

Stieg die Nachfrage nach Euro-Bargeld in CESEE in der Corona-Krise? ²⁰

Ein Beitrag der OeNB zum Bericht der EZB bzw. des Eurosystems zum Thema „The international role of the euro“, Ausgabe 2021

Auf Basis von Daten des OeNB Euro Surveys in CESEE behandelt diese Ausarbeitung die folgenden Fragen:

Wie verbreitet ist Euro-Bargeld in den Ländern Zentral-, Ost- und Südosteuropas, die den Euro nicht als gesetzliches Zahlungsmittel haben? Hat sich die Verbreitung von Euro-Bargeld und -Spareinlagen durch die Corona-Krise verändert? Wurde die individuelle Nachfrage nach Euro-Bargeld und -Spareinlagen durch negative wirtschaftliche Schocks beeinflusst?

Ergebnisse der Analyse:

Im Vergleich zu 2019 veränderte sich die Verbreitung von Euro-Bargeld in drei von zehn Ländern im Jahr 2020 signifikant. In Albanien und Kroatien sank die Verbreitung, wobei der Rückgang in Küstenregionen besonders stark war – eine Veränderung, die wahrscheinlich mit einem Rückgang der Einnahmen aus dem Tourismus zu erklären ist. In Bulgarien hingegen stieg die Verbreitung von Euro-Bargeld, obwohl die Verbreitung auch dort in Küstenregionen rückläufig war. In Kroatien verringerte sich auch die Verbreitung von Euro-Spareinlagen signifikant.

Individuen, die besonders stark wirtschaftlich von der Corona-Krise betroffen sind, haben ein geringeres Vertrauen in die Stabilität der Lokalwährung und eine höhere Nachfrage nach Euro-Bargeld. Eine Kurzfassung der vorliegenden Analyse wurde im diesjährigen Bericht „The international role of the euro“ der EZB und des Eurosystems veröffentlicht ([European Central Bank, 2021](#)).

Background

In a number of Central, Eastern and Southeastern European (CESEE) countries that have not adopted the euro as legal tender, the use of financial assets denominated in euro – de facto euroization – has remained a widespread phenomenon. For individuals, de facto euroization is largely demand-driven. Relevant factors are the degree of trust in the stability of the local currency and expectations regarding the exchange rate. The experience of the crisis-ridden early transition years in the 1990s, which saw large devaluations and high inflation, had a strong and rather persistent influence on households' demand for euro cash. This impact faded somewhat after 20 years but was partially rekindled by the global financial crisis. The economic recession in the wake of the Covid-19 pandemic could trigger a return to former patterns of behavior which might lead to a reshuffling of portfolios. Moreover, Bulgaria and Croatia joined the exchange rate mechanism (ERM II) on July 10, 2020 which may also have had an impact on expectations.

²⁰ Autorinnen: Elisabeth Beckmann und Ines Fernandes (Abteilung für die Analyse wirtschaftlicher Entwicklungen im Ausland).

Development in euro cash holdings over time

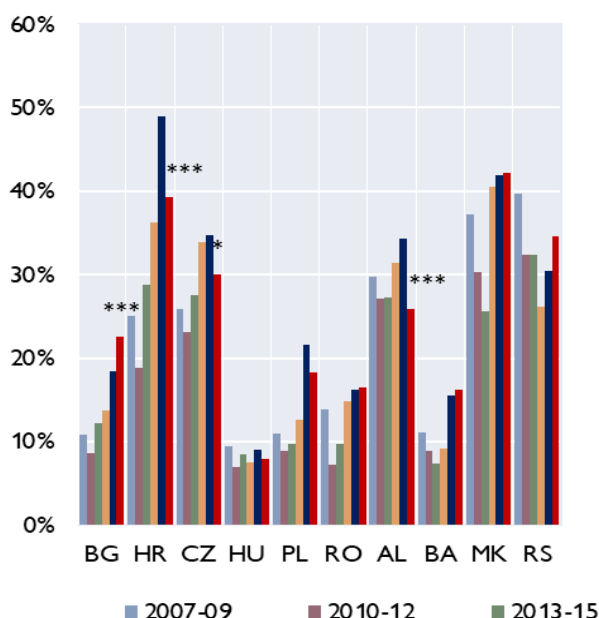
Chart 1, left panel shows the percentage of individuals who hold euro cash in the ten CESEE countries covered by the OeNB Euro Survey. In Croatia and Albania, the percentage of individuals holding euro cash significantly declined from 2019 to 2020. The decline was particularly pronounced in coastal regions, suggesting that the decline is partly due to a decline in tourism revenues. In Bulgaria, the percentage of euro cash holders also declined in coastal regions, which was, however, more than offset by an increase in landlocked regions.²¹ Chart 1, right panel shows the median amount held in euro by individuals who have any euro cash. Again, Croatia catches the eye, where compared to 2019 fewer individuals hold euro cash in 2020 but those who do hold higher amounts. Projecting these results onto the whole population following Scheiber and Stix (2009) shows that per capita euro cash holdings remained broadly unchanged in Croatia between 2019 (EUR 408 per capita) and 2020 (EUR 414 per capita), in Albania, per capita cash holdings decreased from EUR 124 in 2019 to EUR 83 in 2020.

Chart 1

Euro cash holdings

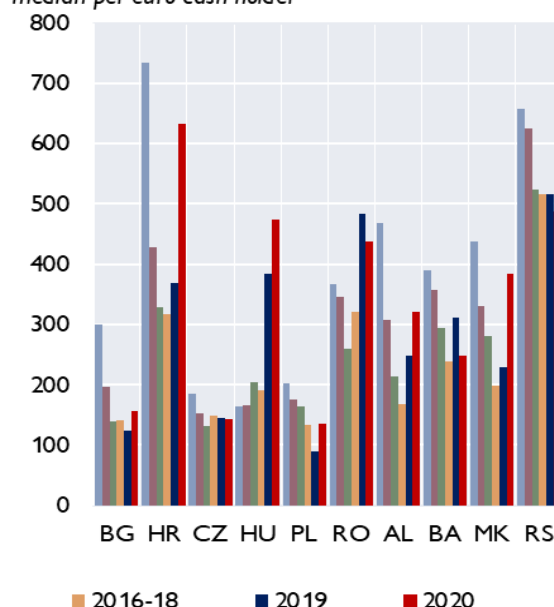
Frequency

% of individuals



Amount

median per euro cash holder



Source: OeNB Euro Survey.

Note: ***, **, * indicate that the change from 2019 to 2020 is significant at the 1, 5, or 10% level (power >60%).

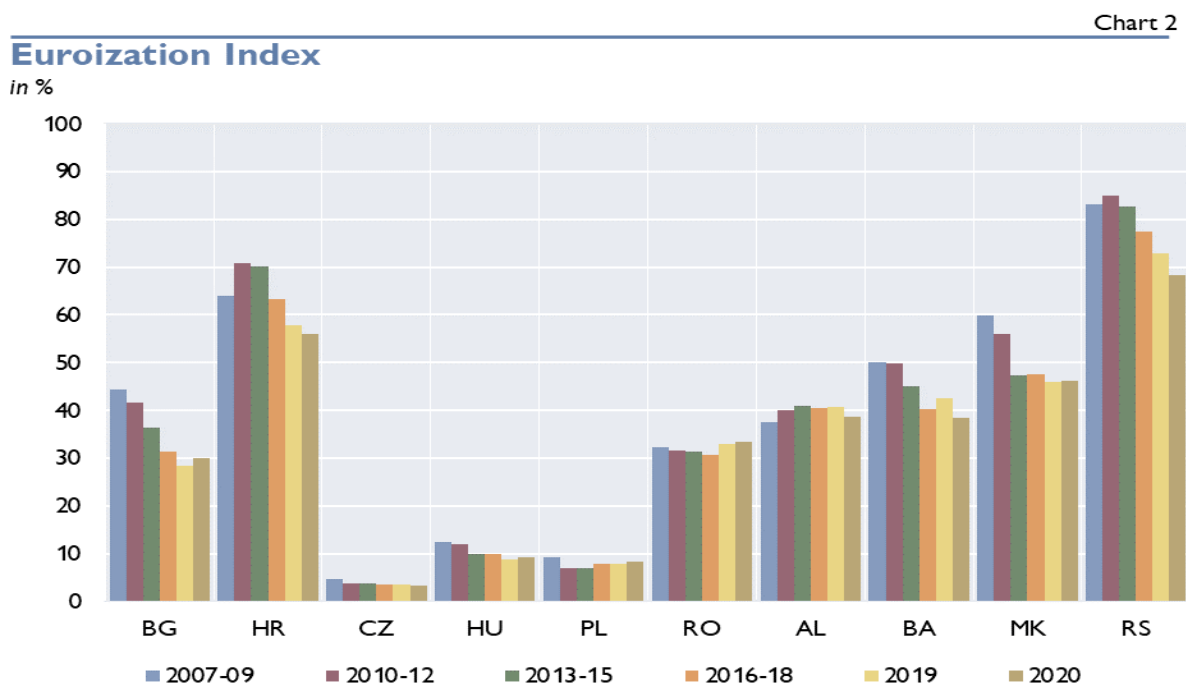
The percentage of deposit holders who have a deposit denominated in foreign currency ranges from 5% in Czechia to 85% in Serbia. Between 2019 and 2020 the percentage decreased significantly (at 10% level) in Albania from 33% to 28%, in Croatia the decrease was more pronounced (significant at 1%) from 73% to 60%.

²¹ Note that analyses are based on approximately 1000 observations per country and wave and the regional disaggregates are based on a low number of observations. If looking at heterogeneities across individuals one would expect that the percentage of euro cash holders is higher among those working in the tourism sector. Survey information for fall 2020, however, shows that those employed or formerly employed in the tourism sector are not significantly more likely to hold euro cash than those employed outside the tourism sector.

To provide a compound picture of the overall extent of de facto euroization, Chart 2 presents the development of an euroization index over time. The index is calculated as follows:

$$EI = (EC + ED) / (LCC + EC + LCD + ED)$$

where EC is euro cash, ED is euro deposits, LCC is local currency cash, and LCD is local currency deposits. EC data are derived from the OeNB Euro Survey, the remaining information is based on aggregate statistics from national central banks. Chart 2 illustrates that overall euroization



Source: Authors' calculations based on OeNB Euro Survey and aggregate statistics from national central banks.

Note: Euroization index = (euro cash + foreign currency deposits) / (total cash + total deposits).

remained broadly unchanged from 2019 to 2020. In Croatia and Serbia, the decreasing trend continues suggesting that the pandemic has not triggered a strong change in euroization.

Development in demand-side determinants and indicators of euroization

At the aggregate level, significant changes in de facto euroization are observed in a few countries only. In addition to asking about the prevalence of euro cash holdings, the OeNB Euro Survey enquires about trust in the stability of the local currency and in the stability of the euro – factors affecting demand for euro cash and deposits denominated in euro. The economic recession in the wake of the Covid-19 pandemic could affect trust or other demand-side determinants of de facto euroization leading to an increase in euroization going forward.

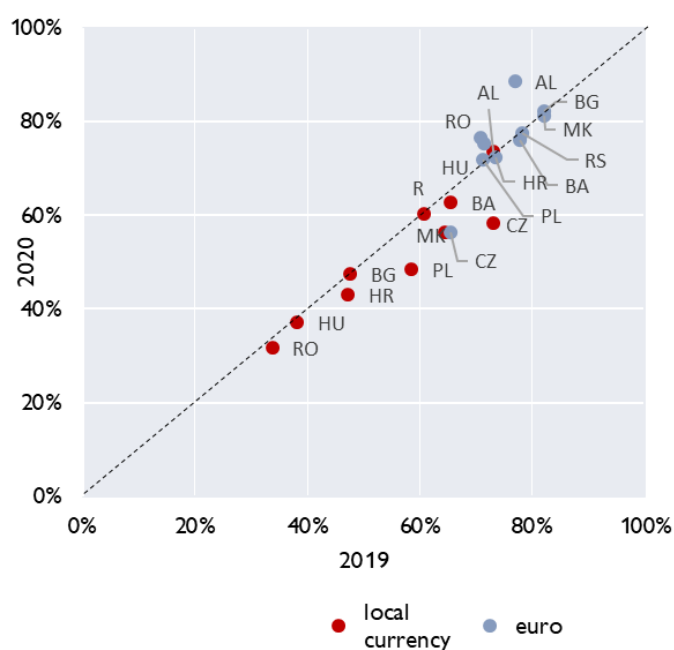
Chart 3 illustrates the percentage of individuals who think that the local currency will be stable over the next 5 years (red dots) and the percentage of individuals who think that the euro will be stable over the next 5 years (blue dots). Dots below the 45° line would indicate trust decreased from 2019 to 2020. Except for Czechia, the percentage of individuals who trust in the euro is higher than the percentage of individuals who trust in the local currency. The difference is largest in Romania (45 percentage points in 2020) and Hungary (38 percentage points). However, only

a stronger change in the *relative* level of trust in the stability of the local currency versus the euro is likely to affect demand for euro assets. Both in Hungary and Romania, the difference in trust levels has remained stable from 2019 to 2020. The largest changes in terms of relative trust are observed in North Macedonia, where trust in denar dropped from 65% to 56% while trust in the euro remained stable at around 80%. A similar development is observed in Poland with trust in the euro remaining stable at around 70% and trust in the zloty dropping from 59% to 48%. Looking back at Chart 2 shows that de facto euroization is unchanged in both countries, which suggests that those individuals whose level of trust in the local currency deteriorated during the pandemic already held euro assets prior to the pandemic. Alternatively, individuals whose trust deteriorated might not have any savings.

Chart 3

Trust in currencies: 2019 and 2020

% of individuals who trust in the stability of the respective currency

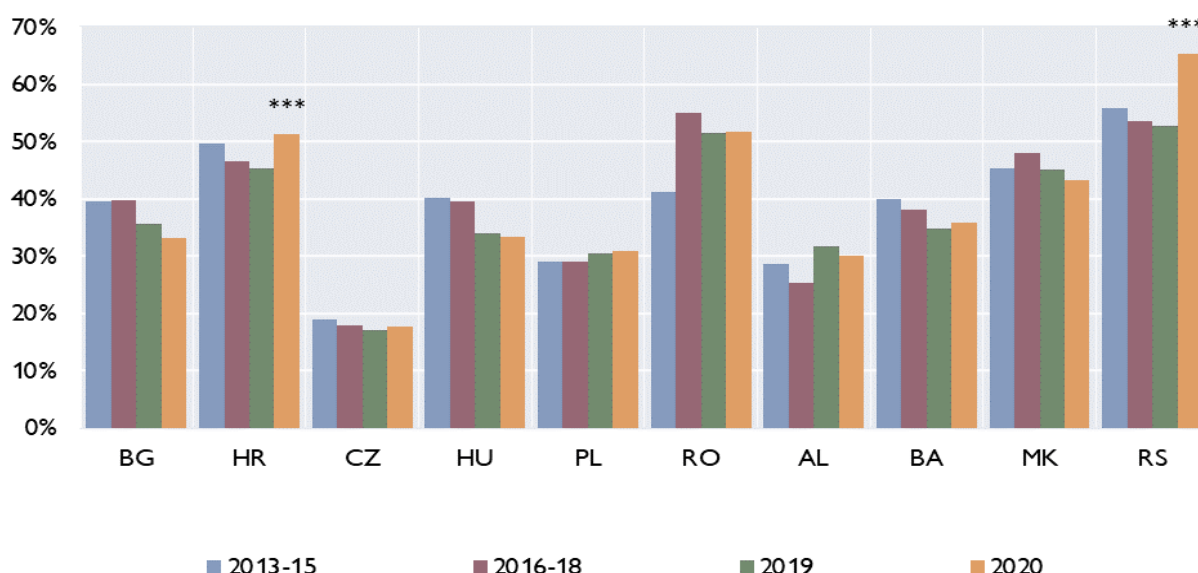


Source: OeNB Euro Survey.

Chart 4

Preference for saving in cash

% of individuals



Source: OeNB Euro Survey.

Note: The chart shows the percentage of individuals who "agree" or "strongly agree" with the statement "I prefer to hold cash rather than a savings account." *** denotes that the difference between 2019 and 2020 is significant at the 1% level.

Chart 4 provides a more direct indicator of demand for euro cash presenting answers to the question of how preference for saving in cash as opposed to holding savings as a saving deposit developed. It shows a significant increase in cash demand in Croatia and Serbia. As Stix (2013) shows cash preference is closely linked to euroization: Network effects of currency substitution and doubts about the stability of the local currency increase the preference

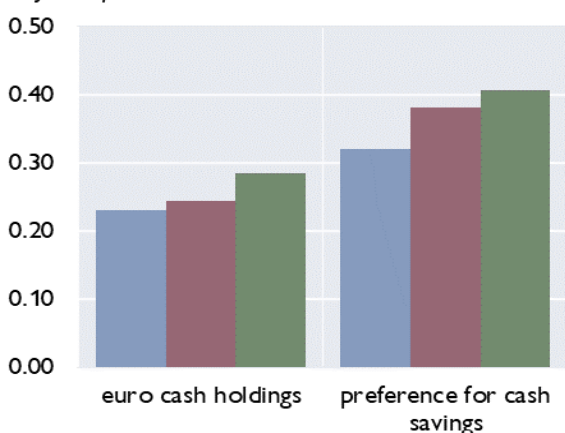
Individual affectedness by adverse economic shocks and demand for euro cash

Probit regressions provide preliminary insights on whether the economic effects of the Covid-19 pandemic at the individual level may already have triggered changes in euro cash holdings or are likely to do so going forward. We run probit regressions where the dependent variables are (i) euro cash holdings, (ii) preference for saving in cash, (iii) trust in the stability of the local currency and (iv) trust in the stability of the euro. Control variables are based on Stix (2013) and include socioeconomic characteristics, indicators of network effects and trust, as well as past crisis experience and country fixed effects. Chart 5 presents marginal effects from the regression analyses focussing on the effect of adverse economic shocks. It shows that an average individual who has been “hardly affected economically” has a 23% chance of holding euro cash while an otherwise comparable “strongly affected” individual has a 28% chance. Put differently, individuals who have been strongly affected economically are 5 percentage points more likely than those hardly affected to have some euro cash holdings. There are two possible explanations for this finding: Euro cash holders tended to be poorer and more vulnerable already prior to the pandemic and these are the same individuals who were hit hardest by current adverse economic shocks. Alternatively, adverse economic shocks led to a stronger preference for saving in cash but individuals who were subject to adverse economic shocks had to make use of their savings to smooth consumption. Thus, regarding euro cash holdings, results might be driven by reverse causality. However, Chart 5 also shows that compared to those hardly affected, strongly affected

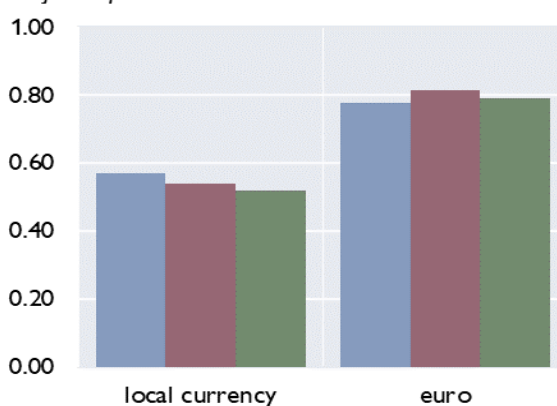
Economic effects of Covid-19 pandemic on households and indicators of demand for euro cash

Chart 5

Prevalence and demand for euro cash *adjusted predictions at means*



Trust in stability of currencies *adjusted predictions at means*



■ hardly affected economically ■ moderately affected economically ■ strongly affected economically

Note: The chart shows marginal effects computed from probit regressions where the dependent variables are (i) euro cash holdings, (ii) preference for saving in cash, trust in the stability of (iii) the local currency and (iv) the euro. Control variables are based on Stix(2013) and include socioeconomic characteristics, indicators of network effects, trust, past crisis experience and country fixed effects.

Source: OeNB Euro Survey, 2020 and author's calculations.

individuals are 9 percentage points more likely to prefer cash savings over saving deposits. Furthermore, the extent to which individuals are economically affected is negatively correlated with a propensity to trust in the stability of the local currency. The pandemic has had no significant impact on trust in the stability of the euro suggesting that adverse shocks primarily affect individuals' trust in domestic institutions despite the global nature of the pandemic.

In summary, individuals who have been economically affected by the Covid-19 pandemic to a strong degree tend to have weaker trust in the stability of the local currency and an increased demand for euro cash. At the aggregate level, however, significant changes are observed in a few countries only.

References

- European Central Bank (2021). The international role of the euro. [The international role of the euro, June \(europa.eu\)](https://www.europa.eu/en/press-room/news/35362).
- Scheiber, T. and H. Stix (2009). Euroization in Central, Eastern and Southeastern Europe – New evidence on its Extent and some evidence on its causes. OeNB Working Paper 159.
- Stix, H. (2013). Why do people save in cash? Distrust, memories of banking crises, weak institutions and dollarization, *Journal of Banking & Finance* 37, pp. 4087–4106.