Zeichen der Krise". Suhrkamp Verlag Berlin, 2012.
3. Council of the EU, (2023a). The European Semester explained. available at https://www.consilium.europa.eu/en/policies/european-semester/, last visited on 20.08.2023.

4. Council of the EU, (2023b). Banking Union, available at: https://www.consilium.europa.eu/en/policies/banking-union/, last visited on 20.08.2023.
5. Eurobarometer, Survey “Introduction of the euro in the Member States not yet having adopted the common currency - Spring 2023”.
6. https://europa.eu/eurobarometer/surveys/detail/2982
7. European Central Bank, (2023). Payments and Markets, Digital euro, available at https://www.ecb.europa.eu/paym/digital_euro/html/index.en.html, last visited on 20.08.2023.
8. European Commission, (2023a). Questions and answers on the Single Currency Package, Brussels, 28.06.2023.
9. European Commission, (2023b). Proposal for a Regulation of the European Parliament and of the Council on the establishment of the digital euro, COM/2023/369 final, Brussels, 28.06.2023.
10. European Commission, (2023c). Proposal for a Regulation of the European Parliament and of the Council on the legal tender of euro banknotes and coins, COM/2023/364 final, Brussels, 28.06.2023.
11. European Commission, (2023d). Proposal for a Regulation of the European Parliament and of the Council on the provision of digital euro services by payment services providers incorporated in Member States whose currency is not the euro and amending Regulation (EU) 2021/1230 of the European Parliament and the Council, COM/2023/364 final, Brussels, 28.06.2023.
12. European Commission, (2023e). Single Currency Package: new proposals to support the use of cash and to propose a framework for a digital euro, Press Release, IP/23/3501, 28.06.2023.
13. European Commission, (2023f). “The international role of the euro”. https://economy-finance.ec.europa.eu/euro/international-role-euro_en#the-euro-and-the-recovery,
14. last visited on 15.09.2023.
15. European Commission, (2023g). 2023 State of the Union Address by President von der Leyen, Strasbourg, 13 September 2023.
16. European Commission, (2019). Speech by President Juncker at the European Central Bank Forum on Central Banking 2019 celebrating 20 years of the Economic and Monetary Union, “Building the euro: moments in time, lessons in history”, 19 June 2019.
17. European Parliamentary Research Service. Rick, P. De. “Towards a unified representation for the euro area within the IMF”, July 2019.
18. European Stability Mechanism, (2023). European Stability Mechanism, available at: https://www.esm.europa.eu/, last visited on 20.08.2023.
19. EUROSTAT, 2023a. Gross domestic product at market prices, last visited on 20.08.2023.

20. EUROSTAT, 2023b, Population and social conditions; Demography, population stock and balance; Main population indicators, data as of 1 January 2023.
21. Simeonov, K. (2021). The Effects from Brexit on the EU-27 and the Euro Area Developments, Bulgarian Journal of International Economics and Politics, University of National and International Economy, Issue 1, 2021, Sofia, ISSN (print): 2815-2751, DOI: https://doi.org/10.37075/BJIEP.2021.1.02, p.17-25.
22. Simeonov, K., Vasileva. S., "The EU strategic autonomy and the euro", University of National and World Economy", "International Economics and Politics" Faculty, Department of "International Economic Relations and Business", Twentieth Scientific Conference. The membership of Bulgaria in the European union: fourteen years later, Vol. 1, Sofia, 2022.
23. Smarandache, M. "Iohannis: No 'realistic' deadline for Romania to join eurozone", Euractiv.com, 23.03.2023. https://www.euractiv.com/section/politics/news/iohannis-no-realistic-deadline-for-romania-to-join-eurozone/
24. Smith-Meyer, B., "Juncker: The euro is EU's future". Politico, June 2018. https://www.politico.eu/article/juncker-the-euro-is-eus-future/