

Adopting the Euro in Midst of Crisis

Lithuania: a Case Study

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Abstract

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Lithuania has been one of only three nations to adopt the euro since the global financial crisis rocked the world and tested the viability of the Eurozone as a single currency union. Despite uncertainty about the future of the euro, Lithuania, Latvia and Estonia went forward with adoption. This paper examines Lithuania's road to the euro from 2004, when it joined the European Union, through to entry into the Eurozone on January 1, 2015. It summarizes the costs and benefits of Economic Monetary Union from both an economic and political standpoint, and analyzes the actions and statements of key players – the government, the organized opposition, the central bank and the general public – and their influence on the adoption process in Lithuania.

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SECTION 1: Introduction

On May 1st, 2004, the European Union (EU) experienced the most significant enlargement since its inception, admitting ten new member states,¹ eight of which were former Soviet bloc nations. These countries, along with Bulgaria and Romania, which joined the EU in 2007 and Croatia, which acceded in 2013, are all obligated to fulfill the convergence criteria according to the Maastricht Treaty² and adopt the euro as their common currency. Since 2004, five of these 11 Central and Eastern European countries (CEECs) have fulfilled the requirements and entered the Eurozone.³ Slovenia joined in 2007 and Slovakia in 2009,⁴ yet once the global financial crisis hit in late 2008, none of the other CEECs moved forward to adopt the Euro with as much vigor as the Baltic States. Since 2008, the only nations to adopt the Euro have been the former Soviet republics of Estonia, Latvia, and Lithuania, joining the euro area in 2011, 2014, and 2015, respectively. During this time, the future of the Eurozone as a single currency area has been under question and the euro area continues to undergo a test of viability as members like Greece struggle with their debt crisis. What explains this relative urgency for the Baltic States to adopt the euro in the midst of crisis when other CEECs have decided to postpone entry into the Eurozone? This thesis focuses on the latest Eurozone entrant, Lithuania, and its road to euro adoption. Lithuania was able to enter the Eurozone in 2015 due to strong support

¹ Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia

² The Maastricht Criteria for euro adoption are the requirements for admittance into the Eurozone, and are outlined in Figure 3.1.

³ Cyprus and Malta (non-CEECs) adopted the euro on January 1, 2008, prior to the Global Financial Crisis.

⁴ When the Global Financial Crisis hit in late 2008, Slovakia had already met the criteria to join the Eurozone, and was taking steps to introduce the euro currency on January 1, 2009. Therefore decision making was not influenced by the crisis.

from the government and central bank, the lack of an active opposition, and despite low public opinion.

1.1 Research Questions

Except for the United Kingdom and Denmark, which are exempt,⁵ membership in the European Union requires that all EU member countries join the Eurozone. However, no specific timeframe is delineated. For example, Sweden, which became a member of the EU in 1995, has yet to adopt the euro.⁶ Thus, the speed of euro adoption depends on each country. Why did Lithuania (and the other Baltic States) stand firm in their commitment to euro adoption when other CEECs decided to wait? What are the factors that have influenced decision-making in Lithuania, especially for the government, central bank, the opposition and the public? And, how did the Global Financial Crisis and European Sovereign Debt Crisis affect these decisions?

1.2 Research Methodology

This research consists of primary source material from Eurostat, UN Comtrade, Eurobarometer, the Lithuanian central bank (*Lietuvos Bankas*), the Lithuanian parliament (the *Seimas*), the Ministry of Finance, and other governmental agencies. Public statements made by Lithuanian government officials and central bank leaders are also assessed. This material, in conjunction with secondary literature, is used to understand the policy development and motivations behind adopting the euro. Interviews with public relations representatives at the

⁵ In the original Maastricht Treaty, UK and Denmark negotiated an opt-out clause, by which neither is legally obligated to adopt the single currency.

⁶ Sweden put the euro adoption issue to a referendum in 2003. Despite public support from business and political elites, the referendum failed, with 55.9% opposed to the euro. (Swedish Election Authority. 2003) Thus, Sweden has yet to adopt the ERM-II mechanism and has no future plans to enter the Eurozone.

central bank and *Seimas* and informal interviews with members of the general public conducted during the summer and winter of 2014 also contributed to this research.

SECTION 2: Economic Literature on Economic Monetary Union (EMU)

Before delving into the political factors that drive euro adoption, one must examine the economic literature on optimal currency area theory (OCA) and its application in the Eurozone. This offers a framework to analyze the costs and benefits of adopting the euro, and when it would be beneficial to join a single currency area. Robert Mundell (1961) along with Ronald McKinnon (1963) and Peter Kenen (1969) established OCA theory, which asserts that a single currency union would only operate efficiently if the constituent countries have similar economies and business cycles and if prices and wages are flexible. The benefits of a monetary union will only exceed costs if capital and labor can move freely within the area. Therefore, if there is a crisis in one country, labor and capital can move to other countries and prevent unemployment. The theory also requires a singular fiscal policy in regards to taxation and spending in order to accommodate disparate economic situations under one monetary policy.⁷

The Eurozone has been criticized as not being an optimal currency area, while the United States can be considered one. European countries are not homogenous and respond to external shocks in different ways. Wages are less responsive in Europe due to a greater influence of labor unions. Labor mobility within the Eurozone is also less flexible than that of the US due to cultural and language barriers between countries.⁸ Additionally, unlike the US,

⁷ Definition of optimum currency area, *The Financial Times*, 2015.

⁸ Martin Feldstein, "The Political Economy of the European Economic and Monetary Union: Political Sources of an Economic Liability," *The Journal of Economic Perspectives* 11, no. 4 (1997): 35-36.

which has a federal system to send funds to assist states, the euro area does not allow for fiscal transfers between countries.⁹

2.1 Costs and Benefits of Economic Monetary Union (EMU)

The various justifications for a single common currency in Europe can be classified into two main categories: economic and political. The following will define the benefits and costs of euro adoption from both perspectives.

The Economic Case for EMU

The economic case for monetary union is strongly rooted in the argument that EMU means greater unrestricted **trade** within the Eurozone, allowing countries to specialize in those goods and services that they are able to produce most efficiently. This in turn increases economic growth.¹⁰ Trade is facilitated because a single currency results in lower exchange rate risks or costs, specifically **lower foreign exchange and hedging costs**. Savings per year associated with lower transaction costs can amount to up to 0.5% of EU GDP, according to the European Commission.¹¹ The cost of traveling and doing business with other countries is reduced by the elimination of the expense of exchanging money. Additionally, **more extra-euro international trade** can be expected, as joining the euro area and conducting business with such a widely-used currency facilitates trade, as it is simpler for outside trade partners to deal with one unit of money rather than dealing in multiple currencies.¹²

⁹ Although a monetary union, the Eurozone is not yet a fiscal union with an integrated fiscal policy dealing with taxes and spending.

¹⁰ European Commission, Economic and Financial Affairs, "Why the euro?" 2015.

¹¹ Charles W. L. Hill, *International Business: Competing in the Global Marketplace*, 9th edition (New York: McGraw-Hill Irwin, 2013), 295.

¹² European Commission, Economic and Financial Affairs, "Why the euro? Business benefits," 2015.

The single currency allows for **price transparency**, making it easier for consumers to compare prices between countries. This greater price transparency thus increases competition, puts a downward pressure on prices, and results in a better allocation of resources. Therefore in the long run, there should be significant economic gains in the efficiency of European companies as production costs are driven down in order to maintain profit.¹³

Because of the reduced risk, the common currency means increased liquidity in the capital market, **lowering the cost of capital (interest rates)** and increasing the amount of investment and the efficiency of its allocation. Having a currency in common with the rest of Europe lowers the risk of investment in a new member state for outside investors, thus incentivizing more foreign direct investment (FDI), leading to more job creation and lower unemployment.¹⁴

Finally, a single currency shared by many nations provides **economic stability**, eliminating potential volatility in interest and exchange rates. For smaller countries, the strength and size of the euro area can be an insulator against external shocks.¹⁵

The Economic Case Against EMU

The major drawback of economic monetary union is the **loss of an independent monetary policy**. Without control over its own money supply, a country cannot adjust interest rates or determine the amount of currency in circulation. A country cannot devalue their currency in order to increase exports.¹⁶ In a crisis such as that faced by Greece in recent years, if it had retained an independent currency, Greece could have printed more money in order to

¹³ European Commission, Economic and Financial Affairs, "Why the euro? Consumer benefits," 2015.

¹⁴ Ibid.

¹⁵ European Commission, Economic and Financial Affairs, "Why the euro? Economic stability and growth," 2015.

¹⁶ Expansion of the money supply does, however, lead to inflation.

buy government debt. Without any ability to expand their money supply, the country had to resort to raising taxes and slashing government spending and even so, had to appeal to outside sources for financial assistance. Some economists argue that Greece would have been able to weather the economic crisis better had it retained the drachma and its own monetary policy.¹⁷ Thus, countries in the EMU forfeit the ability to devalue or revalue their currency¹⁸ to combat economic shocks.

Price stability (having neither prolonged inflation or deflation)¹⁹ has been cited as an advantage of the euro area, with better protection of individual purchasing power and the value of deposits, as inflation has been more stable in the Eurozone countries, averaging around 2% since the inception of the euro area.²⁰ However, this concept is being challenged as the Eurozone is currently undergoing a period of disinflation, with inflation heading toward 0% in 2015, but with projections to rise in 2016 and 2017.²¹ Thus the advantage of **price stability is currently being tested** in the Eurozone.

Due to the adoption process specifically, there is a **small increase in prices** due to the changeover process itself. This price increase occurs when prices convert from the home currency to the euro and values are rounded up. Fears of inflation have arisen in each new

¹⁷ Landon Thomas, Jr., "Whispers of Return to Drachma Grow Louder in Greek Crisis," *New York Times*, November 2, 2011.

¹⁸ That is, provided that they had a floating, and not fixed, exchange rate prior to euro adoption.

¹⁹ European Central Bank, "Benefits of Price Stability," 2015.

²⁰ European Commission Press Release Memo, "The 2014 Convergence Report and Lithuania: frequently asked questions on euro adoption," June 4, 2014.

²¹ Ralph Atkins, "Eurozone inflation expectations hit 3-month high," *The Financial Times*, March 5, 2015.

member state prior to euro adoption, however the estimated increase in Lithuania based on the past experience of acceding countries is only 0.1 to 0.3 percentage points.²²

And yet, inflation may not be detrimental in itself. Inflation causes people to move their wealth out of currency and into tangible items (i.e. real estate) that will rise in value with inflation, thus stimulating the economy through spending. Pre-inflation debt is also easier to pay off with post-inflation currency. In fact, deflation or very low rates of inflation, has adverse effects on the economy. In a deflationary economy, real interest rates are so low that lenders are able to borrow more, but are also hesitant to make any purchases in expectation that prices will fall further. Demand falls and the economy slows.

Finally, because the Eurozone is not currently an Optimal Currency Area, and is comprised of disparate economies and fiscal policies, the **risk of having to provide support funding** to more “irresponsible” member states such as Greece is high.

The Political Case for EMU

Economists agree that the political case for economic union far outweighs the economic argument and “there is a widespread view that the introduction of common money will trigger a process that will inevitably lead to international unity.”²³ In addition to being an economic commitment, the European Commission states that the single currency is a political commitment to work together through policy collaboration.²⁴ In 1950, Jacques Rueff, a French economist and key advisor to French President Charles de Gaulle, famously said, “*L’Europe se*

²² European Commission Press Release Memo, “The 2014 Convergence Report and Lithuania: frequently asked questions on euro adoption,” June 4, 2014.

²³ Quoted by Otmar Issing, “A German Perspective on Monetary Union” in *A Single European Currency?* ed. Jeffrey Gedmin (Washington, DC: AEI Press, 1997), 8.

²⁴ European Commission, Economic and Financial Affairs, “Why the euro? A symbol of European identity,” 2015.

fera par la monnaie ou ne se fera pas” – “either it will happen that Europe will construct itself through its currency, or it just won’t happen.”²⁵

Following the two world wars, the concept of a European Union began with the idea that by linking neighboring countries economically, the potential for conflict would be reduced and political collaboration would be incentivized. In 1952, the European Coal and Steel Community (ECSC) was founded by the six nations of Belgium, France, Germany, Italy, Luxembourg and the Netherlands to integrate the coal and steel industries of Western Europe, reducing the barriers to trade. The alliance between this core group of countries would eventually evolve into the European Economic Community (EEC) through ratification of the Treaty of Rome in 1958. The EEC, along with the ECSC, merged with the European Atomic Energy Community to form the European Communities in 1967, strengthening the political union.²⁶ By 1970, a strong call was being made for economic and monetary union through the issuance of the Werner Report, and in 1979, the European Monetary System was established linking the exchange rates of participating nations of the EEC to prevent significant currency fluctuations.

Further cohesion and collaboration occurred throughout the 1980s with the Single European Act, which set the objective of a single market by the end of 1992 and renamed the EEC to the European Community (EC). This was followed by the Delors Report (1989), which proposed a three-stage plan toward monetary union. By 1993, via ratification of the Maastricht Treaty, the European Community (EC) was finally named the European Union (EU). The treaty also served to set the convergence criteria for euro adoption and set the path forward for

²⁵ Quoted by Otmar Issing, “The case for political union isn’t convincing,” *Europe’s World*, June 1, 2013.

²⁶ Christian Chabot, *Understanding the Euro*. (New York: McGraw-Hill, 1999), 31-32

implementation of the single currency. Each step in the formation of what we know today as the European Union further centralized power and paved the way for greater economic integration. The euro is seen as the way to solidify years of international cooperation between the nations of Europe, as the introduction of a single currency is extremely difficult to reverse.²⁷

German Chancellor Helmut Kohl, firm champion of the introduction of the single currency was quoted in a 2002 interview as saying: "The euro is a synonym for Europe. Europe, for the first time, has no more war."²⁸ In his 2014 book, *Aus Sorge um Europa*, Kohl states: "Due to the euro, European unification became irreversible, and we took an important step towards a permanent guarantee of peace and freedom on our continent."²⁹

In his book, *Understanding the Euro*, Christian N. Chabot explains that there are a variety of other individual motivations by participating nations for adopting euro. For example, Ireland sees membership in the Eurozone as a way to disassociate itself further from England. Italy views it as a way to prevent becoming a political "pariah," and France seeks to diminish German dominance in Europe.³⁰

Geopolitical and security concerns as rationale for further economic integration is apparent in the timing of the drive for a common currency. The Maastricht Treaty (1992) came on the heels of the reunification of Germany and renewed fears of German power on the continent. The creation of the euro and the European Central Bank was thought to end the "quasi-hegemony of the German *Bundesbank* over monetary policies in Europe."³¹

²⁷ Christian Chabot, *Understanding the Euro*. (New York: McGraw-Hill, 1999), 36.

²⁸ Jeevan Vasagar, "Helmut Kohl: I acted like a dictator to bring in the euro," *The Telegraph*, April 9, 2013.

²⁹ Ashoka Mody, "Kohl's Euro," *Bruegel*, December 22, 2014.

³⁰ Chabot, 38.

³¹ Thomas Risse, Daniela Englemann-Martin, Hans-Joachim Knopf and Klaus Roscher, "To Euro or Not to Euro? The EMU and Identity Politics in the European Union," *European Journal of International Relations* 5, no 2 (1999): 151.

There has long been a political justification for the single currency, and the incentive for small nations remains. By joining the euro area, the smaller nations of Europe earn a voice in European economic affairs (albeit softer than the major European world powers). It is argued that they can gain a greater sense of belonging on the world stage by becoming part of the EU and in adopting the euro, join a currency union that competes with the strength and significance of the US dollar. Membership in the Eurozone also represents an aspect of European identity, demonstrating to the world greater integration in the European community. This is especially important for former Soviet states eager to be considered full members of Europe and distance themselves from Russia and the past.

The Political Case Against EMU

A potential political risk of monetary union is that it can result in an increase rather than decrease in conflicts, especially among countries with different cultures, politics and economic interests. This case is currently illustrated where, as a result of the sovereign debt crisis and in the absence of a fiscal union, more financially conservative countries like Germany begrudge having to bail out southern cultures with more lax fiscal policies like Greece. This leads to disharmony within the European Union and such resentment could strain political relationships. In March 2015, 52% of Germans supported the exit of Greece from the Eurozone³² and there are reports of Greeks feeling unwelcome in Germany due to the acrimony caused by the bailouts. In a 2015 *New York Times* article, one Greek woman reported discrimination against Greek people living in Germany nearly 7 years after the beginning of the

³² Annette Weisbach, "Greece and Germany – a relationship beyond repair?" CNBC.com, March 17, 2015.

Eurozone crisis: “Instead of advancing European unity, as the euro was supposed to do... people are thrown back on themselves.”³³

Some argue that within Europe there is a fundamental cultural difference between north and south in economic behavior and fiscal policies. The argument is that the less competitive deficit-riddled countries of the south have adopted the social welfare programs and high wages of northern countries, without having similar levels of productivity, strict work ethic, innovation or flexibility of labor markets.³⁴ Therefore, there is the belief that the Eurozone should not exist as a whole but be divided (and thus divide Europe) into two separate currency unions.

Others describe how the Eurozone has created a two-tiered Europe and rather than professed unity, a pecking order within Europe has emerged.³⁵ In the absence of a deadline for EU members to join the Eurozone, countries (i.e. Poland) can remain outside the Eurozone indefinitely, creating two groups within the EU – those within the Eurozone and those without. The crisis has only caused this disunity to persist indefinitely as countries like Poland delay euro adoption for the immediate future. Full participation in decision making for the European Union is only granted those who are also part of the Eurozone. Thus, the euro can be argued to cause divisions, and hierarchy within the nations of Europe, rather than union.

2.2 Examining Euro Adoption from the Decision Makers Standpoint

Economic and political theory, though important in informing why a country would choose to enter the Eurozone, does not inform on the timing or speed of euro adoption.

³³ Alison Smale, “Germany and Greece Locked in a Mutual Obsession,” *The New York Times*, April 14, 2015.

³⁴ Steven Erlanger, “Eurozone is Imperiled by North-South Divide,” *The New York Times*, December 2, 2010.

³⁵ Hamish McRae, “Because of Greece, the Eurozone’s Future is a Two-Tier Europe,” *The Independent*, June 2, 2015.

Instead, it is the local differences³⁶ between EU member states that lead to their different entry strategies. Therefore, one must look at the key players: government, the organized opposition, the central bank, and the public and media³⁷ in an individual country in order to understand the decision making process behind euro adoption and what drives a particular nation to adopt the common currency at a certain time. Examining the influence of these players and what economic and/or political factors motivated their actions and viewpoints is the focus of this paper.

SECTION 3: Case Study – Lithuania

3.1 Background

The first part of this analysis follows Lithuania’s attempts to enter the Eurozone, specifically the economic factors that both drove and prevented swift adoption. Then the roles of each of the major players in the euro adoption process (government, opposition, central bank and public opinion) are analyzed to understand why Lithuania adopted the euro when it did. The effect of the financial crisis on the decision-making process is also assessed.

3.2 Path to the Eurozone - Macroeconomic Factors

From the beginning, Lithuania was on the fast track to euro adoption. Anticipating that euro adoption would occur swiftly after accession into the EU, and because of increasing trade with Europe, Lithuania changed its peg from the dollar to the euro on February 2, 2002, just one month after the euro currency went into circulation. Lithuania became part of the EU on

³⁶ Differences that influence a country’s speed of adoption include history, economic and political structure, decisions made by current and past leadership, public opinion, etc.

³⁷ Assem Dandashly and Amy Verdun, “Domestic Politics Come First: Euro Adoption Strategies in Central Europe: the Cases of the Czech Republic, Hungary and Poland” (PhD diss., University of Victoria, 2012).

May 1, 2004 and within six weeks joined the ERM II mechanism.³⁸ Member states participating in the ERM II are allowed to have their currencies fluctuate within a +/- 15% band; however Lithuania was committed from the start to maintain a fixed exchange rate with the euro and preserve a zero fluctuation band. The argument was that a fixed rate had already been a positive contributor towards stable economic growth since 1994, when Lithuania first opted for a currency board arrangement and pegged the litas to the dollar.³⁹

A currency board is comprised of three elements: a fixed exchange rate (pegged to an “anchor currency”), automatic convertibility (the ability at any time to convert currency at this fixed rate) and a long-term commitment to the arrangement.⁴⁰ Currency boards are often used when a country requires quick stability, and are only temporary. In the early 1990s, currency boards offered countries like Lithuania, newly independent and with little experience in monetary policy, stability and protection against inflation as well as credibility when issuing a new currency. As the Soviet Union fell apart, the ruble began rapidly devaluating, and in 1991 independent Lithuania looked to make a quick transition from the ruble to its own currency. It issued temporary vouchers, called *talonai*, equal to 20% of one’s salary (up to a maximum 200 rubles), and for any goods other than food, customers had to pay one coupon for each ruble in currency.⁴¹ This system prevented inflation of prices by rationing goods, but created surpluses as people needed to accumulate coupons as well as rubles to buy anything. It also led to

³⁸ Lithuania, Estonia and Slovenia joined the ERM-II mechanism on June 28, 2004. Latvia, Cyprus and Malta adhered on May 2, 2005 and Slovakia on November 28, 2005. The Czech Republic, Hungary, Poland, Bulgaria, Romania and Croatia have yet to join.

³⁹ *Lietuvos Bankas* News Archive, “Lithuania Joins Exchange Rate Mechanism II,” June 28, 2004.

⁴⁰ Charles Enoch and Anne-Marie Gulde, “Are Currency Boards a Cure for All Monetary Problems?” *Finance & Development, a quarterly magazine of the IMF* 35, no 4 (1998).

⁴¹ Kurt Schuler, George Selgin, and Joseph Sinkey, Jr., “Replacing the Ruble in Lithuania: Real Change vs. Pseudoreform,” *Cato Policy Analysis* 163, October 28, 1991.

inflation of black market goods as well as a shadow market for the coupons themselves. In September of 1992, Lithuania began pulling rubles out of circulation and on October 1st the *talonas* completely replaced the former currency.⁴² Initially, the plan was to transition from the current system to the litas, re-introducing the pre-war currency that had existed in Lithuania from 1922 to 1941. However, severe ruble inflation caused a hasty switch to the temporary currency.⁴³ On June 25, 1993, the litas was finally instituted as Lithuania's permanent currency, and was pegged to the dollar via a currency board beginning in April 1994.⁴⁴ When Lithuania changed the peg to the euro in 2002, it retained the currency board arrangement. Thus, from 1994-2014 Lithuania held on to a currency board arrangement, maintaining a fixed exchange rate with another currency and therefore had little of its own monetary policy for the two decades prior to euro adoption.⁴⁵

In order to join the Eurozone, applicant countries must adhere to the Maastricht Criteria. The Criteria, established on February 7, 1992, require that any country applying for membership in the Eurozone first join the ERM II (European Exchange Rate Mechanism) for two years, meaning their currency is semi-pegged to the Euro, with the ability to fluctuate only within a tight 2.25% band. The other criteria involve minimizing government debt (no greater than 60% of GDP) and maintaining a low budget deficit (not to exceed 3% of GDP), as well as keeping interest rates low and stabilizing internal prices by maintaining a certain level of

⁴² Andres Sutt, Basil B. Zavoico, and Adalbert Knöbl, "The Estonian Currency Board: Its Introduction, and Role in the Early Success of Estonia's Transition to a Market Economy," *The International Monetary Fund*, May 1, 2002.

⁴³ Seija Lainela and Pekka Sutela, "Introducing New Currencies in the Baltic States," Bank of Finland, Institute for Economies in Transition, 22.

⁴⁴ Niels Mygind, "Different Paths of Transition in the Baltics," Center for East European Studies, Copenhagen Business School, 22.

⁴⁵ Lithuania did have a special exception wherein the central bank had the right to appreciate the exchange rate. Enoch and Gulde, 1998.

inflation.⁴⁶ (See Figure 3.1) The last two criteria are variable as the objective interest and inflation rates are calculated based on the average of the three member countries with the lowest rates. Thus, from year to year the target moves. (See Figure 3.2)

Figure 3.1 Maastricht Criteria

Maastricht Criteria	
Low rate of interest	Average long-term interest rate must be within 2% of the average of the 3 member countries with the lowest rates.
Stable prices (Low rate of inflation)	Average rate of inflation must not exceed 1.5% of the average of the 3 member countries with the lowest rates.
Stable exchange rate	Applicant must be part of ERM II for at least two years, meaning the exchange rate must not fluctuate more than 2.25%, and no devaluation can occur for 2 years prior to adoption.
Minimize debt	Debt must not exceed 60% of GDP
Minimize budget deficit	Deficit must not exceed 3% of GDP

Source: European Commission, "The 2014 Convergence Report and Lithuania: Frequently Asked Questions on Euro Adoption." June 4, 2014.

Figure 3.2 Lithuania Convergence Reports (2004 – 2014)

	2004		2006		2008		2010		2012		2014	
	Lithuania	Reference Value	Lithuania	Reference Value	Lithuania	Reference Value	Lithuania	Reference Value	Lithuania	Reference Value	Lithuania	Reference Value
Inflation Rate	-0.20%	2.40%	2.70%	2.60%	7.40%	3.20%	2.00%	1.00%	4.20%	3.10%	0.60%	1.70%
Interest Rate	4.70%	6.40%	3.70%	5.90%	4.60%	6.50%	12.10%	6.00%	5.20%	5.80%	3.60%	6.20%
Public Debt/GDP	21.40%	60.00%	18.70%	60.00%	17%	60.00%	38.60%	60.00%	40.40%	60.00%	41.80%	60.00%
Deficit/GDP	2.60%	3.00%	0.50%	3.00%	1.70%	3.00%	8.40%	3.00%	3.20%	3.00%	2.10%	3.00%
Exchange Rate	Part of ERM-II for less than 2 years		Part of ERM-II since June 2004									

Source: October 2004, May 2006, May 2008, May 2010, May 2012 & June 2014 ECB Convergence Reports

Note: Red/bold highlight indicates where Lithuania failed to meet the criteria

Technically, Lithuania met all the criteria for euro adoption in 2004 (see Figure 3.2); however, in August 2004, when the 2004 Convergence Report⁴⁷ was issued, Lithuania had not been participating in the ERM II mechanism for more than a few weeks.⁴⁸ Thus, the Baltic country set its target date for entry into the Eurozone for January 1, 2007, and requested an

⁴⁶ European Commission, "Who can join and when?" 2015.

⁴⁷ The Convergence Report is an assessment by the ECB of a country's readiness to adopt the euro and is issued every two years, or when there is a specific request from a petitioning country to evaluate its preparedness. The report is presented to the EU Council of Ministers' for decision-making on Eurozone admittance.

⁴⁸ As an element of the Maastricht Criteria, a country must be part of the ERM II mechanism for a minimum of 24 months before qualifying for euro adoption.

evaluation in two years by the May 2006 Convergence Report. In 2006, Lithuania met four of the five criteria, but its average annual inflation was 0.1% above the 2.6% limit for that year. Thus far, Lithuania is the only country to be denied entry into the Eurozone after having requested a convergence report assessment.⁴⁹ As a result of its failure to adopt the euro, in May 2006 Standard & Poor's rating agency downgraded Lithuania's long-term and short-term credit rating from positive to stable.⁵⁰

As predicted, inflation continued to rise in Lithuania after 2006, in part due to rapid real GDP growth (see Figures 3.3 - 3.5) reflected in high wages⁵¹ and credit expansion, as well as due to rising oil prices. In July of 2008, inflation spiked as high as 12.8%.⁵² Again, in the 2008 Convergence Report, the inflation target was the only criterion that Lithuania failed to meet, but this time Lithuania missed the mark by over 4 percentage points, with an annual inflation rate of 7.4% compared to the reference value of 3.2%. The 2008 Report warned against raising wages in the public sector and advised moderating credit expansion in order to curb inflation.⁵³ Yet there remained factors outside of the control of the Lithuanian government, namely rising energy and food prices. Additionally, an inherent inflation effect was predicted as a result of the "catching up" process between East and West. Lithuania's GDP per capita and price levels remained below the rest of the Eurozone and were predicted to naturally rise in coming years.⁵⁴

⁴⁹ Richard Milne and Peter Spiegel, "Lithuania Shows Rare Enthusiasm for Eurozone Membership," *The Financial Times*, December 30, 2013.

⁵⁰ Baltic News Service, "Standard & Poor's Revises Lithuania's Outlook Down," May 19, 2006.

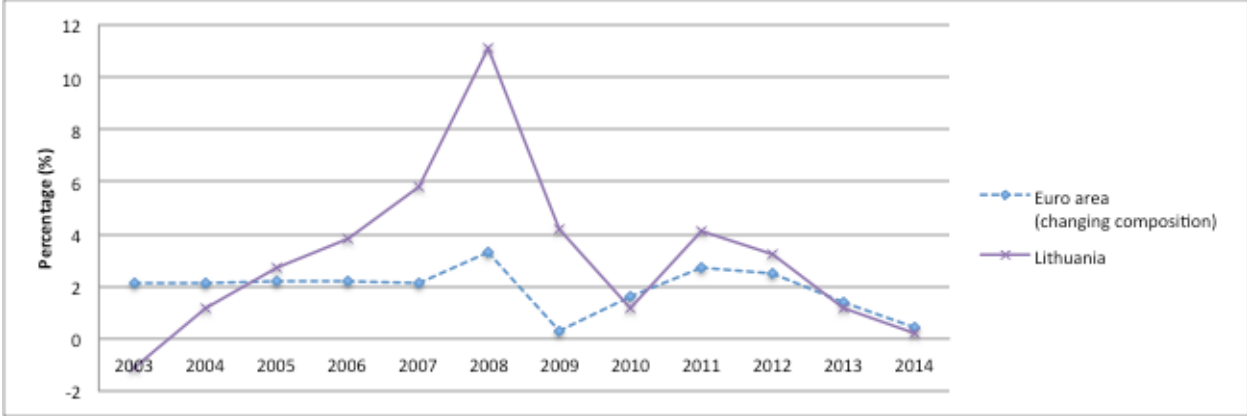
⁵¹ A decrease in unemployment due to emigration and increased growth, translated into a 15.1% increase in compensation per employee in 2006. ECB Convergence Report, May 2008, 119.

⁵² European Central Bank, "Measuring inflation in the euro area: The Harmonized Index of Consumer Prices (HICP) - Annual percentage changes," 2015.

⁵³ ECB Convergence Report, May 2008, 44.

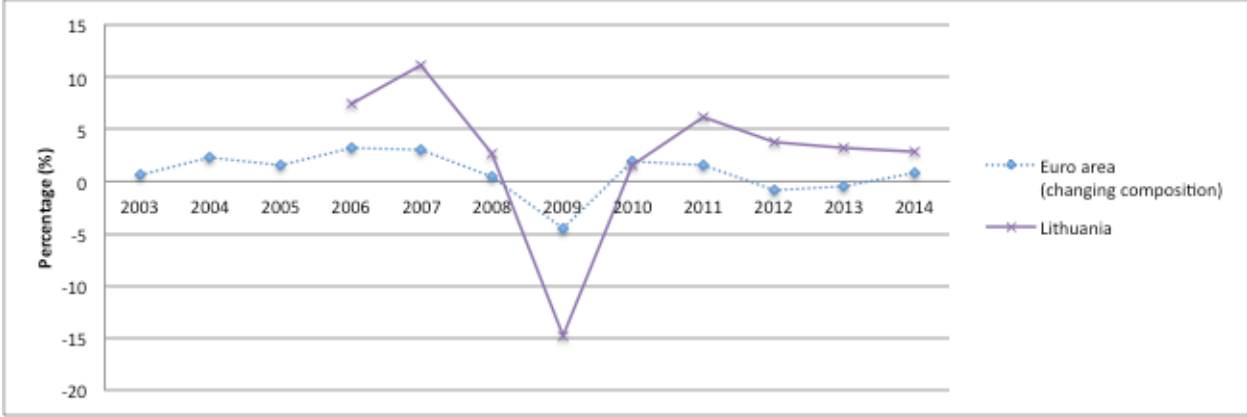
⁵⁴ ECB Convergence Report, May 2008, 120.

Figure 3.3 Inflation (2003 – 2014)



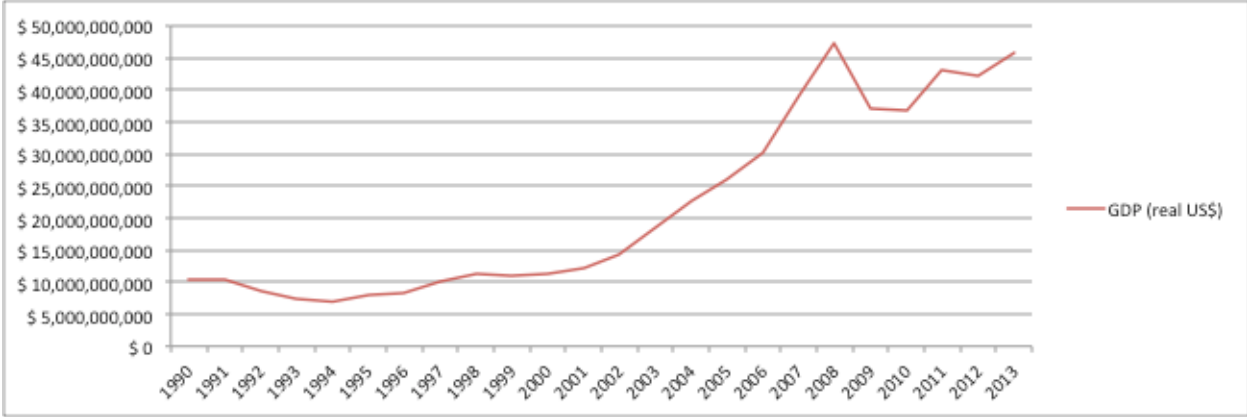
Source: Eurostat, 2015

Figure 3.4 Real GDP Growth Rate (2003 – 2014)



Source: Eurostat, 2015

Figure 3.5 Lithuanian GDP (1990 – 2013)



Source: World Bank, 2015

Due to a reduction in economic activity as a result of the global financial crisis, by 2010 the reference value for inflation had plummeted to 1%. In Lithuania, the interest rate had also rapidly tumbled but by the 2010 Report, Lithuania's inflation rate was still a percentage point over the target inflation. The report recommended a stronger fiscal policy to support stable prices, suggesting that any increase in wages should not exceed the growth in labor productivity.⁵⁵ As of the 2010 Report, Lithuania's deficit-to-GDP was at 8.40% exceeding the reference value of 3%, and due to the perceived risk, decreased credit rating and declining liquidity,⁵⁶ its interest rates spiked to 12.1%, far exceeding the 6% threshold that year. Lithuania's debt-to-GDP ratio increased dramatically over the 2008 - 2010 time period, but still remained under the 60% limit. (See Figure 3.2) By 2012, inflation rose again due to an increase in food and fuel prices, and although the budget deficit was reduced, the deficit-to-GDP ratio remained above the 3% threshold at 3.2%. Thus, Lithuania continued to be out of compliance with the criteria for another year.

By 2013 - 2014, inflation had declined due to the fall in global commodity and food prices, and stood at 0.6%, well below the 1.7% criteria. Fiscal metrics were below the criteria reference values, with a 2.1% deficit as a percentage of GDP and a 30.4% debt-to-GDP ratio. Additionally, the long-term interest rates were 3.6% on average, compared to the 6.2% reference value. (See Figure 3.2) Therefore by April 2014, the European Parliament's Committee on Economic and Monetary Affairs found Lithuania to be in compliance with the

⁵⁵ ECB Convergence Report, May 2010, 34.

⁵⁶ ECB Convergence Report, May 2012, 128.

criteria. Thus, preliminary approval was given Lithuania to adopt the euro by January 1, 2015.⁵⁷ The European Commission and European Central Bank gave their consent on April 4th, and published their convergence report in June. The EU Heads of State provided their endorsement on June 27th at their European Council meeting and on July 16th, the European Parliament voted in favor of Lithuania's entrance into the Eurozone. The EU Council of Ministers approved that decision on July 23rd, clearing the last hurdle for euro adoption in 2015.

To understand the decision-making process along the path to euro adoption since accession into the European Union in 2004, the following sections look at the actions of the major players (the government, the opposition, the central bank and the public) from 2004 through 2015.

3.3 Main Players in Euro Adoption

Government: Resolved Supporter

On May 10-11, 2003, a Lithuanian referendum on EU accession was held, with 63.37% of all voters turning out for the vote and an overwhelming 91.07% of them voting in favor of joining the EU.⁵⁸ Among the nine referenda for EU accession held by various countries in 2003, Lithuania had the highest level of support with 57% of all eligible voters in favor of joining the EU.⁵⁹ The main campaign had been centered around the theme of "Let's Be Europeans" and focused on a choice between East and West. All major political parties and the Catholic Church in Lithuania supported the "Yes" campaign. President Rolandas Paksas, former President and

⁵⁷ Lietuvos Bankas News Archive, "The European Parliament's Committee on Economic and Monetary Affairs preliminary approved of the euro adoption in Lithuania," April 7, 2014.

⁵⁸ Lietuvos Respublikos Vyriausioji Rinkimu Komisija, "Referendumas dėl Lietuvos Respublikos narystės Europos Sąjungoje 2003 m. gegužės 10-11 d.," May 15, 2003.

⁵⁹ Liudas Mažylis and Ingrida Unikaitė, "Referendum Briefing No. 8 The Lithuanian EU Accession Referendum 10-11," European Parties Elections and Referendums Network (EPERN), May 2003.

then-Prime Minister Algirdas Brazauskas, *Seimas* speaker, Arturas Paulauskas, and former-President Valdas Adamkus, all actively supported EU accession. The weak and unorganized opposition consisted of extreme nationalists, small milk producers and a small section of the Russian speaking community.⁶⁰

The excitement for EU membership continued. In November of 2004, after membership in the EU of less than six months, Lithuania (via parliamentary vote) became the first of all member states to approve the new EU constitution. The *Seimas* approved the constitution by a vote of 84 to 3 (with three abstentions, and 51 not in attendance).⁶¹ Although all parties were in support of the constitution, the opposition voiced concern with the speed of ratification. However, most politicians saw the 2003 referendum as a resounding vote by the Lithuanian people for every aspect of EU membership. “Last year the Lithuanians chose by referendum to become Europeans. Today we have to confirm the people’s decision,” declared Antanas Valionis, Foreign Affairs Minister.⁶² Thus, in subsequent years, although public support for euro adoption remained low (less than 40% for most of 2004-2013, see Figure 3.14), the Lithuanian government took the 2003 EU membership referendum as a mandate and failed to be swayed by low public opinion.

From the start, the Lithuanian government itself was committed to making swift euro adoption a priority, evident in the wording of the *Seimas’s* information sessions on euro adoption. In a plenary session of *Seimas* held on March 29, 2005, the first discussion of the “EU Financial Perspectives for the Future (2007-2013)” and the “Priorities of the Republic of

⁶⁰ Mažylis and Unikaitė, May 2003.

⁶¹ BBC News, “Lithuania backs EU constitution,” November 11, 2004.

⁶² Corinne Deloy, “Lithuania is the First of EU 25 States to Ratify the Constitution,” Robert Schuman Foundation.

Lithuania in the Negotiations with the EU” was held, with comments by then-Minister of Finance Algirdas Butkevičius, then-European Commissioner for Financial Programming and Budget Daila Grybauskaitė, and then-Minister of Foreign Affairs Antanas Valionis. Two days later, during that same *Seimas* plenary session, there was a discussion entitled: “Lithuania’s Readiness to Adopt the Euro.” Reinoldijus Šarkinas, Chairman of the Board of the Bank of Lithuania, spoke about fulfilling the requirements and the preparations to reach the goal of euro adoption, while Butkevičius again spoke in a speech entitled, “Participation of Lithuania in the European Economic and Monetary Union: Priority Economic Policies.”⁶³

After the first failed attempt to adopt the euro in 2007, most in government were anxious to continue the process of adoption but cautious to project a new estimated timeline for adoption. Butkevičius’s successor as Finance Minister, Zigmantas Balčytis, asserted in September 2006 that the euro would most likely not be adopted any earlier than 2010 due to a planned excise tax on gasoline and cigarettes which would increase inflation by as much as 2.3 points.⁶⁴ Although President Valdas Adamkus was pushing for an earlier 2009 date and SEB Bank⁶⁵ analysts like Gitanas Nausėda were in agreement: “The government demonstrates its carelessness in regard to this issue by delaying the euro entry date until some uncertain future time and by risking missing the next stage of the Eurozone enlargement in 2009.”⁶⁶

By December 2007, Prime Minister Gediminas Kirkilas was still projecting a goal of 2010 - 2011, but there was no date firmly set by anyone in government.⁶⁷ SEB Bank President,

⁶³ Artūras Zeleniakas, Head of the Public Relations Unit of the Communication Department, Lithuanian Parliament (*Seimas*), email to Julianne Maila, April 29, 2015.

⁶⁴ Baltic News Service, “Lithuania’s FinMin sees euro entry not earlier than 2010,” September 7, 2006.

⁶⁵ SEB Bank is one of Lithuania’s largest commercial banks.

⁶⁶ Baltic News Service, “Lithuania should seek to adopt the euro in 2009,” September 15, 2006.

⁶⁷ Baltic News Service, “G. Kirkilas: Lithuania may introduce the euro in 2010-2011,” December 6, 2007.

Audrius Žiugžda, was very critical of the lack of a plan to adopt the euro, in 2008 faulting the government for not following a stricter fiscal policy, and expressing worries about a further decline in credit rating.⁶⁸

The financial crisis that hit Europe at the end of 2008 provided more murkiness as to a projected date. The 2008 *Seimas* elections brought about a major change in government with the coalition led by left leaning Social Democrats thrown out in favor of the more conservative center-right coalition led by Andrius Kubilius of the Homeland Union. However, in February 2009, Prime Minister Kubilius, remained as aggressive as his predecessor in his timeline, with continued hopes for euro adoption in 2011. He made it known that Lithuania would not devalue the litas in order to fight the crisis. Instead Kubilius was willing to bear the public backlash against his austerity policies, which consisted of public spending cuts and tax hikes. He told the *Financial Times* in June 2009:

It's clear that we are suffering a bit more because of our currency board arrangement tying the litas to the euro, but devaluation is not an option... the lesson of this crisis is very simple. It was a bad development that we missed entry into the Eurozone in 2006. If we were in the Eurozone now, we would have a much easier situation to deal with.⁶⁹

He also dismissed the idea of assistance from outside sources like the IMF, believing that it would be disadvantageous and lead to a further delay in euro adoption.⁷⁰ However, by the fall of 2009, the Minister of Finance, Ingrida Šimonytė, was not so optimistic, believing 2013 to be a more accurate date for Eurozone entry. Minister of Economy, Dainius Kreivys was less aggressive, asserting that the changeover date was more likely to occur in 2014. The new

⁶⁸ Baltic News Service, "Lithuania has no euro adoption plan, spends too much – SEB Bankas president," February 8, 2008.

⁶⁹ Tony Barber, "Lithuania rules out devaluation," *The Financial Times*, June 18, 2009.

⁷⁰ Baltic News Service, "Lithuania may be close to Eurozone membership in 2011 – PM," February 5, 2009.

President, Dalia Grybauskaitė, had been even more vague during her first year in office, giving a timeframe of 2012 - 2015 for adoption.⁷¹ The leaders in government were optimistic, but with the crisis, uncertainty abounded.

By January 2010, even Kubilius was stating 2014 to be a more likely objective,⁷² foreseeing that Lithuania was in no shape to be adopting in the near term. A few months later, in the 2010 Convergence Report, Lithuania would fail to meet three of the criteria, the country's worst showing to date. (See Figure 3.2) However, the government continued to assert that there would be no decision made whether or not to join the euro: "All those discussions, whether it is worthwhile or not worthwhile to join the euro zone, are useless,"⁷³ said Kubilius in October 2012. Realizing there are drawbacks, Finance Minister Šimonytė stated:

Contrary to 2005, when it [the membership] appeared to have only benefits... now it [the membership] bears certain costs related with contributions to special stability mechanisms. However, those costs do not outweigh the benefits, which the state may use as an actual member of the Eurozone - through better ratings, through smaller risk premiums, through cheaper borrowing for households and the state, and finally through access to the European Central Bank's liquidity for the banking system.⁷⁴

The banks eager to reduce transaction costs by adopting the euro grew anxious during this time when no date was being firmly set. In 2012, according to the Chief Economist at Swedbank, Nerijus Mačiulis, Lithuanian politicians were avoiding decisions and not even discussing the subject because of the negative public opinion of the euro adoption in Lithuania.

⁷¹ Baltic News Service, "Lithuania could adopt euro after 2013 – FinMin," October 19, 2009.

⁷² Baltic News Service, "2014 realistic objective for Lithuania's euro adoption. – PM," January 22, 2010.

⁷³ Baltic News Service, "Lithuania's most popular political parties favor euro adoption," October 1, 2012.

⁷⁴ Ibid.

He asserted that the risk of the euro's future was not significant enough to deter Lithuania from its long term goals.⁷⁵

Leading up to the 2012 parliamentary election, a "debate" was held with all leading political parties agreeing that euro should be adopted but that the timing should not be rushed. Prime Minister Kubilius, leader of the ruling Homeland Union – Lithuanian Christian Democrats, as well as Algirdas Butkevičius, Social Democratic leader, and Elgijus Masiulis, leader of the Liberal Movement, all stated pro-euro sentiments but that adoption should only take place after the crisis has abated.⁷⁶ That fall, the Social Democrats regained power in the *Seimas*, as the austerity-weary public voted out Kubilius and his conservative coalition. In December, Butkevičius succeeded Kubilius as Prime Minister, and in keeping with campaign promises immediately raised minimum wage by 17.6%.⁷⁷ This came on the heels of a 6.25% increase in October 2012.⁷⁸ These increases were the first since January 2008, before the onset of the financial crisis. (See Figure 3.6) The Social Democrats increased the minimum wage, despite the fact that increasing wages could result in inflation rising above the target for euro adoption in 2013 and the possibility of once again failing to meet inflation convergence criteria. It was a risk they were willing to take in order to appease the public.

⁷⁵ Danuta Pavilenene, "Swedbank: Lithuania and Latvia are likely to meet Maastricht criteria in 2013," *Baltic Course*, August 2, 2012.

⁷⁶ BBC Worldwide Monitoring, "Top Lithuanian politicians split on euro adoption," October 2, 2012.

⁷⁷ Bryan Bradley, "Lithuania Boosts Minimum Wage 17.6% in Second Increase in a Year," *Bloomberg Business News*, December 19, 2012.

⁷⁸ Inga Blažienė, "Huge rise in minimum wage signals end of freeze," *Eurofound*, July 29, 2013.

Figure 3.6 Lithuanian Minimum Wage Increases (2004 – 2014)

	2004	May 2004	October 2004	July 2005	July 2006	July 2007	January 2008	October 2008	July 2012	October 2012	January 2013	October 2014
MINIMUM WAGE IN LITAS	450	500		550	600	700	800		850		1000	1036
SEIMAS RULING PARTY	Labor Party		Labor Party				Homeland Union		Social Democrats			
SOCIAL MINISTER (Appointed)	Social Democrats						Homeland Union			Labor Party		

Source: Baltic News Service

However, in March 2013, Butkevičius vowed not to raise minimum wage further when asked if the government would do anything to deter from the path to the euro and outlined the benefits:⁷⁹

I will give you a few simple arguments about how the euro will benefit us. Currently, euro-denominated loans make up 70% of all granted loans. Secondly, we lose about 100-120 million litas (EUR 28.9-34.8 million) every year while exchanging the litas to the euro. Thirdly, adoption of the euro will enable the state and the people to borrow at a lower interest rate. We have a currency management model where the Bank of Lithuania has no power and cannot influence macroeconomic processes. It is my proposal that the people should understand that we should adopt the euro as soon as possible.⁸⁰

In February 2013, Finance Minister, Rimantas Šadžius, was asserting that “our aim is to adopt the euro as soon as possible, as soon as we meet the criteria.”⁸¹ President Dalia Grybauskaitė was also stressing speed, saying there is no other choice for the country: "In the case of Lithuania, we already de facto have the euro because we have a currency board system that pegs the litas to the euro at a fixed, strong rate. And in fact, our monetary policy very much depends on the European Central Bank," she said in an interview to Germany's *Deutsche Welle*. "We do not have monetary instruments of our own. We have only the obligations and

⁷⁹ Baltic News Service, “Lithuania's PM: minimum wages will not be raised any further in near term as Vilnius pursues euro adoption,” March 12, 2013.

⁸⁰ Baltic News Service, “Lithuania should adopt euro as soon as possible – Butkevičius,” March 20, 2013.

⁸¹ Baltic News Service, “Finmin doubts if Lithuania could join euro in 2014,” February 27, 2013.

restrictions and not the benefits that we would have if we had the Euro. There are enough reasons to join the Eurozone as soon as we can.”⁸²

Economist Gitanas Nausėda, SEB Bank President's Advisor, said in an interview in June 2013, following the announcement of Latvia's 2014 euro entry: “Of course, it would be very dangerous, if Lithuania were to remain the only country in the Baltic states without the euro for a longer period of time. Trust of foreign investors could decrease.”⁸³ He went on to say that inflation is hard for the government to control and this might be the only window of opportunity for Lithuania for awhile.

Latvia's achievement may have played a part in committing Lithuania to a date, for starting at the end of 2013, on a quarterly basis, the Committee on European Affairs began examining preparations for euro adoption, receiving information from the Government, the Central Bank of Lithuania and other authorities. This group, along with the Committee on Budget and Finance, was also responsible for analyzing Lithuania's compliance with convergence criteria and the impact euro adoption would have on the economy. This signaled a serious intention to go forward with the hope that evaluation in 2014 would mean compliance with the criteria for adoption.

In January 2014, *Seimas* speaker Loreta Graužinienė of the Labor Party brought up concerns that a date had been “set” without affirmation from the coalition government. She claimed that she was pro-euro, but would not support the euro if it were not first agreed upon

⁸² Baltic News Service, “Lithuania should adopt euro as soon as possible - president Grybauskaitė,” March 9, 2013.

⁸³ Baltic News Service, “Lithuanian economist interviewed on need to adopt euro in 2015,” June 13, 2013.

by the coalition.⁸⁴ Prime Minister Butkevičius downplayed her concerns, stating it was a political move to win votes in the upcoming 2014 elections: "I think this could be done because the presidential election is coming up and because one sees that some people in some other countries which have adopted the euro are not happy about this. I think this is now being used as a political instrument, possibly for the sake of ratings or the upcoming presidential election."⁸⁵

Similarly, the Labor and the Order and Justice party's calls for a referendum on the euro were also seen as politically strategic moves to differentiate themselves from the ruling coalition parties, and build upon the fear and disapproval that a significant proportion of the public held regarding the euro. Suspicions regarding Russian connections underlying these minor parties' motivations arose, with Rasa Juknevičienė, a member of the conservatives, stating in regard to Graužinienė's lack of support for the euro: "To me it looks like there is also a very clear Russian factor. Every project that boosts Lithuania's integration in the EU, NATO, western structures are not in line with the project of Vladimir Putin to retain influence in the former Soviet Union republics. This is clear."⁸⁶ However, there was no real evidence of opposition in the January 2014 vote in which the *Seimas* approved its first draft law on the adoption of the single currency by 103 – 2 (with 3 abstaining and 33 not in attendance).⁸⁷ At the time Finance Minister Šadžius asserted that there was no other choice but to adopt the euro in 2015, for if it chose not to, Lithuania might find itself the least attractive country for investment

⁸⁴ Baltic News Service, "Parliamentary speaker: Lithuania's euro adoption a date has not been agreed with coalition partners," January 8, 2014.

⁸⁵ Baltic News Service, "Lithuanian PM says parl speaker's euro entry doubts could be for sake of ratings," January 9, 2014.

⁸⁶ BBC Worldwide Monitoring, "Lithuanian analyst says parties seek political dividends by resisting euro," January 17, 2014.

⁸⁷ Baltic News Service, "Lithuania's euro adoption bill passes 1st reading in parl," January 23, 2014.

in the region.⁸⁸ And it again became clear that the public opinion would play no part in any decision making as Butkevičius remained staunch, stating that negative opinion would not prevent Eurozone entrance.⁸⁹

In February 2014, the *Seimas* European Club (along with the European Information Office of the *Seimas* and the European Federalists Lithuania) held what was called a “debate,” but which was in essence a public event with former EU Commission member Benjamin Angel, to discuss the process of euro adoption and how its advantages outweigh disadvantages.⁹⁰ A few weeks later, the European Club held a second event with the Academic Club of Political Scientists about the public discourse surrounding euro adoption.

Angel’s arguments for euro adoption were that the euro unlike the litas, is a significant worldwide currency, which would bring the benefit of upgrading Lithuania’s credit rating from BBB to as much as A or A- and would help attract FDI. (This upgrade indeed occurred in April 2014, when Standard & Poors raised Lithuania’s credit rating to A- based upon the strong indicators that euro adoption was imminent.)⁹¹ Angel cited that joining the larger market would lower interest rates by as much as 70 basis points and would reduce debt as both the country and its private citizens would be able to refinance their loans. Angel tried to put to rest Eurozone fears, stating that now was a better time than 2007 to adopt the euro as the policies

⁸⁸ Baltic News Service, “Lithuanian finance minister stresses need to join euro zone in 2015,” January 13, 2014.

⁸⁹ Baltic News Service, “EP’s positive report allows starting euro adoption process in Lithuania – PM,” March 18, 2014.

⁹⁰ Lithuanian Parliament European Information Office, “What are the implications of joining the euro area today?” February, 3, 2013, video file.

⁹¹ Milda Seputyte, “S&P Raises Lithuania's Debt Rating Two Notches on Euro,” *Bloomberg Business News*, April 11, 2014.

had become “much more stringent” since the crisis and the Eurozone was “much more integrated” than ever before.⁹²

Dr. Klaudijus Maniokas, Professor at the Institute of International Relations and Political Science, Vilnius University, also part of the panel on euro adoption, argued that: “...the political aspects are the ones that should persuade us into joining the euro area.” Stating that the insurance element of being part of the Eurozone and the protection it provides especially in light of the crisis, would make the cost of staying out higher. Additionally, he argued, Lithuania has a fixed exchange rate with the euro and that countries (like the Baltics) that decided to fix their currencies early on have already committed to the common currency on many levels. “The key decisions have already been taken 10 years ago. The decisions that are to be taken at the moment are just technical specificities.”⁹³

According to a study of *Seimas* members and senior government officials conducted by Professor Ramūnas Vilpisauskas, the Director of the Institute of International Relations and Political Science at Vilnius University, the most frequently mentioned reason for euro adoption was the economic benefits, followed by a “seat at the table” in Eurozone decision-making and thirdly, geopolitical concerns/worries about Russia.⁹⁴

However, in 2014, the year leading up to euro adoption, as Russian incursions into Ukraine and violations of EU airspace by the Russian military unnerved the Baltic States causing concerns for their own protection, the rhetoric from political leaders began turning towards

⁹² Lithuanian Parliament European Information Office, “What are the implications of joining the euro area today?” February, 3, 2013, video file.

⁹³ Ibid.

⁹⁴ Juris Kaža, “After Period of Skepticism, Lithuanians Warm to the Euro,” *The Wall Street Journal*, December 30, 2014, and R. Vilpisauskas, “Lithuania’s Accession to the Eurozone: Timing, Motives, Expectations.” *Diplomaatia*. 137/138, February 2015.

security in terms of justification for the euro. “The euro adoption, given the circumstances beside Lithuanian borders, is gaining a still greater significance. It is one more step towards our country's greater economic, financial and political security,”⁹⁵ stated Prime Minister Butkevičius in June 2014. Thus although the messaging around justifications for joining the euro varied over time, the government (at least publicly) expressed a determined and resolute intention to join the euro from the beginning.

Opposition: Non-influential Minority

As alluded to in the preceding section, organized opposition to the euro in Lithuania had a minor impact in the lead up to adoption. Between 2000 and 2012, there were four parliamentary elections, at which time the voice of opposition to the European Union had little representation within political parties. The minor parties that did gain some of the vote were mostly critical of individual policies, and not EU membership as a whole. Prior to EU accession, during the 2000 parliamentary elections, there were only two parties that could be identified as “eurosceptic” that gained any share of the vote: the Centre Union of Lithuania (2.86%) and the Lithuanian Peasants Party (4.08%). However, neither played an active part in opposing the EU referendum in 2004.⁹⁶ By 2004, support for similar parties decreased to 1% with the National Centre Party receiving 0.5% of votes, the Republican party 0.36% and Lithuanian Nationalists Union 0.21%.⁹⁷

⁹⁵ Lietuvos Bankas News Archive, “For Lithuania, the doors to the euro area already open,” June 4, 2014.

⁹⁶ Ingrida Unikaitė-Jakuntavičienė, “Eurosceptics in Lithuania: On the Margins of Politics?” *European Quarterly of Political Attitudes and Mentalities* 3, no 4 (2014): 1-21.

⁹⁷ *Ibid.* Two of the parties were not quite the definition of eurosceptic. The National Centre Party did not openly criticize the EU, but were in opposition to *Seimas’s* quick approval of the EU Constitution without taking it to a referendum. The Lithuanian nationalists party also supported EU membership in general, but critiqued certain aspects.

After accession, the 2008 and 2012 election years saw similar composition of small parties critical of individual EU policies represent about 2% of the vote in 2008 and 5% in 2012.⁹⁸ The only party that could be considered “anti-euro” in any way, was the Order and Justice party, which received 7.31% of the votes in 2012.⁹⁹ It supported the idea of a referendum on euro adoption as a right of the people, but claimed not to be against Eurozone membership itself.

Calling for a referendum takes considerable organization for 300,000 citizens (10% of Lithuania’s population) must sign a petition within three months time in order for the motion to be voted upon.¹⁰⁰ Alternately, the *Seimas* can order a referendum, which must be supported by at least one quarter of the 141 *Seimas* members.¹⁰¹ In June 2005, the Liberal Democratic Party drafted a resolution for the *Seimas* to order a referendum on the euro, but their attempt was denied by a 37 to 16 vote (with 28 abstentions and 60 not in attendance).¹⁰² A group of eurosceptics called the “Civic Initiative Group” also attempted via petition to gain support for a referendum later that year.¹⁰³ Although the group failed to gain the requisite number of signatures in the three-month timeframe, they did acquire 150,000 signatures which they

⁹⁸ Ingrida Unikaitė-Jakuntavičienė, 2004. This source cites the possible reason behind the uptick in soft euroscepticism as the concern over land sale to foreigners.

⁹⁹ Ibid.

¹⁰⁰ There have only been 13 referenda between 1991 and 2014, due to the challenge of organizing a petition. Dainius Auers, *Comparative Politics and Government of the Baltic States: Estonia, Latvia and Lithuania in the 21st Century* (Palgrave MacMillan, 2015), 92.

¹⁰¹ Election Guide, “Lithuania,” Electionguide.org, 2015.

¹⁰² Baltic News Service, “Lithuania to hold no referendum on euro introduction,” June 16, 2005.

¹⁰³ Baltic News Service, “Eurosceptics seeking to initiate referendum on postponing euro introduction in Lithuania,” September 8, 2005.

believed demonstrated the citizenry's desire to retain the litas and not enter the Eurozone, which at that time was planned for 2007.¹⁰⁴

A second attempt occurred in 2013 when the Lithuanian Order and Justice party recommended that the *Seimas* call a referendum on euro adoption in conjunction with a proposal to lower the requirement for holding a referendum to 100,000 petitioner signatures.¹⁰⁵ The party, led by impeached former president, Rolandas Paksas, argued for such changes not out of anti-euro sentiment, but rather in favor of a greater voice for the populace.¹⁰⁶ The other partners of the ruling coalition at the time (the Electoral Action of Poles in Lithuania and the Social Democratic Party) did not share in support of the referendum.¹⁰⁷ In fact Prime Minister Butkevičius pledged to resign if the euro was not adopted in 2015. "If that fails, if we won't adopt the euro, I as a leader of the coalition, and the whole government would take responsibility and would resign," Butkevičius said to *The Wall Street Journal* in January 2014.¹⁰⁸ However, Paksas remained resolute even up until December 2014, calling the euro area a "Hell Kettle:"

Lithuania is also joining the euro zone next year, the zone that everyone fears may collapse. The zone, as the bottom of a kettle of hell, steams with a lot of instability and problems that may emerge at the most unexpected time. I am convinced that Lithuania's decision to adopt the euro in 2015 will not benefit the country's people and businesses and I hope it does not lead to enormous losses in the nearest future.¹⁰⁹

¹⁰⁴ Baltic News Service, "Lithuania: Initiators of failed referendum against euro pledge new actions on retaining litas in spring," December 12, 2005.

¹⁰⁵ Baltic News Service, "Lithuanian Order and Justice Party want euro referendum by parl't resolution," August 12, 2013.

¹⁰⁶ Baltic News Service, "Lithuanian Order and Justice Party proposes referendum on euro entry," *Lithuania Tribune*, August, 12, 2013.

¹⁰⁷ Baltic News Service, "Parliament speaker does not support referendum on Lithuania's euro zone accession," *15min.lt*, August 21, 2013.

¹⁰⁸ Liis Kangsepp, "Lithuanian PM Vows to Join Euro or Resign," *The Wall Street Journal*, January 14, 2014.

¹⁰⁹ Baltic News Service, "Lithuanian Order, Justice party leader sees euro area as hell kettle," December 13, 2014.

Paksas, also a member of the European Parliament, indeed voted against entry into the Eurozone in July 2014, but all of the other voting MPs from Lithuania voted in favor of euro adoption.¹¹⁰ He remains the only significant voice of opposition to the euro in Lithuania, yet his influence on this matter in the Lithuanian government has been minimal. Thus, organized opposition played no significant role in the adoption of the euro in Lithuania.

Central Bank: Steadfast Proponent

Over the 10 years since the litas first joined the ERM II mechanism in 2004, the Central Bank of Lithuania remained consistent in its support for the euro and the arguments for euro adoption. Among the central bank’s press releases since the country joined the EU (from June 2004 through January 2015), the most cited reason for adopting the euro was an increase in trade, a reduction in risk, greater competitiveness, and foreign interest in investing in the economy. (See Figure 3.7)

Figure 3.7 Benefits of Euro Adoption According to the Lithuanian Central Bank

BENEFITS OF EURO ADOPTION STATED	DATES OF CENTRAL BANK PRESS RELEASES													FREQUENCY
	Jun-04	Aug-05		Nov-06			Oct-13		Jan-14	Feb-14	Jun-14			
Increased trade	Jun-04	Aug-05		Nov-06			Oct-13		Jan-14	Feb-14	Jun-14			7
Reduces risk/increase shock resilience	Jun-04			Nov-06		Jan-11				Feb-14	Jun-14	Jul-14		6
Growth	Jun-04	Aug-05			Apr-09						Jun-14	Jul-14		5
Increases investment/ competitiveness	Jun-04	Aug-05					Oct-13		Jan-14			Jul-14		5
Stability	Jun-04				Apr-09							Jul-14	Jan-15	4
Closer in standard of living to Europe		Aug-05	May-06								Jun-14			3
Lower interest rate	Jun-04						Oct-13	Nov-13						3
Decreases transaction costs	Jun-04							Nov-13						2
Increases jobs									Jan-14			Jul-14		2
Political Security											Jun-14		Jan-15	2
Makes Baltic States more coherent											Jun-14			1
Member of Europe											Jun-14			1

Source: Bank of Lithuania website

With the simplification of transactions and reduction of exchange rate related costs being one of the most cited advantages of the common currency, one would expect Lithuania to conduct a considerable amount of trade with other EU member states. Although Lithuania

¹¹⁰ Baltic News Service, “Paksas voted against euro introduction in Lithuania,” July 16, 2014.

has been importing more from EU countries over time (see Figure 3.8), the percentage of Lithuania's total exports to EU member states has been decreasing over the past decade, from nearly 70% in 2002 to 55% in 2014.¹¹¹ (See Figure 3.9) Of Lithuania's major individual trading partners, among them Russia, Latvia and Germany, Russia has been gaining significance as a trade partner while the percentage of trade with Latvia and Germany is decreasing. Over the last 10 years, the percentage of exports to Russia has grown from 9% to 20% and the percentage of imports from 23% to 28%, making Russia Lithuania's largest individual trading partner.¹¹² (See Figures 3.10 and 3.11) The oil refining industry in Lithuania largely drives this relationship with Russia, as Lithuania's top import is crude petroleum and its main export is refined petroleum.¹¹³ For all trade other than mineral fuels and oils, Russia loses significance as a major source of Lithuania's imports; however, it remains Lithuania's top export destination. (See Figures 3.12 and 3.13) The majority of these exports are "re-exports:" goods Lithuania has imported from Western Europe and re-exported to Russia and other CIS countries. Excluding these goods, and considering only exports of Lithuanian origin, Russia falls to 8th largest export partner, after Latvia, Germany, Estonia, UK, Netherlands, Poland and Sweden.¹¹⁴ With Lithuania's contentious relationship with its neighbor Russia, increased trade with the EU and a reduction of Russia's influence as a trade partner, seems to be most advantageous.

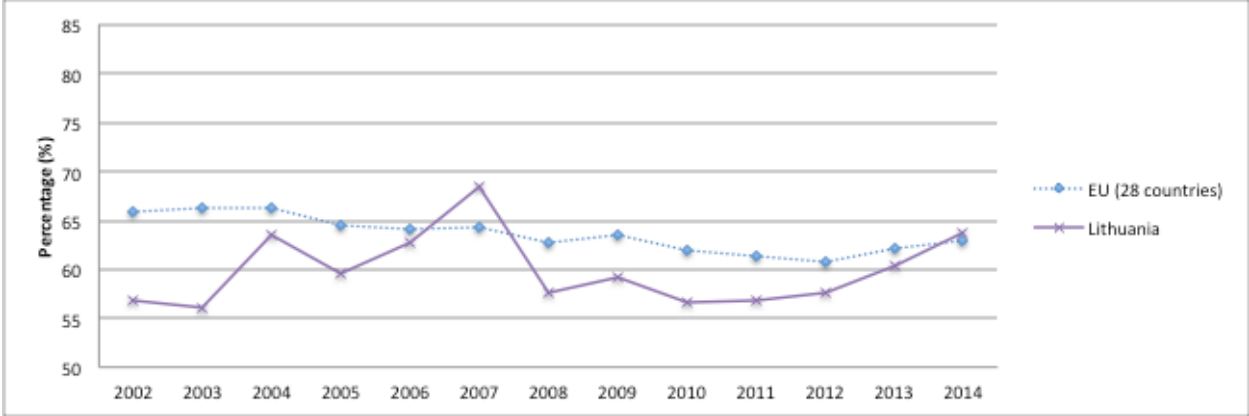
¹¹¹ European Commission, Eurostat Statistical Data, "Share of trade with the EU28," 2004-2015.

¹¹² World Bank, World Integrated Trade Solution (WITS), Lithuania Trade Summary data, 2013.

¹¹³ Ibid.

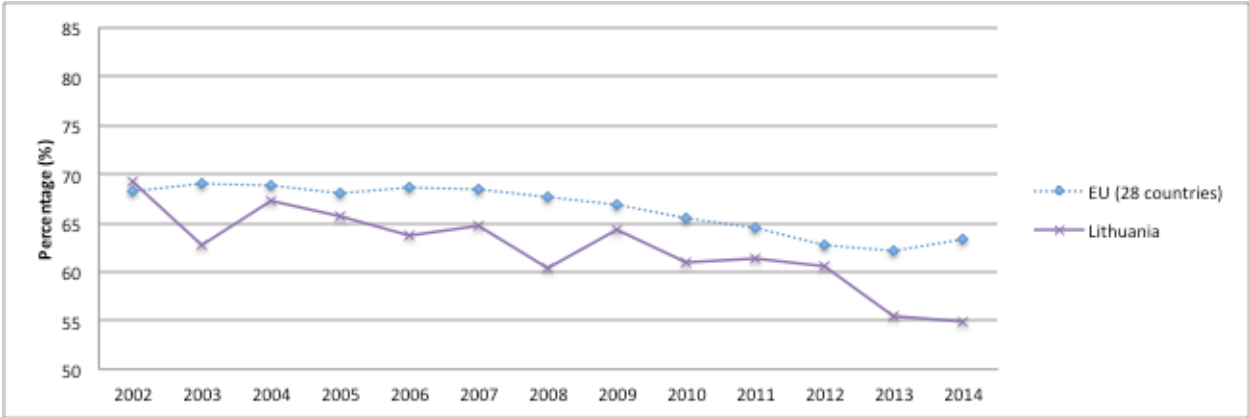
¹¹⁴ Zygimantas Mauricas, "Lithuania: Economic Dependence on Russia," Nordea Bank AB, March 20, 2014.

Figure 3.8 Percentage of Total Imports from the EU (2002 – 2014)



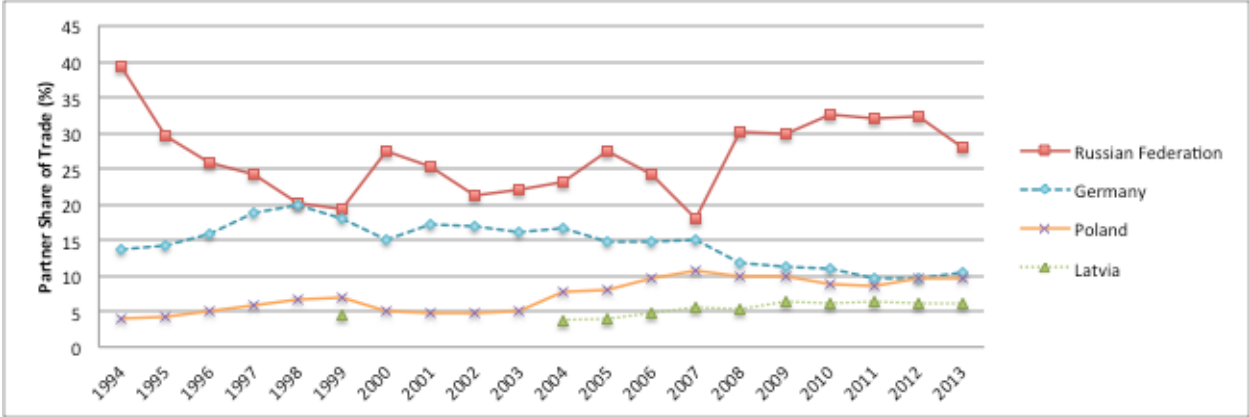
Source: Eurostat, 2015

Figure 3.9 Percentage of Total Exports to the EU (2002 – 2014)



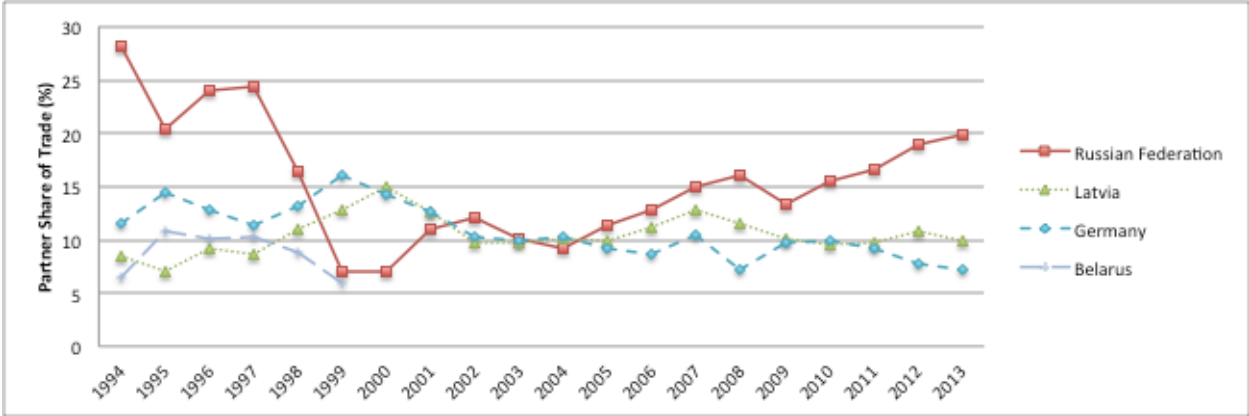
Source: Eurostat, 2015

Figure 3.10 Lithuania’s Major Import Partners Share of Trade (1994 – 2013)



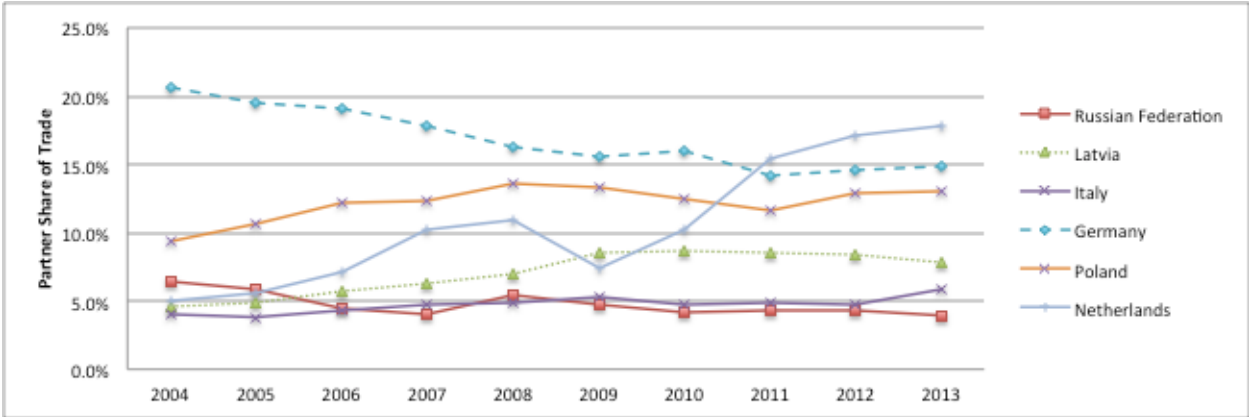
Source: WITS, 2015. Top partners are based upon top 5 trade partners in 2013.

Figure 3.11 Lithuania's Major Export Partners Share of Trade (1994 – 2013)



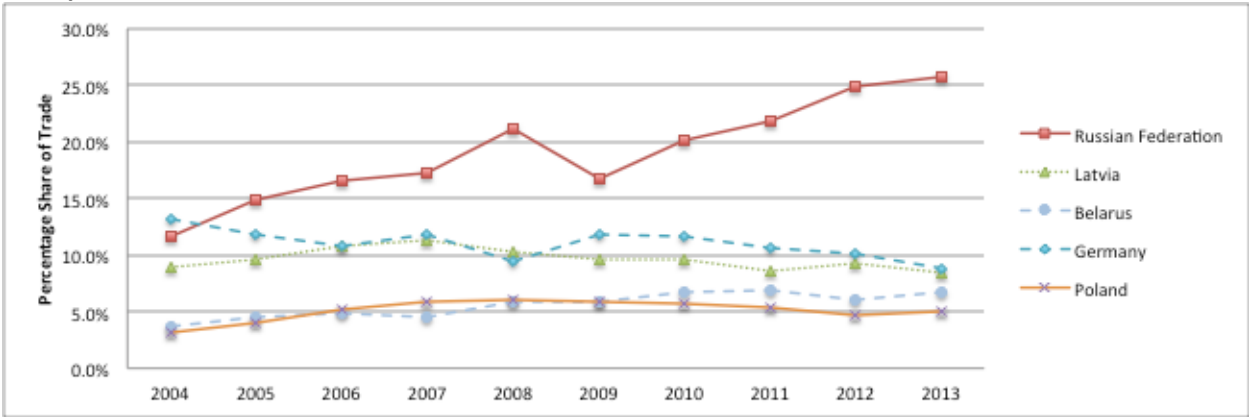
Source: WITS, 2015, Top partners are based upon top 5 trade partners in 2013.

Figure 3.12 Lithuania's Major Import Partners Share of Trade without Mineral Fuels (2004 – 2013)



Source: UN Comtrade, 2015. Top partners are based upon top 5 trade partners in 2013.

Figure 3.13 Lithuania's Major Export Partners Share of Trade without Mineral Fuels (2004 – 2013)



Source: UN Comtrade, 2015. Top partners are based upon top 5 trade partners in 2013.

The fact that 70% of Lithuania's loans are denominated in euros has provided another strong link to the euro currency and has been a motivating factor for Lithuania to adopt the euro. According to the Chairman of the Board of the Bank of Lithuania, Vitas Vasiliauskas,¹¹⁵ in a January 2014 interview with *Euronews*: "This step with euro introduction is a very logical step for us because our national currency was pegged to the euro since 2002. About 70% of loans, portfolio, are in euros. So we are very related to the Eurozone and with the EU as of such."¹¹⁶

From the beginning, the central bank was in full support of swift adoption. In April 2005, Raimondas Kuodas, the director of the economics department at the Bank stated: "There are no economic reasons for Lithuania to delay the adoption of the euro. A national currency is a luxury for a small country."¹¹⁷ At the end of 2006, the year Lithuania was first denied Eurozone membership, then-Chairman of the Board, Reinoldijus Šarkinas, maintained the country's commitment to euro adoption: "As euro area membership is still not an option, participation in ERM-II with the unilateral commitment to maintain the exchange rate at the central parity remains the second best solution, and we stay committed to maintaining such an arrangement until euro adoption."¹¹⁸

In the time following the onset of the financial crisis, statements regarding euro adoption were fewer, with only one made in April of 2009. At that time, stability and growth were mentioned as key reasons for entering the Eurozone. As Lithuania grew closer to satisfying the Maastricht Criteria, more statements were released, with similar messages of

¹¹⁵ Vitas Vasiliauskas has been the Chairman of the Board of the Bank of Lithuania since April 16, 2011. His predecessor, Reinoldijus Šarkinas held the position from 1996 to 2011.

¹¹⁶ EuroNews, "Bonus Interview: Vitas Vasiliauskas," January 8, 2014, video.

¹¹⁷ Lietuvos Bankas News Archive, "Euro Introduction Prospects Discussed at the Academy of Sciences," April 21, 2005.

¹¹⁸ Lietuvos Bankas News Archive, "Reinoldijus Šarkinas introduced Lithuania's preparation for participation in the euro area in Warsaw," December 15, 2006.

increased trade and growth, but with a stronger emphasis also on security. In January of 2014, some of this rhetoric shifted as Chairman Vasiliauskas began making a number of comments regarding euro adoption with political motivation cited as reasoning for entering the Eurozone.

In an interview, he said:

Stability is the main factor for euro introduction. I would say geographically and geopolitically the euro is also very important for us. It is the last step in our European integration...Euro introduction is not only an economical project, It's also a geo-political project. We will have all 3 Baltic countries integrated in the euro system. I think people can feel more safe.¹¹⁹

Vasiliauskas proceeded to make more comments regarding security as the year leading up to the January 1, 2015 euro adoption progressed. "The euro is an instrument for our deeper integration: the closer we are to the West, the further we are from the East," Vasiliauskas said in an interview in December. "As a central bank governor, I shouldn't get myself involved in geopolitical discussions. But these are the facts today."¹²⁰ Another article around the same time quotes him as saying, "We are almost a front-line country...everything that pegs us to the West makes us safer."¹²¹

Thus, the Central Bank of Lithuania was a key player that remained steadfast in its commitment to adopt the euro in a swift manner, making no claims to slow the process in any way. The reasons the central bank provided for euro adoption via their press releases were strongly rooted in the traditional economic reasons for a single currency: trade benefits, reduction of risk and higher potential for foreign investment. However, as 2014 continued, with

¹¹⁹ EuroNews, "Bonus Interview: Vitas Vasiliauskas," January 8, 2014, video.

¹²⁰ Milda Seputyte, "Lithuania Adopts Euro as Russia Worries Rattle Baltics." *Bloomberg Business News*, December 31, 2014.

¹²¹ Giovanna Maria Dora Dore, "Hopping on a Sinking Ship?" *The American Interest*, January 28, 2015.

escalation of Russia's military presence in Ukraine, the central bank began making more assertions as to the political security the euro provides.

Public Opinion: A Significant Yet Ineffectual Voice

In 2003, an overwhelming majority of Lithuanian voters cast their ballot in favor of joining the European Union. In the referendum, 89.92% (nearly 1.498 million people) voted for EU membership, with 8.85% opposed (148,000).¹²² According to Lithuanian Minister of Finance, Rimantas Šadžius, this vote of confidence in the EU by the Lithuanian public was simultaneously an endorsement of euro adoption, and that no referendum would be needed to join the Eurozone,¹²³ as had occurred in other countries like Sweden. Thus after the EU referendum, the Ministry of Finance, Lithuanian Central Bank, the *Seimas* and other political figures did not allow any future public opinion polling influence their decision making, despite the fact that support for the single European currency remained fairly low after 2004. More Lithuanians had an unfavorable view of euro adoption in their country than a positive one until entrance into the Eurozone became official in January 2015 when favorability skyrocketed to 63% from 44% in September 2014.¹²⁴ This similar trend of higher anti- rather than pro-euro sentiment was also seen in Latvia (and in Estonia to a lesser extent) before euro adoption, with a comparable surge

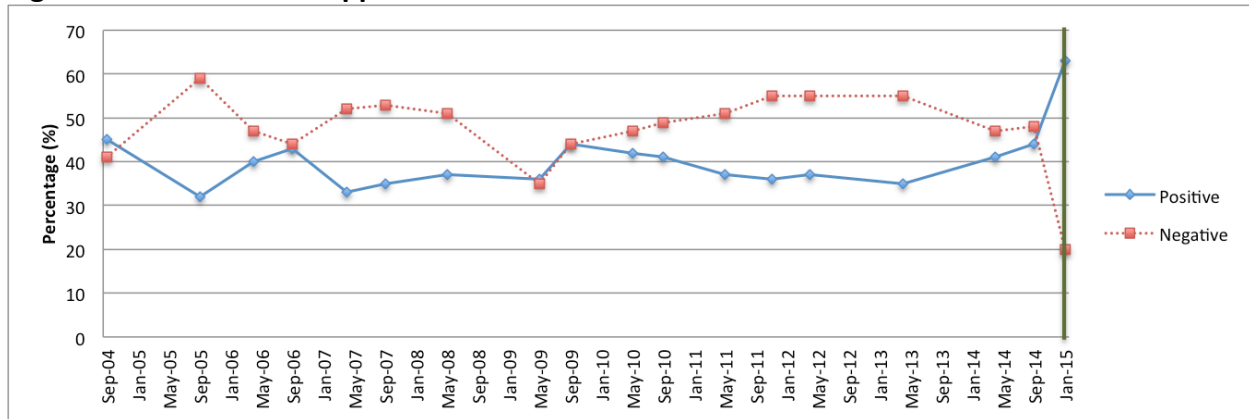
¹²² Baltic News Service, "Almost 90 percent vote 'yes' at Lithuania's EU referendum – election officials confirm," May 12, 2003.

¹²³ BBC Worldwide Monitoring, "Lithuanian finance minister says referendum on euro not legally required," Transcript of March 25, 2013 Lithuanian television report, March 30, 2013.

¹²⁴ Only twice before euro adoption did positive opinion come close to outweighing the negative. First, in the spring/summer of 2006, there was a considerable rise in support and decline in negativity, possibly related to Lithuania's (though failed) euro bid in May 2006. The only other occurrence of a dip in negativity occurred curiously during the height of financial crisis when austerity measures were being proposed. From May 2008 to May 2009, anti-euro sentiment dropped 16 percentage points, but the percentage of people of no—opinion increased 17 points, meaning many of those opposed to the euro had become uncertain. A few months later in September, those of no opinion declined back around its prior norm of 12% and more than one-third of those who had been uncertain in the spring now had a positive view of euro adoption.

in favorability upon official entrance into the Eurozone in all three countries.¹²⁵ (See Figures 3.14, 3.15 and 3.16)

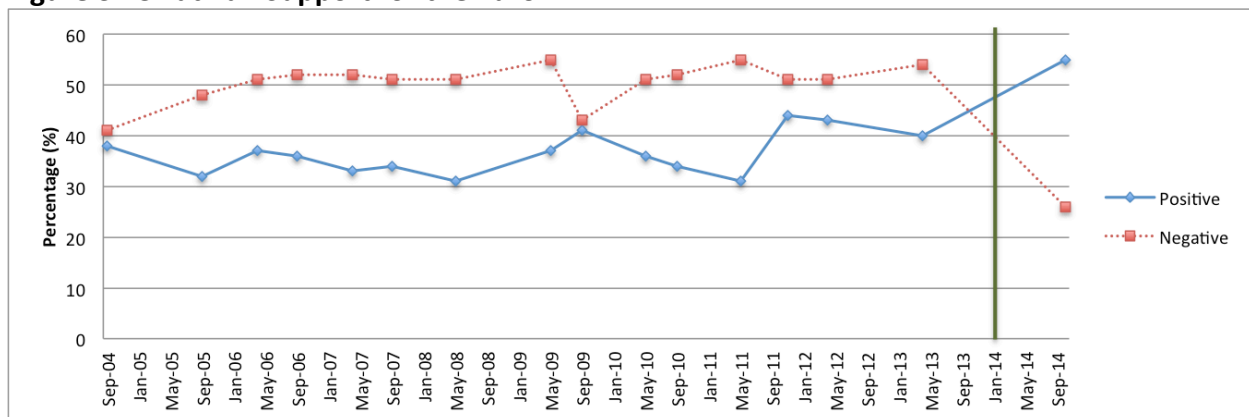
Figure 3.14 Lithuanian Support for the Euro¹²⁶



Source: Eurobarometer, 2015. The question is posed to respondents as “Do you think the introduction of the euro would have positive or negative consequences for Lithuania?”

Note: Green line delineates date of euro adoption.

Figure 3.15 Latvian Support for the Euro

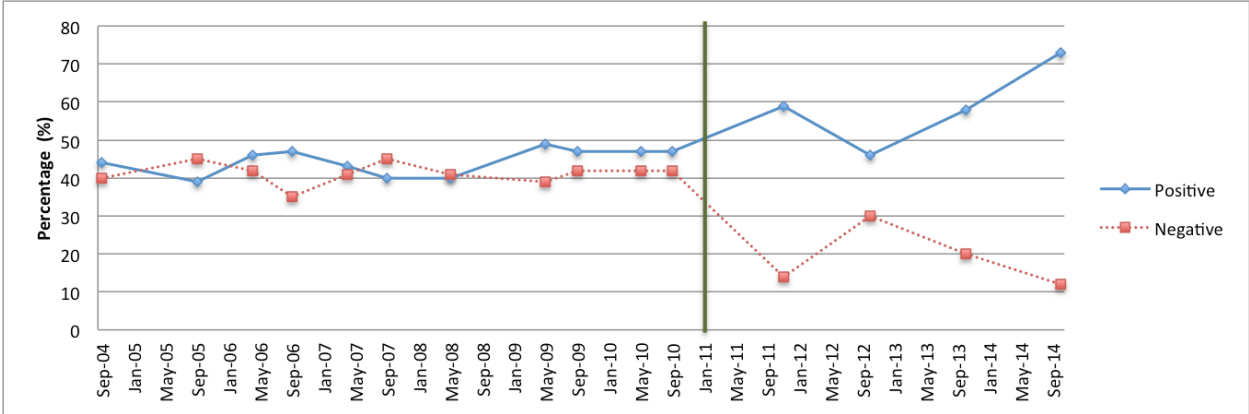


Source: Eurobarometer, 2015. The question is posed to respondents as “Do you think the introduction of the euro would have positive or negative consequences for Latvia?”

¹²⁵ In the spring before euro adoption in Estonia (May 2010), favorability was at 47% and jumped 12 percentage points to 59% after a year in Eurozone (November 2011). Similarly, in Latvia in the spring before euro adoption (April 2013), favorability was at 40% and jumped 15 percentage points to 55% after nearly a year in the Eurozone (October 2014). While negative views of the euro fall correspondingly, in all three countries, the percentage of people uncertain about the euro increased by at least 10% over that time period as well.

¹²⁶ The public opinion polling data used in this analysis is from Eurobarometer, a series of public surveys conducted since 1973 by the European Commission on various topics relating to the European Union. The Standard Eurobarometer survey consists of 1000 face-to-face interviews in each EU country, with results published twice a year. The data analyzed here is from the Flash Eurobarometer polls regarding “Public opinion and the euro.” The Flash polls consist of surveys based on specialized topics, and are conducted via telephone interview, thus providing faster results.

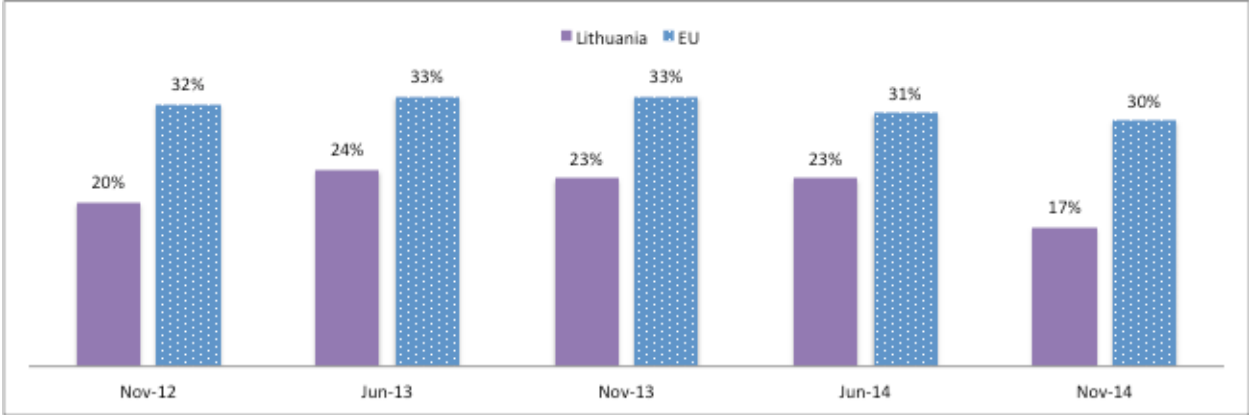
Figure 3.16 Estonian Support for the Euro



Source: Eurobarometer, 2015. The question is posed to respondents as “Do you think the introduction of the euro would have positive or negative consequences for Estonia?”

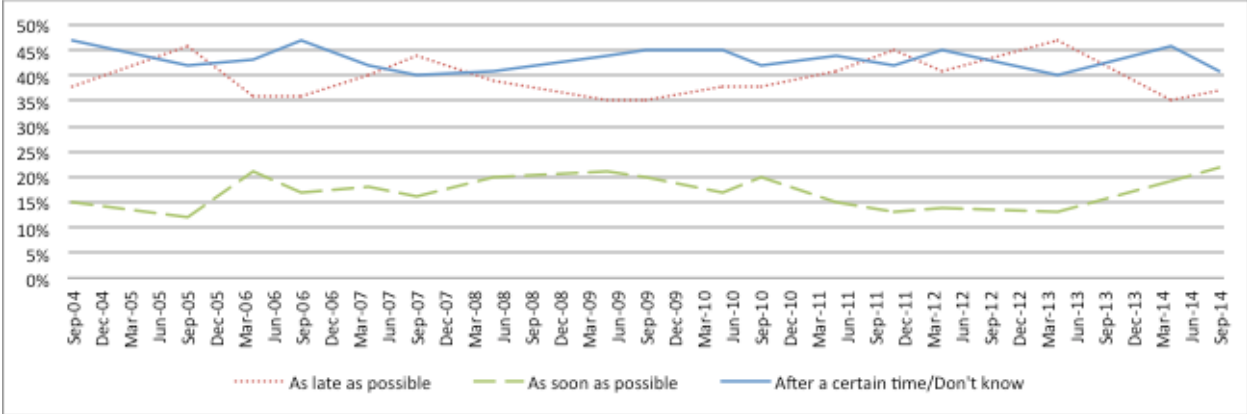
Although support for the euro remained under 40% in recent years, the public’s view on EU membership in general has been much more favorable, with eurosceptic beliefs below the EU average, and decreasing sharply in the months before euro adoption. (See Figure 3.17) Low favorability for euro adoption among Lithuanians could thus be driven more by their idea of the appropriate timing rather than general disapproval with the idea of joining the Eurozone. For most of the past decade, more Lithuanians have supported postponement of adoption, with advocates for swift entry into the Eurozone under 20%, and much more support (on average 40%) for adopting the euro as late as possible. (See Figure 3.18)

Figure 3.17 Percentage of Population with Eurosceptic Beliefs



Source: Eurobarometer Standard Reports 2012-2014: Eurosceptic beliefs are extrapolated from the percentage of favorable responses to the question “(COUNTRY) could better face the future outside of the EU.”

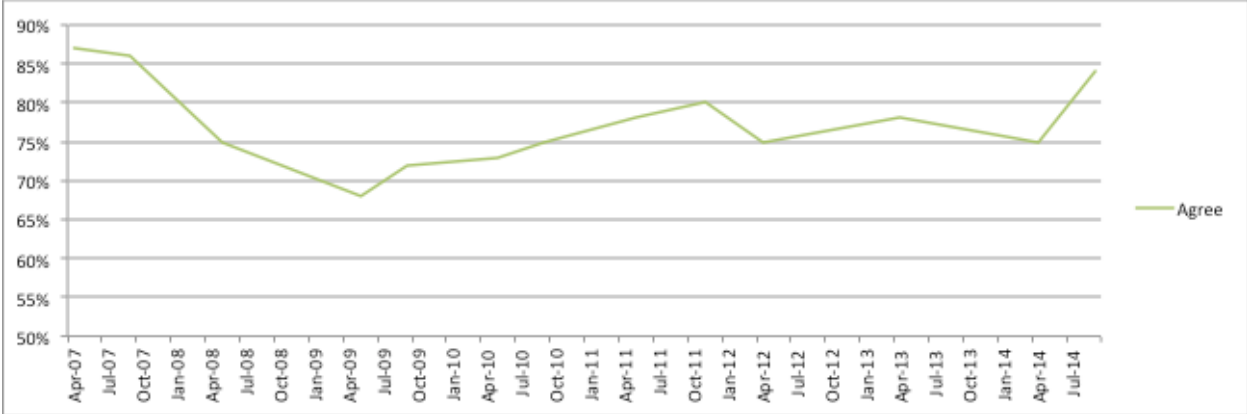
Figure 3.18 Opinion: When Should the Euro be Adopted in Lithuania?



Source: Eurobarometer 377 and Eurobarometer 402 reports: The question is posed to respondents as "When would you like the euro to become your currency?"

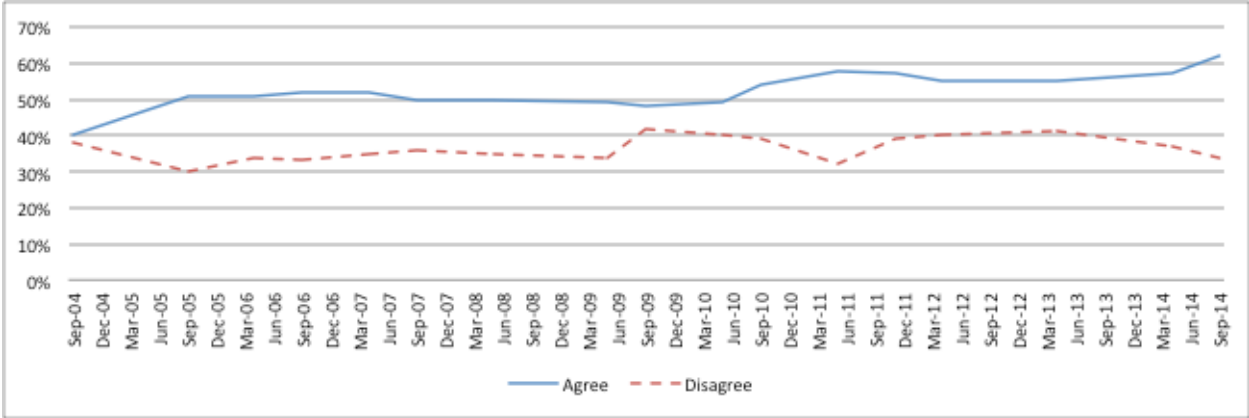
The most popularly cited concerns have been centered on a perceived sense that prices will increase as a result of euro adoption, and that national identity would somehow be lost when the country no longer holds its own currency. This perception that the euro will bring about increased inflation has remained quite high, hovering around 75% in recent years and increasing to 84% in September 2014. (See Figure 3.19) The idea that Lithuania would lose some of its identity due to the loss of its own national currency gained popularity, as people grew sentimental for the litas, especially in the months before January 2015 euro adoption (See Figure 3.20)

Figure 3.19 Opinion: Euro Adoption Will Increase Prices in Lithuania



Source: Eurobarometer 329, 349, 377, 402 reports: The question is posed to respondents as: "What impact, if any, do you think the introduction of the euro will have on prices in [OUR COUNTRY]?" and was not asked prior to 2007.

Figure 3.20 Opinion: Euro Adoption Means Lithuania Will Lose a Part of Its Identity



Source: Eurobarometer 377 and 402 reports: The question is posed to respondents as: "Adopting the euro will mean that [OUR COUNTRY] will lose a part of its identity."

Organized public groups against the euro, or the European Union in general, have been small and marginalized. The Žalgiris Resistance Movement, established in 2009, is one such nationalistic group that espouses an anti-EU stance. 75 - 80%¹²⁷ of all topics discussed in their online forums are in regards to EU membership including one entitled "Why does Lithuania need the euro when the euro is irrelevant for Europe?"¹²⁸ On the board of this group is the editor-in-chief of *Respublika* newspaper, Vitas Tomkus. As of 2011, the paper had an average daily circulation of 21,653 copies compared to the more widely read *15min* (58,906), *Lietuvos Rytas* (55,702) and *Vakaro žinios* (54,844).¹²⁹ *Respublika* went from a daily to weekly publication in May 2014, further lessening its influence on the Lithuanian populace. In addition, allegations were made in 2011 that both *Respublika* and *Lietuvos Rytas* threatened politicians with revelations of scandalous actions in exchange for advertising revenues.¹³⁰ The extent to which this news damaged the credibility of the publication is unknown.

¹²⁷ Vladislav Vorotnikov, "The Žalgiris movement and the formation of an alternative foreign policy philosophy (on the basis of the Žalgiris appendix to the Respublika newspaper)," *Immanuel Kant Baltic Federal University united Scientific Journal* 3, no 9 (2011).
¹²⁸ Respublika. "Kam Lietuvai reikalingas Europai nebereikalingas euras?" *Respublika*, April 20, 2012.
¹²⁹ Mindshare Baltics, "Circulation of Lithuanian publications," *Mindshare Baltics*, August 19, 2011.
¹³⁰ Freedom House, "Freedom of the Press 2013: Lithuania," *Freedom House.org*, 2013.

It is difficult to evaluate the influence of the media on the public perception of the euro. However, the Lithuanian government worked hard to dispel “myths” regarding serious inflation by launching media campaigns to inform the public about the euro conversion. In order to counter the idea that the litas was a symbol of Lithuania’s hard fought independence and thus should not be retired in favor of the euro, the message was disseminated that the new Lithuanian euro coins would actually help promote Lithuanian national identity throughout Europe as they circulate around the continent.¹³¹ (Each Eurozone country has its own series of coins with its national symbol engraved on them. Lithuanian euro coins carry an impression of the *Vytis*, the Lithuanian national symbol of an armor-clad knight on a horse.)

Thus, despite public opinion being low, and evidence of media outlets run by individuals with eurosceptic attitudes, the euro was adopted in a swift time frame. Leaders argued that the 2003 EU referendum served as the mandate for any further EU integration process (i.e. Eurozone entry), and thus public polling did not affect their decision-making. Furthermore, the public did have an outlet to vote for minor political parties, like Order and Justice, who advocated a slower progress toward euro adoption, but evidently, anti-euro sentiment was not strong enough to make it a significant election time issue.

Financial Crisis and the Advantages and Disadvantages of Eurozone Membership

In terms of the timing of euro adoption in the midst of crisis, two opinions have formed. Some say that a country like Lithuania, with a currency already pegged to the euro, would have been better protected if it had had the full benefits of Eurozone membership during the

¹³¹ Hans von der Brelie, “Money Talks: Divided Lithuania prepares to join the euro,” *Euronews*, August 1, 2014, video.

crisis.¹³² With a pegged currency, Lithuania and the other Baltic States, were vulnerable to the shocks of financial crisis, but were not deserving of bail out funds in the same way as Greece. By having the litas pegged to the euro, but without being a full member of the Eurozone, Lithuania was exposed to all the risks and none of the benefits of the Eurozone.

Others, like Nobel Prize winning economist, Paul Krugman, look at Poland (and the other CEECs not part of the ERM-II mechanism) and see the benefits of not being a member of the Eurozone (or having their currency pegged to the euro) in the midst of crisis. By retaining a free-floating exchange rate, Poland's currency was able to devalue in response to economic shocks.¹³³ The Polish zloty lost about one third of its value during the crisis (from September 2008 to February 2009), which stimulated exports and raised the relative cost of imports.¹³⁴ Other factors, among them budgetary and fiscal policies employed by Poland before the crisis, also had a significant influence on Poland's ability to better endure the crisis; however, the ability of the currency to devalue did play a part in Poland's 1.6% GDP growth in 2009, while the GDP of the rest of EU had contracted by 4.5%.¹³⁵

Despite conflicting opinions, leaders in Lithuanian government decided to undertake austerity measures slashing budgets and raising taxes in order to weather the crisis, rather than devalue the litas, exit ERM-II and lose the progress they had made since 2004 towards adopting the euro. During the crisis, the timeline to euro adoption became uncertain, and thus the opposition (who argued that it was more opposed to timing than to euro adoption itself) did not become any more vocal in its disapproval. The public, in fact, grew more supportive of the

¹³² See note 135, and Lithuania's Finance Minister, Ingrida Šimonytė's comments.

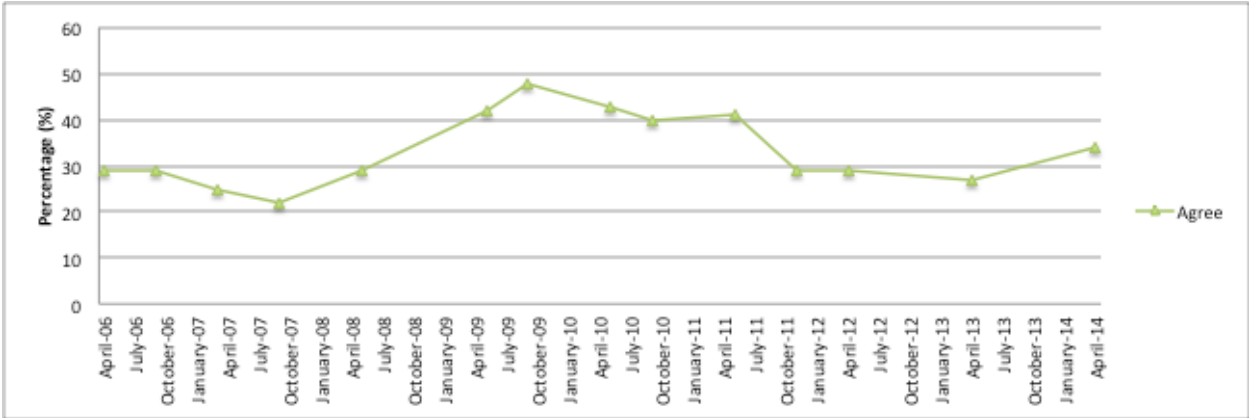
¹³³ Paul Krugman, "Poland is Not Yet Lost," *The New York Times*, March 27, 2013.

¹³⁴ Stephan Faris, "How Poland Became Europe's Most Dynamic Economy," *Bloomberg Business News*, November 27, 2013.

¹³⁵ Faris, 2013.

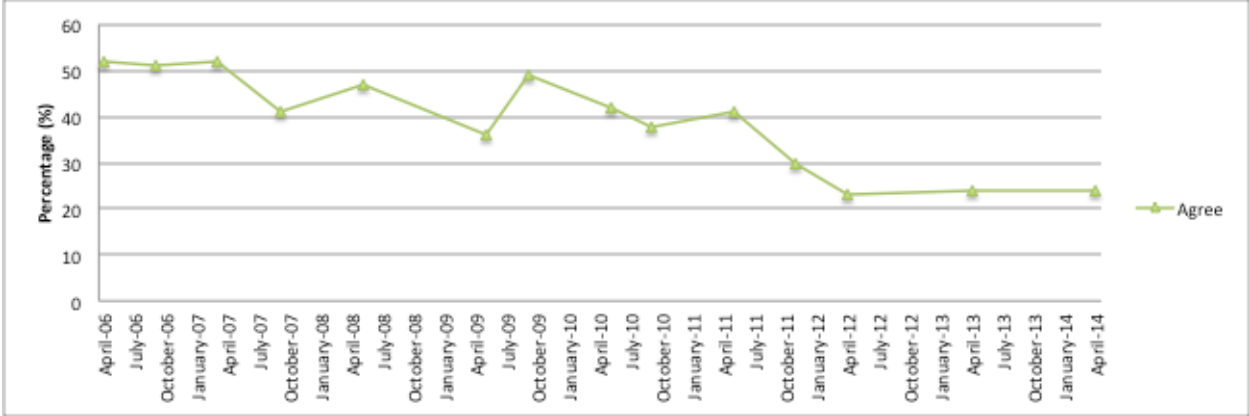
euro during the crisis (see Figures 3.14 and 3.15), as seen in a significant drop in negativity toward the euro in early to mid 2009 in both Lithuania and Latvia. This rise in support for the euro is seen in a variety of questions posed via Eurobarometer in 2009, where a noted confidence in the common currency was demonstrated through a significant increase in the belief in the benefits of the euro being expressed by both the government and Lithuanian Central Bank. At this time, there was an enhanced belief that euro adoption would 1) lower interest rates, 2) improve growth and employment and 3) ensure sounder public finances. (See Figures 3.21 – 3.23) In addition, the two major fears associated with euro adoption (loss of identity and price increases) abated somewhat during the crisis with more people feeling that the euro would “reinforce Lithuania’s place in the world” and “protect it from the effect of international crisis,” and with less people skeptical that the euro would bring inflation to the country. (See Figures 3.24 – 3.26)

Figure 3.21 Opinion: The Euro Will Ensure Lower Interest Rates in Lithuania



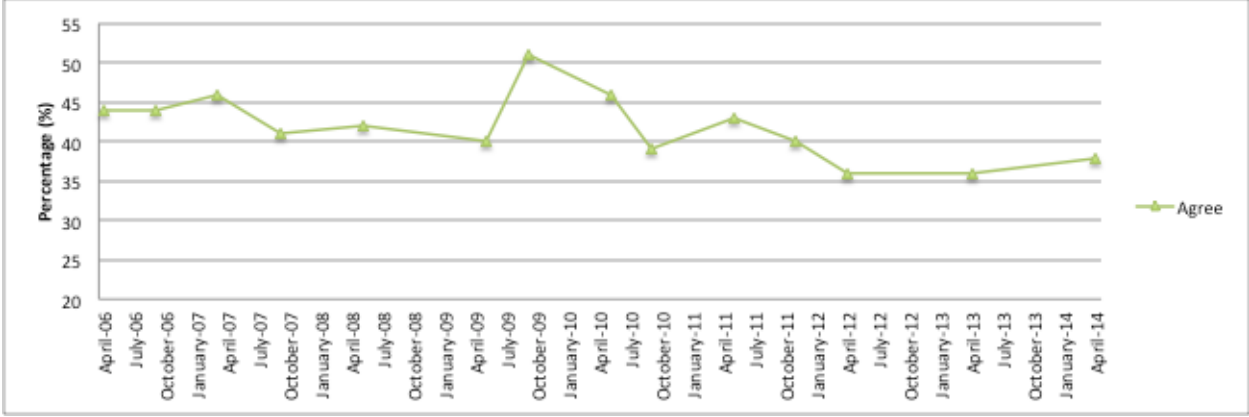
Source: Eurobarometer 400, 349, 329, 296, 270, 214, 191 reports: The questions is posed posed to respondents as: “In your opinion, what of the following do you think the adoption of the euro will do for (OUR COUNTRY)?” with “will ensure lower interest rates, less debt charges” as one of the choices.

Figure 3.22 Opinion: The Euro Will Improve Growth and Employment in Lithuania



Source: Eurobarometer 400, 349, 329, 296, 270, 214, 191 reports: The questions is posed to respondents as “In your opinion, what of the following do you think the adoption of the euro will do for (OUR COUNTRY)?” with “will improve growth and employment” as one of the choices.

Figure 3.23 Opinion: The Euro Will Ensure Sounder Public Finances in Lithuania



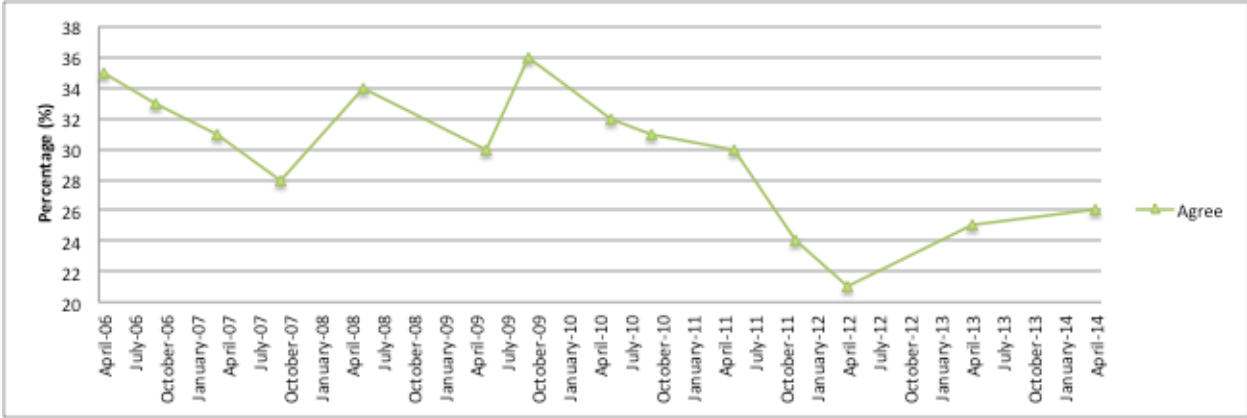
Source: Eurobarometer 400, 349, 329, 296, 270, 214, 191 reports: The questions is posed to respondents as “In your opinion, what of the following do you think the adoption of the euro will do for (OUR COUNTRY)?” with “will ensure sounder public finances” as one of the choices.

Figure 3.24 Opinion: The Euro Will Reinforce Lithuania’s Place in the World



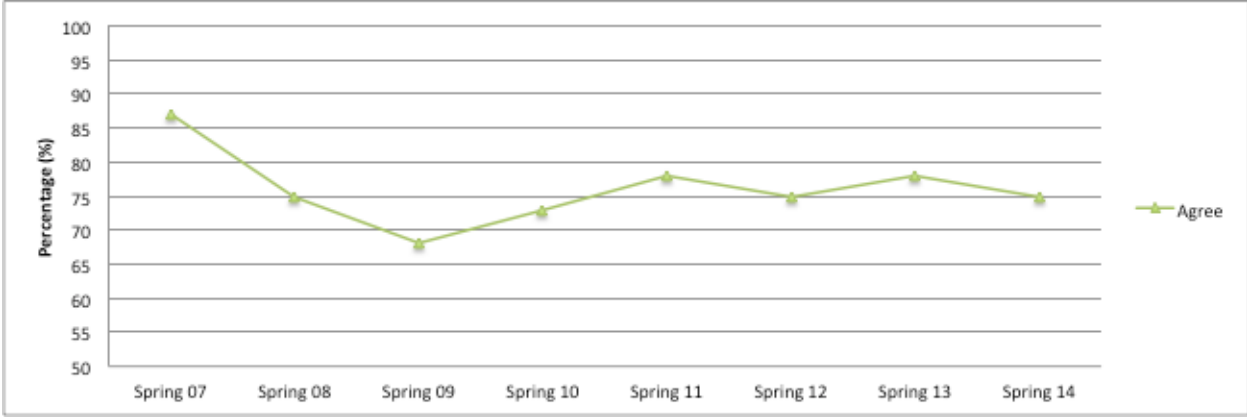
Source: Eurobarometer 400, 349, 329, 296, 270, 214, 191 reports: The question is posed to respondents as “In your opinion, what of the following do you think the adoption of the euro will do for (OUR COUNTRY)?” with “will reinforce the place of Europe in the world” as one of the choices.

Figure 3.25 Opinion: The Euro Will Protect Lithuania from the Effects of International Crisis



Source: Eurobarometer 400, 349, 329, 296, 270 reports: The question is posed as “Do you think the euro...?” with “will protect (OUR COUNTRY) from the effects of international crises” as one of the choices.

Figure 3.26 Opinion: The Euro Will Increase Inflation in Lithuania



Source: Eurobarometer 400, 349, 329, 296, 270, 214, 191 reports: The question is posed to respondents as “Do you think the euro will increase inflation in (OUR COUNTRY)?”

Compared to other CEECs, Lithuania and the other Baltic countries had more to gain from being part of the euro area during the crisis, since they were already *de facto* in the Eurozone, without the benefits of a “say a the table” and the safety net of a bail-out program. Thus, the crisis highlighted the need to adopt, instead of deter adoption like it did in other CEEC states. Because Lithuania, Latvia and Estonia moved quickly in the beginning and joined ERM II immediately after joining the EU, it meant they felt the need to continue to move swiftly towards full adoption.

“... this is a true integration into the European Union and security. The Eurozone has proved to be more resilient during the financial crisis, and we would have been able to make use of these advantages if we had been a member of the Eurozone.” - Ingrida Šimonytė, Lithuania’s Finance Minister.¹³⁶

CHAPTER 4: Conclusion

Lithuania committed to becoming a fully integrated member of the European Union when in 2003, it passed the EU referendum with a resounding majority of the public in favor of membership. Since then, Lithuania has been on a determined path towards euro adoption, despite obstacles such as barely missing the convergence criteria for 2007 and a financial crisis that swept through Europe and shook confidence in the common currency along with it. The crisis even demonstrated the Lithuanian people’s confidence in the Eurozone during uncertain times, when their belief in the benefits of euro adoption rose.

In essence, Lithuania was already pegged to the euro when it became part of ERM-II in June 28 2004, and would not look back. With the currency board arrangement fixing the litas exchange rate to the euro in 2002, one could date Lithuania’s commitment to euro adoption as

¹³⁶ Baltic News Service, “Lithuania’s new Finmin sees euro entry as true integration in EU, security,” July 8, 2009.

far back as the first days of the euro currency's circulation. Other CEECs did not commit early on to the tying their local currency to the euro and thus felt they could afford to wait out the crisis before considering adoption. And although many advantages of euro adoption had been cited by politicians and bankers over the years, the decision to fully integrate with the EU via monetary union was given even more importance as a choice between East and West in 2014 with recent political and military actions of Russia.

This analysis of the actions of the key players demonstrates Lithuania's commitment over the past decade to adopting the euro through the will of government, the lack of opposition, the support of the central bank and in spite of low public opinion. Being considered a full member of the united European community has been critical to Lithuania as it continues to transition from its identity as a former Soviet republic to one of a nation in the heart of Europe. The commitment and resolve Lithuania demonstrated in its road to the Eurozone remains a strong representation of that desire and determination.

Appendix

Presidents of the Republic of Lithuania (2004 – present)

Rolandas Paksas 26 February 2003 – 6 April 2004

Liberal Democratic Party

Artūras Paulauskas (acting) 6 April 2004 – 12 July 2004

New Union (Social Liberals)

Valdas Adamkus 12 July 2004 – 12 July 2009

Independent

Dalia Grybauskaitė 12 July 2009 – present

Independent

Finance Ministers of the Republic of Lithuania (2004 – present)

Dalia Grybauskaitė July 2001 – April 2004

Independent

Algirdas Butkevičius May 2004 – May 2005

Lithuanian Social Democrats

Zigmantas Balčytis May 2005 – May 2007

Lithuanian Social Democrats

Rimantas Šadžius June 2007 – December 2008

Lithuanian Social Democrats

Algirdas Semeta December 2008 – June 2009

Homeland Union – Lithuanian Christian Democrats

Ingrida Šimonytė July 2009 - December 2012

Independent

Rimantas Šadžius December 2012 – present

Lithuanian Social Democrats

Ministers for Social Security and Labor (2004 – present)

Vilija Blinkevičiūtė **30 October 2000 – 9 December 2008**
Labor Party

Rimantas Jonas Dagys **8 January 2008 – 22 July 2009**
Homeland Union – Lithuanian Christian Democrats

Donatas Jankauskas **22 July 2009 – 13 December 2012**
Homeland Union – Lithuanian Christian Democrats

Algimanta Pabedinskienė **13 December 2012 – present**
Lithuanian Social Democrats

Prime Ministers of the Republic of Lithuania (2004 – present)

Algirdas Brazauskas **3 July 2001 – 1 June 2006**
Lithuanian Social Democrats

Zigmantas Balčytis (acting) **1 June 2006 – 4 July 2006**
Lithuanian Social Democrats

Gediminas Kirkilas **4 July 2006 – 9 December 2008**
Lithuanian Social Democrats

Andrius Kubilius **9 December 2008 – 13 December 2012**
Homeland Union – Lithuanian Christian Democrats

Algirdas Butkevičius **13 December 2012 – present**
Lithuanian Social Democrats

Chairmen of the Board of the Bank of Lithuania (2004 – present)

Reinoldijus Šarkinas **15 February 1996 – 15 April 2011**

Vitas Vasiliauskas **16 April 2011 – present**

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