

Vlastimir Vuković*

The euro: acceptance and non-acceptance

Bulgaria enters Eurozone before Sweden, Denmark, Czechia, Poland, Hungary and Romania!?

Discussion Paper, No. 6, Central Bank Money *Research*, December 2025

Abstract

Riding the wave of its greatest popularity, euro is arriving at the Black Sea. From the first of January next year, 2026, Bulgaria will become a member of the Eurozone, officially the euro area! An undeniable success for Bulgaria and a confusing achievement for the Eurozone. By joining the Eurozone, while fulfilling rigorous monetary and fiscal conditions, Bulgaria has overtaken six economically more developed members of the European Union – Sweden, Denmark, Czechia, Poland, Hungary and Romania! Why haven't these countries already adopted the euro, which enjoys the support of a record 83% of the inhabitants of the euro area,¹ according to the latest Eurostat surveys? Obviously, the problem is not meeting the so-called Maastricht convergence criteria (price stability, fiscal criteria – fiscal balances and debt ratios, exchange rate stability and long-term interest rate). Moreover, all the listed countries, excluding Denmark that has an 'opt-out' from euro area joining, are obliged under the Maastricht Treaty on European Union (EU) from 1992 to introduce the common currency sooner or later. More precisely, to join the Economic and Monetary Union (EMU), i.e. the Eurozone.

The explanation of this mystery lies in the turbulent events of the late 1980s and during the 1990s, which directed the course of and defined the limits of European integration. Almost half of the EU population did not witness these events, while the older population mostly remembers those monetary-fiscal shocks only vaguely. Today, these events in European Union are mentioned only in passing and are often even glossed over. Without insight into that not-so-distant past, it is impossible to understand the changes so far and the condition of European integration on two tracks, the faster one (EMU) and the slower one (EU). Bulgaria's current transition from the EU track to the EMU track represents a natural field experiment which enables more wholesome evaluation of EMU integration and the future of euro.

In this paper, the prehistory, history and future of euro, ECB and the euro area are analyzed chronologically in relatively homogeneous periods: *1 Long shadows of the past (1979-1998)*, *2 Early glory (1999-2009)*, *3 Historical success and staggering (2010-2024)*, *4 Uncertain present (2025)*, *5 Bulgaria's entry* and *6 The future of the euro (2026-2030)*.

Key words: *European monetary system (EMS), European currency unit (ECU), European exchange rate mechanism, (ERM), EuroFed, speculative attacks, Black Wednesday, Bank of England (BoE), Deutsche Bundesbank, Economic-monetary union (EMU), Maastricht Treaty, convergence criteria, ERM II, European central Bank (ECB), euro area, digital euro, Bulgaria.*

1 Long shadows of the past (1979-1998)

From the very beginning in the 1950s, the political project of European integration, was focused on the economy: steel, agriculture, customs and after the collapse of the Breton Woods gold standard in 1971, exchange rates (*currency snake*) and monetary policy (inflation) came into the spotlight. Unsuccessful attempts to stabilize national currencies followed, after which in 1979 eight countries of that day's European Community² launched the European monetary system (EMS) with European Currency Unit (ECU). EMS and ECU lasted until 1999, when they were replaced by EMU and euro. It was precisely during that period that events occurred which would decisively affect not only the acceptance of the common currency, but also the fate of the entire Union.

The backbone of EMS was the European Exchange Rate Mechanism, abbreviated ERM. It was a system of exchange rates tied to the ECU, whose value was decisively determined by the Deutsche Mark (DM), as the anchor currency. Central banks of member-states were obliged, through interventions on the foreign exchange market, to maintain exchange rate parities within a band of $\pm 2.25\%$, with the possibility of occasional adjustments (more precisely, devaluations), decided by mutual agreement. Inter-currency coordination was supported by controls on cross-border capital flows, which restrained large international speculators (euphemistically: investors).

From the start of the EMS in 1979 until January 1987, 11 exchange rates realignments were carried out, i.e. adjustment of parity against ECU. The reason was differences in inflation rates and changes in balance of payments between Germany and the other member countries. The only country that did not have to adjust its exchange rate was the Netherlands. Moreover, new EMS members were allowed broaden bands from $\pm 6\%$, with the obligation to eventually move to $\pm 2.25\%$. From February 1987 onward there was not a single realignment until September 1992, marked as a '*rigid*' ERM (Eichengreen, 2000, p. 6).

The success was all the greater because EMS was modified in 1987, according to the single market agreement, when capital flow controls were abolished in most member countries. It seemed that the fixed narrow band of ERM exchange rates had passed the test on the global foreign exchange market. Since nothing attracts like success, Spain joined ERM (June 1989), as did the traditionally suspicious Great Britain (October 1990).³

Britain's entry into ERM was controversial, because it happened during the term of Margaret Thatcher, an undisguised Eurosceptic. It is therefore understandable that less than two months later she resigned as prime minister and leader of the Conservative Party. Margaret Thatcher obviously remembered well the catastrophic failure of the previous accession to the European monetary 'snake,' when Britain exited that exchange-rate arrangement after only eight weeks, in the period May–June 1972. In doing so, it *lost \$2.5 billion of foreign exchanges reserves in six days* (Congdon, p. 43). Her successor was John Major, until then finance minister, a loser in the battle against inflation and the strongest advocate of joining ERM (at the overvalued rate of 2.95 DEM for one pound).

One market, one money was the main slogan of the Commission of the European Community during the preparations for the Maastricht Treaty. Behind this slogan stood the real guiding idea: one money, one market, because a single market cannot exist without a single currency. Therefore, European *currency* project, embodied in the EMS, was cornerstone of the EMU foundations. '[T]he definitive EMU represents initially a set of systemic changes, or changes to the economic constitution. This involves the new single currency (**the ECU**) in its domestic and international role, the new central bank (**EuroFed**), the completed single market (1992) and a changed role for national budgets (budget rules). [...] The transition will also have to manage smoothly the change of monetary policy leadership from one based on Germany to that of the independent EuroFed' (*One market, one money*, p. 18, 26).

Undoubtedly, the focus of European integration was on *the new single currency* and *the new central bank* - EuroFed system, which would unite national central banks. The American Fed (*Federal Reserve System*) was obviously the model as a unified system of central banks (12 Federal reserve banks + Board in Washington).

The most important goal of creating a single European currency was the permanent stabilization of national exchange rates by eliminating them. Simply put, without exchange rates there are no fluctuations, competitive devaluations or sudden shocks. Even the greatest promoter of floating exchange rates, Milton Friedman, believed that *highly stable* exchange rate is *the ultimate objective*.⁴

The Maastricht Treaty on EU was finally signed in February 1992. It was promoted as the triumph of the market economy and Western European superiority at the time of the collapse of centrally planned economies and the disintegration of the Soviet Union. The backbone of this treaty was the EMU with its ERM and its criteria, which were supposed to guarantee financial stability (low inflation, firm exchange rates, competitive interest rates), necessary for future economic prosperity. At the same time, these were important arguments for motivating voters in the upcoming national referendums. It was a 'EU-phoric' beginning of the new year 1992, when the governments of the countries that signed the Treaty on Union were ready for a single market and a single currency. All that remained was for citizens to confirm all this by personally expressing their free will.

It seemed that actors on the financial markets had also believed in European political determination, sparing ERM's central banks and finance ministries from great trials. Of course, governments and central banks did not forget the possibility of speculative attacks. In the analyses of *possible instability in transition, the danger of self-fulfilling speculative attacks* was especially emphasized. 'Speculative attacks on individual currencies could be of enormous power if financial markets are given any reason to doubt the commitment of the authorities to defend the fluctuation margins of the ERM' (*One market, one money*, p. 26). It was a warning without any hint of a defense mechanism.

Before that, George Soros, founder and manager of Quantum Fund, one of the pioneers among hedge funds, had publicly warned of the looming *speculation of hot money*. 'Exchange rate misalignments have become a major source of disruption for the world economy. [...] The market

mechanism fails to bring currencies back into alignment. On the contrary, speculation tends to exaggerate currency moves. [...] Target zones are unlikely to discourage speculation. On the contrary, they may constitute an invitation to speculate against the authorities with limited risk. By endorsing a set of target zones, the authorities would expose themselves to speculative attack at a time and place chosen by the speculators. History shows that under these conditions the speculators usually win' (Soros, 1987, p. 328).

Despite all the warnings and discouraging experiences from the past, the Maastricht Treaty generally regulated bilateral and multilateral obligations within EMS, tying them to declarative provisions on European cooperation and solidarity. The famous Maastricht criteria merely quantified the obligations of each country individually. There was no indication of an answer to the key question — what would happen in the event of the depletion of foreign exchange reserves of one or more countries due to the defense of the agreed limits of currency fluctuations? The only certain thing was that they would be kept strict in a Prussian manner in the ERM waiting room to retake the entrance exam.

A bolt from the blue in the European sky struck on June, 2 that same 1992 — in a referendum, the Danes rejected the Maastricht Treaty by majority vote. Many researchers rightly consider that event to have been the trigger of the ERM catastrophe, because it clearly indicated the uncertain realization of the political project of the EU. It turned out that political parties and the state bureaucracy, misled by pre-referendum polls, obviously did not sense the prevailing mood of ordinary citizens — voters. Turnout was incredible — over 83% of registered voters and the result was narrow: 50.7% to 49.3%. Still, 47,000 votes for a small Denmark was a convincing difference.

At the same time, this was a signal to foreign banks and hedge funds, predominantly American, that the hunting season for profits from exchange rate differences had opened. 'Expectations about future exchange rates constitute the main motivation in speculative capital transactions' (Soros, 1987, p. 73). The hunt was all the easier because billions of US dollars had previously been transferred into DM, since the dollar had lost almost 20% of its value against the mark from July 1991 to September 1992 (Eichengreen and Naef, p. 14). Nothing was easier than converting those DM deposits into overvalued pounds, which could serve as ammunition for a speculative strike in the reversible flow from pound to DM. However, that was not profitable. Besides that, the purchase of pounds increased British foreign exchange reserves in DM and other currencies. The key were already existing stocks of pounds in the possession of speculators and short-term loans from British banks, so that borrowings in overvalued pounds could be quickly repaid with devalued pounds. It is interesting that there was no attempt at a forensic investigation of the structure of financing sources of this spectacular speculative attack, given that the BoE had daily data on the payment transactions of speculators and changes in the balances of their bank accounts.

During the summer there had been pressure on weaker currencies, especially the Italian lira. The pound oscillated around the lower limit of the ERM band, with interventions from foreign exchange reserves. 'The day before Black Wednesday, still nothing indicated the crisis to follow' (Naef, p. 213).

The signal to begin the hunt for the British pound was a statement by Helmut Schlesinger, president of the Bundesbank, made on September 15 (Tuesday), after the London market closed. 'Schlesinger told reporters from the *Handelsblatt* and *Wall Street Journal* that a more comprehensive realignment would have been more effective and that further exchange market pressure could not be ruled out. The remarks were published the following day but had already hit markets overnight. Schlesinger's comments planted doubts in the minds of investors. It was now unclear whether the Bundesbank was prepared to engage in unlimited interventions to prevent the Deutschmark from breaching its bilateral limits against other currencies' (ibid, p. 214).

The cited statement was yet another in a series of gaffes by which Bundesbank leaders *undermined the pound*, but this time with the gravest consequences. Schlesinger later *apologized* (ibid, p. 216), but he '*forgot*' that several days before the crisis — 8 September — he had met with Soros. 'The meeting convinced Soros that the lira and the pound would fall soon.'⁵ Already on Friday, September 11, the lira came under unprecedented pressure, despite interventions by Germany, Belgium and the Netherlands in previous days (ibid, 210).

Then came September 16, which would become famous as Black Wednesday. The Bank of England (BoE) intervened from 8:00 in the morning, but within an hour had already spent more than one billion pounds of foreign exchange reserves, mostly in DM. Trying to mitigate the speculative attack, the Government in desperation raised the interest rate twice — first at 11:00 from 10% to 12% and then at 14:15 from 12% to 15%. Both attempts were unsuccessful and the increases were revoked the next day. The already mentioned president of the Bundesbank, Schlesinger, was unavailable to the governor of the BoE throughout the day! Because of the force of the attack on the pound, the BoE advised the Government to leave ERM. At the same time, the Bundesbank insisted on the central bank's obligation to intervene, although it bought pounds only on behalf of the BoE and not for its own account. The most bizarre thing of all is that British foreign exchange reserves in DM ended up in the Bundesbank?! By the end of the working day Britain had lost more than half of its foreign exchange reserves (over 20 billion expressed in USD). At 16:00 the BoE informed other central banks that Britain was temporarily leaving ERM, which was officially announced at 19:30 (Naef, p. 216-7). *It was a shock.*⁶ That same evening Italy also withdrew the lira from ERM.

The leader of this speculative blitzkrieg, with the highest number of billions of pounds in the so-called *short position*, was George Soros, manager of the Quantum hedge fund. 'Soros had divined early in the game the possibility of a sterling devaluation and set about discreetly establishing a short position in the form a number of short-term credit lines, totaling approximately \$15 billion. He was thus in a position to profit from a collapse of the exchange regime and did in fact attempt by his own sales to precipitate the collapse' (Krugman, p. 433).

As the most aggressive and powerful speculator in the financial market history up to that point, he pulled along the other hedge funds, banks and other financial institutions to get rid of British pounds at lightning speed, because their inevitable devaluation was just ahead. In this way, Soros practically tested the Theory of Reflexivity, based on the analysis of *the impact of the prediction on the predicted event*, by his tutor Karl Popper (Soros, 2008).

Overnight he became extremely rich, but also notorious. He was labeled ‘the man who broke the Bank of England’ (BBC). He obviously shied away from *Black Wednesday* — in his most ambitious book, *The new paradigm for financial markets: The credit crisis of 2008 what it means*, published 2008, he mentions numerous currency crises, but remains silent about September 16, 1992. He hypocritically worried about the problems faced by the EMS project, like an arsonist who ‘regrets’ a house scorched by fire.⁷ The height of cynicism was his a private meeting with one of the top managers of ECB in Frankfurt, on November 14, focused ‘on euro-area deepening’. ‘Billionaire George Soros met one of the European Central Bank’s top decision makers late last year to discuss a matter **he has long advocated: close euro-zone integration**’ (Bloomberg, February 16, 2018)!? Incidentally, he invested a large part of the wealth he had acquired in his *popperian* Open Society Foundation, seeking to reshape the worldviews and mentality of East European Indians.

After Black Wednesday, all ERM currencies were exposed to extreme speculative attacks, except the Deutsch mark and Dutch guilder. ‘The French central bank spent \$32 billion on the franc’s defense in the week ending September 23rd. Sweden abandoned its ECU peg on November 19th, following reserve losses of \$26 billion (more than 10 per cent of Swedish GNP) in the preceding 6 days. Denmark was forced to raise interest rates, followed by Spain and Portugal and after three days the peseta and escudo were devalued (in the Spanish case, a further) 3 per cent’ (Eichengreen, 2000, p. 12). The Danish crone and Belgian franc came under attack again at the beginning of 1993. Spain and Portugal, faced with reserve depletion, again devalued their currencies in May of the same year. At the beginning of July, the French franc once again came under pressure, despite interventions by the Bundesbank. In the end, the Bank of France in just one day — July 29, the last trading day of the month — spent over \$25 billion of reserves buying back its own currency. Thus, exchange reserves for the defense of the franc were exhausted (ibid, p. 13-14).

The famous ERM in practice turned out to be merely a mechanical sum of individual member states as participants at foreign exchange market, which mainly conducted non-coordinated actions. ‘For most ERM countries, once the crisis had started, the survival of the parities was clearly linked to individual efforts, with little or no intra-Community support’ (Buiter et al, p. 50).⁸

Finally, at the beginning of August 1993, the permitted ERM fluctuation margins (+/-) were increased from 2.25% to 15%, which discouraged speculators. At the same time, this ended the era of the ‘hard ERM,’ which after the launch of the new exchange-rate mechanism — ERM II — remained known as ERM I.⁹ Tectonic consequences also remained — three old EU Member States did not adopt the common currency (Sweden, Denmark and Britain), nor would the economically most important new members later do so (the Czech Republic, Poland, Hungary). These countries are officially designated as Member States with a derogation (Convergence Report, various years), i.e. as the Member States that have not yet fulfilled the necessary conditions for the adoption of the euro. Thus the EU was divided into the Eurozone or euro area and the remaining members with their own currency. **One market, one money** remained an unrealized dream. Still, the heaviest consequence is Brexit, which severely damaged the already weakened credibility of the EU.

It is noticeable that some ERM members, such as France and Sweden, spent more of their foreign exchange reserves than Britain, bringing them to the brink of exhaustion. Despite that, *Black*

Wednesday remained the paradigmatic symbol of a monetary-economic *Dunkirk*, which would shape the fate of the newborn EU. The United Kingdom will increasingly turn inward, while the other members will remain on two tracks of European integration, with or without the common currency. Still, some authors believe that the '*ill-fated decision*' of then prime minister Major motivated all political actors to extraordinary efforts. 'In a sense, then, had John Major not made his ill-fated decision to bring sterling into the ERM in 1990, Europe would not have the euro' (Eichengreen, 2023, p. 15).

Indeed, by 1995 the great European currency crisis had quieted down, while the Great Britain had embarked on the path of financial stability and economic recovery.¹⁰ At the beginning of 1999, ERM II was launched, in which the euro replaced the discredited ECU at the rate 1:1. Thus the euro area was created with its first 11 members, joined two years later by Greece, even though it did not meet the convergence criteria. The long-awaited euro banknotes and coins appeared on the first day of 2002. The euro entered the European and world financial scene.

2 Early glory (1999-2009)

The stability and functionality of the euro in domestic and global financial flows in the early 2000s strengthened the then members of the ECB system in the belief that the Eurozone would soon attract EU countries that had retained their own currencies. Minimal inflation, a fixed exchange rate and low interest rates seemed like irresistible arguments. During its first decade, up to 2009, the euro not only survived, but was more successful in preserving purchasing power than other world currencies, measured by inflation rates.¹¹ Other convergence criteria also confirmed the financial stability of the Eurozone. In addition, the euro was, in marketing and identity terms, a more appealing and more euphonious name for the common currency than the bureaucratically dry abbreviation – ECU.

Of course, the greatest credit was attributed to the euro issuer – ECB. 'By early 2008, it was widely accepted that monetary policy had been largely successful. The ECB had navigated its first decade without major difficulties. The contractionary bias fears were largely alleviated, although monetary policy reactions were often perceived as somewhat slow' (Wyplosz, 2023, p. 64). Particular emphasis was placed on the gradual shift to a monetary strategy of de facto inflation targeting (*ibidem*), which is credited with a historical contribution to extra price stability. In the shelter of the monetary union and ERM II, most researchers forgot the importance of stable exchange rates for price stability.¹²

A favorable macro-economic environment did not result in faster economic growth, contrary to expectations. It turned out that achieving the key precondition was not a sufficient condition for the desired economic expansion. The anemic GDP growth of the Eurozone was a failure compared to the United States and Britain, but also compared to EU members with their own currencies, such as Sweden. Contrary to the widespread belief that Germany benefited the most from the introduction of the common currency, its economy faltered (GDP in 2003: -0.4%, 2004: 0.7%, 2005: 0.8%). 'From this it follows that the average GDP growth rate of the Eurozone countries in the period 2003–2010 fell to a modest 1.1% and in Germany itself to only 0.9%.¹³' China's double-digit growth rates in the same period indicated that the problem was not in the global environment.

German reunification also could not remain a justification, since more than a decade and a half had passed since it.

As some consolation, the Eurozone showed remarkable vitality and resilience during the Global financial crisis (GFC) 2007–2009. At the beginning of the crisis, already in August 2007, the ECB was among the first to respond, providing life-saving liquidity to banks. ‘When the world financial crisis erupted, the ECB was quick to act, famously allocating an exceptional €95 billion liquidity provision on August 8, 2007, at a time when the Bank of England was more hesitant and worried about moral hazard issues. The ECB followed up with a succession of increasingly bolder moves, culminating, in October 2008, in a shift to an unlimited liquidity-provision regime’ (Brunnermeier et al., p. 325–6). Therefore, it was expected that euro-countries would soon overcome the GFC.

The ‘early glory’ of the ECB as an adaptable and effective system was not undeserved. ‘This extremely proactive crisis management was intended to dispel the perception of the ECB as a slow and rigid institution (as compared with the supposedly more flexible Fed. [...] The ECB’s approach to monetary policy indeed looked more innovative and capable of responding to the crisis than that of the Fed. [...] By contrast, the European system extended support to banks quietly and the support operations for individual banks were not revealed to the public’ (ibid., p. 326).¹⁴ Thanks to successive liquidity injections, ‘[I]n the early phase of the world crisis, Europe and the euro area had shown great resilience and its banking sector’s fragility seemed, at that stage, to be manageable’ (ibid., p. 327). Unfortunately, it soon became evident that the ECB’s proactive monetary policy was not sufficiently expansionary to prevent a specifically European sovereign debt crisis, closely linked to an expanding banking crisis.

3 Historical success and staggering (2010–2024)

The early glory of the ECB system faded in 2010, when it became clear that Greece would not be able to meet its maturing public debt obligations. The largest foreign creditors were German banks.¹⁵ Already at the beginning of the crisis, a series of wrong decisions were made, which would lead to a major sovereign debt crisis and shake six Eurozone countries (PIIGS + Cyprus).

First, Greece was left to fend for itself, which called into question the survival of Greek banks, the largest domestic holders of government bonds. The basis for refusal was the famous Article 125 of the EU Treaty, which prohibited financial assistance to countries in trouble. Without its own central bank, this is an unsolvable problem for any country, including the United States. ‘The unique feature of central banks is that they are the only public actors that can make unlimited commitments since they can create as much money as need’ (Wyplosz, 2024, p. 12). Therefore, in 2011–2012 Greece was on the brink of leaving the Eurozone.

Second, the European Commission initially rejected the offer of the IMF to get involved in resolving the Greek public debt problem. That overconfident decision was later revised, but valuable time for preparing the financial rescue of an entire country was lost.

Third, all other countries were forced to borrow on financial markets in order to rescue their domestic banks, weakened by the collapse of national mortgage markets. Due to membership in

the Eurozone, these countries were also left without a central bank as *lender of last resort*.¹⁶ This directly led to a specifically European sovereign debt crisis.

However, the most severe consequences came from the programs themselves, designed in the spirit of *austerity*.¹⁷ 'Designed by the Troika, which is the triumvirate of the International Monetary Fund, the European Central Bank and the European Commission, these programs effectively required crisis countries to surrender large elements of economic sovereignty to their 'partners' in return for the assistance. Money is lent to the crisis country (it is seldom given) but with strong conditions. The loan, together, with its conditions and the country's timetable for meeting the conditions is called the *program*. [...] One demand was that Greece not submit any bill for public consultation until after it had been reviewed by the Troika' (Stiglitz, 2016, pp. 34, 77).¹⁸

Such disciplining was a mockery of democracy, accompanied by unimaginable humiliation.¹⁹ It is not difficult to imagine the sense of helplessness and resentment among millions of EU citizens subjected to these programs, which imposed salary cuts,²⁰ reductions in pensions and basic social benefits on the one hand and increased tax burdens on the other.²¹ Thus, Eurozone countries hit by the crisis, led by Greece, were trapped in 19th-century debtors' prison for the whole family,²² more precisely, for the entire nation.

The hardest-hit Greece has still not recovered to this day, as it records lower GDP than before the crisis, while public debt per capita remains almost unchanged (\$33,905, IMF). It is certainly no consolation for Greeks that this same per capita debt in Ireland and Italy, from the famous PIIGS group, reaches \$44,871 and \$41,056 respectively.

In the end, the key question remains: why did the debt crisis hit only Eurozone countries so severely? Why were EU members with their own currencies not affected, even though they also experienced mortgage crises and banking distress? 'Even though many other developed countries were hit by a similar shock, none faced a debt crisis for a simple reason: their (V.V.) central banks intervened quickly and forcefully' (Wyplosz, 2023, p. 65).

It is therefore understandable that the looming sovereign debt crisis in the Eurozone was contained only on 26 July 2012. On that day, Mario Draghi, then President of the ECB, at the Global Investment Conference in London, delivered his famous statement: 'The first message I would like to send is that the euro is much, much stronger, the euro area is much, much stronger than people acknowledge today. Not only if you look over the last 10 years but also if you look at it now, you see that as far as inflation, employment, productivity, the euro area has done either like or better than US or Japan. Then the comparison becomes even more dramatic when we come to deficit and debt. The euro area has much lower deficit, much lower debt than these two countries. [...] But there is another message I want to tell you. Within our mandate, the ECB is ready to do whatever it takes to preserve the euro' (ECB, Speech).

However, for Eurozone countries, the ECB system did not become their central bank with this statement, because even today it does not have a lender of last resort mandate. For all urgent actions to provide necessary liquidity, the ECB must design programs in order to circumvent the famous Article 125 of the EU Treaty, which strictly prohibits financial assistance to countries in trouble. Other central banks also have targeted credit programs, but they do not face such legal constraints.

Aggregate production of the euro area in the period from the famous 2012 to 2019, the last year before the COVID-19 pandemic, shows that the ECB's readiness to do whatever it takes only minimally accelerated average real GDP growth compared to the anemic decade 2002–2011 (1.2% to 1.1%). This is modest also in comparison with the US (2.3% to 1.8%), the UK (1.9% to 1.5%) and other advanced economies (IMF, WEO, Table A: Real GDP, various years). The disappointing results of the Eurozone from 2012 to 2019 were largely driven by leading economies – Germany (1.4%), France (1.2%), Spain (1.3%), Italy (0.0%) and the Netherlands (1.5%). Non-euro area countries achieved significantly faster growth in the same period, both old Member states – Sweden (1.9%) and Denmark (1.8%) and new memberships – Poland (3.7%), Hungary (3.2%), Romania (4.5%), Bulgaria (2.4%) and Czechia (1.7%).

To mitigate the consequences of the COVID-19 pandemic, the ECB urgently designed programs to support citizens, companies and financial intermediaries. This crisis was also overcome and its legacy in 2021–2022 was high inflation in the range of 8–9%. Faster price growth was not unexpected, as a significant portion of the enormous monetary expansion ended up in private and public consumption. The inflation waves also hit most other EU countries and the rest of the world. Already in 2023, there was a noticeable slowdown in price growth, i.e. disinflation.

The outlined history of the Eurozone, the ECB system and the euro over the first two and a half decades was marked by frequent crises, very different in origin, duration and intensity. The fact is that EU countries outside the Eurozone managed similar crises more successfully or contained them at the very beginning. This difficult struggle with crises likely played a decisive role in the fact that no old EU member has joined the Eurozone. The most economically developed new members – Czechia, Poland and Hungary – are also avoiding the Eurozone. The increase in membership from 12 to 20 was achieved thanks to the accession of small countries from the EU periphery.²³ After the sobering Brexit, when faster adoption of the common currency had been expected, only Croatia joined the Eurozone as the twentieth member. Bulgaria will become the 21st member at the beginning of 2026. By population and area, Bulgaria is by far the largest country to join the Eurozone since 2001, i.e. since Greece's accession. However, measured by GDP *per capita*, Bulgaria is **the poorest** EU Member State.

4 Uncertain present (2025)

Today, ERM II serves to link currencies outside the Eurozone to the euro. Denmark remains the only member of the European exchange-rate mechanism, although under its opt-out clause it is the only one not obliged to introduce the euro. The second member – Bulgaria – is leaving this mechanism at the beginning of next month, because it is entering the Eurozone. Romania has in principle announced its entry into ERM II, while the remaining four members – Sweden, Czechia, Poland and Hungary – show no intention of giving up their national currencies. Naturally, this also applies to Denmark, despite the exchange-rate convergence of its krone toward the euro.

Thus, the euro has been left out – accepted by its users in the Eurozone and ignored by non-euro member states. Weak economic results additionally threaten the common currency – in the past two years (2023 and 2024), average GDP growth rates amounted to only 0.4% and 0.9%, while in Germany they were recessionary -0.9% and -0.5%. There were other euro-countries that suffered

recession, either two-year (Austria, Estonia) or one-year (the Netherlands, Ireland, Finland and Latvia). By comparison, the same rates in the US reached 2.9% and 2.8%, the UK 0.4% and 1.1%, Denmark 0.6% and 3.5%, Czechia 0.1% and 2.1%, Poland 0.2% and 2.9%, Romania 2.4% and 0.8% and celebratory Bulgaria 1.9% and 2.8%. Outside the Eurozone, one-year recessions were recorded in Sweden (-0.2%) and Hungary (-0.8%). Still, confidence in the euro is supported by a relatively stable inflation rate in the euro area – 2.4% in 2024 (IMF, 2025, WEO, October, p. 125/127).

Low growth rates and recession certainly cannot stimulate entry into the Eurozone. Such economic results and the excessively high public debts of three large *euro-economies* – Italy (125% of GDP), France (105%) and Spain (102%) – were the main reasons for the IMF's sharp warning.²⁴

The stability and position of the euro in domestic and international frameworks are also adversely affected by the already emphasized constraints on the conduct of ECB monetary policy. 'First, elsewhere, the central banks stand ready to lend unconditionally in last resort to their governments, even though they are usually not allowed to directly lend in normal times. [...] In the euro area, the existing programs involve conditions that must be met by the governments. For some countries at least, there is **no certainty**. Second, in most countries, there is agreement that protects the central bank from bearing losses when it acts as lender in last resort to commercial banks or other financial institutions. No such agreement exists in the euro area' (Wyplosz, 2024, p. 22). These constraints, characteristic of the euro area, repeatedly provide challenging opportunities for speculators on financial markets.

That is why the specter of non-fulfillment of maturing government obligations is once again haunting the Eurozone, casting threatening shadows over Italy, Spain and other countries with barely sustainable public debt. France is obviously considered protected, although it is already under the supervision of the European Commission due to *excessive deficit*, together with Italy and Spain. For most other countries, the question arises of fulfilling imposed conditions. This game of **monetary carrot and fiscal stick** exists nowhere else, but it explains the protests of farmers in Brussels and Greece, as well as the general revolt over tax increases in otherwise low-indebted Bulgaria. At the same time, it also explains euro-governments' guarantees for bonds that Ukraine will not be able to repay. The only positive thing in all this is that the ECB has so far managed to avoid the unreasonable financial constructions of European politicians.

The fateful uncertainty of the euro and its issuer – the ECB – is intensified by decade-long disputes between German and European courts over the interpretation of the famous Article 125 of the Maastricht Treaty and the compatibility of credit programs with the *prohibition on monetary financing*, more precisely, with the obligation **not to assist** euro-countries in fiscal trouble. In addition, the Federal Constitutional Court of Germany rules on whether ECB monetary policy measures are in accordance with German laws. Even when they accepted contrary rulings of the European Court of Justice, they imposed their own conditions from which they did not retreat.²⁵ What would happen if they were, for example, Belgium, the Netherlands or Austria did the same? It is not difficult to imagine the legal insecurity of the ECB, headquartered in Frankfurt, when formulating any emergency credit program (ibidem). And such programs will inevitably exist, just as major financial crises will inevitably occur. In the end, it sounds absurd, but it is true that

standalone countries can more easily secure financial support from the EU than euro-countries. And it is even more absurd that the conditions for borrowing countries are set by their independent central bank in the form of the ECB Eurosystem!

Hence it becomes clear why speculators are again targeting Eurozone members, as in the 2010s during the sovereign debt crisis or ERM members defending exchange rates in 1992–1993. Simply put, the ECB is failing to secure the decisive crisis function of every central bank – emergency lending during turmoil on financial markets. ‘Inventing a new programme whenever new potential risks emerge, each with its own set of ad hoc conditions, is not sustainable. The ECB must make the case for becoming a full-blown lender in last resort because central banks are the only institutions that can face up to panicky financial markets thanks to their unique ability to ‘do whatever it takes’’ (Wyplosz, 2024, p. 22).

The uncertain present of the euro is perhaps best illustrated by the attempts of the ECB system to design and launch a digital euro.²⁶ Officially, this is a response to the global trend of digitalization, the introduction of so-called stablecoins by private issuers and the flood of countless cryptocurrencies, most often issued by anonymous entities. In reality, the ECB wants to fight for its own sovereignty in retail payment systems, which are dominated by the American duopoly – Visa and MasterCard. European bankers were shocked at the beginning of the conflict in Ukraine, when these two mega-providers simply shut down their payment systems in Russia. Not because of Russia, but because of the possibility that the same could happen to them. That is why the digital euro is ‘a top priority for the Bundesbank’.²⁷ Despite this, it remains a major question whether the common digital currency will appear by the end of this decade.²⁸

It is symptomatic that the creators of the digital euro envisage a special infrastructure for retail payments. Who will prohibit Visa and MasterCard from using the same infrastructure and carrying out transactions in digital euros? European politicians and central bankers certainly will not dare to do so, even if Denmark loses Greenland.

The titanomachy that has begun, however, is not the greatest challenge for the ECB and its digital euro. The greatest enigma are euro-citizens themselves, who gladly use the digital services of commercial banks and other payment providers. Most of them are, of course, connected through networks owned by the aforementioned American titans. If this ambitious ECB project is realized, euro-citizens would face a fundamental dilemma – why, alongside existing digital payment options from their bank accounts, would they also use special digital euro accounts in the same banks, especially with limited amounts (the proposed limits range from 500 to 3,000 euros)? Simply put, why the digital euro? The established narrative about the safety and privacy of central bank money does not answer this fateful question. Are citizens’ euros in banks not ECB money? A possible failure of the digital euro would dramatically undermine the credibility of the ECB Eurosystem.²⁹

The first European central bank to start developing its own version of a digital currency was Sweden’s Riksbank with the digital krona (E-krona). This was an attempt to respond to the almost complete disappearance of its banknotes from circulation and the transformation of Sweden into a dystopian *cashless society*. After almost a decade of research, this project has obviously reached a dead end – this year, for the first time, even the regular annual report was not published.

Unlike Sweden, Denmark did not develop its own digital krone, but decided to carefully monitor the research of other central banks. According to available sources, the other standalone central banks in the EU had a similar stance. Previous experiences with central bank digital currencies in Europe and the world exclude the possibility that the digital euro could eventually become a factor attracting new members to the Eurozone. The digital pound has better prospects for possible success, because it is not even defined as a currency, but *as a payment platform* on which the private providers could innovate (Vuković, 2020, p. 3).

However, the greatest uncertainty in the functioning of the ECB Eurosystem and the common euro is introduced by the founders of the Eurozone themselves. Germany leads among them with its Prussian-Bavarian recipes for monetary and fiscal policy and its stunted sense of community. All this is hidden behind the fig leaf of common European funds, of modest value in the crumbs of EU budget spending. ‘Indeed, with the budget of the European Union only about 1 percent of its GDP (in contrast to the United States, where federal spending is more than 20 percent of GDP), little spending occurs at the EU level. [...] Europe made the wrong ones. It imposed austerity – excessive cutbacks in government expenditures’ (Stiglitz, 2016, p. 23–4).³⁰

In the end, there is an inextricable knot of different macro-economic requirements in the conduct of monetary policy. How can optimal interest rates be determined that will simultaneously suit over-indebted and low-indebted members, with very different unemployment rates, shares of agriculture, export performance, energy needs and numerous other differences?

The ECB Eurosystem includes 20 central banks (21 from January 1), behind which stand the same number of governments. Coordination among central banks is mostly achieved by consensus. The usually difficult **coordination** between a central bank and a government becomes complicated in a monetary union by geometric progression. All these problems – structural, legislative, managerial, developmental, interest-based, ideological, macro-economic, financial and others – make the position of the ECB and its euro highly uncertain.

5 Bulgaria's entry

In a few weeks, the euro will inevitably arrive at the Black Sea. Bulgaria has met the strict convergence criteria and is entering the Eurozone. In this way, **the least economically developed** EU member has overtaken six far stronger national economies, which are still only partially in the Economic and Monetary Union!

The latest ECB's Convergence Report provides a bureaucratic explanation. ‘This Convergence Report has been prepared following a request for a country examination submitted by Bulgaria on 25 February 2025. [...] “on the progress made by the Member States with a derogation in fulfilling their obligations regarding the achievement of economic and monetary union.” This report covers only Bulgaria: the other member States with a derogation, i.e. Czech Republic, Hungary, Poland, Romania and Sweden, will be examined in the next regular Convergence Report in 2026. Denmark, which has a special status, will not be covered in the 2026 report, unless it so request’ (ECB, 2025, June, p. 3).

Relative relations of GDP per capita between EU27, EA20 and individually non-euro area countries, including Bulgaria, are shown in the following table. These relative relations represent primary indicators of the level of economic development.

Table 1 - GDP per capita, 2022-2024, (EU=100)

Member States	2022	2023	2024	BG = 100 /
Denmark	134	126	127	192
Sweden	113	111	111	168
Euro area 20	105	105	104	158
Czechia	90	91	91	138
Poland	78	77	78	118
Romania	72	75	77	117
Hungary	76	76	77	117
Bulgaria	62	63	66	100

Source: Eurostat, Statistics explained – Relative volumes of GDP per capita,
Data from 17 December 2025.

A gradual narrowing of differences in economic development between EU27 and EA20 countries can be observed. It is unfavorable that this process is taking place under conditions of markedly slowed GDP growth in the major of euro area, with examples of chronic stagnation (Italy) and recession (Greece). Bulgaria's above-average economic growth has been achieved despite the monetary regime of currency board, which by definition excludes the possibility of central bank's lending of last resort. Bulgaria's entry in the euro area will almost eliminate the gap between EU27 and EA20 in GDP per capita (4 p.p.).

In such macroeconomic circumstances, it seemed that the euro in Bulgaria would be welcomed with enthusiasm. In most new memberships since 2007, entry into the Eurozone and the ECB system has been perceived as joining a club monetary dedicated to low and stable inflation.

Contrary to the expectations of the uninformed, Bulgarians have shown no enthusiasm for this success of their politicians. On the contrary, they have repeatedly protested fiercely against abandoning their national currency – the lev. Such massive pre-accession protests have not been recorded in any other Eurozone member state. Had the Bulgarian authorities allowed a referendum, it would almost certainly have had a similar outcome as in Denmark and Sweden.³¹

Of course, the protests could not prevent the official celebration. At the ceremony in Sofia, held on November 4 this year, Christine Lagarde, President of the ECB, spread monetary optimism and stirred Bulgarian national sentiments. As key benefits, she emphasized prosperity (GDP per capita, export) and security (euro area membership as strongest safeguard of exchange rate volatility). Sensing the insufficient persuasiveness of her claims, she immediately invoked Paisiy Hilendarski from Bulgarian €2 coin and his centuries-old messages to his compatriots. In the end, however, she had to admit 'that around half of Bulgarians currently oppose introducing the euro, while a small share remains undecided.' She did not mention the prevention of democratic expression through a referendum. Her claim that 'joining the euro is not a loss of sovereignty – it is a gain' is

certainly the most questionable. She concluded by quoting Vasil Levski's political testament from the 1870s.³² The entire speech reflects Western prejudices about the Balkans and its people.

At the same event, Kristalina Georgieva, IMF Managing Director, also spoke. Unlike the political pamphlet of her predecessor, her address was concerning and cautionary not only for Bulgaria, but for all Balkan countries. 'The euro will help, but it does not on its own guarantee higher standards of living. No: the challenge goes on. [...] And even more than others, Bulgaria faces difficult medium- and long-term challenges: population aging, brain drain and infrastructure and defense needs that compound fiscal spending pressures. Growth, while higher than the EU average, is not enough to generate sufficient high-quality jobs and fiscal revenue. [...] Yes, progress is being made. But it is too slow.'³³

The mentioned brain drain is merely a euphemism for the mass exodus of younger and middle generations with diverse professional qualifications.³⁴ Other Balkan countries face the same problem, except that under the Schengen regime such departures from member states are almost unrestricted.

After these state saturnalia in honor of the euro, Bulgarian revolt exploded. The immediate trigger was the first budget in euros, which envisaged tax increases. This budget had prior approval from the European Commission, as required for all Eurozone governments. By the end of November, it became clear that this first euro budget would not receive majority support in Parliament. Just before the vote, on December 11, the Bulgarian January government resigned after eleven months. In such a chaotic atmosphere, the arrival of the euro at the Black Sea can hardly be celebratory – without a government and without a budget. It seems that the European Commission and the ECB failed to consider that the Black Sea has not been called 'black' by chance since the 13th century, but deliberately, as a warning.

All things considered, the strategy **give what you can** in the Balkans is not advisable, while for EU countries outside the Eurozone it is discouraging in the long term. The euro arrives at the Black Sea in the middle of winter, undeservedly dimmed by a policy of forced expansion, which has confirmed that quantity often suffocates quality. This casts a warning shadow over the policies of the European Commission and the ECB Eurosystem, based on questionable bureaucratic assessments.

Bulgarians will remember the arrival of the euro through general dissatisfaction, fierce protests, a rejected budget, a fallen government, higher taxes, social cuts, the mourned lev and inevitable commercial tricks in converting price lists from leva to euros. The Bulgarian euro golgotha also has a darkly humorous side – the most frugal and disciplined Balkan nation is being forced into belt-tightening and fiscal discipline, surpassing even exemplary Germans! Bulgaria's public debt is a mere 24% of GDP compared to the EU average of 65% (Kristalina Georgieva, IMF). This is the price of entering the Eurozone, which Bulgaria would not have had to pay had it remained a *Member State with a derogation*. The price of EU membership it has already paid with its most vital and educated generations, scattered across the Union.

The formal conclusion presented at the end of *the Convergence Report 2025* on Bulgaria (June 2025) bureaucratically relativizes the evident problems of this accession.³⁵ Therefore, it is

immediately followed by a cautionary warning to the new Eurozone member: ‘However, significant challenges remain and policy discipline will need to be maintained in a determined manner to fully exploit the benefits of participation in the euro area and minimize risks to the convergence path going forward’ (EC, 2025, p. 49). The key message is Germanic: *policy discipline*.

Bulgaria’s pre-accession experience clearly shows that less economically developed countries, with low public debt, generally more easily meet the convergence criteria for entry into the Eurozone. For comparison, already in the period 2005–2010, almost all countries emerging from the former Yugoslavia had inflation close to the EU average (2.8%), significantly lower than Bulgaria’s (6.4%), along with an almost fixed exchange rate against the euro. In this way, these countries already met the first two convergence criteria on the path to EMU, while Bulgaria met only one. Exchange-rate stability was ensured through appropriate monetary regimes – currency board (Bulgaria and Bosnia and Herzegovina), de facto exchange rate targeting (Croatia and Macedonia) and unilateral official euroization (Montenegro). Essentially, a stable euro exchange rate was the anchor of expectations of low inflation (Vuković, 2011). The euro exchange rate still plays the same role in euroized Balkan economies today.

6 The future of the euro (2026-2030)

At the beginning of considering the future of the euro, it is useful to once again look back at the turbulent year 1992, the emergence of the EU, the setbacks of the ERM and their far-reaching consequences. To this day, assessments remain that Black Wednesday was a defeat for Britain, its Government and its Central Bank. Still, few analysts understand that it was a defeat of the political project of the EU, from which it has never recovered and cannot recover.³⁶ The unique opportunity created by the signing of the initial EU Treaty was irreversibly lost. The Danish referendum was a lost battle. On *Black Wednesday*, the war was lost. It was not *the first ‘Brexit’* (James, p. 310), but the beginning of a separation that ended with the referendum in June 2016.

Of course, this does not mean that EMU would have succeeded, but in a counterfactual scenario, without the collapse of the ERM, the final outcome would certainly have been more favorable. A common currency unites more strongly than any political platform. The United States has the Federal Reserve System with 12 Federal Reserve banks that issue the same US dollar (coins are minted by the Treasury). There is no New York, Texas, or California dollar. Gold reserves are also unified. In contrast, each Eurozone member prints banknotes and mints coins with its own national motifs. Even the Vatican has its own coins! As for gold reserves, the ECB recently officially reacted because the Italian Parliament adopted a law stating that domestic gold reserves belong to the Italian people. So much for unity.³⁷

The future of the euro is first reflected in assessments of its past performance. As usual, criticism from American economists is the sharpest. They remain astonished that such a monetary union and its common currency even exist. It is enough to cite the title of one of their books: *The euro: How a common currency threatens the future of Europe*. Despite such a conclusion by Joseph Stiglitz, we will apparently have to patiently wait for Europe’s ‘prosperity’ without the euro.

A completely opposite assessment was given by the European economist Charles Wyplosz, probably the best expert on the Eurozone, the ECB system and the euro. ‘The European Monetary Union (EMU)³⁸ has been a historical success. It has defied sceptical predictions and it has withered severe crises, both internal and external. Yet, a number of shortcomings have been left dangling and remain threatening. [...] Most of the existing shortcomings remain in place because member governments have failed to act for the last 25 years. They hamper the ECB and they represent a continuing threat to the euro’ (Wyplosz, 2024, p. 8).

These serious accusations against EU governments for inaction since the establishment of the ECB system and the launch of the euro are not complete, because they absolve them of misguided and narrow-minded actions. Can today’s successors of those economic-monetary policies make a step forward? Certainly NOT. This is best illustrated by the discouraging political turbulence in Bulgaria before its entry into the Eurozone (November–December this year). Insistence on fiscal discipline will only intensify macroeconomic instability and further slow growth.

The misguided actions of EU member governments are clearly demonstrated by Italy’s experience over the past 26 years in the Eurozone. ‘Italy has been particularly stubborn in pursuing wage repression and public spending restraint policies’ (Guarascio et al., p. 5). In this way, the Italian government consistently applied the German recipe contained in recommendations from the Stability and Growth Pact. The final outcome of such an austerity policy is devastating. ‘Italy represents a failed attempt at modernization under external constraints. Eurozone membership did not result in modernization and convergence towards higher living standards’ (ibid., p. 23). Despite austerity, Italy remains the most indebted country in the EU and the Eurozone. But over-indebted Italy is not the Eurozone’s Achilles heel — Germany is, with its Prussian-Bavarian monetary and fiscal policy.

Perhaps the most convincing example that the euro is not *a deus ex machina*, i.e. a *godly intervention*; it is the slow growth – stagnation – recessions trend in GDP of Europe’s largest economy – Germany – from the start of the Eurozone in January 1999 to today. Clearly, achieving targeted *stability* is not a sufficient condition for desired *growth*.

The common currency successfully performs all functions of money, which is the basis of its general acceptance. But it cannot eliminate structural problems of the ECB system or conceptual shortcomings of its monetary policy *one size fits all*. Even less can it influence depopulation, population aging, brain drain, the extinction of rural communities and the emptying of peripheral regions. Simply put, without people there is no economy. Imposing the famous *structural reforms* does not solve these problems, but deepens them.

Currency stability nevertheless remains the ultimate condition for the survival of the Eurozone and the EU as a whole. The existing constraints and fragmentation of ECB monetary policy pose a much greater immediate danger to Eurozone countries than to the euro itself. Paradoxically, economic turbulence in developed countries is usually accompanied by a strengthening of their currencies. The same applies to a monetary union if most members are such countries.³⁹ This is why the euro has so far been far more stable than the Eurozone itself — and this will likely remain the case. However, the common currency could not survive a collapse of the Eurozone. Its

disintegration or transformation into the European Economic Area (EEA)⁴⁰ would mark the end of the ECB system and its main product – the euro.

The only result of *a convergence facility (preparation for adopting the euro)* from the Reform Support Programme is the upcoming entry of Bulgaria into the Eurozone, seven years after the Programme's inauguration (European Parliament, 2019). None of the six *standalone* EU countries has even joined ERM II, which is a mandatory two-year exchange rate arrangement before entering the Eurozone.

The loss of monetary sovereignty is the key deterrent to joining the monetary union. The experience of standalone *EU member states with a derogation* clearly confirms this – these countries were not affected by the European sovereign debt crisis of the 2010s, although they are interconnected EU economies. Therefore, speculators do not target countries outside the Eurozone even today, regardless of their public debt-to-GDP ratios.

The opposing real positions and divergence of interests between Eurozone member states and other EU countries, after all the crises since the early 2000s, have become clearly visible and, unfortunately, difficult to bridge. 'There is a fundamental contrast between the euro area and standalone countries (i.e. countries with their own central bank). In a standalone country the central bank faces one sovereign, which always prevails in times of crisis. There can be no doubt that in a standalone country, the central bank will have to provide liquidity when the government faces a liquidity crisis. In the euro area the ECB faces 20 sovereigns, none of which has authority over the central bank. None of these governments can force the ECB to provide liquidity in times of crisis' (De Grauwe, 2023, p. 78).

To this day, the ECB has not received *a lender of last resort* mandate, because this is explicitly prohibited by the strict Article 125 of the EU Treaty. Essentially, this article defines the EU as a **community without true togetherness**. 'The "Community method" has given way to inter-governmentalism of the worst kind. Indeed, the vacuum has been filled by the emergence of one country, Germany, as the effective leader. This is a highly truncated form of inter-governmentalism. It is an ineffective form because any country will always use its influence to advance solutions that meet its interests, which is what Germany has done' (Wyplosz, 2014, p. 12). The developments described above in Bulgaria clearly show that such a Union, modeled on a thrifty Bavarian housewife, with Prussian discipline and *Deutschlands Interessen über alles*, can hardly have a long-term perspective.

For this reason, it is more likely that in the event of a sudden and major financial crisis in the future, the euro will disappear rather than survive. On the other hand, it is difficult to imagine a crisis, financial or political, that would lead standalone EU member states to adopt the euro and enter the Eurozone. The reluctance of EU countries outside the Eurozone to adopt the euro — more precisely, the attachment of their citizens to national currencies — has been convincingly confirmed many times.⁴¹ It is naïve to believe that Bulgaria's entry into the Eurozone will change that sentiment. On the contrary.

It is also interesting and little noticed, that most of these countries (Sweden, Denmark, Czechia, Hungary) have largely managed to retain their working-age and qualified citizens, both in the private and public sectors. At the same time, economic incentives have been reinforced by social benefits.

If the euro and the ECB nevertheless survive, they will survive despite the Bundesbank, the German Government and the German Federal Constitutional Court. Despite the German mindset and narrowness. ‘So a great deal of the crisis turned out to be a debate about the new German question, about the extent of German power and whether modern Germany had the capacity or the willingness for leadership in Europe. Almost every sort of German leadership is deeply problematic, however’ (Brunnermeier et al., p. 379). The problem is that Germans are more persistent in their views and misconceptions than other euro-nations, which will continue to attract financial speculators as long as the monetary union exists.

Macroeconomic problems of the Eurozone, especially the decades-long trend of anemic growth, as well as the uncertain future of this monetary union, have limited the international role of the euro. ‘Previous efforts to strengthen its international role have achieved little. [...] The euro has built up importance in neighbouring countries and this regional influence should be preserved and expanded through deeper trade and integration’ (Hegemann and Wieland, p. 8). The strong regional support for the euro is based on optimistic expectations. ‘Trade unions accepted wage restraint and restrictions on public sector spending growth, on the understanding that euro membership would secure investment and employment into the future’ (Hopkin, p. 163). Unfortunately, the expected investment and employment are still nowhere in sight.

Despite everything, the fact remains that the euro is the connective tissue of the fragile construction of the Eurozone and a widely accepted common currency in 20 EU member states. Thanks to its stability and functionality, the ECB is the strongest institution not only of EMU, but of the entire European Union.⁴²

Finally, a valuable lesson on what a monetary union is: ‘***A monetary union is more than a single currency and one central bank. [...] A monetary union can only function if there is a collective mechanism of mutual support and control.*** [...] What has been achieved, however, is still far from sufficient to guarantee the survival of the euro’ (De Grauwe, 2011, p. 18–19). And it will remain so as long as control and bargaining suffocate support.

With its imminent arrival at the Black Sea, the euro will inevitably face even greater challenges.

First published on <https://centralbankmoneyresearch.com/>

References

- Brunnermeier, Markus, Harold James, and Jean-Pierre Landau (2016), *The euro and the battle of ideas*, Princeton: Princeton University Press.
- Budd, Alan (2005), **Black Wednesday** – A re-examination of Britain's experience in the Exchange Rate Mechanism, The Institute of Economic Affairs.
- Buiter, Willem, Giancarlo Corsetti and Paolo Pesenti (1998), Interpreting the ERM crisis: country-specific and systemic issues, *Princeton studies in international finance*, No. 84, March 1998.
- Commission of the European Communities (1990), **One market, one money** – *An evaluation of the potential benefits and costs of forming an economic and monetary union*, Directorate-General for Economic and Financial Affairs, No 44, October 1990.
- Congdon, Tim (2005), Commentary, in: Budd, Alan (2005), **Black Wednesday**, The Institute of Economic Affairs, pp. 43-55.
- Corsetti, Giancarlo, Barry Eichengreen, Galina Hale, and Eric Tallman (2019), The euro crisis in the mirror of the EMS, Working Paper 2019-04, FRB of San Francisco.
- De Grauwe, Paul (2011), The governance of a fragile Eurozone, Working Document, No. 346, CEPS.
- De Grauwe, Paul (2023), The end of euro area crisis? In: Giancarlo Corsetti et al (eds.) (2023), *The making of the European monetary union: 30 years since the ERM crisis*, CEPR Press, pp. 73-79.
- ECB (2025), Convergence Report 2025, European Central Bank – Eurosystem, June.
- Eichengreen, Barry (2000), The EMS crisis in retrospect, Working Paper 8035, NBER.
- Eichengreen, Barry and Alain Naef (2021), Imported or home grown? The 1992-3 EMS crisis, Working Paper 29488, NBER.
- European Commission (2024), Convergence Report 2024, *European Economy – Institutional Paper 294*, European Commission, DG ECFIN, June 2024.
- European Commission (2025), Convergence Report 2025 on Bulgaria, *European Economy – Institutional Paper 320*, European Commission, DG ECFIN, June 2025.
- European Parliament (2019), Reform Support Programme 2021-2027, *EU Legislation in Progress 2021-2027 MFF*, March 2019.
- Guarascio, Dario, Philipp Heimberger, and Francesco Zezza (2025), The Eurozone's Achilles heel: Reassessing Italy's long decline in the context of European integration and globalization, *Italian Economic Journal*, March 2025.
- Hegemann, Hendrik and Volker Wieland (2025), Moment of the euro?, Monetary dialogue papers, October 2025, European Parliament & ECON Committee.

- Hopkin, Jonathan (2015), The troubled southern periphery: The euro experience in Italy and Spain, in: Matthijs, Mathias and Mark Blyth (eds.), *The future of euro*, New York: Oxford University Press, pp. 161-185.
- James, Harold (2020), *Making a modern central bank: The Bank of England 1979-2003*, Cambridge (UK): Cambridge University Press.
- Krugman, Paul (1999), Currency crises, in: Martin Feldstein (ed.), *International capita flows*, University of Chicago Press, pp. 421-466.
- Naef, Alain (2022), *An exchange rate history of the United Kingdom, 1945-1992*, Cambridge (UK): Cambridge University Press.
- Soros, George (1987), *The alchemy of finance*, New York: John Wiley & Sons.
- Soros, George (2008), *The new paradigm for financial markets – The credit crisis of 2008 and wath it means*, New York: Public Affairs.
- Stiglitz, Joseph (2016), *The EURO: How a common currency threatens the future of Europe*, New York: W.W. Norton & Company.
- Vuković, Vlastimir (2011), The inflation and exchange rate in the five Balkan countries from Maastricht convergence criteria prospect, *Monetary-economics-anthology*, p. 193-204.
- Vuković, Vlastimir (2020), CBDC: Currency or Platform? *Paper 6*, Central Bank Money Research, April 2020.
- Vuković, Vlastimir (2023), The perception of people about their money and the standpoint of monetary theory and policy, with case study: why digital euro, *Discussion Paper*, No. 4, Central Bank Money Research, December 2023.
- Wyplosz, Charles (2014), The Eurozone crisis: A near-perfect case of mismanagement, *Economia Marche*, Vol. XXXIII, No. 1, June 2014.
- Wyplosz, Charles (2023), From 1999 (and before) to 2007: A decade of optimism or a lost decade? In: Giancarlo Corsetti et al (eds.) (2023), *The making of the European monetary union: 30 years since the ERM crisis*, CEPR Press, pp. 61-66.
- Wyplosz, Charles (2024), The age of reason, *In-depth analysis*, Monetary dialogue papers, February 2024, European Parliament & ECON committee.

* Central Bank Money *Research*.

¹ Standard Eurobarometer 103, Report, March-April 2025 (survey question **QB3.1**).

² Belgium, France, the Netherlands, Italy, Luxemburg, Germany, Denmark and Ireland. The first six countries have represented the core of the European integration since 1950s, with the two leaders France and Germany. The former currency '*snake in the tunnel*' included the countries outside the European Community.

³ 'Given some of the recent speculation about our motives for joining, I should perhaps make it clear that we wanted to be part of the Community's anti-inflation club' (Robin Leight-Pemberton, Governor of the Bank of England (1990), Approaches to monetary integration in Europe, *Speech*, BoE Quarterly Bulletin, November 1990, p. 500).

⁴ 'Being in favor of floating exchange rates does not mean being in favor of unstable exchange rates. When we support a free price system at home, this does not imply that we favor a system in which prices fluctuate wildly up and down. What we want is a system in which prices are free to fluctuate but in which the forces determining them are sufficiently stable so that in fact prices move within moderate ranges. This is equally true of a system of floating exchange rates. **The ultimate objective** is a world in which **exchange rates**, while free to vary, are, in fact, **highly stable** (V.V.) because basic economic policies and conditions are stable. Instability of exchange rates is a symptom of instability in the underlying economic structure' (Milton Friedman (1962/2002), *Capitalism and freedom*, The University of Chicago Press, p. 69).

⁵ 'On 8 September, European central bank governors met at the BIS in Basel in their monthly meeting. [...] On the fringe of the meeting in Basel, Schlesinger also met with George Soros. The meeting convinced Soros that the lira and the pound would fall soon (Naef, p. 209-210).

⁶ 'The suspension of the membership of the Exchange Rate Mechanism was clearly a major disturbance. It was a shock; it was a shock to confidence; and it was a shock to a framework for monetary policy which had become highly visible and easily understood. It was not something which we had sought' (Robin Leight-Pemberton, Governor of the Bank of England (1992), Policy after the ERM; supervision after Bingham, *Speech*, BoE Quarterly Bulletin, November 1992, p. 458).

⁷ 'George Soros, whose **deep concern for the consequences of the euro crisis** (V.V.) and his substantial understanding of financial markets inevitably led to his immersion into the euro crisis – and again I have learned from both his writings on the subjects and our innumerable discussions' (Stiglitz, 2016, p. xxvi).

⁸ 'The difficulty of the task was magnified by a widespread feeling that the strength of the political support for Maastricht had dwindled with the first Danish referendum. From September 1992 until August 1993, the operation of the ERM was characterized by uncoordinated attempts to determine the new equilibrium exchange rates, [...]' (Buiter et al, p. 50).

⁹ '[T]he final act in the ERM crisis – the widening of the fluctuation bands in August 1993 -represented explicit recognition that the EMS had lost its ability to be a coordination device for the domestic policies of its members. The width of the bands accurately reflected the weakness of international ties in what remained of the monetary system in Europe and the end of the 'hard ERM' represented the beginning of a new stage in European monetary relations' (Buiter et al, p. 51).

¹⁰ 'The period of membership of the ERM was not a very worthy episode. A slightly cruel summary of it would be to say that we went into the ERM in despair and left in disgrace. Nevertheless, we are still enjoying the benefits of it' (Budd, p. 33).

¹¹ 'According to the basic, the rate of inflation, the euro has retained more purchasing power than the US dollar or the British pound since its inauguration. The average annual rate of price growth from 2003 to 2010 was two percent in the euro area, 2.5% in the US and 2.3% in the UK' (Vlastimir Vuković (2011), *Kriza evra ili kriza evrozone / The euro crisis or Eurozone crisis*, *Politika*, Belgrade, 2. decembar 2011, p. 11).

¹² 'The removal of the fixed exchange rate target and its replacement by inflation targeting provided extra stability to the international monetary regime, as it returned an important element: durability. Most fixed exchange rates usually do not stay fixed for long. But only one country (Argentina) has, thus far, crashed out of an inflation-targeting regime. This sort of durability is extraordinary and beneficial; it remains a

lasting legacy of inflation targeting, again, in contrast, with other monetary regimes' (Andrew Rose (2023), One good reason we were optimistic: The rise of inflation targeting and the demise of fixed exchange rate crises, in: Giancarlo Corsetti et al (eds.) (2023), The making of the European monetary union: 30 years since the ERM crisis, CEPR Press, pp. 67-70).

¹³ 'The economic growth of the Eurozone countries, measured by their GDP, was slow not only in the 1990s, but also at the beginning of the new millennium. The largest economy is growing the slowest – Germany. Then comes a period of pronounced stagnation, the so-called growth recession of until 2006' (Vlastimir Vuković (2011), Ekonomsko usporavanje EU i istočni greh / The economic slowdown of the EU and the eastern sin, *Politika*, Belgrade, November, 27, 2011, p. 12).

¹⁴ 'The Fed faced the problem that the discount window, by which banks had access to emergency funds, seemed to carry a stigma and banks were unwilling to declare themselves weak and in need of central bank support' (Brunnermeier et al, p. 326).

¹⁵ 'The bailouts of Spain, Greece and the other countries in crisis appeared aimed more at saving the European banks that had lent these countries money than at restoring the crisis countries to health; [...] Of the total lent to Greece, less than 10 percent ever got to the Greek people. The rest went to pay back creditors, including German and French banks' (Stiglitz, p. 225, 222).

¹⁶ 'Countries that join a monetary union lose more than an instrument of economic policy (interest rate or exchange rate). When entering the monetary union, they lose their capacity to issue debt in a currency over which they have full control. As a result, a loss of confidence of investors can in a self-fulfilling way drive the country into default. This is not so for countries capable of issuing debt in their own currency. In these countries the central bank can always provide the liquidity to the sovereign to avoid default. This may lead to future inflation, but it shields the sovereign from a default forced by the market' (De Grauwe, 2011, p. 18).

Incidentally, unwanted inflation implies that the effects of monetary expansion spread through the channels of factor incomes, above all wages (average about 70% of GDP). The repayment of maturing public debt, predominantly to foreign investors, will hardly significantly increase wages in the debtor country. Hence the United States has relatively low inflation, although it is the most indebted country in the world in absolute terms (V.V.).

¹⁷ 'Too much of this new design has been influenced by the notion (based on moral hazard thinking) that when a country experiences budget deficits and increasing debts, it should be **punished** by high interest rates and tough austerity programs' (ibidem). This is the most concise description of the program imposed on Greece (V.V.).

¹⁸ 'As it became obvious that Greece could not make the repayments, new loans were needed, with new conditions – ever more onerous. Of the total lent to Greece, less than 10 percent ever got to the Greek people. The rest went to pay back creditors, including German and French banks' (Stiglitz, p. 222).

¹⁹ 'In 2014 the Troika forced Greece to drop the label “fresh” on its truly fresh milk and extend allowable shelf life. Under these conditions, large-scale producers elsewhere in Europe seem to believe they can trounce Greece's smallscale producers' (Stiglitz, p. 237).

²⁰ 'The resulting fall in nominal wages in the peripheral countries (by 21% in Greece and 6-8% in Ireland, Portugal and Spain) achieved the necessary current account adjustment by the end of 2012, but at the cost of further depressing consumption and demand and delaying the subsequent recovery' (Corsetti et al, 2019, p. 12).

²¹ 'For decades, the IMF has assumed the role of a bad cop, leaving behind its programs a trail of deep resentment. The Troika visibly put the European Commission in the front seat. Not only this led to disagreements with the IMF, which even let it be known that it found the program too harsh, but it also left a legacy of resentment that will not disappear. In contrast with the IMF, which leaves the scene once the program is over, the European Commission will remain engaged with all member countries. In addition, by assuming the role of bad cop, the Commission has contributed to the emergence of a popular anti-Europe sentiment that is unlikely to go away' (Wyplosz, 2014, p. 8).

²² '1824 His father was arrested for debt and the **whole family** went to live in the Marshalsea Prison. Charles took a job at Warren Blacking Factory – wrapping show-blackening bottles for six shillings a week. He was only twelve' (Charles Dickens –Biographical notes, www.ucm.es/data/cont/docs/119).

²³ Slovenia (2007), Cyprus, Malta (2008), Slovakia (2009), Estonia (2011), Latvia (2014), Lithuania (2015) and Croatia (2023).

²⁴ 'Europe has skillfully weathered many large shocks, but the lingering damage is starting to leave a mark. Growth momentum as fading toward a mediocre medium-term outlook. The boost from the frontloading of exports earlier this year is reversing as tariffs start to bite and bond markets are pricing in elevated risks amid continued uncertainty. Interest rate cuts and higher fiscal spending, including on defense, have so far failed to ignite private demand. The productivity gap to the United States remains large and is projected to widen. Domestically, well-known structural reform needs remain unaddressed' (IMF, 2025, Regional Economic Outlook: *Europe*, October, p. v).

²⁵ '[T]he initial ruling of the German Federal Constitutional Court that OMT (*Outright Monetary Transactions*) is incompatible with German laws has created legal uncertainty. Asked by the German court for its opinion, the European Court of Justice next ruled that OMT is legal. The German Federal Constitutional Court accepted this ruling but issued some conditions. A few years later, the Public Sector Purchase Programme, one branch of QE but not a lending in last resort programme, was again rejected by the German Federal Constitutional Court and maintained by the European Court of Justice' (Wyplosz, 2024, p. 22).

²⁶ 'Various types of so-called central bank digital currencies (CBDC) have come under consideration in recent years. Of these, the most brutal solution is provided by the CBDC model as a payment platform on which the private sector could innovate (Bank of England). Another option is the direct model, which offers CBDC for the public without an intermediary. The mixed or hybrid model is a combination of these two' (Vuković, 2020, p. 1).

²⁷ 'We certainly don't have a negative attitude towards the US payment service providers. They are very important partners. But from European point of view, we do need our own set of options. The digital euro is a piece of critical infrastructure for Europe and is a top priority for the Bundesbank' (The digital euro is a top priority for the Bundesbank, *interview* in *Handelsblatt*, Burkhard Balz, member of the Executive Board of the Deutsche Bundesbank, 8 March, 2024 // Translation the Deutsche Bundesbank).

²⁸ 'In the retail space, we are working on the potential issuance of a digital euro. Assuming that European co-legislators adopt the Regulation on the establishment of the digital euro in the course of next year, a pilot exercise and initial transactions could take place as of mid-2027 and the digital euro could be ready for first issuance in 2029' (The future of money: a central bank perspective, *speech* by Pierro Cipollone, member of the Executive Board of the ECB, 19 December, 2025).

²⁹ 'Trust in the central bank, security and resilience are the most often mentioned among the decisive factors for the adoption of the digital euro. At the same time, the majority of respondents in the countries of the euro area point out that they are satisfied with the payment services of banks. Therefore, the question immediately arises: why the digital euro? Why should satisfied users of bank accounts also use the digital euro accounts?' (Vlastimir Vuković, 2023, p. 16).

³⁰ 'Instead, Germany has tried to blame the euro crisis on failures to enforce budgetary discipline. Our analysis has argued otherwise: it is the very structure of the Eurozone itself, not even the failings of the individual countries, that is the blame. [...] It may not have been in the Germany's interest to understand the failures, for that might have called upon it to do more than just lecture its partners' (Stiglitz, 2016, p. 140).

³¹ The record is held by Norway, which has rejected EU membership three times on referendums.

³² Christine Lagarde, *Bulgaria on the euro's doorstep: towards a shared future*, Speech, Sofia, 4 November 2025, ECB.

³³ Kristalina Georgieva, IMF Managing Director, Bulgaria's Eurozone accession, Opening Address, Sofia, 4 November 2025, IMF.

³⁴ The author of this paper met a younger Bulgarian hiker on the top Midzor (2,169m), the highest peak of Old Mountain, located at the border of Serbia and Bulgaria in May 2021. In a half-hour conversation with the young man who was climbing from the other side, he explained that a lot of young people are leaving Bulgaria. He is from Vidin, near the Danube, but he works in Sofia, while his hometown is mostly populated by older and retired people.

³⁵ **'Conclusion** – The broad-based analysis of underlying factors relevant for the sustainability of Bulgaria's convergence suggest that sufficiently robust conditions are in place for the country to be able to maintain a sustainable convergence path in the medium term, thus supporting a positive assessment' (EC, 2025, p. 49).

³⁶ 'The French equivalent of Black Wednesday does not have a name, as it was quickly forgotten. Black Wednesday, on the other hand, shaped the future of the United Kingdom' (Naef, p. 222). 'Much of discussion of the UK's ERM experience focuses on the humiliation of Black/White/Grey Wednesday, and draws the conclusion that the episode as a whole was costly – above all in terms of the harsh recession of the early 1990s, but also in the immediate sense of the measures needed to defend the ERM parity – and ultimately futile' (James, p. 306).

³⁷ 'The clashes between national approaches generate conflicts that threaten to tear Europe apart. After 2008, national politics everywhere – not just in Europe – have become more important for two reasons: as an emotional reaction to crises and as a financial or fiscal reaction that then shapes the kind of response to the challenge that can be envisaged. [...] National politics are sometimes presented as a way of defending local populations against threats that come from the outside. The state looks like a defense mechanism in the age of globalization' (Brunnermeier et al, p. 378).

³⁸ In the last few years, the abbreviation EMU is often used for the European Monetary Union, which is normatively only partially correct. In research, it can serve to emphasize the economic union's lagging behind the monetary one. However, it is methodically most advisable to use the abbreviation EMU in its original meaning – Economic and Monetary Union, because one without the other is unsustainable in the long term.

³⁹ 'Economic crises in developed countries are marked by disinflation (slowing the inflation) and deflation (a prolonged decrease in the general price level) [...] Economic crises are followed by strengthening of domestic currencies, but not their devaluation [...] Finally, EMU crises wasn't followed by greater inflation or the euro devaluation' (Vlastimir Vuković (2011), *Kriza evra ili kriza evrozone / Euro crisis or euro zone crisis, Politika*, December 2, 2011, p. 11).

⁴⁰ The EEA consist of Norway, Iceland and tiny Liechtenstein. Switzerland does not belong to this group of countries, because it regulated its relations with the EU through a special bilateral agreement. Incidentally, the experience of Iceland and its struggle with its own banking crisis is extremely instructive for the euro-countries and their eurosystem. At the time, the ECB scornfully rejected the hints from Iceland that it would unilaterally accept the euro as its currency.

'The EU's position on unilateral euroisation – The EU's roadmap for euro adoption is solid and indispensable. Accordingly, it is not surprising that the EU has taken a **negative position** towards unilateral euroisation by a candidate country or a Member State with a derogation' (Jürgen Stark, ECB, speech, **Reykjavik**, 13 February 2008). From today's perspective, it is clear that with such a unilateral act, Iceland would condemn itself to a Golgotha similar to Greece.

⁴¹ 'The turnout in the referenda rejecting the euro was impressively high: in Denmark, 53 percent voted against, with a **turnout of 87.6 percent** on September 28, 2000, and in Sweden, 56 percent voted against, with a **turnout of 81 percent**, on September 14, 2003' (Stiglitz, 2016, p. 337).

⁴² 'The euro is the best product of EMU and ECB its most powerful institution. This is the reason why the euro is the savior of EMU and the danger of its disappearance is the largest threat to disobedient countries and unsatisfied citizens...' This text was written in the times when the decisive EU summit began and it clearly shows that the euro represents the part of every agreement. The exclusion is the United Kingdom, which after the exchange rate crash of ERMI mechanism in the 1990s no more shows any interest in entering the Economic and monetary union. In such circumstances, there wouldn't be any spectacular improvements, but the differences would become even more evident. Enough for tighter EMU and looser EU relations in the future (Vlastimir Vuković (2011), *Davljenik ili spasilac, Politika*, December 10, 2011, p. 11).