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Eurozone grows as Lithuania joins

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Lithuania's accession to the eurozone on 1st January 2015 demonstrates that the currency union retains its appeal. Similarly to Latvia, the most recent newcomer, this very small country with a 0.009 % share of the eurozone's population and generating 0.34 % of its real GDP is also enthusiastic to join the eurozone in order to further distance itself from Russia, its major trading partner.

Sits well with its predecessors

As far as its level of economic development is concerned, the country fits in very well with the newer members of the eurozone (see diagram). With per-capita GDP of EUR 11,151, Lithuania is on par with Latvia (EUR 10,353) and Estonia (EUR 11,031), each in the year before they joined the euro, and just behind Slovakia (EUR 12,522). Only the Slovenes were somewhat more prosperous at the time of their accession on 1st January 2007, at EUR 17,495 per capita. The differences in the budget deficit, debt and inflation are not too large, not least because the access criteria stipulate thresholds. The fact that Lithuania and Latvia are in a worse position than the previous candidate countries is largely a consequence of the financial and euro crises.

At 41.3 % of GDP this year, the debt level in Lithuania is below the threshold of 60 % of GDP but higher than those of the other countries when they joined. However, Slovenia (26 %) and Slovakia (28.2 %) became members before the crisis and Estonia (6.5 %) is traditionally almost free of debt. The budget deficits prior to accession were, with the exception of Estonia, between 0.9 % (Latvia) and 2.4 % (Slovakia) of GDP. With an anticipated deficit of 1.2 % of GDP, Lithuania is at the lower end. On the other hand, the inflation rate, as a result of global factors, is significantly lower in Lithuania (0.3 %) and Latvia (0 %).

Crisis overcome without assistance programme

Between 2005 and 2007, Lithuania experienced an economic boom that manifested itself, among other things, in a rapid increase in property prices with annual growth rates of 40 to 60 % and a rise in the loan-to-deposit ratio to nearly 175 %. While the subsequent crisis affected Lithuania less badly than the other Baltic States, its GDP also fell by 14.8 % in the crisis year of 2009. The growth rates were however positive again the following year.

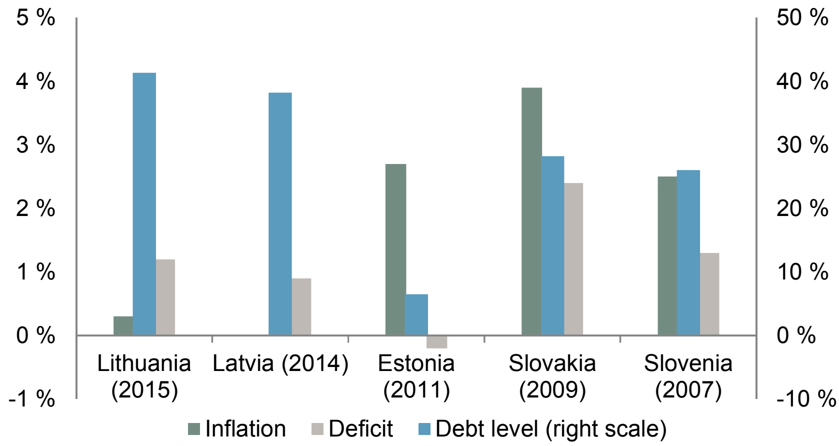
Lithuania achieved the necessary adjustment without an EU and IMF assistance programme and also without abandoning the exchange rate peg against the euro. Instead, there was an internal devaluation, in which private and public-sector salaries and wages were reduced considerably. Unemployment rose sharply and remains relatively high at just under 10 %. Emigration also rose: Instead of the average population shrinkage of 1.2 %, the rate in 2010/11, the years of adjustment, stood at around 2.1 %.

Impact on the eurozone

Lithuania's accession not only demonstrates that, even after the crisis, the eurozone remains an attractive club to belong to but also that a "new normality" has been achieved. Lithuania is the first country, on joining the currency union, to also automatically become a member of the Single Supervisory Mechanism (SSM) and the European Stability Mechanism (ESM) without separate treaties or agreements. Furthermore, the currency union is gaining a small but high-growth member (+2.7 % for 2014).

The accession of the 19th member also sees a change in the voting mechanism of the ECB's Governing Council. Not all members are permitted to vote at every session but have to abstain in accordance with an established rotation principle. ■

Figure: A comparison of economic data in the year before EMU accession



Source: Eurostat, AMECO