The Euro in Bulgaria: Is a currency shift on the horizon?

15 April 2024

The initial political momentum behind Bulgaria's goal to adopt the euro by 2025 has waned, overshadowed by other urgent issues. Meeting the price stability criterion remains challenging, as, despite a decrease in inflation, it still exceeds the levels seen in the best-performing EU states. Nonetheless, the flexibility granted to Croatia in 2022 suggests that compliance with other criteria could lead to potential entry into the currency union. Recent legislative developments, such as the Draft Euro Law released by the Ministry of Finance in late March and the amendment of the Bulgarian National Bank (BNB) Law—which has protected against sudden currency changes since 1997—demonstrate ongoing efforts toward readiness. However, the exact timeline and details of euro adoption will be determined by the EU Council, which is influenced by both EU and domestic political processes.

Expected Effects

This article provides essential updates from the Draft Euro Law, underlining some of the broader implications of adopting the euro. The switch is generally seen as beneficial for the financial market, with expectations of increased market liquidity and reduced lending costs. Currently, banks in Bulgaria maintain a 12% minimum reserve requirement at the BNB, significantly higher than the 1% in Eurozone countries. The anticipated release of reserves will inject liquidity into the market, similar to the presence of a new financial institution. Moreover, the adoption of the euro will align deposit and loan rates with Euromarket standards, such as Euribor/ESTER, while eliminating foreign exchange differences.

What will the Exchange Rate be?

The exchange rate will match the existing fixed rate of BGN 1.95583 per 1 EUR.

Automatic Principle

As a main principle, which follows from the EU framework[1], the currency switch will be automatic and apply to all references to Bulgarian leva(the plural form of the currency is leva) in legal documents (including laws, administrative acts, court rulings, contracts, and other instruments with legal effect), following specific conversion and rounding rules. This overarching principle ensures a uniform transition across various sectors, avoiding the

[1] Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro; Council Regulation (EC) No 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro and article 11 from the Draft Euro Law.

need for individual amendments. Changes in legislation cater to specific sectors, but the principle of automatic conversion applies universally, streamlining the process unless specific exceptions are warranted.

Conversion and Rounding Rules

The law specifies two key rules for the currency exchange: "conversion," where amounts are changed from leva to euros using the official exchange rate to five decimal places, and then "rounding" to two decimal places. Rounding follows basic mathematical rules: if the third decimal is under five, the second stays the same; if five or above, the second increases by one. Exceptions apply for salaries, social benefits, and pensions—here, any third digit above zero rounds the second up by one—unless specified otherwise by law or an EU act.

Share Capital of Companies

Upon the adoption of the euro, the registered capital and nominal share values of various company types will be automatically exchanged by the Registration Agency, following conversion and rounding rules. Companies have 12 months to update internal documents to comply with euro regulations, submitting them to the Commercial Registry alongside other filings, without extra charges[2]. Any post-conversion discrepancies in share capital will be managed: for joint stock companies, as potential profit or loss adjustments; for limited liability companies, adjustments up to 5% may occur, requiring an incorporation act amendment. Minimum share capital requirements will also adapt: EUR 1 for LLC, EUR 25,000 for JSC, and 1 eurocent for 1 share in JSC/ 1 quota in LLC. Throughout these conversions, shareholder interest shall be protected.

Bank Accounts, Deposits and Payments

Banks and payment service providers will convert all BGN balances to euros once, adhering to conversion and rounding rules, and without imposing fees or commissions on customers. Deposit agreements will be converted to maintain interest rates at or above pre-conversion levels. BGN account holders can transfer their converted balances to accounts within the same payment service provider at no charge and close the BGN accounts for free. Payment transactions initiated in BGN before the euro's introduction will switch to euros at the respective date, after which BGN bank transfers will cease.

Interest Rates on Loans, Statistical Indexes

For BGN loans with floating interest rates, such as VAT and consumer loans, which use a BNB-defined index as a benchmark[3], banks may opt for an alternative base. However, this change must adhere to certain requirements, including EU regulations on benchmark indexes[4]. Any rate adjustments must be at least notified or disclosed on the bank's website and premises but cannot result in a higher floating rate than the pre-adoption rate. Fixed interest

[2] In contrast to Croatia's 2023 process, where companies were tasked with converting their share capital within 12 months or face automatic deregistration, the Bulgarian draft law doesn't seem to impose such a severe sanction.

[3] This typically includes the following that the banks are using: the average deposit index and the household term deposit index, which are based on the interest rate statistics of BNB, and the base interest rate announced by BNB.

[4] Regulation (EC) 2016/1011 of the EU Parliament and the Council

rates will remain unchanged, with the agreed pre-adoption rate continuing to apply. Indexes determined by the National Statistical Institute will also be converted and rounded to euros.

Accounting Documents

Upon adoption of the euro, BGN balances in financial accounts, as well as asset and liability values, will be converted and rounded to euros. Annual financial statements and documentation will be prepared in euros, with past period data recalculated in thousands of euros according to the conversion and rounding rules. Any foreign exchange differences will be recorded as current accounting profits or losses and recognised for tax purposes.

Public Liabilities

All outstanding and newly incurred public liabilities will be exchanged according to conversion and rounding rules. Certificates and documents issued by tax authorities before adoption of the euro will display amounts in BGN.

Preparation and Transition

Public authorities, systems, and registries must adjust those systems of theirs that use financial information at least 3 months before the adoption of the euro, in order to enable the automatic conversion and rounding. Following adoption, there will be two transition stages: a 1-month Dual Circulation Period where both the lev and the euro are legal tender, followed by a 12-month Dual Display Period where prices of goods and services, including in fiscal cash receipts, ATM receipts and bank account extracts must be shown in both currencies. The exchange of banknotes and coins will have a transitional period of 6 to 12 months or longer, depending on the institution. The BNB will carry out exchanges without time limits at the official rate and free of fees. Banks and the Bulgarian Post will do so free of fees for the first 6 months, after which they may impose fees but cannot refuse conversion until the 12-month period expires, unless cash is unavailable.

Recent legislative changes indicate that Bulgaria's entry into the euro area is becoming increasingly plausible. While a specific date remains undefined, the prospect is on the horizon, providing a foundation for consumers', corporations', and the public sector's preparations to commence.

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