

The OeNB Euro Survey in Central, Eastern and Southeastern Europe – The 2008 Spring Wave Update

This paper presents the main results of the second wave of the OeNB Euro Survey conducted in Central, Eastern and Southeastern Europe (CESEE) in May/June 2008. The results on foreign currency-denominated assets, both cash and deposits, broadly confirm the picture obtained from the first wave of the survey, namely that the euro plays a dominant role throughout the CESEE region. New evidence on foreign currency loans (FCLs) reveals that the share of FCLs in total household loans is substantial, both in Central and Eastern Europe (CEE) and Southeastern Europe (SEE). The article for the first time presents survey results on people's general economic sentiment, comprising their assessment of the present and future economic situation, perceived and expected inflation and expected exchange rate developments. Finally, the paper provides an update on the expected date of euro adoption in the EU Member States surveyed.

Sandra Dvorsky,
Thomas Scheiber,
Helmut Stix¹

1 Introduction

This article presents results of the second wave of the OeNB Euro Survey, which was conducted in Central, Eastern and Southeastern Europe (CESEE) in May/June 2008. Our contribution serves a twofold purpose: On the one hand, it provides an update of the results obtained from the first survey wave carried out six months earlier.² On the other hand, the article summarizes some new results of the survey, for instance on foreign currency loans (FCLs) and results on general economic sentiment, which have not been presented before.

The paper is structured as follows. Section 2 recalls the main features of the OeNB Euro Survey. Section 3 deals with the different dimensions of financial euroization,³ presenting results on foreign currency cash (FCC) holdings, foreign currency deposits (FCDs) and survey data on FCLs that were first compiled in the 2008 spring survey wave. Section 4 summarizes respondents' statements on general economic sentiment, including e.g. their assessment of the present and future economic situation, perceived and expected inflation and expected exchange rate developments. Section 5 provides an update on the expected date of euro adoption in the EU Member States surveyed. Section 6 concludes.

2 The OeNB Euro Survey – Main Features

The OeNB Euro Survey is conducted every half year. The first wave had been carried out in October/November 2007 and the second wave followed in May/June 2008. The geographical scope of the survey comprises 11 countries,⁴ namely six

¹ Oesterreichische Nationalbank, European Affairs and International Financial Organizations Division, Foreign Research Division and Economic Studies Division; sandra.dvorsky@oebn.at, thomas.scheiber@oebn.at and helmut.stix@oebn.at. The authors gratefully acknowledge comments by Katarzyna Budnik (Narodowy Bank Polski), Doris Ritzberger-Grünwald and Martin Summer (both OeNB). Also, we would like to thank Andreas Gulyàs and Anja Steindl for excellent research assistance.

² For the results of the first wave, see Dvorsky, Scheiber and Stix (2008).

³ In this paper, the term euroization refers to the de facto use of the euro. De iure euroization, by contrast, is defined as a country's (unilateral) adoption of the euro as legal tender. For more definitions and some theoretical aspects of currency substitution in CESEE, see Backé, Ritzberger-Grünwald and Stix (2007).

⁴ The OeNB had already started to conduct a regular survey on several aspects of euroization in five countries in 1997, the scope of which was extended to 11 countries as of fall 2007.

EU Member States (Bulgaria, Czech Republic, Hungary, Poland, Slovakia and Romania) and five EU candidate and potential candidate countries⁵ (Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia⁶ and Serbia). The current survey comprised face-to-face interviews with about 1,000 persons per country aged 15+. The sample was selected via a multi-stage stratified random sample procedure, with the exception of Bulgaria, where quota sampling was applied. Results are representative of the respective population structure in all countries but Poland, where only the population of the ten largest cities was sampled (for further details, see <http://ceec.oenb.at>).

For the second wave of the survey, the questionnaire remained basically unchanged, with only few minor adjustments. As future waves are likewise bound to be repeated with a broadly unchanged questionnaire, the number of observations will steadily increase over time.

As previously pointed out (Dvorsky, Scheiber and Stix, 2008), the results of the OeNB Euro Survey have to be interpreted with caution for several reasons. First, the results are likely to be subject to underreporting given the sensitive nature of some questions. Second, for several questions the number of available observations is generally very low. Third, it is important to bear in mind that the survey focuses on private individuals – it does not cover the corporate sector.

Despite these limitations, the OeNB Euro Survey is a very useful and unique source of information, in particular on various aspects of financial euroization in CESEE, serving as an input for further in-depth research on euroization in the region (see e.g. Stix, 2008⁷).

3 The Extent of Euroization in the Region

The main purpose of the OeNB Euro Survey is to shed some light on the extent of euroization throughout the region. In this vein, the second wave of the survey again centered on the set of questions dealing with the distribution and amounts of FCC holdings and FCDs. In the following, aggregated responses on FCC holdings and FCDs of the 2007 fall wave and the 2008 spring wave will be presented (see charts 1 and 2 as well as table 1). The questionnaire for the first time also covered the issue of FCLs.

3.1 Foreign Currency Cash Holdings

As to FCC holdings, the second wave confirmed the overall picture painted by the first survey wave. First, the share of respondents who said that they held foreign cash is substantial in some countries and varies considerably across countries, ranging from 9% in Hungary to 43% in the FYR Macedonia (see chart 1). Second, it becomes evident from the currency breakdown that the euro continues to play a predominant role in all countries analyzed, with the Southeastern European (SEE) countries registering the highest euro cash holding rates. Third, in all countries

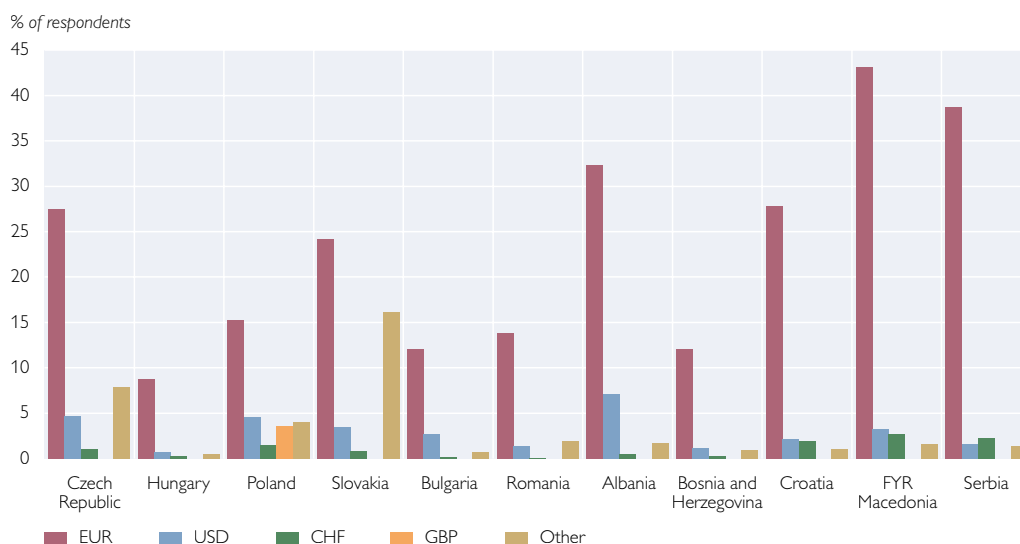
⁵ The survey does not cover Montenegro and Kosovo, which have both unilaterally introduced the euro.

⁶ “FYR Macedonia” refers to the Former Yugoslav Republic of Macedonia.

⁷ Stix (2008) examines the reasons for the high degree of currency substitution in Slovenia, Slovakia and Croatia. Using the OeNB Euro Survey results, he finds that, apart from networking effects and remittances, socio-demographic factors (income levels, education, age) play a more important role than expectations about exchange rate or interest rate developments.

Chart 1

Share of Respondents Holding Foreign Cash



Source: OeNB Euro Survey 2008 Spring Wave and 2007 Fall Wave.

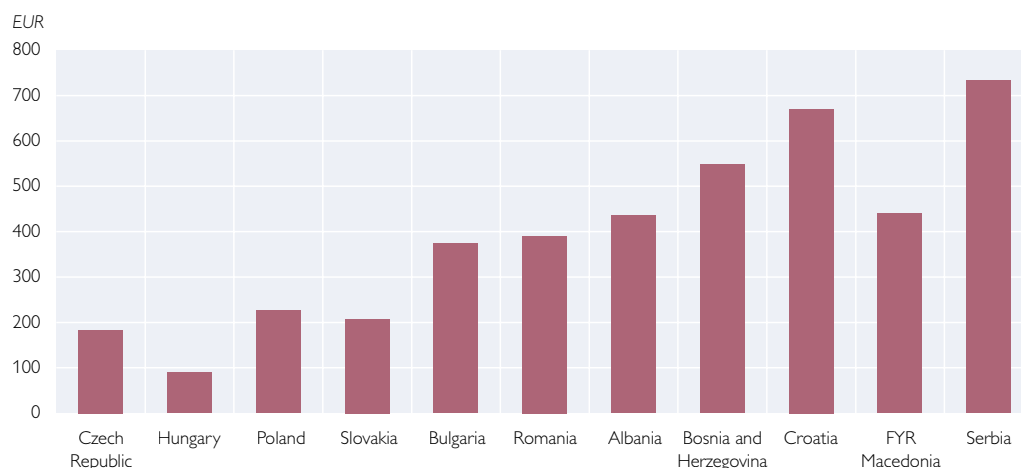
Note: Only the survey conducted in Poland contained questions regarding GBP holdings.

surveyed, the share of respondents reporting U.S. dollar-denominated cash holdings is substantially lower than that of euro cash holders. Fourth, cash holdings denominated in foreign currencies other than the euro and the U.S. dollar play a very limited role. In the Czech Republic, a comparatively high share of respondents (around 8% in both waves) reported to have “other” foreign cash holdings, which we presume to be denominated mostly in Slovak koruna. It will be interesting to observe whether this category decreases once Slovakia will have introduced the euro.

As to median amounts of euro cash reported by those interviewees who said they held euro cash, it is important to bear in mind that the figures are likely to be underreported. In some countries, respondents nevertheless acknowledged holding comparatively high amounts (see chart 2), which is even more remarkable given the interview format (face-to-face interview at the respondent’s home). Furthermore, figures may be biased owing to item nonresponse: Averaged out across all countries, 16% of the respondents who reported euro cash holdings either refused to state, or replied that they did not know, the specific amount.⁸ Compared with the first wave of the survey, the overall picture remained virtually unchanged and still appears to be plausible: Euro cash holdings in SEE countries are substantially higher than in Central and Eastern Europe (CEE). Moreover, as already evidenced in the 2007 fall wave, the indicated values continue to differ considerably from country to country, with the median per capita amounts ranging from EUR 90 (Hungary) to more than EUR 730 (Serbia).

⁸ Nonresponse rates (“no answer” plus “don’t know” entries) differed considerably across countries, with the highest nonresponse rates reported for some SEE countries (e.g. 34% for Serbia and 32% each for Romania and Bulgaria) and relatively low rates for Slovakia (4%) and the Czech Republic (6%).

Chart 2

Respondents Holding Euro Cash: Median Amounts

Source: OeNB Euro Survey 2008 Spring Wave and 2007 Fall Wave.

Note: The chart shows median holdings of euro. Values are based on categorical answers. The median is calculated by linearly interpolating between class boundaries.

To sum up, a high proportion of respondents in SEE said they held euro cash, and the amounts they hold are comparatively large. While the share of professed euro cash holders is also considerable in CEE, the reported amounts are smaller. We therefore conclude that the amount of euro cash in circulation is considerably higher in SEE than in CEE, which may be attributable to differing motives for holding euro cash in CEE and SEE:⁹ In the SEE countries, people tend to agree with the statement that their euro cash holdings serve the purpose of a general reserve or precautionary measure. By contrast, in CEE, these holdings are mostly meant for shopping trips abroad (for a more detailed discussion of motives, see Dvorsky et al., 2008).

3.2 Foreign Currency Deposits

According to the OeNB Euro Survey results, the degree of dissemination of euro-denominated deposits is very low in all countries analyzed. A mere 2.5% of households in CEE and 8.4% in SEE reported to hold savings deposits denominated in euro. It follows that, even after the completion of two survey waves, the number of available observations is still comparatively low for some countries.

As to the Euro Survey results on deposit euroization, the share of respondents who indicated that they have one or more savings deposits – either in local or foreign currency – is still very low compared with EU standards, ranging from just 6% in Bosnia and Herzegovina to 39% in Slovakia (see table 1).¹⁰ Second, the responses reveal that the shares of FCDs in savings deposits are very heterogeneous across countries, with relatively low shares for the CEE countries, interme-

⁹ For more explanations for euroization in the region, see e.g. Ritzberger-Grünwald and Stix (2007).

¹⁰ By contrast, according to a household survey carried out in Austria, 93% of all Austrian households own savings deposits (see Beer et al., 2006).

Table 1

Foreign Currency Deposits

	Share of respondents with ...		
	... a savings deposit (% of respondents)	... an FCD (% of savings deposit holders)	... an FCD denominated in euro (% of FCD holders)
Czech Republic	35.5	8	92
Hungary	22.9	10	83
Poland	18.5	14	70
Slovakia	38.6	11	87
Bulgaria	22.2	31	84
Romania	14.8	36	88
Albania	20.0	57	86
Bosnia and Herzegovina	6.0	77	89
Croatia	26.8	62	93
FYR Macedonia	17.5	67	93
Serbia	9.8	84	95

Source: OeNB Euro Survey 2007 Fall Wave and 2008 Spring Wave.

Note: For some countries the number of observations is low and hence computed shares may not be reliable.

diates levels for Bulgaria and Romania and high shares for the other SEE countries. Third, the survey results indicate that in all countries under review, the bulk of FCDs is denominated in euro. This outcome is largely in line with aggregate data collected by the ECB (see ECB, 2008). It is interesting to note that in Slovakia, the share of euro-denominated FCDs reported in spring 2008 remained unchanged from the figure reported six months earlier.

We refrain from presenting detailed results on median FCD amounts, given the underreporting problem and the still very low number of observations. In general, it can be stated that the euro amounts held in savings deposits are significantly higher than those held in cash. As a case in point, the cash holdings reported for the Czech Republic and Hungary amount to around EUR 180 and EUR 90, respectively. By contrast, the median amounts of euro savings deposits were found to be more than ten times higher in both countries.

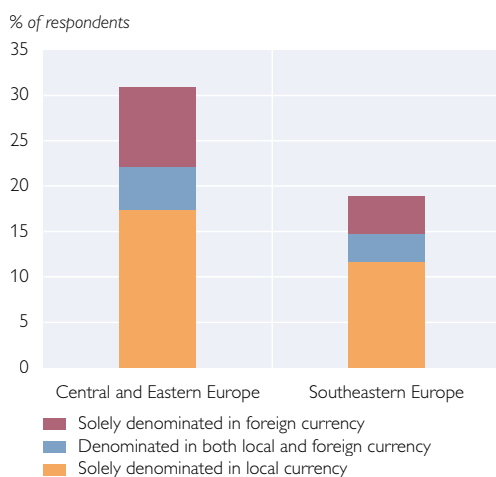
3.3 Foreign Currency Loans

The 2008 spring wave of the OeNB Euro Survey for the first time contained a set of questions on foreign currency-denominated loans.¹¹ While, in principle, information on the extent of loan euroization is available from aggregate statistics (see e.g. ECB, 2008), the OeNB Euro Survey results provide valuable additional information. First, the survey data allow for drawing inferences about the distribution of FCLs among the population, also along socio-demographic lines. Second, they provide information on the motives for holding such loans, thus complementing the economic literature on the determinants of credit euroization (see e.g. Luca and Petrova, 2008). Third, the survey results will provide the basis for future research dedicated to assessing how FCLs are related to savings deposits.

¹¹ Given the comparatively low level of foreign currency loans in the Czech Republic and in Slovakia, this set of questions was not asked in these two countries.

Chart 3

Dissemination of Loans and Foreign Currency Loans



Source: OeNB Euro Survey 2008 Spring Wave.

In view of the low number of observations available after only one survey wave for the FCL questions, the survey results were aggregated for both the CEE and the SEE region. Chart 3 displays the survey results on the dissemination of FCLs and provides an overview of FCL shares relative to total loans in the respective region. The share of people who answered that they had taken out a loan is considerably higher in CEE than in SEE. Furthermore, the share of foreign currency loans in total loans is substantial in both regions, running to more than 43% in CEE and 38% in SEE.¹² These results are broadly in line with aggregate data on household loans (see e.g. Basso, Calvo-Gonzalez and Jurgilas, 2007).

The questionnaire also explores possible motives for taking out a loan in foreign currency (see chart 4). Particularly in CEE, many respondents agreed with the notion that “foreign currency loans are cheaper than local currency loans.” This picture largely corresponds with findings in recent literature (see Rosenberg and Tirpák, 2008¹³). However, this statement received considerably less support from the interviewees in SEE. Furthermore, both in CEE and in SEE, a considerable share of respondents agreed with the statement that they had taken out an FCL “because their bank had advised them to do so.”¹⁴ In both regions some people agreed with the statement that “the interest rate in foreign currency is more stable than that of the local currency” and reported that this consideration had been a reason for taking out an FCL.

To sum up, the share of FCLs in total household loans seems to be substantial, both in CEE and SEE. With regard to the motives for taking out an FCL, economic considerations – as opposed to more personal reasons – seem to have played a decisive role.

4 Current Economic Sentiment

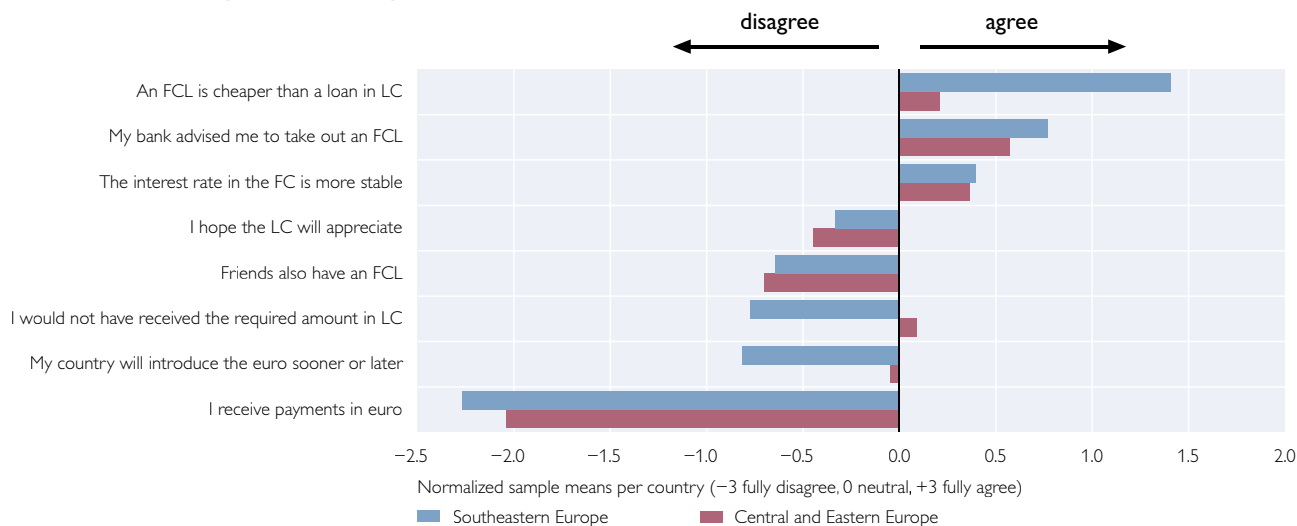
Another interesting set of questions is meant to shed light on general economic sentiment. These Euro Survey questions were posed to all interviewees, irrespective of whether they reported foreign currency holdings or not, and the answers reflect the economic sentiment at the time when the 2008 spring survey wave was

¹² Share of loans which are exclusively or (at least) partly denominated in foreign currency, as a percentage of total loans.

¹³ Rosenberg and Tirpák (2008) analyze the determinants of foreign currency borrowing in the new EU Member States and conclude that the growing euroization of liabilities can be primarily explained by interest rate differentials.

¹⁴ Against the background of the current financial crisis, several subsidiaries of Western European banks in CESEE have in the meantime announced that they would curtail foreign currency lending in the region.

Motives for Taking Out a Foreign Currency Loan



Source: OeNB Euro Survey 2008 Spring Wave.

Note: Respondents were asked whether they agreed or disagreed on a scale from 1 (fully agree) to 6 (fully disagree) with the statements above. FC stands for foreign currency, LC for local currency.

conducted. The questionnaire dealt, for instance, with people's views on the general economic situation and its future development, with perceived and expected inflation and exchange rate expectations.

4.1 Assessment of the Economic Situation

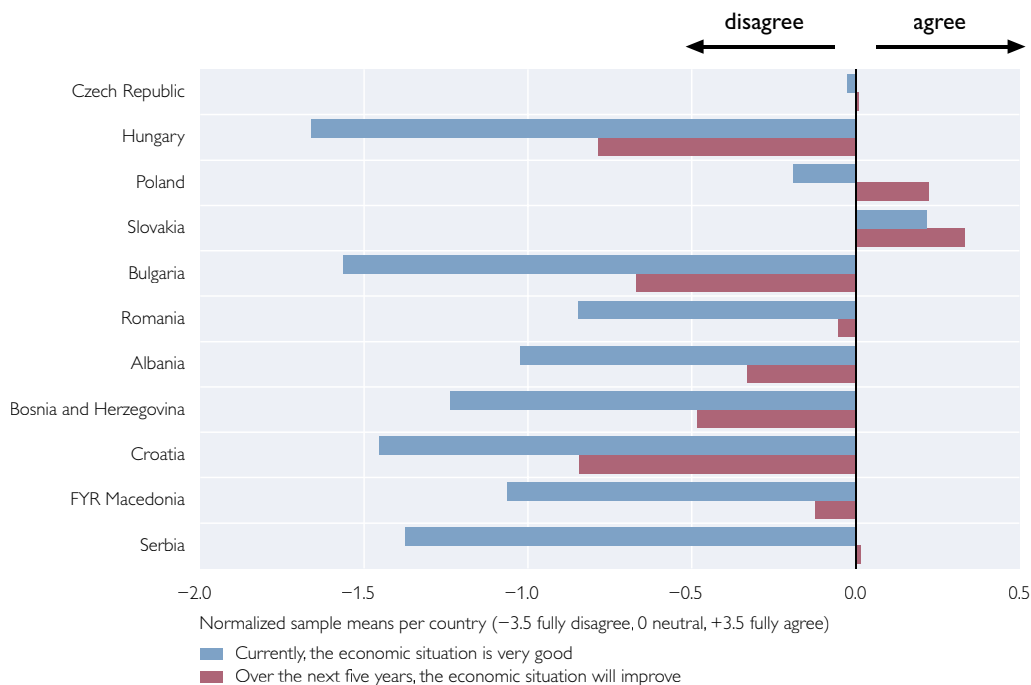
Respondents were requested to appraise the current economic situation and to state whether they expected the economy to improve over the next five years. On average, the perception of the present economic situation is rather negative in all countries surveyed, thus broadly confirming the picture which was already obtained from the first survey wave six months earlier (see chart 5). In particular for Hungary and Bulgaria, the general sentiment largely corresponds with macro-economic performance, which had fallen short of the regional average in several aspects. The only exception in this context is Slovakia, where economic performance was reported to be considerably better than in the other countries of the region in both the first and the second survey wave. It is reasonable to assume that the prospective introduction of the euro, with negotiations having already reached the final stage at the time of the second survey wave, had led to a more positive sentiment among the population.

On the future economic development, slightly positive expectations are reported from Poland and, again, from Slovakia, while in all other countries surveyed the general sentiment was found to be rather pessimistic. This picture remained more or less unchanged from the first survey wave.

4.2 Perceived and Expected Inflation

Furthermore, the questionnaire also touched on the issue of inflation perceptions. It is important to note that the results reflect respondents' assessment of price developments as at May/June 2008. In all countries analyzed, an average 79% of

Assessment of the Current and Future Economic Situation



Source: OeNB Euro Survey 2008 Spring Wave.

Note: Respondents were asked whether they agreed or disagreed on a scale from 1 (fully agree) to 6 (fully disagree) with the statements above.

the interviewees agreed with the statement that “prices had risen a lot” during the past 12 months.¹⁵ Particularly high shares of respondents supporting this view were reported from Bosnia and Herzegovina (94%), Bulgaria (90%) and Hungary (85%). This picture may to some extent reflect actual inflation developments, which had been particularly worrying in these countries compared with other countries in the region (see e.g. Recent Economic Developments in this issue). Again, the only exception in this context is Slovakia, where only 53% agreed that “prices had risen a lot” over the past year. This suggests that the population had actually taken note of the country’s efforts to keep inflation under control in order to fulfill the Maastricht criteria. Judged by the results of the first wave of the OeNB Euro Survey, the picture had worsened substantially throughout the region in the subsequent six months: In fall 2007, only an average 63% of the interviewees in CEE and SEE had agreed with the statement that “prices had risen a lot,” with Slovakia, the Czech Republic and Croatia having even posted shares of below 40%.

On the issue of expected inflation, an average 77% of the respondents expected inflation to increase “more rapidly” or at least “at the same rate” over the next 12 months, Slovakia being no exception in this context. Interestingly, the responses on expected inflation render a rather similar picture across all countries

¹⁵ Alternative answers offered by the questionnaire were that prices “had risen moderately,” “had stayed about the same” or “had fallen” over the past 12 months.

surveyed, although official country forecasts of inflation differ substantially (see e.g. Havlik and Holzner, 2008).

In a nutshell, expected inflation seems to have remained broadly unchanged from the first survey wave.

4.3 Expected Exchange Rate Developments

The questionnaire also explores people's expectations of exchange rate developments over the next five years. Here, the picture that emerged is quite mixed. While in most countries between 30% and 50% of the interviewees agreed with the statement that the "local currency will lose value against the euro over the next five years," in Hungary more than 70% of the respondents supported this view.¹⁶ On the other end of the spectrum, approximately 70% of the Slovak and the Czech interviewees said that their local currencies would "stay the same" or even "gain value" vis-à-vis the euro. The result for Slovakia possibly reflected the appreciation of the Slovak koruna against the euro plus the – presumably widespread – expectation that the exchange rate would be irrevocably fixed once the euro was introduced. It is not surprising that for this question, the share of interviewees who answered "I don't know" was comparatively high in most countries, ranging from 8% (Hungary) to 27% (Romania).

5 Expected Date of Euro Introduction

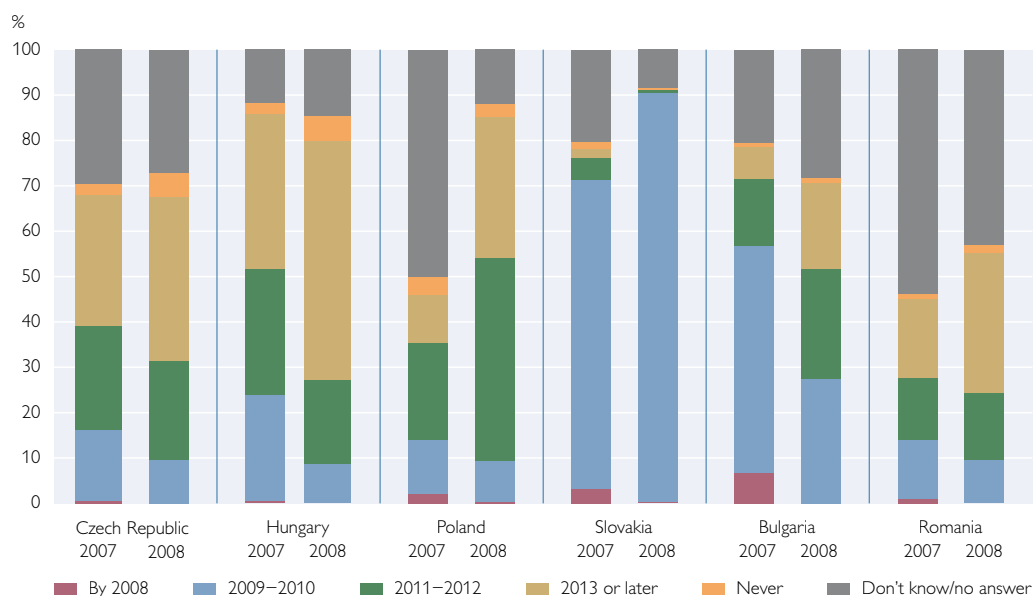
In the OeNB Euro Survey, people are also asked when they expect the euro to be introduced in their respective country. When comparing the 2008 spring and 2007 fall wave results for the six EU Member States, it comes as no surprise that the share of respondents in Slovakia who expect the euro to be introduced by 2009 or 2010 has increased from over 70% to more than 90%. In Poland, the percentage of interviewees who expect the euro to be adopted by 2012 at the latest has likewise risen considerably compared with the first survey wave. At the same time, the share of "I don't know" answers has decreased substantially.¹⁷ By contrast, in Bulgaria and Hungary, the percentage of respondents expecting the euro's introduction by 2012, has shrunk markedly. In Bulgaria, this may be attributable to a certain degree of resignation, as the country has yet to enter ERM II even though the government had pledged to join "at the earliest date possible." In the case of Hungary, the decrease may rather reflect the perceived worsening of the general economic situation (see section 4.1). For the Czech Republic and Romania, the expected date of euro introduction remained broadly unchanged from six months earlier.

Comparing the results of the 2008 spring wave of the OeNB Euro Survey with survey data of the most recent Flash Eurobarometer (European Commission, 2008) for the six EU Member States, we find that they are broadly consistent in particular for Slovakia, Poland and Bulgaria. For the other three Member States,

¹⁶ Interestingly, in both Bulgaria and Bosnia and Herzegovina, around 40% of all respondents agreed with the statement that their local currency "would lose value against the euro" despite these countries' long-standing currency board arrangements with a fixed peg to the euro.

¹⁷ This development may be ascribable to the change in Poland's political landscape in the wake of the October 2007 parliamentary elections, which had strengthened political parties in favor of the country's entry into the euro area.

Expected Date of Euro Adoption – Comparison of 2007 Fall and 2008 Spring Survey Results



Source: OeNB Euro Survey 2007 Fall Wave and 2008 Spring Wave.

where the euro's introduction is generally regarded as a more distant project, the Flash Eurobarometer responses are more positive than those of the OeNB Euro Survey.¹⁸

6 Conclusions

The 2008 spring wave of the OeNB Euro Survey broadly confirmed the findings on foreign currency cash holdings and foreign currency deposits obtained in the first wave six months earlier. The euro dominates foreign currency-denominated assets, both cash and deposits, throughout the CESEE region and plays an even more important role in SEE than in CEE.

New evidence on foreign currency loans reveals that their share in total household loans is substantial, both in CEE and SEE. Economic considerations (as opposed to more personal motives) seem to have played a decisive role in why people had opted for an FCL.

For the first time the article presents survey results on people's general economic sentiment at the time when the 2008 spring wave was conducted. The overall assessment of the current economic situation was found to be rather negative, with slightly more positive results for people's expectations about future economic developments. Perceived inflation was reported to be comparatively high in all countries surveyed (with the exception of Slovakia), thus largely reflecting actual price developments.

¹⁸ These differences might be due to the different survey methods applied (personal interviews versus telephone poll) or the different context of the overall questionnaire.

For the six EU Member States, the recent results on the expected date of euro introduction are compared with the picture obtained six months earlier. Changes and developments seem to reflect, to a certain extent, the respective government's changes in their policy on euro adoption during the past six months.

To sum up, the OeNB Euro Survey continues to provide unique information on the role of the euro in the CESEE region and is expected to deliver an increasingly reliable picture, the more often the survey is repeated.

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