

CONFIDENCE IN THE EURO: EVIDENCE FROM CEE EUROZONE CANDIDATES

PhD Student **Otilia Georgiana FLOROIU**
"Ștefan cel Mare" University of Suceava, Romania
otilia.floroiu@yahoo.com

Abstract:

Recently, the Economic and Monetary Union has been facing various threats that affect the confidence of its members. It is crucial to maintain high levels of trust in the Eurozone in order to avoid rising polarities and to support cooperation between countries. The Eurobarometer reports reveal the public opinion in member states, allowing us to carry a comparative analysis between our chosen nations: Romania, Poland, Hungary, and the Czech Republic. These form a unique combination of CEE Eurozone candidates that have seldomly been studied systematically, all of them using a floating exchange rate. This paper analyzes the use of the euro and level of information, opinions about introducing the euro, and expectations for introducing the euro. Having accurate and transparent information is a key ingredient for increasing confidence in the euro and making the transition process seamless. Making this information widely available and taking the time to educate the population is also crucial. The analysis shows that Hungary has the highest number of poorly informed people, while the Czech Republic does really well in this regard. However, the largest number of people that support the euro adoptions comes from Hungary, while most Czechs are against it. This paradox can prove to be detrimental to the success of the transition in the candidate countries.

Key words: Eurozone, euro adoption, confidence, CEE countries.

JEL classification: O11, O40, E60, F15, F36.

1. INTRODUCTION

The European Union is going through a difficult period that requires reorganizing and implementing new methods aimed at increasing the population's level of confidence. The confidence crisis affects the trust of the citizens in the EU as a governing body, as well as the trust in the national political system. There have been multiple threats to the Eurozone well-being, starting with the 2008 financial crisis, followed by the Greek rescue, the refugee crisis and most recently the SARS-CoV-2 pandemic. The confidence crisis is deepening and could ultimately lead to a lack of cooperation among member states and an increased disparity between them.

In order to establish the level of confidence in the EU's mission and to emphasize the areas that require immediate attention, the European Parliament runs periodic studies concerning the public opinion in member states. The studies help highlight the perceptions and expectations of the citizens regarding the Parliament and the European Union's activities based on which an action plan is created.

The Eurobarometer surveys were first launched by the European Parliament in 2007 and target various subjects:

- The European Elections: the surveys are conducted before European elections and focus on the citizens' interest in elections and their opinions regarding the European project
- Parlameter: focuses on Europeans opinions about the European Parliament and analyzes the public image of the Parliament and its role, opinions regarding EU membership and its advantages, the citizens feeling of belonging, political priorities, and values.
- Specific surveys: focused on particular topics such as certain sociodemographic groups.

2. THE IMPORTANCE OF CONFIDENCE IN ECONOMY

Among the factors that decisively influence the economy, we usually encounter work, nature and capital. But there are other factors worth mentioning that impact the economic fluctuations, especially the psychological factors of the decision-making process.

Decision-making represents a basic economic process, which has only been analyzed from the perspective of economic and objective factors, by classical economists. With the help of neoclassical economy, new points of view were introduced, that are based upon the analysis of psychological factors.

Among the psychological factors, confidence acts as an economic lubricant, which encourages consumption and investments. During times of crisis, it is imperative to implement measures that aim at increasing the level of confidence in the economy and the future.

The specialized literature is abundant in studies that analyze the importance of confidence in economy.

Some of the studies focused on the impact of confidence on economic growth and reached the conclusion that confidence's impact on real GDP growth is significant, regardless of the business cycle stage (Bond and Schiaffi, 2015).

When the economy goes into recession, restoring confidence is crucial. Economists (Akerlof and Shiller, 2009) have a particular interpretation of the term confidence based on Keynes' animal spirit theory and believe that it is not always a rational concept. They believe that rational decision-making models are simplistic and that other psychological factors, such as confidence in the economy, should also be taken into account. At the level of monetary aggregates, confidence comes and goes, sometimes justifiably, sometimes not. Confidence is not just a rational prediction, it is the first and one of the most important animal instincts.

Other studies (Dees and Soares Brinca, 2013) analyze the role of confidence in explaining household consumption in the euro area and the US. The research results indicate that the consumer confidence index can be a good predictor of consumption.

The consumer confidence can reduce forecast errors in models that include traditional macroeconomic variables (Ludvigson, 2004). Consumer confidence captures perceived uncertainty about the future and the expectations of the future income or wealth.

In order to quantify the level of confidence in the economy, a series of indicators were developed: Michigan Consumer Sentiment Index, European Commission Economic Sentiment Indicator and the Macroeconomic Trust Indicator, the last two being used in Romania.

The European Commission Economic Sentiment Indicator is an overall confidence index of the industrial confidence indicator (40%), construction confidence indicator (5%), services confidence indicator (30%), consumer confidence indicator (20%), and retail trade confidence indicator (5%).

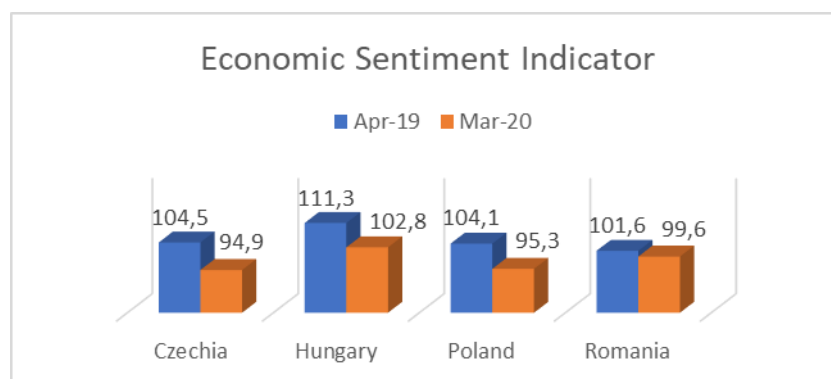


Figure nr. 1. Economic Sentiment indicator

Source: Own elaboration using data from <https://ec.europa.eu/eurostat/>

In Figure nr. 1 we can notice a major decline between April 2019 and March 2020 for all the compared countries, mostly due to the evolution of the service and retail sectors. The largest decrease is recorded in Czechia (9,18%), followed by Poland (8,45%), Hungary (7,63%), and Romania (1,96%).

The Macroeconomic Trust Indicator calculated by Chartered Financial Analysts (CFA) Romania was introduced in May 2011 and analyzes the expectations of financial analysts regarding

the current economic activity in Romania. The values range between 0 (lack of confidence) and 100 (full confidence), and they are based on the analysis of current conditions and the expectancies for the year to come. In March 2020, the indicator reached the value of 20.8, being the lowest value since July 2012, as a result of the crisis generated by the Coronavirus. Due to the current context, starting March 2020, two additional questions were added, and the results show that 48% of the analysts believe that the economic impact will be felt strongly until the fourth quarter of 2020.

3. CONFIDENCE IN THE EURO CURRENCY IN CZECHIA, HUNGARY, POLAND, AND ROMANIA

Analyzing the perception of the population on the prospect of adopting the single currency is of even greater interest given the fact that, as shown in the study (Barabaş, 2018), by providing complete and correct information to the population regarding the changes associated with this transition we will register an increase in the confidence of adopting the euro. Therefore, it is necessary to understand what information we must transmit in future campaigns, the media channels with the highest efficiency, and how our national degree of confidence is compared to other countries that are also waiting to adopt the single currency.

For this reason, we will perform a comparative analysis of the Czech Republic, Hungary, Poland, and Romania using 2019 data collected from the Flash Eurobarometer 479 (April 2019). The multiple-choice questions we will be using as a reference are divided into four categories: use of the euro and level of information, opinions about introducing the euro, expectations for the introduction of the euro, and readiness to introduce the euro.

3.1. Use of the euro and level of information

Most of the citizens have already used banknotes or coins in the countries analyzed. The Czech Republic scored the highest (83%) and well above Eurobarometer average (77%). Countries with values below the total average are Romania (71%) and Hungary (71%).

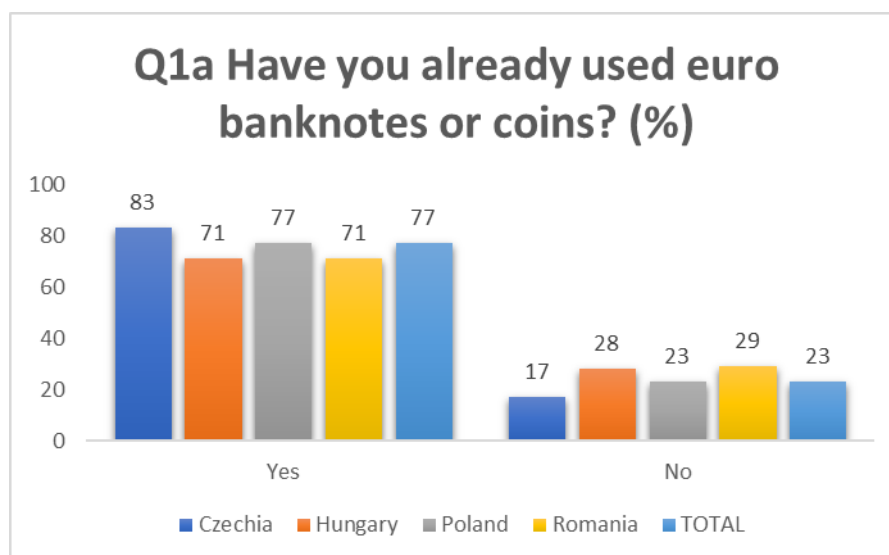


Figure nr. 2. Results for Q1a “Have you already used euro banknotes or coins?”

Source: Own elaboration using data from Flash Eurobarometer 479

In Czech Republic and Romania, citizens consider themselves to be informed regarding the transition to euro. The values recorded in these two countries surpassed the total average (49%). The Hungarian populace prove to be the least informed (43%), well below the average.

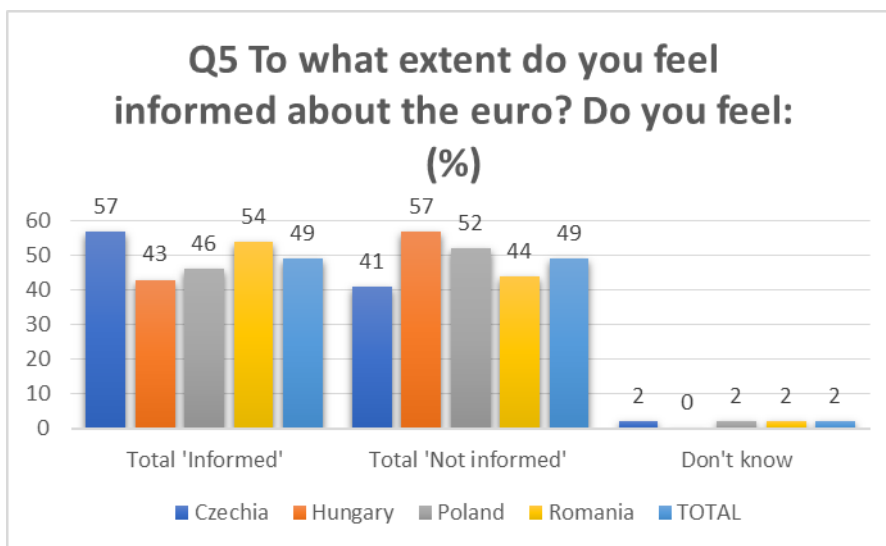


Figure nr. 3. Results for Q5 “To what extent do you feel informed about the euro? Do you feel:”

Source: Own elaboration using data from Flash Eurobarometer 479

3.2. Opinions about introducing the euro

An interesting paradox is that although Hungarians consider themselves to be poorly informed about the euro, they are the most eager to introduce the euro currency in their country (66%). In Romania, 61% of the respondents are in favour of the transition. Most of the responses opposing the single currency came from the Czech Republic (60%) and Poland (51%).

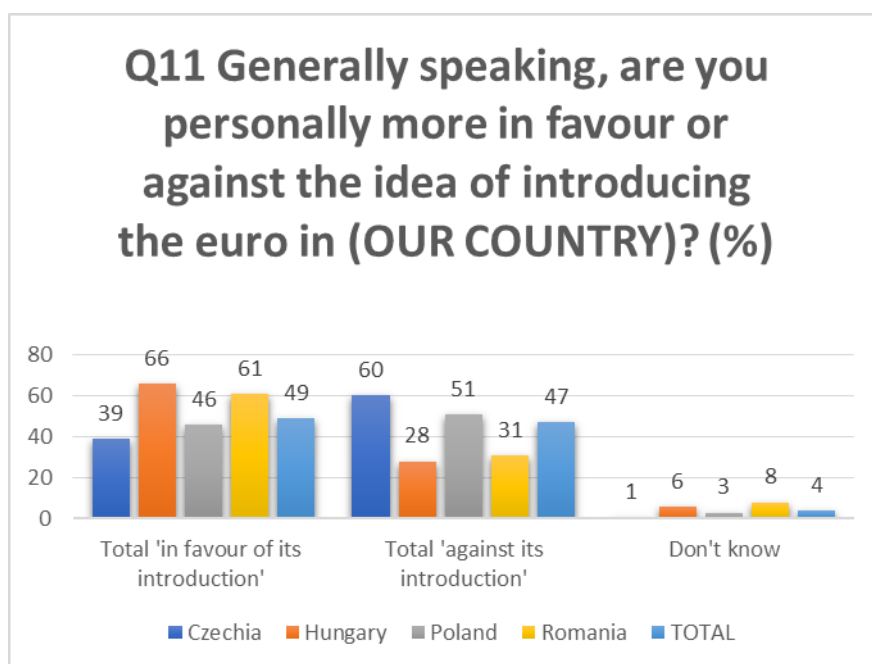


Figure nr. 4. Results for Q11 “Generally speaking, are you personally more in favour or against the idea of introducing the euro in your country?”

Source: Own elaboration using data from Flash Eurobarometer 479

There are colliding opinions regarding the ultimate effects of adopting the euro currency. On one hand, Romania (52%) and Hungary (56%) expect mostly positive results, whereas the Czech Republic (54%) and Poland (51%) anticipate a negative outcome. The most abstentions were registered in Romania (12%) and in Hungary (10%).

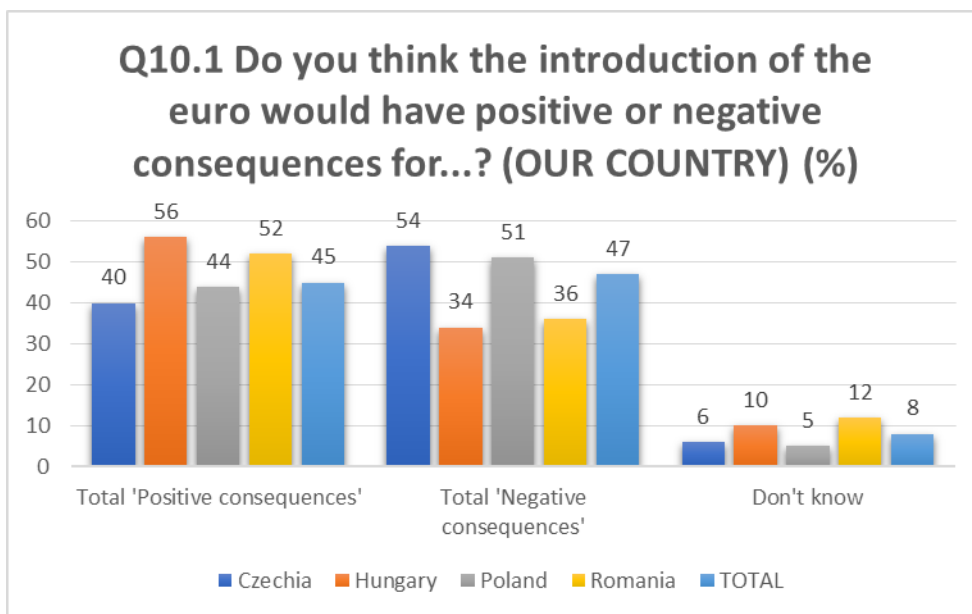


Figure nr. 5. Results for Q10.1 “Do you think the introduction of the euro would have positive or negative consequences for your country?”

Source: Own elaboration using data from Flash Eurobarometer 479

3.3. Expectations for the introduction of the euro

The citizens of Hungary (86%) and Poland (81%) have the highest degree of confidence that they will manage to adapt to the replacement of their national currency by the euro. In Romania, only 75% of the citizens consider themselves prepared for these changes and 9% of them decline to answer hinting a higher degree of uncertainty.

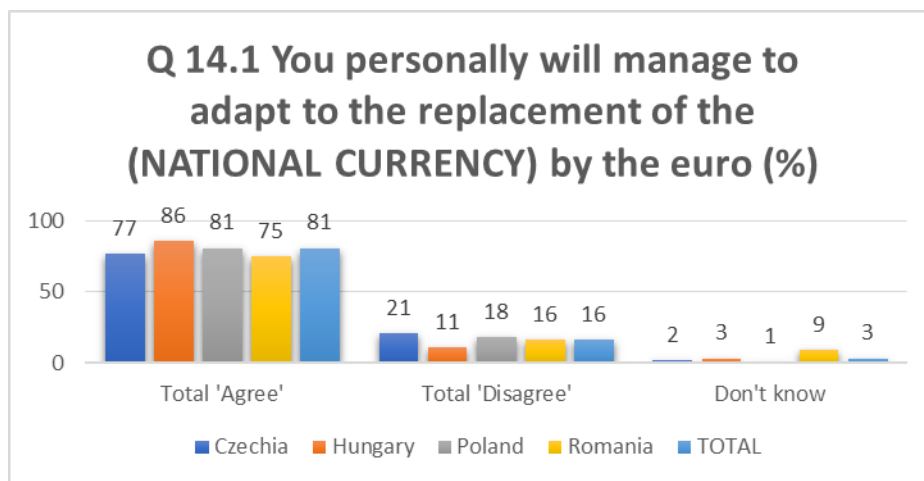


Figure nr. 6. Results for Q14.1 “You personally will manage to adapt to the replacement of your national currency by the euro”

Source: Own elaboration using data from Flash Eurobarometer 479

Abusive price setting is considered to be worrying by 74% of the Polish citizens, whereas only 63% of the Romanian citizens find this to be of concern.

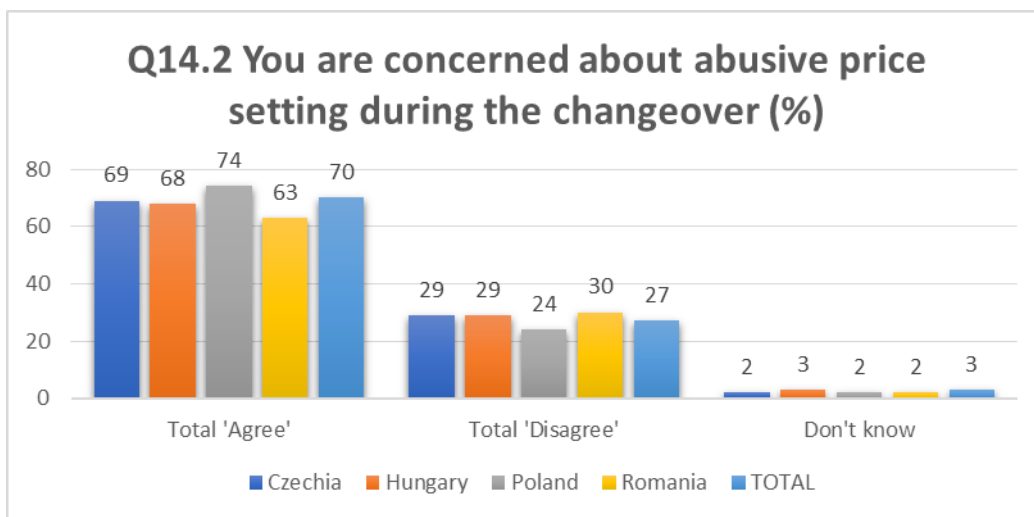


Figure nr. 7. Results for Q14.2 “You are concerned about abusive price setting during the changeover”

Source: Own elaboration using data from Flash Eurobarometer 479

The majority of the respondents in the four countries do not appear to be concerned that adopting the euro currency would mean losing some control over the national economic policy.

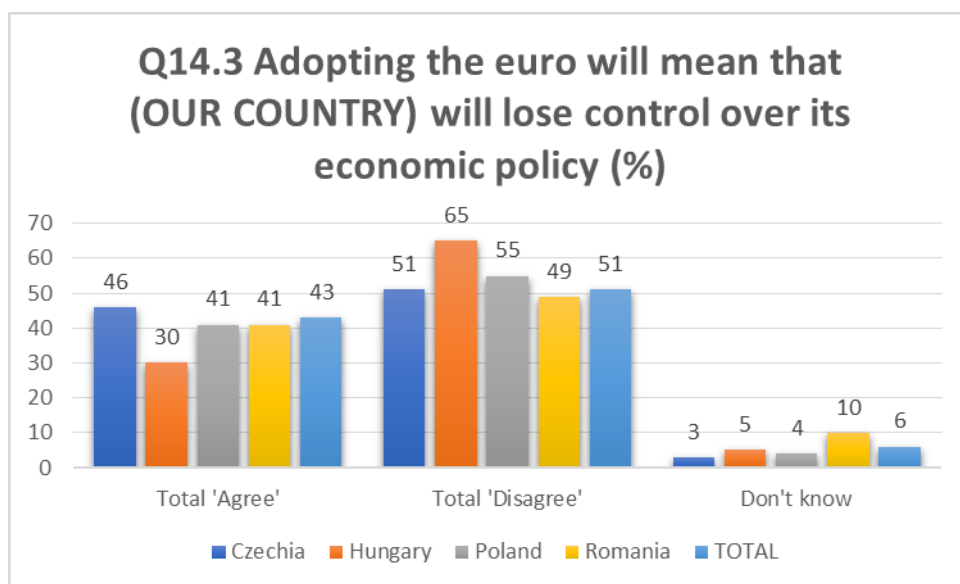


Figure nr. 8. Results for Q14.3 “Adopting the euro will mean that your country will lose control over its economic policy”

Source: Own elaboration using data from Flash Eurobarometer 479

In the Czech Republic, 59% of the respondents are concerned about a possible loss of their national identity due to euro currency adoption. The least worried citizens come from Hungary, where only 30% believed in this scenario.

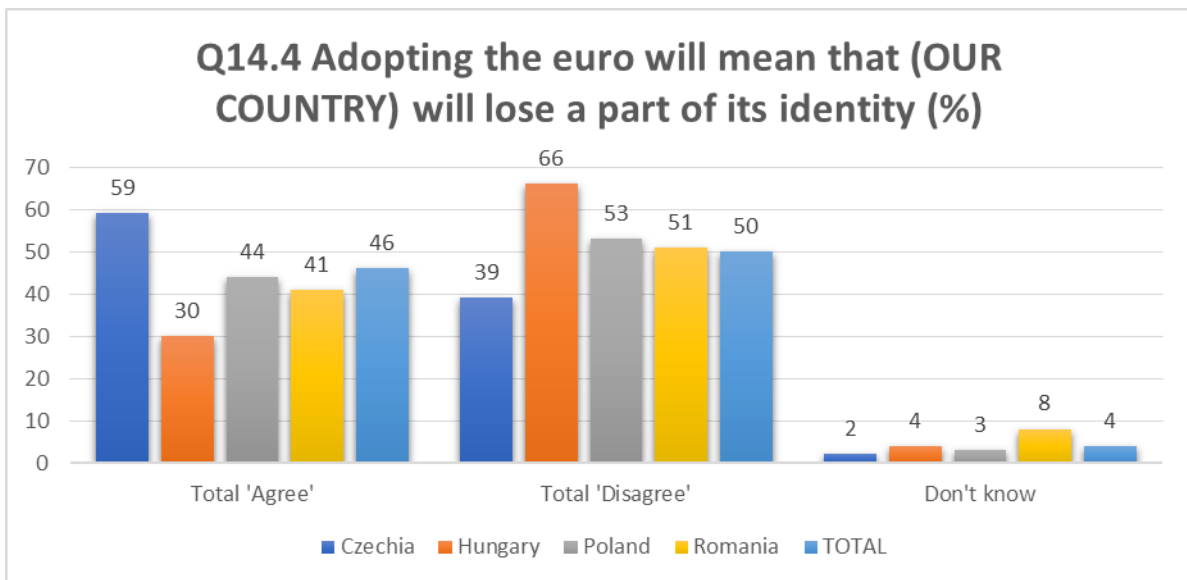


Figure nr. 9. Results for Q14.4 “Adopting the euro will mean that your country will lose a part of its identity”

Source: Own elaboration using data from Flash Eurobarometer 479

3.4. Readiness to introduce the euro

None of the analyzed countries consider themselves ready to adopt the euro currency. Poland (13%) and the Czech Republic (25%) are the least prepared, while Romanian (35%) respondents believe themselves to be the most prepared. Romania also scored the highest level of uncertainty regarding this matter (9%).

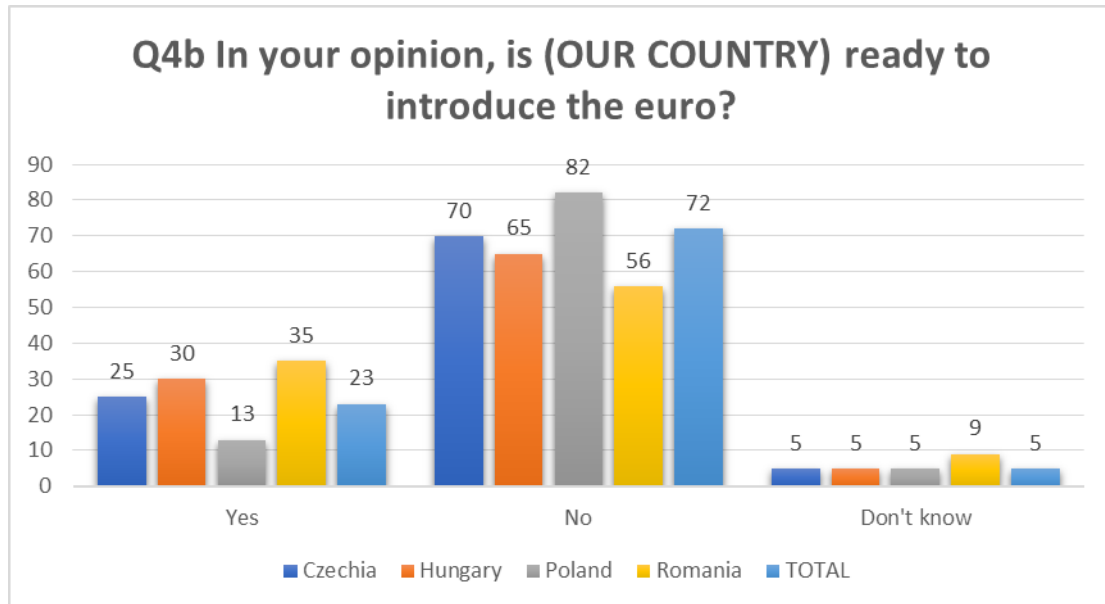


Figure nr. 10. Results for Q4b “In your opinion, is your country ready to introduce the euro?”

Source: Own elaboration using data from Flash Eurobarometer 479

Romania (30%) and Hungary (27%) have the highest numbers of respondents who would like the single currency to be introduced. In the Czech Republic, 37% of the participants do not want their country to switch to the euro at all.

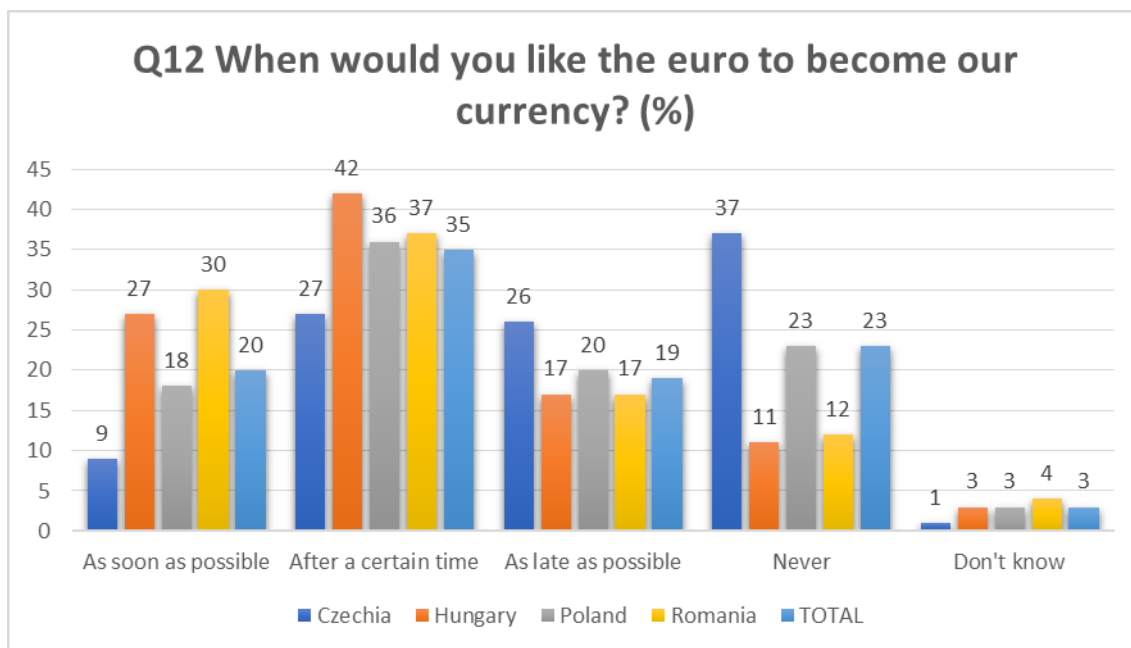


Figure nr. 11. Results for Q12 “When would you like euro to become our currency?”

Source: Own elaboration using data from Flash Eurobarometer 479

4. CONCLUSIONS

The Eurozone is currently facing major challenges that can be ameliorated by increasing the population’s level of confidence.

In order to review the public opinion, the European Parliament carries periodic studies aimed at particular topics. In Europe, the European Commission also entered an index called Economic Sentiment Indicator that allows it to assess the overall confidence. In April 2019, out of the four countries analyzed, Romania scored the lowest values. Due to the pandemic, all the countries faced a significant decrease in 2020.

Most of the economic models focus on factors such as work, nature and capital. But more recent studies have shown the importance of psychological factors during decision-making processes. Confidence acts as an economic lubricant, by encouraging consumption and investment.

The euro is widely used by the citizens from the analyzed countries, especially by the Czechs. Over 50% of the population in the Czech Republic and Romania consider themselves to be properly informed about the euro currency.

Most people in favour of introducing the euro come from Hungary and Romania and they expect positive consequences from this transition.

In general, the respondents believe that they will successfully adapt to the new currency but seem to be concerned about the abusive price setting that might occur during the changeover. Most of the people surveyed are not worried that their countries will lose control over the national economic policy or that they will lose a part of their national identity (except for the Czech Republic).

None of the citizens of the countries analyzed believe that they are ready for the transition to the euro currency and, with the exception of the Czech Republic, they would like to adopt the euro after a certain time.

Although 54% of Romanians see themselves as being well informed about the euro, most of the inconclusive answers on all the questions come from Romania.

During the transition to the euro currency, maintaining high levels of confidence and passing correct and complete information to the population can raise the effectiveness of the process and ensure its durability.

BIBLIOGRAPHY

1. Akerlof, G. A., Shiller., R.J., 2009. *Animal Spirits: How Human Psychology Drives the Economy and Why it Matters for Global Capitalism*. Princeton, NJ: Princeton University Press, pp.11.
2. Barabas, M., 2018. Romania and the Euro Currency. *Journal of Public Administration, Finance and Law*.
3. De Bondt, G. J., Schiaffi, S., 2015. Confidence Matters for Current Economic Growth: Empirical Evidence for the Euro Area and the United States. *Social Science Quarterly*, Volume 96, Number 4, December.
4. Dees, S., Brinca, P. S., 2013. Consumer Confidence as a Predictor of Consumption Spending: Evidence for the United States and the Euro Area. *International Economics*, 134:1–14.
5. Flash Eurobarometer 479, April 2019, Available at: https://ec.europa.eu/info/news/eurobarometer-479-2019-jun-07_en
6. Ludvigson, S. C., 2004. Consumer Confidence and Consumer Spending. *Journal of Economic Perspectives*, 18(2):29–50.