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EVALUATING EUROZONE INTEGRATION: BULGARIA'S PREPARATION AND LITHUANIA'S OUTCOMES[3]

The Eurozone represents a significant step in the economic and political integration of EU member states, currently comprising 20 countries, while 7 remain outside this currency union. The article highlights a comparative analysis of both Lithuania and Bulgaria focusing on their fulfillment of the Maastricht criteria and attitudes towards Eurozone membership. It also examines some ratios of real convergence, which are important for assessing economic readiness. Lithuania has successfully met the necessary economic preconditions to participate in the Eurozone – the Maastricht criteria, while Bulgaria, on the other hand, aspires to join the Eurozone but currently faces challenges in meeting these criteria. Lithuania's economic indicators, including its GDP per capita PPS, could serve as a benchmark for Bulgaria's readiness for Eurozone membership.

At present, Bulgaria is not prepared to adopt the euro, primarily due to its failure to meet the official criteria and its lagging progress in real convergence. This situation increases Bulgaria's vulnerability to economic shocks, underscoring the need for further economic development and alignment with Eurozone criteria before it can successfully join the currency union. Using Lithuania's economic levels as a benchmark is a reasonable approach, as it reflects the standards that have been deemed acceptable by the Eurozone's existing members, as well as Lithuania's government. However, it is important to also consider other factors such as overall economic stability, fiscal health, and alignment with Eurozone policies and standards.

Keywords: Eurozone; Bulgaria; Lithuania; currency area
JEL: P52

Introduction

Since its establishment, the creation of the European Union (EU) has been intended to be transformed into a European monetary union with the aim to strengthen the interaction of the member states, foster economic development through free and stable trade of goods and services, free movement of capital and people. The process of monetary integration passes

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through different stages and obstacles. The economic and political integration of the member states of the EU is planned to be deepened by introducing a single currency. The first attempts to do it date back to the 1960s and aim to complete the integration process and improve the economic performance of the participating countries. Along with the idea of reducing transaction costs, risk sharing is one of the reasons for European monetary integration, which has been supported by economic research since the 1990s (Schelkle, 2017). However, critics (Bénassy-Quéré, 2016) point out that the eurozone is a currency union without a sovereign, where countries have made a deal that they will not use the system for wicked purposes of wasting taxes.

The current research contributes to the existing literature on introducing the euro in countries that joined the EU in 2004 and 2007. A previous study (Banerjee et al., 2011) on the euro adoption of Slovakia and Slovenia showed that a successful transition to the euro requires close cooperation between the country's central bank and government and broad support from politicians and the population. However, the authors distinguish success factors from, for example, the cases of Slovenia due to the internal economic cycle, thanks to which it was possible to meet the inflation criterion, and in Slovakia, market confidence in the exchange rate and falling food prices in 2008 (Banerjee et al., 2011). Another study (Kiohos, Stoupos, 2018) found that the introduction of the euro was economically beneficial for Cyprus, Latvia, Slovenia and Slovakia, but not beneficial for the economy of Malta because the country does not have a direct border with other EU countries and the basis of this country's economy is manufacturing and tourism. According to Heller and Warzala (2019), the accession of Latvia, Estonia and Slovenia to the Eurozone did not protect these states from economic fluctuations but had a smaller effect on GDP fluctuations.

The aim of the current research is to analyze the economic conditions that would favour the integration of new member states in the eurozone in particularly Bulgaria. The nominal criteria fulfilment is a threshold, which is not enough to protect the new members from adverse asymmetric shocks. Additional criteria are also important – higher economic results and more inclusive income distribution. The researchers of the optimal currency area describe the necessity of convergence in different aspects as the authors have emphasized the indicators that are most problematic – GDP per capita PPP and Gini coefficient. Some observers have argued that the large income gap impedes monetary integration and that real convergence is needed before new member states can participate in the euro area. Having an economic structure similar to the euro area's may help the country's capacity to absorb economic shocks. A comparative analysis of Lithuania and Bulgaria is an important prerequisite to carefully evaluate the period for the integration of Bulgaria. Especially considering that Lithuania introduced the euro in the second attempt, the first time was in 2007. Both states are young democracies introducing the currency board as a mechanism for inflation stabilization and political influence upon the monetary policy decrease. However, the choice of currency was different. Bulgaria chose the German mark, while Lithuania chose the US dollar. Also, these are countries with differences in respect to population and economic growth, but have similar problems.

The methods applied are a comparative study of two countries members of the EU, as Lithuania has been part of the eurozone (since 2015) and Bulgaria is preparing to join it.

The main research method is a comparison:

- of the level of fulfilment of nominal and some real convergence criteria of Lithuania before it joins the Eurozone;
- of Bulgarian indicators till 2022/2023 (after the EU and ECB convergence reports from 2024) with the results of Lithuania, eurozone average and EU, as well as
- of the level of perception and understanding of the membership by the citizens of each country.

The comparison of some indicators is for the period 2011 – 2022/2023 as Lithuania became a euro area member in 2015, i.e. Lithuania has satisfied the formal criteria, as well as increased its GDP per capita pps to a level, that was not achieved by Bulgaria in 2023.

The comparisons allow us to mark the levels that worked for the integration of Lithuania in the eurozone and observe the levels, achieved by Bulgaria until 2022/2023, to evaluate the degree of similarity and differences in the indicators to motivate the necessity to continue the process of economic development in respect to income and social inclusion increase. The indicators, used in the comparisons, are:

- for nominal convergence: harmonized consumer price inflation, government deficit and debt, long-term interest rate, currency board;
- for real convergence: GDP per capita pps, Gini coefficient.

Integrating the economic results and the acceptance and readiness of the population for such a transition is an approach that shows the deficits and tries to motivate the necessity of more solid preparation not only to meet the formal criteria, but also to have the support by the population.

The choice of the comparative method is determined by the fact that it allows to understand the similarities and differences between the countries under consideration, offers a benchmark opportunity for the economic policy measures applied by Lithuania and Bulgaria during the introduction of the euro, and allows to learn from the experiences of the countries. Statistical methods are applied to analyze the main indicators of the accession process.

1. Assessing the Eurozone: Benefits, Deficiencies, and the Role of Political Integration

The euro area was established with the primary goal of fostering economic development among its member states. However, this initiative is not without its challenges, as it faces structural defects that could potentially lead to conflict and fragmentation within the community. Researchers studying the concept of optimum currency areas, such as Kenen and Mundell, have identified both benefits and shortcomings associated with the eurozone.

From the perspective of labour markets, an optimal exchange rate regime – whether fixed or flexible – should maintain external balance without causing unemployment or demand-driven wage inflation (Kenen, 1969; Mundell, 1961). According to Kenen (1969), if the regime leads to unemployment in one area or forces another to accept inflation as a

countermeasure, it is deemed suboptimal. Proponents of monetary integration believe that in the event of economic shocks, new mechanisms will be developed to strengthen the area. However, political motivations often overshadow economic considerations, with political integration viewed to achieve economic stability and address deficiencies within the union.

Geopolitical stability is another objective of this union, as highlighted by Friedman (1997, p. 3), who argued that close ties between Germany and France could prevent future conflicts and pave the way for a federal United States of Europe. Nonetheless, concerns persist that adopting the euro may exacerbate political tensions, particularly in the face of multidirectional economic shocks that could become contentious political issues (Friedman, 1997). Even the convergence criteria and their evaluation are criticized for being too vulnerable to policy than to economic conditions. The politics that dominate the economy, however, make it difficult to create the economic conditions that would allow the euro to work (Stiglitz, 2016; Rangelova et al., 2023).

In 2018, a group of economists proposed reforms to the eurozone's organizational structure, citing the inadequacy of existing institutions in crisis prevention and management (Politico.eu, 2018). The slow recovery of eurozone countries following the 2008 financial crisis, especially in comparison to the United States, underscores the need for reform. The European Central Bank (ECB) has expressed its commitment to support member states against inflation and debt crises to maintain the currency area. However, changes in the organizational framework and accompanying instruments are necessary to ensure that individual countries are not left to navigate the adverse effects of a shared monetary policy alone.

The analysis of currency union, particularly in the context of the eurozone, highlights both the potential benefits and significant challenges associated with a shared currency. While the idea of pooling resources to mitigate common economic shocks presents an opportunity for risk diversification, the inherent diversity among member states complicates the implementation of solidarity measures.

The common currency is also evaluated through the prism of the public good. As noted, the eurozone comprises countries with varying economic conditions, including disparities in GDP, inflation rates, unemployment, and levels of indebtedness. This diversity can lead to mistrust among member states regarding their commitment to collective agreements, which is crucial for the success of a common currency. The eurozone crisis has often been attributed to these differences, suggesting that the union may be too heterogeneous to function effectively without additional institutional frameworks to address these disparities (Stiglitz, 2016).

The findings from the 2019 study by the Center for European Policy in Freiburg further illustrate the uneven benefits of the euro. While Germany and the Netherlands have emerged as the primary beneficiaries, other countries, such as Greece, have struggled to gain similar advantages. The inability to devalue national currencies restricts countries from using competitive devaluation as a tool for economic adjustment, leading to alternative measures such as wage cuts. Unfortunately, these policies disproportionately affect workers (Stiglitz, 2016) and can hinder overall economic growth.

In summary, while a stable currency is beneficial for all eurozone members, the current structure of the euro area raises questions about its long-term viability and the need for reforms or additional institutions to better accommodate the diverse economic conditions of its member states. The Eurozone, with the European Central Bank (ECB) at its core, faces significant challenges in maintaining economic stability and growth. The ECB's primary mandate is to ensure price stability, which often necessitates restrictive monetary policies that can hinder real economic growth. This situation is further complicated by the mandatory fiscal rules imposed on member states, which limit their ability to implement counter-cyclical budgetary measures in response to the ECB's policies (Cohen, 2003).

The concept of monetary solidarity among Eurozone countries is particularly challenging due to the disparities in economic conditions and fiscal health among member states. Concerns arise regarding the burden of debt repayment, where fiscally disciplined countries may be expected to support those with larger debts, potentially leading to tensions within the area (Sariyski, 2023; Minasian, 2024).

The notion of optimum currency areas suggests that successful currency unions typically share geographical proximity, cultural similarities, and comparable economic conditions. However, the Eurozone's diversity in economic development and living standards complicates its effectiveness as an optimum currency area. While currency unions can promote price stability, they do not necessarily ensure synchronized economic output (Alesina, Barro, Tenreyro, 2003).

Despite the establishment of a credible monetary policy framework and increased financial integration, many national governments within the Eurozone have struggled to maintain fiscal discipline and implement necessary structural reforms (Franks et al., 2018). The aftermath of the 2008 financial crisis has highlighted these issues, as economic growth has remained insufficient, and measures taken have not adequately bolstered the competitiveness of member states (Zlatinov et al., 2023). The slow development is due to the joining of new states, which differ with respect to rates of economic development and standard of living. Currency integration cannot solve the problems accompanying these different trends in economic development. This tendency confirms the necessity to realize a higher level of real convergence, which helps the stability of the nominal convergence and decreases macroeconomic disbalances and asymmetric shocks emersion (Collective Monograph, 2022).

Ultimately, the Eurozone's structure lacks the necessary tools to effectively address the economic shocks experienced by its diverse member states. While it aims to foster political and economic cohesion, the benefits of this integration are not evenly distributed, leading to ongoing challenges in achieving a balanced and equitable economic environment across the Eurozone.

2. The Currency Board as an Approach for Euro Adoption in Lithuania and Bulgaria

The currency board (CB) mechanism has played a significant role in the economic stabilization of both Lithuania and Bulgaria, particularly during their transitions towards

more integrated economies within the European Union. Lithuania implemented the CB from 1994 until its accession to the eurozone in 2015, while Bulgaria has maintained this system since 1997. Both countries adhered to the fundamental principles of a currency board, which include ensuring that reserve money is fully backed by high-quality international reserves (Alonso-Gamo et al., 2002).

In Lithuania, the period from 1994 to 1997 saw a notable GDP recovery, which contributed to the sustainability of the currency board. The CB served as a stabilizing anchor during financial crises and periods of political instability, demonstrating resilience and the government's commitment to maintaining the system. However, critics have pointed out that the Lithuanian CB did not enforce sustainable fiscal discipline, as evidenced by persistent budget deficits during stable economic periods (Feldmann, Kuokštis, 2017). Despite this, the CB allowed the central bank to operate independently from political pressures, which is a crucial aspect of maintaining economic stability (Vilpišauskas, 2014; Spurga et al., 2021).

Initially, Lithuania pegged its currency, the litas, to the US dollar, later transitioning to a peg with the euro in 2002 without any devaluation or revaluation. This transition was characterized by a slight appreciation of the exchange rate, with larger corporations reportedly managing the impacts of this change more effectively than smaller businesses and households (Alonso-Gamo et al., 2002).

In Bulgaria, the introduction of the CB in 1997 involved pegging the Bulgarian lev to the German mark, which subsequently transitioned to a peg with the euro. The successful implementation of the CB required a preparatory phase to meet necessary preconditions, leading to stabilized economic activity and reduced inflation and interest rates (Gulde, 1999; Richard, 2014; Zuchowska, 2015). The CB has been credited with instilling discipline in the economy, which was previously lacking due to political governance issues (Miller, 1999). It also fostered trust in governance, contributing to the stabilization of economic processes (Zloch-Christy, 1998).

Overall, the currency board has proven to be a suitable instrument for small, open economies like Lithuania and Bulgaria, particularly as they seek to integrate into larger trade areas (Alonso-Gamo et al., 2002; Frankel, 1999; Poirson, 2002). Both countries have reaped significant benefits from the introduction and functioning of the currency board, aiding their economic stabilization efforts.

Lithuania joined the EU in 2004 and from that year entered the ERM II (The Exchange Rate Mechanism). Bulgaria became part of the union three years later – in 2007, as in 2020 was included in ERM II. The EU membership gave both countries potential opportunities for economic modernization and new markets. Lithuania has conquered a niche in the EU market – production of "refined oil products, ready-to-wear clothes, high value-added clothes, high value-added wood products and furniture, electrical appliances, processed food and beverages – where it has strong comparative advantages" (Alonso-Gamo et al., 2002, p. 13). Under the conditions of CB, the "stagnant wages and growing productivity" accompanied by declining of civil servants' wages Lithuania improved its export competitiveness (Alonso-Gamo et al., 2002, p. 18). It is more difficult for Bulgaria to define its market niche. In 2022 the main industries, which contribute to 50% of the industrial growth of Bulgaria, are the production of metal devices, production of cox and refined oil products and of clothes and

food (Ministry of Finance, 2023). The main industries till 2022 slightly decreased their growth: production of machinery and equipment; manufacture of computer and communication equipment, electronic and optical products; production of electrical equipment. The dynamic of the development of the last is highly correlated with the industrial production in the EU and mainly in Germany, which makes the economic activity-dependent and vulnerable to external economic shocks. Agriculture is a traditional industry for Bulgaria as the main problem is its development as a resource sector without added value through additional processing to finished goods (Dimitrova, 2022; Mochurova, 2024). Grain production gives a good opportunity for the development of new economic value chains (Nestorov, Branzova, 2022), which will increase efficiency and income in the agri industry.

Lithuania satisfied the conditions and became a member of the eurozone in 2015. Bulgaria is targeting the eurozone membership but still does not meet one of the criteria. The process of joining the euro area needs preparation of the population parallel with the political, legislative, and economic adjustments. According to the Eurobarometer in 2014 (table 1) a great share of the population in Lithuania and Bulgaria was not informed about the euro and feared of negative consequences of the introduction of the euro and especially from price increase.

Table 1. Population knowledge about the Eurozone in 2014 (%)

Indicator	Lithuania	Bulgaria
Informed about the euro	50	38
Not informed about the euro	46	61
Negative consequence of the introduction of the euro	47	56
The changeover of the euro increases prices	75	65

Source: European Commission, 2014a, 2014b.

During the same year the percentage of not informed in Bulgaria was higher than in Lithuania, i.e. more people did not know about the euro and saw a high risk of joining it. This, of course, has its explanation, because when the euro introduction campaign starts, it is usually financed by the country's national central bank (Lithuanian bank), the Government (Ministry of Finance), the European Commission and the European Central Bank.

Table 2. Meeting the criteria

Indicator	Lithuania	Bulgaria
HICP inflation – %, 2014	0.20	-1.60
Budget deficit – % of GDP, 2014	-0.60	-5.40
Government debt – % of GDP, 2014	40.50	27.00
Long-term interest rate – %, 2014	2.79	3.35
Trade openness – %, 2012	83.50	68.20
GDP per capita pps – %, 2014	76.00	47.00
Unemployment – %, 2014	10.70	12.40

Source: Eurostat; European Commission, 2014a, 2014b.

The Maastricht criteria were covered by Lithuania in 2014 as a formal condition to join the eurozone, which is shown in Table 2. Before eurozone integration Lithuania had not only formally met Maastricht criteria but had a better level of economic development than Bulgaria at present – higher trade openness and level of GDP per capita PPS. Vilpišauskas

(2014) notes that the evidence that Lithuania's budget will be below the 3% of GDP limit was obvious to the decision-makers already at the end of 2012. However, the central bank was in no hurry to name the target date for introducing the euro in Lithuania due to the country's economic situation and the eurozone (Vilpišauskas, 2014).

Lithuanian's efforts to meet the Maastricht criteria were a result of serious wage reductions. Richard (2014) describes the main sources and activities through which the criteria were satisfied fully:

- civil servants' wages reduction – ranging from 5 to 45% – depending on the post occupied;
- reduction of the President of the Republic's salary by 45%, of the ministers and civil service directors by 40%;
- Teachers' wages were reduced by 5%;
- State pensions were cut by 15%;
- A 20% adjustment in wage reductions in the private sector, together with a vast reform of the labour market to align salaries with competitiveness.

The return of GDP growth rate fostered a decrease in long-term interest rates. This reduction was vital for the assessment of the last criteria in the Treaty, the sustainable nature of convergence reflected by interest rates.

In a situation of high distrust and lack of information among the population of the euro, the Bulgarian government continued to follow a strategy of strong fiscal discipline and achieved stable macroeconomic indicators with some rates lower than the ones in Lithuania in 2014 but at a lower level of economic development. As Minasian (2024) states the fulfilment of the fiscal rules is a drawback to the strong economic development, resulting in a lack of investments in capital assets and in new technologies and omitted income creation opportunities.

In 2023 the Bulgarian government announced its intentions to join the eurozone as soon as possible, which created a broad and intense discussion in the society. Lithuanian researcher Vilpišauskas (2014) believes that the current history of the eurozone shows that the political elites of some countries create favourable conditions for joining the eurozone, while others, on the contrary, take their time due to compliance with the Maastricht criteria. The Bulgarian economists have opposite attitudes about the time of the euro introduction and these disputes resulted in better information about the euro for the population in 2023 (Table 3).

Table 3 Population knowledge about the Eurozone in 2023 (%)

Indicator	Bulgaria
Informed about the euro	60
Not informed about the euro	40
Negative consequence of the introduction of the euro	52
The changeover of the euro increases prices	60

Source: European Commission, 2023.

Still, the fears of high inflation and other negative consequences of eurozone membership prevail among the population of Bulgaria. And this is natural because the introduction of the euro in Lithuania became a symbol of rising prices and the debates on this issue were particularly sharp (Spurga et. al., 2021). Hobolt and Wratil (2015) showed that despite the global economic crisis (2008-2012), trust in the euro remained high within the eurozone, compared to countries outside the eurozone, where trust decreased accordingly. The EC (EC, 2024a) report shows that in 2024 about 49% of the Bulgarians are in favour of introducing the euro, as 60% think that the state is not ready to introduce it. That motivates 43% of the Bulgarians to accept it after a certain time or later and one of the reasons is that 64% are afraid of inflation as a consequence, which is an increase compared to the results in 2023.

One of the reasons for fears of future inflation is the low household income which could not protect the consumers against potential inflation shocks. In 2023 the minimal wage in Bulgaria was about 50% of the minimal wage (gross 840 euro) in Lithuania, which again stresses upon the vulnerability of the Bulgarian population to strong inflationary shock. The Bulgarian government as in the case of Lithuania see the eurozone membership as an exit strategy from the currency board. This is not enough to motivate the rush for the euro area. On the contrary, the survey of the political elite of the Baltic states shows that the eurozone is an opportunity for them to be at the same table and participate in decision-making with other eurozone countries (Spurga et. al., 2021). Indeed, in the case of Bulgaria, the formal criteria need to be satisfied not only before becoming part of the currency area but also have them stable afterwards. It is important to enter in a suitable moment when the economic cycle is beneficial and to have economic results similar with the average in the eurozone.

3. Comparison of Main Economic Indicators of Lithuania and Bulgaria

The comparison between Lithuania and Bulgaria of the Maastricht criteria fulfilment is essential to evaluate the prerequisites that support fluent integration in the eurozone and to guarantee healthy development (Figures 1, 2, 3). A comparison is very useful for that type of research as it simplifies complex concepts, provides quick insights, spotting differences and similarities and is useful for benchmarking. While a conventional approach would focus exclusively on pre-accession data, the article argues from the perspective of methodological pluralism, which allows for the use of diverse methods and data sources to provide a more comprehensive understanding of complex economic phenomena. Some indicators are compared using data for the period 2011 – 2022/2023 as Lithuania became a euro area member in 2015, which shows the satisfaction of formal criteria by Lithuania, as well as it increased its GDP per capita pps to a level, that was not achieved by Bulgaria in 2023. It is useful to compare the results of a member of the euro area and Bulgaria to identify the benefits of applying appropriate monetary policy and to evaluate the ability to improve the economic performance in comparison to the states, part of the euro area.

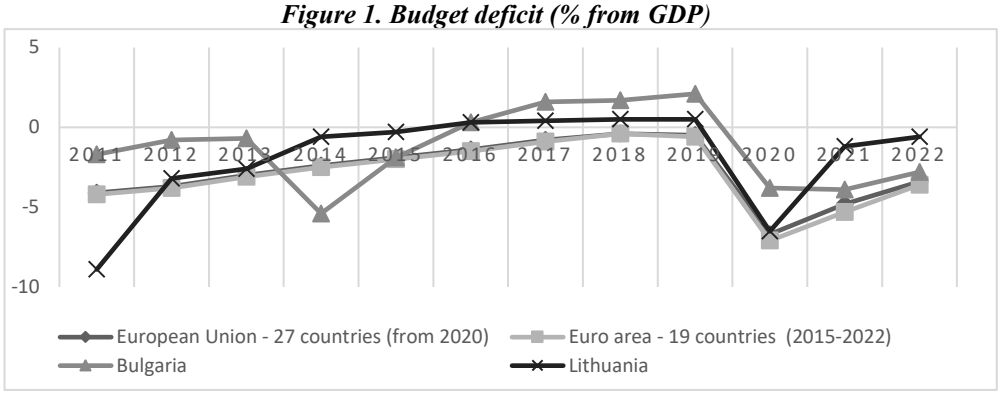
The data in Figure 1 depict the simultaneous movement of the budget deficit of both countries, as well as with the EU and Euro area average. Lithuania and Bulgaria increased the budget deficit during the COVID-19 pandemic. Lithuania succeeded in decreasing it a

year after the pandemic, while Bulgaria did it after the pandemic was over, showing better positions in comparison with the EU-27 and Euro area-19.

With respect to government debt (Fig. 2) Bulgaria has the lowest result in the EU-27, which increased slightly during the pandemic. The Eurozone states have serious problems with this indicator. After satisfying the criteria before accession at present about half of the eurozone members have increased their debt share.

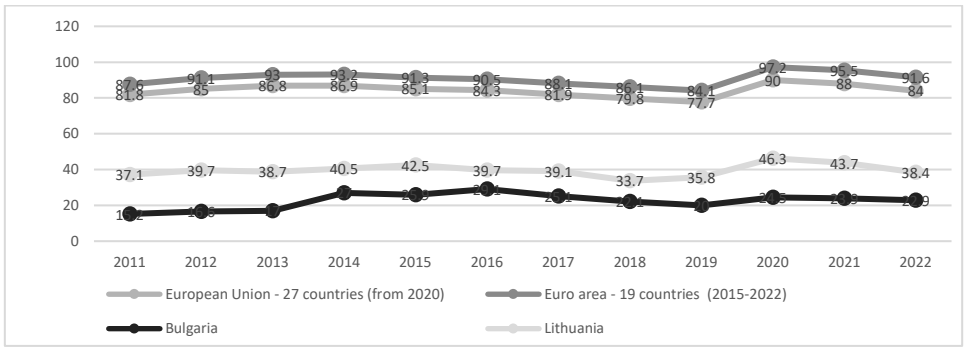
The correlation coefficient between the government debt of Lithuania and the Euro area is significant (0.87) and shows a high correlation of state debt in contrast to Bulgaria (0.28). The high indebtedness needs individual approaches to cope with but joining it and having uniform monetary policy missing additional institutions creates uncertainty about whether the medicine would be beneficial for all. Minasian (2024) considers it to be at the expense of the fiscally stable countries. Over-indebtedness in the countries of southern Europe clearly shows how the inclusion of countries with a lower standard of living and less favourable economic structure generally stimulates the repetition of negative scenarios (Zlatinov et al., 2023; Rangelova, et al, 2023), which was observed in Greece in 2008.

Figure 1. Budget deficit (% from GDP)



Source: Eurostat, https://ec.europa.eu/eurostat/databrowser/explore/all/all_themes.

Figure 2. Government debt (% from GDP)



Source: Eurostat, https://ec.europa.eu/eurostat/databrowser/explore/all/all_themes.

The long-term interest rate in both countries is low – in Lithuania fall to 0.61% in 2022. Lithuania likely attracted quite a few investments from the companies of the German automotive industry ecosystem, because in 2021 Germany was the first in direct foreign investments in Lithuania (5.5 billion euros). The access to low interest rates for financing of private and public investments allows funding of initiatives with low value added (Zlatinov et al., 2023). The effects are a realization of projects with controversial efficiency and necessity and increased money supply resulting in inflation.

Unemployment decreases during the period 2012-2022 in both countries. In 2022 the coefficient is 6% in Lithuania and 4.3%, in Bulgaria, which creates a problem with the provision of enough workers for the Bulgarian and Lithuanian industries. Especially because the labour force of both countries tends to leave the country in search of sources of living (Isanski et al., 2023), which imperils the inflation levels. At the same time, the Gini coefficient is very high in Bulgaria – 32.2% in 2022 while it is lower in Lithuania – 24.6%. Lithuania has succeeded in decreasing the inequality in the society but still, the coefficient is higher than the average results of the EU and the Euro area.

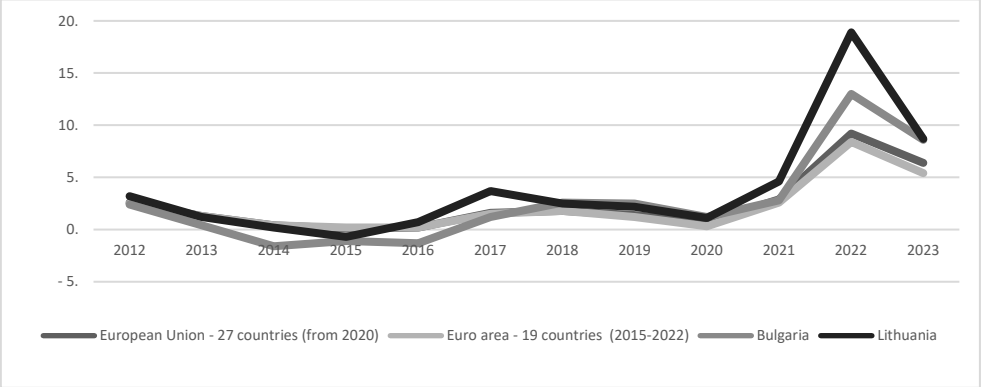
During the period 2012-2023, the inflation rate has changed in Lithuania and Bulgaria in three periods (Figure 3). The first period is characterized by the decrease of inflation and reaching negative values for both countries. After that, there was a 4-year period of positive but low inflation, followed by a rapid increase in the HICP from 2021. After introducing the euro in 2015, salaries in Lithuania were recalculated by dividing by the established official exchange rate 1 EUR = 3.4528 LTL, which stimulated an insignificant wage increase in the first years. It greatly impacted the salaries of public sector workers (teachers, lecturers, doctors, civil servants, etc.), who did not have the opportunity to negotiate. Meanwhile, the prices of food products and services have increased significantly, for example, milk products by 30 – 50 euro cents, and services such as car repair have started to cost as much as in Western EU countries.

During the whole period, the inflation in Lithuania is higher than in Bulgaria. Although Bulgaria is outside the monetary union, it managed to reduce the high inflation levels registered in 2022. The inflation shock in Lithuania, Latvia and Estonia is due to the operation of many different factors, including rising energy prices, but also the creation of an environment of excessive stimulation of the money supply and accelerated financialisation in the absence of a sustainable foundation in the real economy (Zlatinov et al., 2023, p. 131). The economists (Šiaudinis et. al., 2020) of the Bank of Lithuania assured that the increase in prices was not determined by the euro introduction but by faster economic growth after joining the eurozone. Prices also grew in countries that have not adopted the euro such as the Czech Republic, Romania, and Hungary. In the first year after the introduction of the euro, negative average annual inflation was recorded (-0.7%) (Šiaudinis et. al., 2020), which increased in the next years. Indeed, inflation is stimulated by the facilitated access to credit at low interest rates and the higher credit rating, resulting in increased indebtedness. The difficulties with in the time-stopping of the process could bring the Greek scenario – Greek debt reached over 100% in 2001, when the country became a member of the euro area, and in just a few years it doubled. The HICP inflation of Bulgaria in 2024 is 5.1% (EC, 2024b) which is higher than the reference value of 3.3% and such a level does not allow the state to

meet the Maastricht criteria. Core inflation is expected to remain persistently high, mainly reflecting strong wage pressures amid tight labour markets (ECB, 2024, p. 68).

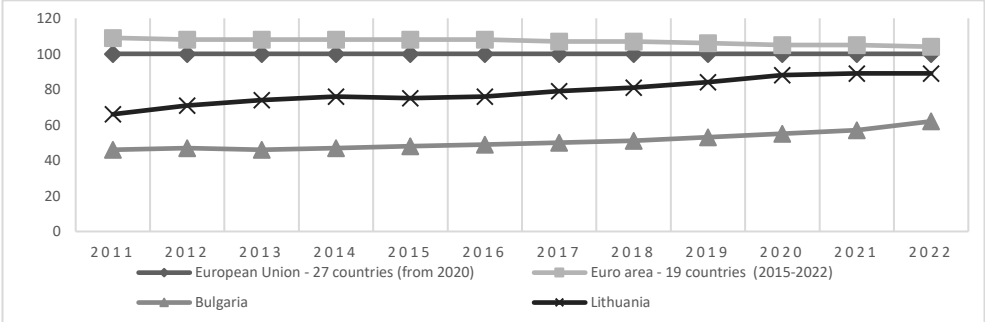
The official convergence criteria, while crucial, are not the sole determinants of a country's readiness for Eurozone integration. The criteria serve as a baseline for assessing economic stability and alignment with the Eurozone, but real economic convergence and the actual economic development of countries can vary significantly beyond these criteria. The experiences of countries like Lithuania and Bulgaria illustrate that while nominal convergence can be achieved, the real economic situation and public support play significant roles in successful integration. Lithuania's transition, for instance, involved not only meeting the criteria but also addressing underlying economic and fiscal challenges. Bulgaria's ongoing preparation underscores the need for comprehensive economic and social readiness.

Figure 3. HICP – inflation rate (%)



Source: Eurostat, https://ec.europa.eu/eurostat/databrowser/view/tec00118/default/table?lang=en&category=t_prc.t_prc_hicp

Figure 4. GDP per capita in PPS



Source: Eurostat, https://ec.europa.eu/eurostat/databrowser/explore/all/all_themes.

The level of purchasing power GDP per capita gives an idea of the real convergence of countries (Figure 4). Bulgaria has the lowest value among the EU-27. It has increased over the 12-year period under review but still is lower than the Lithuanian's before accepting the

euro. This is seen as a prerequisite for both deferred accession to the euro area and for a more difficult adaptation of the economy subsequently (Zlatinov, at all 2023). Convergence is improving because of both the country's progress and a deterioration in the economic performance of other states such as Greece. A decrease is also observed in the well-developed economies of Germany, the Netherlands, and Austria. A process of divergence of the eurozone states is seen as a consequence of the financial and economic crises of 2008 (Rangelova, 2023), which continues.

In 2022 Lithuania reached 89% GDP per capita in PPS, which is the second highest result among the ex-socialist countries in the EU. The Czech Republic and Slovenia have reached 90% of GDP per capita in PPS, as the Czech Republic is not part of the euro area, while Slovenia is. In 2014, the year before Eurozone accession, Lithuanian's GDP was 76%. The state was in a better position than Bulgaria in 2023, which means that Lithuania not only had fulfilled the formal criteria but had also provided the necessary economic ground for cooperation with the euro area countries. The preliminary Eurostat data for 2023 shows that Lithuania's GPD per capita in pps decreased to 87%, which is lower than the result in 2020 during the COVID-19 pandemic. Bulgaria improved its result in 2023 reaching 64% of the average GDP per capita in PPS and approaching the Greek result of 67%but still the lowest in the EU.

Both countries have different abilities to overcome the financial and health crises. Being part of the Eurozone zone Lithuania's GDP per capita increased by 27% in 2019 in comparison to 2015 (after the Eurozone accession) and by 29% in 2023 compared to 2020 (the Covid-19 pandemic year). In Bulgaria, the results are respectively – 28% and 39% increase for each period, which shows greater opportunities for the Bulgarian economy, which is not part of the Euro area. The Czech Republic confirms the notion that real convergence is a significant criteria for joining the eurozone. It reached 91% of the GDP per capita in PPS in 2023 being outside the eurozone, which proves the conclusion that the inclusion in euro area does not automatically increase economic development (Minasian, 2024) and it is necessary to have it before the integration. The free capital movement is beneficial and is seen as an instrument to attract investments in underdeveloped economies but the contemporary trends show capital leakages from the Eastern European countries towards the developed Western European economies despite the lower interest rates there. The free movement allows the search for riskless investments at low interest rates. The economic convergence should happen parallel with the negative psychological attitudes of the population (Minasian, 2024). Bulgaria suffers from low investment activity and a significant share of capital leakages. The ex-socialist states, which are part of the eurozone, suffer greater capital outflows, while the states with derogation succeed in managing and decreasing them (Minasian, 2024). The negative result of lessened capital availability is upon the lack of investments and the decreased economic performance of the state.

Lithuania was in a better economic condition before joining the eurozone in comparison to Bulgaria. Bulgaria does not fulfil the convergence criteria; its economy is the weakest in the EU (64% of EU GDP per capita in PPS) and has a strong income inequality. At the same time, the population is not prepared for the transition from national currency to euro usage and is not protected from the main shock – inflation. Over the longer term, there are concerns about the sustainability of inflation convergence in Bulgaria (ECB, 2024, p. 75).

Nevertheless, the Bulgarian government has been active in the preparation for euro acceptance and advertised it as a magical transformation that will help Bulgaria become prosperous. Lithuania's experience confirms the necessity to be prepared before entering to benefit from the participation. While Lithuania has a smaller population it was easier for it to govern the economic conditions before and after the eurozone integration. Bulgaria as a bigger state needs more time to prepare for eurozone integration, to implement economic policies supporting strong and inclusive development and to evaluate very carefully the suitable period for the euro introduction.

Conclusion

The eurozone is targeted to be the next step of European integration and benefit sharing. Each state is obliged to fulfil the criteria for nominal convergence, as well as other factors influencing the convergence level. However, many countries do not fulfil the Maastricht criteria after being part of the eurozone. Fulfilment of certain criteria is an easy way to govern the development but not always it is beneficial for the economy and the population.

Lithuania and Bulgaria used the CB system as an instrument for political and economic stabilization. Both states see the eurozone as an exit strategy for such currency systems. Lithuania was in a better situation when entered the euro area. It met the Maastricht criteria although at the price of significant wage cuts, but at a higher level of the ratios for real convergence than Bulgaria. Despite that, the inflation shock afterwards impacts it negatively. Lithuania could serve as a good threshold for defining minimal preconditions satisfied by Bulgaria in the euro integration process.

At present the political motives prevail over the economic in the hurry to integrate Bulgaria into the eurozone despite the obvious not meeting one of them and greater divergence in respect to income, inequality, and inflation risk. Bulgaria is facing several important challenges in its path toward Eurozone integration:

- Inflation Criteria Fulfillment: Bulgaria has struggled with meeting the inflation criteria required for Eurozone membership. Inflation stability is crucial for joining the Eurozone, as it ensures that the new member's economy can maintain price stability once it adopts the euro.
- GDP per Capita PPS: Bulgaria has the lowest level of GDP per capita PPS in the EU. While there has been a positive trend, the disparity is significant. Economic convergence, which includes reaching a level of GDP per capita closer to that of existing Eurozone members, is essential.
- Gini Coefficient: Bulgaria's high Gini coefficient indicates a high level of income inequality. Addressing this inequality is important for achieving broader economic stability and ensuring that the benefits of Eurozone membership are widely distributed.
- Public Support: With 60% of the population reportedly favouring a postponement of Eurozone membership, there is a clear lack of public support. Gaining public backing is crucial for implementing the necessary economic and policy changes and for the overall success of Eurozone integration.

The eurozone integration is seen as a way for quicker economic development, which has no economic motivation. The economic improvement could be achieved through investment in infrastructure, in new technologies and in people. It is necessary initially to solve the basic drawbacks and then to join a currency structure. A robust economic base is necessary for joining the Eurozone. Bulgaria needs to address structural issues in its economy and ensure that its economic fundamentals are strong and resilient.

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