

# EXPERT'S INSIGHTS

## Navigating Structural Volatility: Bulgaria's Strategic Reserve Management and Imminent Euro Area Accession

Dimitar Radev<sup>1</sup>

Received: 13.06.2024  
Available online: 30.06.2025

### Abstract

This article explores how structural policy volatility is reshaping the global economic environment and the implications for public investors, with a particular focus on Bulgaria's forthcoming accession to the euro area. It outlines the conceptual framework central banks must adopt in the face of systemic uncertainty and evaluates Bulgaria's foreign exchange reserve strategy, investment governance, and institutional preparedness. The analysis argues that euro adoption is both a stabilizing anchor and a strategic necessity for Bulgaria amid intensifying geopolitical and financial fragmentation.

**Keywords:** Bulgaria, global economic environment, euro area, financial reserves, public investment

**JEL:** F3, F45, G21

### Introduction

The global economic landscape is undergoing a profound transformation, characterized by persistent and systemic volatility. No longer driven solely by cyclical downturns or temporary market dislocations, today's volatility is rooted in enduring geopolitical tensions,

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<sup>1</sup> Governor of the Bulgarian National Bank since July 15, 2015; elected by the 49th National Assembly for a second consecutive six-year term, effective July 18, 2023; since July 2015 Member of the General Council of the European Central Bank, Member of the General Council of the European Systemic Risk Board, Governor for Bulgaria at the IMF.

financial fragmentation, and shifting trade dynamics. For public investors and policymakers, this evolving environment necessitates a move from reactive approaches toward strategic resilience — anchored in robust conceptual frameworks and institutional agility.

This paper examines these global dynamics through the lens of Bulgaria's macroeconomic positioning and imminent entry into the euro area. It argues that the structural features of the current volatility align with Bulgaria's strategic imperatives and that eurozone accession offers a critical opportunity to enhance resilience, policy credibility, and long-term economic stability.

## **Conceptual framework: responding to structural volatility**

Five foundational principles guide effective public sector investment strategy in a structurally volatile world (Radev, 2025):

### **1. Volatility is Structural**

Policy unpredictability is now a persistent feature of the global system. Geopolitical competition, the weaponization of finance and trade, and shifting multilateral alignments have become embedded in the post-pandemic order.

### **2. Resilience over Prediction**

Strategic resilience, rather than short-term forecasting, should guide institutional responses. This includes embedding optionality and flexibility into governance structures to support adaptive policy action.

### **3. Coordination is Critical**

Both intra-institutional alignment (e.g., between reserve management and monetary or fiscal policy) and cross-border coordination are essential, particularly for small, open economies susceptible to external shocks.

### **4. Strategic Autonomy Matters**

Autonomy should not be mistaken for isolation. For reserve managers, it entails the ability to act decisively under uncertainty — by actively managing counterparty risk, ensuring asset accessibility, and assessing alternative stores of value such as gold and ETFs.

### **5. Long-Term Orientation**

Structural forces — such as demographic shifts, climate transition, and technological disruption — must inform long-term investment planning, even when obscured by short-term volatility.

## **Bulgaria in the regional and global context**

As a small, export-oriented economy deeply integrated into European value chains, Bulgaria remains vulnerable to external macroeconomic shocks. While its direct exposure to global trade conflicts is limited, second-order effects — transmitted through major trading partners like Germany — are significant.

Reconfigurations of global supply chains and weakening global demand introduce downside risks to medium-term growth. For instance, falling commodity prices, particularly oil, have produced short-term disinflationary benefits. However, the long-term effects of trade fragmentation on inflation dynamics, capital flows, and investment remain ambiguous, underscoring the need for vigilant macro-financial oversight.

## **Bulgaria's reserve management strategy**

Amid growing economic and geopolitical uncertainty, Bulgaria's foreign exchange reserve strategy demonstrates both prudence and adaptability. Operated under a currency board arrangement, approximately 90% of the reserves are held in euros, with most of the remainder in gold. Other reserve assets are minimal in scale and significance. Investments are conservative – focused on short-duration, high-quality instruments with a minimum rating of AA–.

Eurozone accession, however, will necessitate a strategic recalibration. Once the euro becomes the domestic currency, Bulgaria's reserve structure must evolve to reflect its new status, including increased diversification across currencies and asset classes.

Forthcoming reforms under the new Law on the Bulgarian National Bank will enable:

- lowering the minimum credit rating threshold for eligible reserve assets (from AA– to A–);
- extending the investment horizon to allow longer-duration instruments;
- Introducing new instruments, such as exchange-traded funds (ETFs), pending rigorous risk and policy alignment reviews.

These adjustments will strengthen Bulgaria's capacity to manage liquidity, preserve capital, and adapt flexibly to future systemic shocks.

## **Euro area accession: strategic and institutional implications**

Bulgaria's expected accession to the euro area is not simply a technical milestone—it represents a strategic inflection point. Euro adoption will:

- Integrate monetary policy into the European Central Bank (ECB) framework;
- Bolster macroeconomic stability, credibility, and investor confidence;
- Eliminate currency mismatch risks and reduce exposure to speculative pressures;
- Provide access to institutional mechanisms such as the European Stability Mechanism (ESM).

In an era where policy uncertainty has become structural, euro area membership offers Bulgaria a critical layer of institutional security and strategic alignment. Integration with the ECB's governance architecture will reinforce policy coherence and enhance systemic resilience.

## **Institutional preparedness and capacity building**

The Bulgarian National Bank (BNB) is actively preparing for this transformation. Key institutional priorities include:

- Establishing the operational infrastructure for managing a more diversified and dynamic reserve portfolio;
- Expanding the network of eligible counterparties;
- Strengthening risk modeling and analytics capabilities;
- Implementing governance reforms to align with euro area standards and best practices.

These institutional developments are not merely transitional. They form the foundation for a modern, resilient reserve management framework suitable for navigating global fragmentation and volatility.

## **Conclusion**

As global economic fragmentation deepens and volatility becomes a structural feature of the international system, public investors must evolve accordingly. For Bulgaria, euro area accession is both a strategic shield and an enabler of institutional modernization. While joining the eurozone will not eliminate risk, it will furnish Bulgaria with a stronger platform from which to manage it.

The coming period will test the agility and foresight of national institutions. For the Bulgarian National Bank, the strategic priority is clear: uphold stability under the existing framework while preparing for a future where flexibility, coordination, and a long-term perspective are indispensable.

## **Bibliography**

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