Comparative Study on Monetary and Fiscal Policy in the Eurozone and Bulgaria

Tsvetelina Marinova*

Summary:

This paper aims at comparing monetary and fiscal policy in the eurozone and Bulgaria in order to reveal key challenges to these policies. The extractive nature of the institutional framework of the European Monetary Union results from the „hidden guarantee" (EU accession premium) and existing institutions - fiscal rules. In Bulgaria, the Currency board arrangement imposes constraints on political institutions to conduct expansionary monetary policy. Thus fiscal discipline is of great importance for the maintenance of current monetary regime. In this respect monetary and fiscal policy are above all inclusive. Current challenges to monetary and fiscal policy in the eurozone and Bulgaria are mostly due to the institutional basis and its implementation.

Key words: fiscal policy, monetary policy, budget, crisis, eurozone

JEL codes: E62; E52; H61;G01

1. Introduction

With the introduction of a common, centrally regulated currency in the eurozone its member states have kept their economic and fiscal sovereignty while the implementation of monetary policy has been transferred over to a supranational central bank - the European Central Bank (ECB). From the beginning of its existence the common monetary policy in the eurozone has created conditions for attaining national economic goals through the legal power given to the ECB to refinance banks through by accepting a collateral of government securities. In this way many governments (e.g Southern European ones) have been tempted to use this opportunity to increase the redistribution through the budget and to strengthen state intervention in the economy hoping that the ECB and developed countries will bail them out. This has led to loosening of fiscal discipline and high levels of indebtedness in many countries before the crisis, has raised the vulnerability of national economies during the crisis and contributed to the loss of credibility in them.

Bulgaria is a member of the Economic and Monetary Union (EMU) by derogation and according to the Accession Treaty has endorsed the commitment to respect the Treaty of the functioning of the EU and the Growth and Stability Pact and to adopt the euro. Unlike the other EU Member States, the execution of monetary and fiscal policy in Bulgaria is strictly limited by the implemented fixed exchange regime and Currency board (CB). The passive monetary policy and prudent fiscal policy are above all a result from the implementation of institutional constraints. Essential impact on them have had the efforts to adopt the euro and the experience with financial and

* Assistant professor at the Department of Economics, New Bulgarian University, Sofia, Montevideo, 21, mobile: 0896 684 149; e-mail: tsvetelina.marinova@gmail.com.

economic crises in the beginning of the transition period.

This paper aims at comparing monetary and fiscal policy in the eurozone and Bulgaria in order to reveal key challenges they face. For the eurozone they are primarily linked to: the active, stimulating fiscal and monetary policy before and during the crisis; high levels of budget deficits and increasing sovereign debt in the context of slow economic growth, high unemployment, deflation. In Bulgaria, under the CB, the political risk and the risk of devaluation have imposed challenges to the monetary and fiscal policy. It is likely that upon joining the eurozone governments are tempted to increase budget deficit and public debt.

The first part of the paper studies the institutional framework of the monetary union and Bulgaria.

The second part presents a comparative analysis of monetary and fiscal policy in the eurozone and Bulgaria revealing key challenges they face.

2. Methodology

In economic theory and practice institutions (formal and informal rules)[1] are key constraints and determinants of economic development and political processes are main source of difference in economic performance of states. Successful political and economic systems are a result of adaptive institutional structures that will adjust to shocks and changes and not of political institutions with allocative efficiency (North, 1990).

Political institutions determine economic institutions (market and money) which together form a dynamic interplay (North, 1990). The continuous interaction between the power and market and money results in the establishment of extractive as well as inclusive political and economic institutions.

Monetary policy is a typical example of unity and struggle of institutions of power and cooperation, i.e. between extractive and inclusive institutions (the market and money). Trust in money has been transferred from the initial trust in the other party of the contract and internal inherent value of the means of exchange to the state (power) - issuer.

Development of inclusive political institutions is related to the existence of wide coalitions, civil society institutions which are historically predetermined and are changing slowly through time - “path dependence“ Inclusive political institutions impose constraints on the execution of power and are triggered by pluralistic distribution of power in the polity respecting the rule of law. They maintain inclusive economic institutions, enforce law and order, as well as the foundations of secure property rights and inclusive market economy (Acemoglu, Robinson, 2013). This leads to more equal redistribution of income, authorizes wide part of the polity and creates conditions for political and economic competition.

Extractive political institutions impose few restrictions on the execution of power hence in practice there are no rules that could hinder the use and misuse of power. They do not create incentives for people to save money, to invest and to innovate.

Governments establish mainly extractive political institutions as well as the conditions for the emergence and development of inclusive economic ones. On EU level, the architecture of the monetary union has had rather extractive nature.

On the level of economic policy the main role is played by fiscal policy. There

[1] Institutions are the "rules of the game" in a polity or these are humanly devised constraints that shape political, economic and social interaction. They include formal rules (laws and regulations) and informal constraints (customs, traditions, conventions, codes of conduct), imposed in a polity which together determine economic performance and economic success.

are plenty of opportunities for governments to finance their expenditure and deficits but they are not unlimited. The existence of „external“ (money without anchor) and extractive monetary policy and the market (its reaction to accumulated debt) leads to sovereign debt crises and banking crises. In this respect sovereign debt crises could be considered as an ultimate form of constraints to government expenditure (externally „imposed“ on the state).

In practice there are two types of monetary regimes key part of the institutional system of money: firstly, broadly determined that provide opportunities for entirely free economic and monetary behavior of economic actors and secondly, tightly defined monetary regimes which limit the economic and monetary behavior of the agents. In this regard the Currency board (in Bulgaria) is a broader monetary regime than that of discretionary policy and in the eurozone a much broader monetary regime exists. In case further constraints resulting from the existence of an exchange rate and convertibility are removed, the national institutional limitations on money are eliminated and there are only those imposed by the ECB.

Different monetary regimes (internal anchor) in conjunction with Euro membership (external anchor) shape the entire structure of the economy differently and concentrate economic activity, risks and adjustment mechanisms in different ways.

1. Institutional framework of monetary and fiscal policy in the eurozone and Bulgaria.

In comparison to the Currency board regime which is a national monetary system based on foreign reserves and respectively fiscal balance at least in the medium term, the euro has its common monetary policy which is not bound with common fiscal policy. According to the Maastricht Treaty, member states of the Monetary Union have kept their sovereignty in terms of of economic and fiscal policy and have transferred monetary sovereignty to the ECB. The EU Member States are obliged to carry out prudent fiscal policy and achieve sustainable government financial position without government deficit of over 3% of GDP and sovereign debt of over 60% of GDP, i.e. the Maastricht criteria.

According to the Lisbon Treaty (Treaty of the Functioning of the EU), the ECB has a leading role in the eurozone as it has the right to determine key interest rates, to influence money supply and bank interest rates and therefore to influence agents‘ economic behavior and credit institutions policy as well as supply, demand and prices (through the transmission mechanism of monetary policy).

The existence of public and supranational guarantees form a kind of “insurance or guarantee fund” in the eurozone that reveals the key difference between its pegged exchange rate and the Currency board. This fund fosters the safety illusion of different economic actors and national governments. The guarantee fund which is public and visible including securitization mainly in foreign reserves and fiscal surplus have begun to permanently decrease at the expense of virtual guarantees provided by European institutions and the core eurozone countries (Nenovsky, Karpouzanov, 2011). Thus the common currency has become an instrument for lower interest rates, bank and government bailouts through the transfer of sovereignty and freedoms (Bagus, 2010).

Furthermore financial markets in the EMU are strongly integrated thus when a bad equilibrium is forced on some member countries, financial markets and banking sectors in other countries enjoying a good equilibrium are also affected (strong spillover effects in the eurozone). These externalities create a strong force of instability that can only be overcome by government action (De Grauwe, 2011).

For better understanding of current sovereign debt trends in the EMU it should be also considered that when entering a monetary union, member countries change the nature of their sovereign debt in a fundamental way, i.e. they cease to have control over the currency in which their debt is issued. As a result, financial markets can force these countries' sovereigns into default. When investors fear about payment difficulties, they start withdrawing liquidity from the national market. Thus the state suffers a liquidity crisis, the interest rates are pushed up and then a solvency crisis occurs. The state could become insolvent because investors fear insolvency.

Changes in both existing and new rules in the Lisbon Treaty are related to the transfer of power to supranational institutions in terms of the development, coordination and surveillance of national economic policy. In this respect the European semester, the macroeconomic imbalance procedure, the European authorities for financial supervision have been established.

According to the Treaty for stability, coordination and governance in the EMU, the member states have committed themselves to adopting legal limits on national level for government deficit and debt as well as to establish automatic mechanisms for the correction of breached rules. The Court of the EU is now competent in this matter and could impose sanctions on the countries.

The ECB will take on new banking supervision tasks in the EU members, part of the Single Supervisory Mechanism (SSM), except for its monetary function. The SSM will allow the European Stability Mechanism (ESM) to recapitalize banks directly. The SSM aims at transferring the risk from the taxpayers to the shareholders and debt owners which leads to the creation of a transnational guarantee. Governments will be freed from taking on new banking sector debt. Thus a greater „fiscal security" among the countries will appear (Bruegel, WP 2014/04). On the one hand, the SSM should contribute to breaking the link between the sovereign and the banks, on the other hand, moral hazard still exists and governments may continue to spend more money.

In the beginning of the transition period Bulgaria implemented a floating exchange rate and independent monetary policy in comparison with the countries from Central and Eastern Europe. After a period of banking crisis, hyperinflation and loss of foreign reserves, under the pressure of the International Monetary Fund (IMF), it introduced a Currency board in July 1997.

Currency board is a monetary regime based on rules that bring discipline in macroeconomic policy through market discipline and capital movement. It relies on two main effects: discipline effect (constraints on monetary policy[2]) and the credibility effect stemming from the fixed exchange rate and the coverage of monetary base (Nenovsky, 2007). The dynamics of monetary base (and money supply indirectly) follows the dynamics of balance of payments. Monetary policy constraints do not allow the government to rely on money printing in order to finance its political goals and enforce prudent fiscal policy. Strict fiscal limitations apply to all the economic agents who have to bear the costs from their action alone.

The existing fiscal rules under the CB are much stricter than those defined in the Maastricht Treaty and in the Stability and Growth Pact. Regarding the stability of money this impact is positive and provides the basis for stable growth. The maintenance of continuous fiscal deficit and the increase in public debt is dangerous because it may

[2] Monetary base is 100% (and more) covered by foreign reserves, the exchange rate is fixed by law and there is no opportunity for discretionary monetary policy.

lead to loss of international reserves and balance of payment deficit. The budget deficit and the current account deficit may trigger currency crisis, devaluation of national currency and collapse of the fixed regime.

The Bulgarian CB is determined as a quasi CB, similar to that in Estonia. There are some peculiarities to it that make it more flexible than these of an orthodox CB (Dobrev, 1999)[3]. The main differences to an orthodox CB are:

- it maintains full foreign exchange cover for the total amount of the Bulgarian National Bank (BNB) monetary liabilities (banknotes, coins and deposits). These are government deposits and commercial banks reserves;
- it regulates commercial banks;

Under the CB regime the BNB can refinance credit institutions only in case a systemic risk for the stability of the banking system arises and the extended loans should not exceed the amount of available funds in the Banking Department deposit placed with the Issue Department. The strictly limited function of lender of last resort contributes to lower the level of moral hazard in the financial system. The BNB may provide loans only to solvent banks experiencing pressing need for liquidity only against collateral of liquid assets.

The CB in Bulgaria is also characterized by the transfer of greater responsibility for financial conditions from the banking sector to the fiscal policy. Under certain conditions when the deposit rises the amount of reserve currency decreases and vice versa. These changes arise when securities are being issued or are maturing, taxes are being collected, salaries, pensions and subsidies are paid as well as all other fiscal operations on the internal market are performed. In this way the deficit or the excess in the government budget turns out to be an important factor for the stability and liquidity of the monetary system (Avramov, 1999). In practice some small room for open market operations - like operations through the fiscal reserve has been left to the government. In this regard the CB is much more vulnerable in case there is greater discrepancy between fiscal policy and government debt, on the one hand, and compliance with market rules, on the other hand, fiscal constraints – „scarcity of resources".

2. Comparative analysis of monetary and fiscal policy in the eurozone and Bulgaria.

Upon the introduction of the euro, national governments strongly influenced the monetary and fiscal policy in the eurozone until the beginning of the global crisis. National economic policies largely reflected the path dependence (gradual and large expansion of the role of the state in the economy during 20th century). The risk premium and the cost of risk in the EU periphery did not reflect their actual level because of the emergence of a hidden subsidy or guarantee (EU accession premium). The hidden subsidy triggered great flows of resources and capital to the periphery of the eurozone that led to increase in foreign public and private debt in Southern Europe.

An important role for the expansionary lending policy has had the institutional framework of the European monetary system which permits the ECB to refinance commercial banks against the acceptance of collateral. In line with its statute, the Eurosystem extends loan only on a collateralised basis. Assets that are

[3] As set by law the CB has the following common key features with the orthodox one: it maintains full foreign exchange cover of its monetary liabilities; it maintains fixed exchange rate to the reserve currency; it cannot finance domestic government spending.

pledged to the Eurosystem as security for its central bank credit operations are called "collateral". Government securities are also eligible as collateral. Thus European governments have got the opportunity to increase redistribution through the budgets and they have reinforced state intervention in the economy because they may get finance from the ECB.

The mechanism through which governments use the ECB for deficit financing is the following: banks create money through credit expansion, they exchange them for state securities that they use for refinancing with the ECB. The ECB finances fiscal deficits as it buys these securities or accepts them as collateral offered by the banks.

In practice governments and banks gain much more as fiscal deficits rise that result in higher prices through the distribution chain of new money. When prices and income in countries with the highest deficits grow, the newly issued money begin to flow to the other countries where prices have not yet risen. Thus countries with the highest fiscal deficits benefit because they are the first to use new money. That money reaches countries with lower deficits at the latest and prices and income there increase later on.

Cheap credits and inflated real estate market resulted also from the expansionary monetary policy before the beginning of the global financial crisis. Money supply growth in the eurozone was the engine of economic development at the European periphery which along with higher inflation have contributed to the accumulation of great internal imbalances and loss of competitiveness. All this proves the extractive nature of common monetary policy.

Since the establishment of the EMU fiscal rules in most of the member states have not been followed, budget deficits and public debt have accumulated.

The high budget deficits that eurozone member states ran and kept have led to a continuous increase of sovereign debt in the

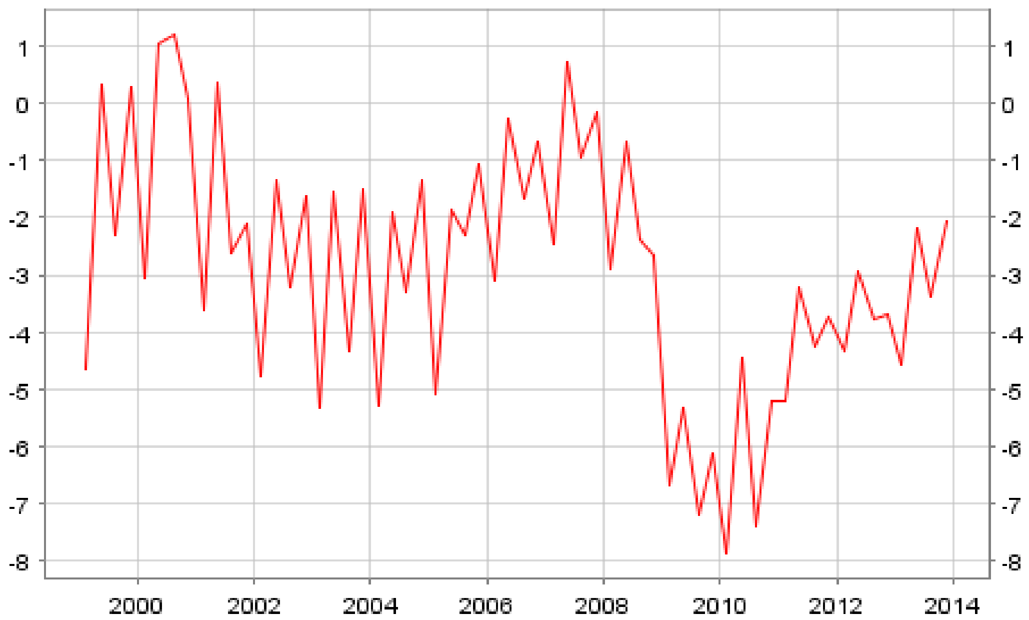

Fig.1. Budget deficit/surplus in the eurozone as % of GDP (2000-2014)

Source: ECB.

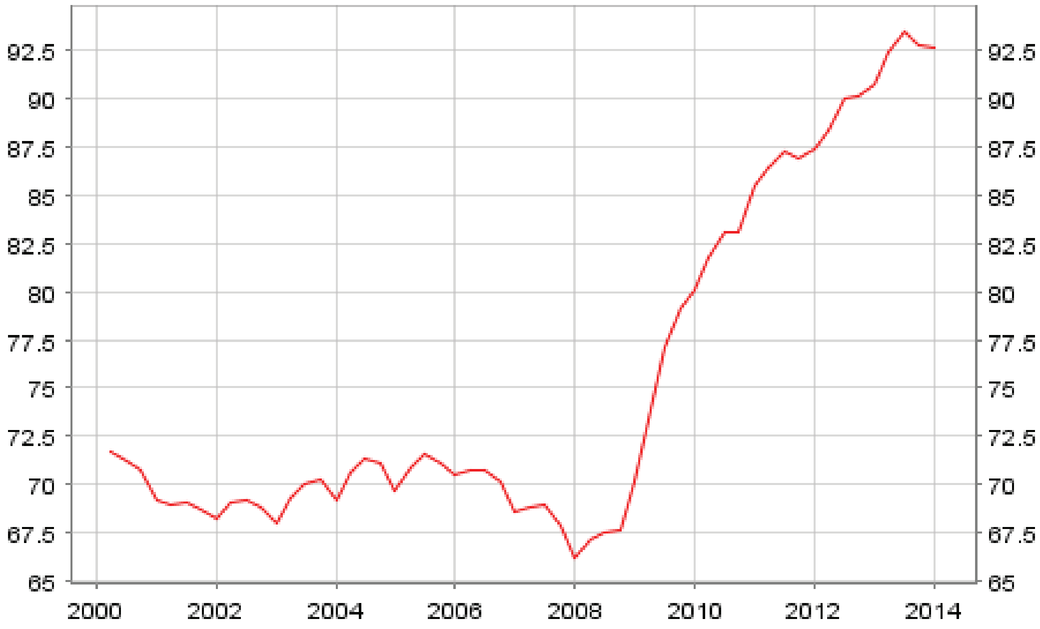

Fig. 2. Sovereign debt in the eurozone as % of GDP (2000-2014)Source: ECB.

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EMU. The rule about sovereign debt level in the eurozone is constantly breached, risks of systemic and contagious processes have arisen in many countries.

In the period 2002-2007 sovereign debt in Greece and Italy exceeded 100% of GDP (with the exception of the years 2003 and 2004 in Greece). In Spain and Ireland its levels were lower but the continuous credit growth in the private sector and the increase in investments in the real estate sector contributed to significant macroeconomic

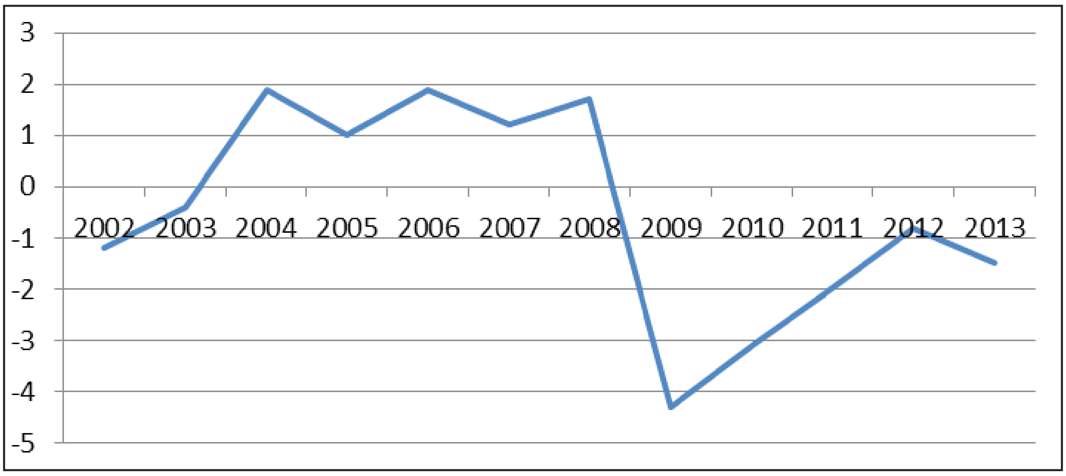

Fig. 3. Budget deficit/surplus in Bulgaria as % of GDP (2002-2013)

Source: Eurostat

imbalances that increased the vulnerability of the economy to external shocks.

In Bulgaria constraints stemming from the monetary and exchange rate regimes together with those determined by the EU legislation have been strictly respected and investments accelerated GDP growth and efforts to adopt the euro have had a positive impact on budgetary positions.

The introduction of the CB led to a significant improvement in the fiscal situation and imposed discipline in the public finance management. In 2006, just before the beginning of the global crisis, the budget surplus in Bulgaria reached 1.9% of GDP.

In the period after 2002 Bulgaria had low levels of sovereign debt in comparison with Southern Europe and Ireland. After 1997, a descending trend in public debt to GDP ratio was recorded. In 2002 it was 52.4% of GDP and that was the highest level among the countries with fixed exchange rates but before the global crisis it decreased 3 times. In 2007 Bulgaria's public debt was 17.2% of GDP. The low levels of public debt resulted from the prudent fiscal policy. The operation of the CB enhanced the discipline in the public sector. It raised the national currency's credibility thus supporting investments, growth and welfare. The growth in foreign direct investment (FDI) was of great significance. Until 2009 the FDI had been rising reaching their peak in 2007 – 8.832 billion euro (29.4% of GDP). During that period annual GDP grew at 5% on average. Regardless of the recorded current account deficit until 2008 (in 2008 it was 8 653 million euro or 25.4% of GDP), the FDI inflows were sufficient to finance it and to create conditions for foreign reserves growth.

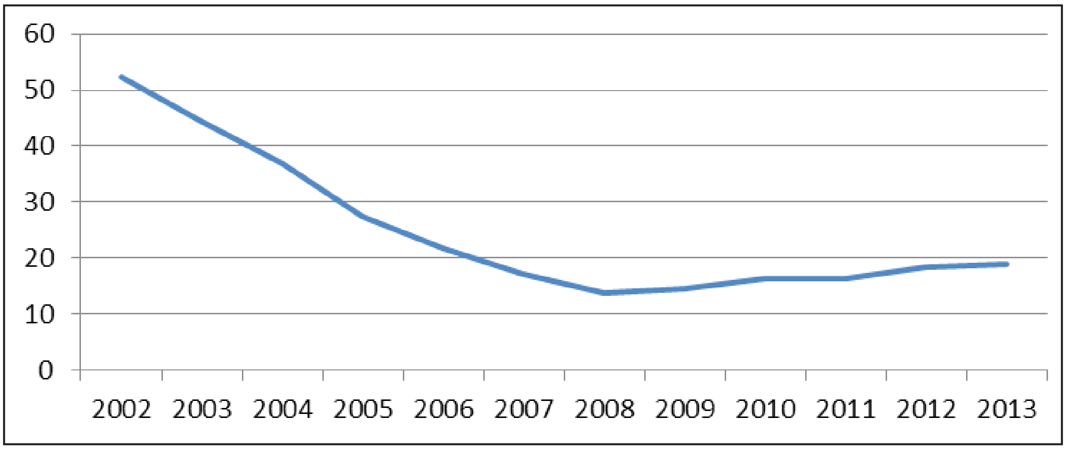

Fig. 4. Sovereign debt in Bulgaria as % of GDP (2002-2013)

Source: Eurostat

Foreign public debt has continuously diminished. In the year 2000 it was approximately 9.25 billion euro and in 2013 it went down to 4.06 billion euro (10.2% of GDP).

In Bulgaria, the lack of discipline is observed mostly in the private sector. Since 2002 foreign private debt increased from 16.5% of GDP in 2002 to 81% of GDP in 2007. From 1.45 billion euro in 1999 it reached 36.58 billion euro (94% of GDP) in 2008. This trend resulted from the emergence and increase of moral hazard in the private sector as the EU membership has also played a vital role for it.

Currently the monetary regime implemented in Bulgaria acts as an internal anchor and the EU membership acts as

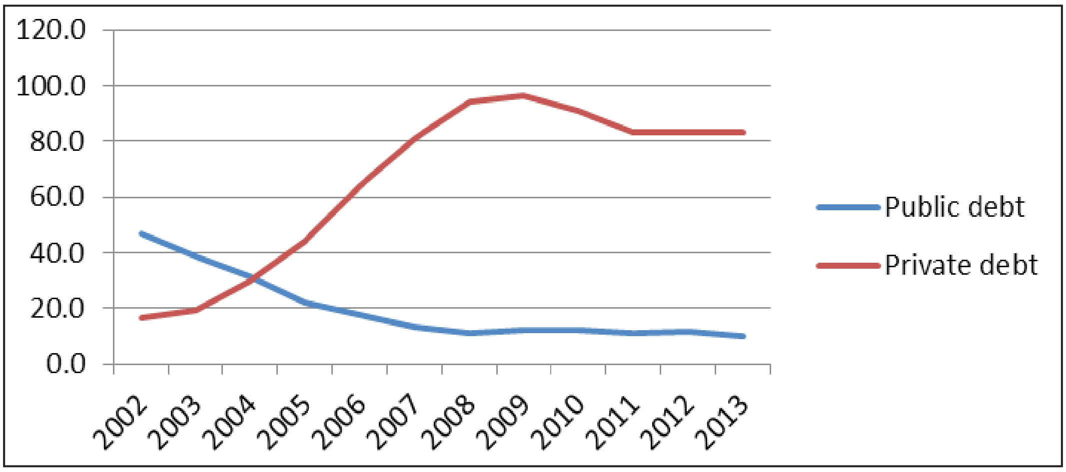

Fig. 5. Bulgarian debt as % of GDP (2002-2013)

Source: BNB

an external anchor thus coordinating the expectations and behavior of the economic agents. These two anchors have two main effects on them: disciplinary and credibility effect. (Nenovsky, Villieu, 2011).

Current challenges and crisis in the eurozone result mostly from the institutional framework of the monetary union which provides opportunities to governments to refinance themselves, i.e. its extractive nature. Since May 2010 the ECB has been indirectly buying bonds (on the secondary market) of periphery countries in order to support their financing system. As a result, the balance sheet of ECB has expanded, banks made profit from differences in lending and borrowing interest rates and governments continued to rely on a financing source. In 2009 the ECB conducted a program for purchasing secured bonds by directly purchasing euro- denominated covered bonds with high credit rating.

In terms of austerity measures governments in the eurozone rely on monetary policy as a driver of economic recovery and growth. Since the beginning of the global crisis the ECB has continuously been decreasing the interest rate[4]. The ECB has also increased the maturity and the share of long term refinancing operations up to 3 years and lowered the minimum reserve ratio from 2% to 1%. Since the beginning of the debt crisis the ECB has executed different programs for buying private and public securities without any risk-related constraints.

Eurostat data on inflation in the eurozone show that in June 2014 it was 0.1% on monthly basis and in April 2014 it was only 0.5% on annual basis. In Greece and Portugal deflation continues. Investors accumulate debt of EU periphery countries and in that way they decrease nominal interest rates to levels from before the introduction of the euro. In terms of deflation the decrease in prices augments real debt burden in many peripheral economies. A year ago interest rates in Spain were 3% but inflation went down to below 0%. Real interest rate on government bonds has slowly diminished and interest rates in the periphery are higher than those in the core eurozone countries.

[4] The interest rates effective from June 11th 2014 are: main refinancing operations - 0.15%; credit facility - 0.40%; deposit facility - 0.10%.

The public debt burden depends on how much a government owes and on the spread between the growth and real interest rate which it has to pay. Most governments have more than 100% of GDP public debt and forecasts show that production will remain slow, deflation will continue and sovereign debt will go on rising.

During the period of global crisis government support for the financial sector and increased social expenditure have contributed to a rapid deficit and debt growth in Southern Europe and Ireland. The extractive nature of fiscal policy was preserved and even strengthened after 2008. Low revenue and higher expenditure led to a significant rise in deficits and debt and the loss of market confidence complicated government financing which caused the debt crisis in 2010.

Fiscal deficit in the euro zone reached 6.4% of GDP in 2010 while that in Ireland was more than 30% of GDP because of the banking system bail-outs. In Greece it went up to 15% of GDP. In 2011 the Greek sovereign debt was 170.3% of GDP and that of Italy – 120.8% of GDP. In the euro zone, sovereign debt in 2012 amounted to 90.6% of GDP and in 2013 the upward trend was kept reaching 92.6% of GDP. In 2013 the highest level of public debt was in Greece (175.1% of GDP), Italy (132.6% of GDP), Portugal (129% of GDP) and Ireland (123.7% of GDP). Forecasts of the ECB and the European Commission show that in 2014 the stable upward trend in sovereign debt will continue as it will exceed 92% of GDP.

Measures taken by the EU (e.g. macroeconomic imbalance procedure, European semester, the Treaty of Lisbon, the Treaty on Stability, Coordination and Governance in the EMU, Euro plus pact, Single Banking Supervision) enforce supranational centralization that will probably increase moral hazard in financial and economic systems and may cause new crises. These actions reveal that the extractive nature of the institutional framework of the EMU is being preserved and developed. In this regard the key obstacle to the implementation of policies that may encourage growth is not the politicians' incompetence but the stimuli and constraints that they are confronted with regarding political and economic institutions in their policies (Acemoglu, Robinson, 2013).

The global financial and economic crisis and the EMU crisis have had strong negative impact on budgetary positions and the economic development of Bulgaria. The situation in the eurozone has significantly influenced the financial and real sectors. The main reason is that national economies are highly integrated with these in the EU. In Bulgaria a negative GDP growth (-5.5%) was recorded in 2009 in comparison with 6.2% GDP growth in 2008.

In 2010 the BNB decided to reduce minimum reserve ratio from 12% to 10% in order to prevent rapid contraction in lending activity which impacts real sector through production and consumption. The BNB data shows that in the first quarter of 2014 the national banking system was dominated by the EU banks branches (more than 60%) and market share of local banks was about 30.8%. Since the start of the crisis the national financial system has remained stable as this is evidenced by data on capital adequacy and the liquidity coefficient of commercial banks. In 2009 they were respectively 17.04% and 21.90%. At the end of the first quarter of 2014 the capital adequacy ratio was 20.42% and the liquidity coefficient stood at 27.12% (BNB, 2014).

Since a CB operates in Bulgaria the limited role of the Central bank as a lender of last resort significantly constrains and even excludes a dangerous increase in banking system liquidity. This is the main reason why there is no banking crisis in the Bulgarian financial system. Therefore, „a banking crisis“ may occur due to political reasons (e.g. Corporate Commercial Bank). In this case the CB has fewer opportunities to react in comparison to the typical central bank. The adhesion of Bulgaria to the Single Supervision Mechanism will reduce the chsnces for banking crises due to political actions but it will also provide "guarantees" that may raise moral hazard in the system.

In Bulgaria the highest budget deficit was recorded in 2009 - 4.3% of GDP and in 2010 it was 3.1% of GDP. In 2013 the fiscal deficit went down to 1.5% of GDP, i.e. Bulgaria follows the constraints of the Stability and Growth pact. The budget deficit in the eurozone was 3.0% of GDP.

During the crisis the public debt in Bulgaria also augmented reaching levels lower than that in the eurozone. Estonia and Bulgaria had the lowest sovereign debt to GDP ratio in the EU27. In 2012 the public debt of the Bulgarian government was 18.5% of GDP and that of the Estonian government amounted to 10% of GDP. In 2013 the Baltic States and Bulgaria were among those EU member states that registered the lowest levels of sovereign debt. In Estonia it was 10% of GDP, in Bulgaria it was 18.9% of GDP. Despite the bad fiscal positions and economic crisis, in Bulgaria there is no sovereign debt crisis and the stability of the CB has been sustained.

The consequences from the crisis clearly reflected the dynamics of key balance of payment indicators - current account balance and FDI. Negative current account balance had been rapidly shrinking and in 2011 and 2013 a surplus was registered. At the same time the FDI decreased considerably.

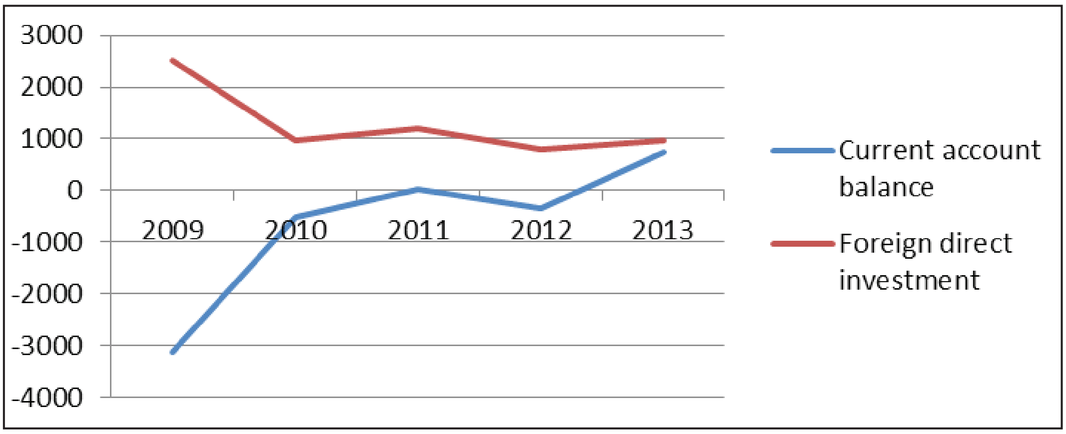

Fig. 6. Current account balance and FDI in millions euro in Bulgaria (2009-2013)

Source: BNB

Currently, political instability and loss of credibility in national institutions have become the main risk to public finance management and economic development.

Conclusion

The extractive nature of the institutional framework of the EMU is kept mostly because of the "hidden guarantee" and fiscal rules. In practice, the eurozone membership enhances the safety perception of national governments and economic agents which results in a loss of fiscal and financial discipline. Current challenges related to fiscal positions, deflation, huge amount of public debt, including foreign debt and at the same time high unemployment rate and slow growth may be overcome by national (e.g. prudent economic policies, adherence to fiscal constraints and limiting the redistributive role of the state) as well as by supranational actions (e.g. sanctions when breaching fiscal rules, free movement of goods, services, people and capital).

In Bulgaria the exchange rate mechanism (fixed exchange rate and CB) has played a restrictive role in terms of the monetary policy and therefore for the fiscal balance and the public debt. The combination between constraints stemming from the applied fixed exchange regime (Currency board) and the Maastricht Treaty requirements has led to the fiscal discipline in Bulgaria and consequently to stronger budgetary position and sustainable sovereign debt levels even during the crisis. It is likely that upon joining the eurozone governments are tempted to increase budget deficit and public debt because the commitment to full coverage of monetary base with foreign reserves will not exist anymore and they could use the chance to raise the deficit to 3% of GDP (or even more).

For the time being, political risk has been the key risk to the national fiscal position. Economic recovery has strongly depended on the eurozone where Bulgaria's main trading partners are.

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