Chapter 14
Diversity of Monetary Regimes and Reactions to the Pandemic Crisis:
Bulgaria, Romania, and Serbia Compared

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ABSTRACT

This chapter analyses to what extent the type of monetary regime in three Balkans countries (Bulgaria, Romania, and Serbia) determines the scope and nature of reactions to the pandemic crisis in the short run (providing liquidity to different sectors) and considers the possibilities for a long-term recovery. A comparative perspective is particularly suitable for the Balkan countries with great institutional diversity of the monetary regimes. In particular, the two members of the EU, Bulgaria and Romania, have been following different principles of monetary regimes for decades (Currency Board versus discretionary Monetary Policy). Both Bulgaria and Romania follow closely the ECB monetary policy. Serbia, which is outside the EU, is not affected by the constraints of European integration and actually has its independent monetary policy (although the Euro is also an important external anchor).

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INTRODUCTION AND POLICY MOTIVATIONS

In the middle of April 2020, the Government of the Republic of Bulgaria unexpectedly announced that it will submit the application for membership in the ERM II and the Banking Union as a first step to enter the Eurozone and soon after that requested a swap line with the ECB. That occurred at the height of the Pandemic Crisis whereas the governments' actions aimed at overcoming the health crisis and trying to safeguard economic activity, so all long-term strategies were forgotten. At first glance, the rationality of the Bulgarian government's step can hardly be explained by taking into account the tension in the Eurozone related to the difficulties of finding a solution for financing the recovery, the gigantic increase of the debts after the crisis and certainly the level of incomes and standard of life in Bulgaria. That event provided the occasion for this chapter.

The aim of this chapter is to demonstrate to what extent the type of monetary regime determines the scope and nature of reactions in the event of a new type of shock and crisis associated with systemic uncertainty and the possibilities for a long-term recovery. On the example of the influenza pandemic in 2009 some contagion effects on the financial system could have been observed over that crisis (see, e.g., Peckham, 2013). The pandemic of 2019/20 seems to provide an uneven distribution of the economic consequences. Recent evidence suggests that the pandemic crisis shocked both demand and supply; the challenge for the policymakers becomes the trade-off between mitigating the effects of the short-term economic recession and managing the long-term economic performance (Eichenbaum et al., 2020; Boissay et al., 2020). The shutdown prevents households and firms from spending and investing; rising the questing of the appropriate fiscal and monetary policies and their coordination.

A comparative perspective is particularly suitable for the Balkan countries1 with great institutional diversity of the monetary regimes2 although they are marked by the characteristics of "dependent monetary regimes". In particular, the two members of the EU, Bulgaria and Romania, have been following different principles of monetary regimes for decades. While Currency Board (Bulgarian National Bank/ BNB) has been operating in Bulgaria since 1997 and actually there is no monetary policy, in Romania (at least officially) an inflationary targeting regime has been imposed since 2005 and an active interest rate policy (Nenovsky et al., 2013). And while Bulgaria and Romania follow closely the ECB monetary policy, Serbia which is outside the EU is not affected by the restrictions of European integration and actually has its own monetary policy. The Euro is also important for Serbia, and one of the main tasks of the National Bank of Serbia (NBS) is the expansion of the sphere of national currency (so-called "dinarization"). In general, monetary regimes are part of a wider institutional configuration; they define the guiding rules in other economic policy areas (Magnin and Nenovsky, 2020). The authors are interested above all in the restrictions that the monetary regime imposes on public finances and the fiscal policy. As a rule, the more restrictive the monetary regime is, the more conservative public finances should be (low levels of the deficit and of the public debt).

Below the authors first explained some basic theoretical ideas that support our argumentation. Then the authors reviewed briefly the monetary regimes and macroeconomic effects of the Pandemic Crisis in the three countries (third part). In the fourth part, the authors have dwelt on the short-term measures (aimed at preserving liquidity in the economy) undertaken by governments and the Central banks in a comparative perspective. This is namely about fiscal, monetary and banking policy. In the last part, the authors have set forth some feasible trends determined by the extent to which the monetary regime provides opportunities for long-term recovery and growth.