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The Schengen Area and the Eurozone in Bulgaria's European Policy

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The European Commission on 15 November presented a report on the progress made by Bulgaria under the Cooperation and Verification Mechanism (CVM). If successfully concluded, the instrument is perceived in the EU as an unofficial condition for a country to join the Schengen Area. The risk of advanced institutionalisation in a multi-speed EU has prompted Bulgaria to intensify its efforts to join the eurozone's exchange rate mechanism (ERM II), a phase preceding full euro membership. Although Bulgarian authorities put priority on both goals, the perspective of achieving them is uncertain.

Prime Minister Boyko Borisov remains the most important politician shaping Bulgarian policy towards the EU. Borisov is the leader of the GERB party (Citizens for European Development of Bulgaria) who in May 2017 returned as prime minister for the third time. The country's pro-European direction has not changed even though it is leads a coalition with three Eurosceptic nationalist parties, which have agreed on further European integration as a priority. There are also no significant discrepancies in the European policy of Borisov and President Rumen Radev, who assumed office in January 2017 and, despite not having many formal powers in this area, is perceived as impartial and enjoys great authority among society.

No Prospects for Joining the Schengen Area. Although Bulgaria in 2011 fulfilled the technical criteria for membership of the EU's visa-free regime, Finland and the Netherlands blocked its accession because of the risk of an influx of labour. Both the European Parliament and European Commission assessed Bulgaria's preparations positively. Nevertheless, German, Dutch, and Austrian authorities will continue to block its membership because of negative public opinion, driven in part by the recent mass-migration crisis. Officially, these countries voice concerns about a threat to common internal security stemming from corruption in Bulgaria in relation to the fight against organised crime and in its border services, especially on the EU's external line. Unofficially, a country wanting to join the Schengen Area is bound to the fulfilment of the CVM, which in Bulgaria's case was established in 2007 to support it on these very issues. The annual European Commission CVM reports evaluate the progress and until this year, marked Bulgaria's as insufficient. Although in the November 2017 report positive changes were noted, it signalled that the country had not permanently fulfilled any of the referenced goals. Moreover, according to Transparency International's Corruption Perceptions Index 2016, Bulgaria remains the most corrupt EU state. With a score of 41 out of 100, Bulgaria is behind Member States Italy (47) and Romania (48) and even several countries still in the accession process: Montenegro (46) and Serbia (42).

The Bulgarian government argues that the Schengen countries have not recognised its commitment in securing the 259 km-long EU external border with Turkey and efforts to stop migration but also hinders further border security by refusing Bulgarian authorities full access to the Schengen Information System. Therefore, Bulgaria imputes that EU states use the solidarity principle selectively and unidirectionally. Counter to its arguments, however, in 2016 Bulgaria received €100 million in aid and 100 border agents from other countries to help it strengthen border protection. Further, the disruption in migration flows across the Bulgarian-Turkish border is not the result of Bulgarian actions, rather the implementation of the EU-Turkey migration agreement.

Nominal and Real Convergence. According to the European Central Bank's 2016 Convergence Report, Bulgaria has met four of the five criteria to join the eurozone. Inflation (-1%) and long-term interest rates (2.5%) were low. The public finance sector deficit was 2.1% and public debt was 26.7% of GDP, and although growing, is still far from the 60% threshold. Bulgaria's sole missing criterion is that it does not participate in ERM II, which limits the float of a national currency against the euro within a range of ±15%. In practice, Bulgaria has fulfilled even more stringent requirements since 1997, when a pegged exchange rate for the lev, the national currency, against the Deutsche Mark and then against the euro was introduced. Participation for at least two years in ERM II is required before euro adoption.

However, there are concerns about Bulgaria's ability to maintain economic stability after eurozone accession. Despite its economy growing by 3.4% in 2016, and this year's GDP growth expected around 3.9%, it is still the poorest EU Member State. Bulgaria's GDP per capita is only 48% of the EU average, compared to Latvia, the poorest country in the eurozone, which was at 64% at the time it adopted the euro in 2014. Among the 15 poorest EU regions (NUTS 2), five are in Bulgaria, which only has six regions. Three of Bulgarian regions are the poorest in the whole EU.

Political Context of Euro Adoption. Since Bulgaria's EU accession in 2007, consecutive governments have announced efforts to adopt the euro. However, they have held off on strategic decisions, mainly because of the economic crisis in the eurozone at the time and related social concerns. Bulgarian citizens remain divided on the common currency. According to a Eurobarometer survey from April this year: 50% support euro adoption but 45% are against (in Romania it was 64% to 30%; in Hungary, 57% to 39%; in Croatia, 52% to 43%; in Poland, 43% to 55%; and, in the Czech Republic, 29% to 70%). At the same time, 56% of Bulgarian citizens believe the common currency would bring more benefits than losses, and 26% disagree.

The Borisov government is treating adoption of the euro as a safeguard in case a separate eurozone budget becomes reality and the forthcoming redistribution of structural funds, which will be reduced after the expected Brexit. Structural funds account for about 3% of Bulgarian GDP and about 90% of public investments are co-financed by the EU. Bulgaria has received about €10 billion so far and estimates it would receive that much more by 2020. That is why the government has announced its accession to ERM II. However, it has avoided setting any binding deadlines, instead signalling the submission of its application if it receives assurance by the end of 2017 it will be accepted. That means the consent not only of the European Central Bank but also the finance ministers and governors of the central banks of the euro area and ERM II members.

Meanwhile, the concerns about Bulgaria have been raised by Austria, which points to the risk of a repetition of the crisis in the GIPS countries (Greece, Italy, Portugal, and Spain), which had met the nominal convergence criteria but did not maintain them after accession to the eurozone. However, the apparent politicisation of the euro adoption process has been criticised by Bulgarian leaders, for example, by Finance Minister Vladislav Goranov during his meeting with EU Commissioner for Euro and Social Dialogue Valdis Dombrovskis. However, Bulgaria's efforts to join the eurozone received a political boost in June this year when Prime Minister Borisov visited Berlin and Paris and came away predicting that the EU's two largest countries would not block Bulgaria's entry into ERM II.

Conclusions and Perspectives. In the coming years, Bulgaria's accession to the Schengen Area seems unlikely. The main reason is the reluctance of some Western European societies to expand the area out of fears of migration. The Netherlands in particular is blocking Schengen accession, and not only Bulgaria's—Romania, which has been more successful in its anticorruption efforts, has also been stymied. Politically motivated blocks on Schengen enlargement is unfavourable for Poland because it maintains divisions within the EU and hampers closer cooperation within Central Europe.

With Bulgaria having fulfilled four of the five convergence criteria and holding a pegged exchange rate of the lev to the euro, Bulgaria's accession to ERM II and then to the eurozone is now just a matter of political decisions. The first Bulgarian presidency of the EU Council in the first half of 2018 could encourage positive steps, especially if it is recognised as a success by states now sceptical of the country's efforts and goals. However, even if Bulgaria joins ERM II, the final decision on whether it can adopt the euro will depend on the result of the debate about eurozone reform, the economic situation of both the EU and Bulgaria, the level of support in Bulgarian society for the single currency, and on the political parties' perspectives in the parliamentary and presidential elections of 2021. It cannot be ruled out that Bulgaria's ineffectiveness in the fight against corruption and organised crime may be used by some EU countries as evidence of its inability to maintain lasting convergence and as a pretext to delay Bulgarian membership of the euro area.