Not So Trustworthy Anymore? The Euro as a Safe Haven Asset in Central, Eastern and Southeastern Europe

The euro has been the predominant safe haven currency for households in Southeastern Europe (SEE). Recent results of the OeNB Euro Survey show that the sovereign debt crisis had a substantial impact on households’ trust in the euro but nevertheless suggest that the euro has not been displaced as a safe haven currency. The euro remains more trusted than the local currencies, and households’ preferences and decisions with regard to the currency denomination of their savings indicate that larger portfolio shifts are at present unlikely.

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1 Introduction
The global financial crisis has often been interpreted as a crisis of trust. Trust levels in society in general had been declining for quite some time, but in 2008, there was an outbreak of distrust (e.g. Hosking, 2010). Trust, especially in banks, is of particular importance for financial development (Guiso et al., 2004). Therefore, research into how the global crisis affected trust in banks and whether the impact was temporary or permanent intensified (e.g. Knell and Stix, 2009). For Central, Eastern and Southeastern Europe (CESEE), results from the OeNB Euro Survey showed a decline of trust in banks as a consequence of the global financial crisis (Dvorsky, Scheiber and Stix, 2009).

With the sovereign debt crisis, the issue of trust is back on the agenda for CESEE, albeit in a different way. The ownership and use of financial assets denominated in euro is a widespread phenomenon in CESEE. In Central and Eastern Europe (CEE), euroization of assets is mainly driven by transaction motives, while in SEE, the euro serves as a safe haven currency with a high degree of both currency and deposit substitution (Scheiber and Stix, 2009). Research suggests that one reason for euroization is a lack of confidence in the domestic currency. More precisely, memories of past economic turbulence, in particular high and volatile inflation, will fade only very slowly even if current monetary policy is credible (e.g. Fernández-Arias, 2006). The sharp depreciations of several currencies in CESEE in the wake of the global financial crisis had an impact on how households in CESEE view the stability of their local currencies (Stix, 2010).

Does the ongoing sovereign debt crisis have a similar impact on how households view the stability of the euro, the safe haven currency? And is this reflected in households’ expectations as to when the euro will be introduced in the EU Member States? Whereas changes in the level of trust in banks could especially influence households’ decisions to save in cash or hold deposits, changes in the relative assessment of the local versus the safe haven currency could have an impact on households’ preferences and decisions regarding the currency denomination of their savings. This study presents recent evidence from the OeNB Euro Survey on how households view the stability of the euro versus the local currency and

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introduces novel results on households’ preferences regarding the currency denomination of their savings.

2 Trust in the Euro

The OeNB Euro Survey has been conducted among households in five EU Member States and five (potential) candidate countries on a semiannual basis since 2007. The survey provides a unique source of information on the extent and the reasons behind the use of foreign currency-denominated assets. It also provides current information on households’ sentiments and economic expectations as well as on trust indicators.

According to the findings of the latest survey conducted in fall 2011, households’ trust in the euro had been affected by the sovereign debt crisis. Consent to the statement that “the euro will be a very stable and trustworthy currency over the next five years” declined in all countries in October and November 2011 (see chart 1). The rebound in sentiments, which had been found for some SEE countries in spring 2011, was reversed substantially. In the Czech Republic, Poland and Hungary, the assessment of the future stability and trustworthiness of the euro even fell into negative territory for the first time since the beginning of the survey in 2007. In the remaining seven countries, trust declined, but still remained positive.

For a summary of recent results, go to http://ceec.oenb.at.

For comparison, trust in the euro has also been negatively affected by the sovereign debt crisis within the euro area. The share of euro area respondents (European Commission, 2010) who agreed that “generally speaking, the euro is a good thing” decreased from around 70% in 2008 and 2009 to 67% in September 2010. Results for 2011 had not been published by the editorial closing date (April 18, 2012), but the trust level is likely to have deteriorated further in 2011. Results of the OeNB Barometer, a quarterly survey of the OeNB for Austria, show that during the course of 2011, respondents’ satisfaction with the euro dropped to 48% in the fourth quarter of 2011, down from 63% in the fourth quarter of 2010 (Fluch and Schlögl, 2012).
3 Damned Expectations for Euro Adoption in EU Member States

In fall 2011, respondents were also asked when they expected the euro to be introduced in their country. Table 1 shows the median response to this question, i.e. the median year in which the euro is expected to be adopted in the given EU Member States. Comparing the median years from the 2011 fall wave with those resulting from the 2008 and 2010 spring waves reveals that, in 2011, in all of the five EU Member States analyzed except in Romania, people expected a much later date for the euro’s adoption in their country. In particular in the Czech Republic and in Hungary, 50% of respondents do not expect the euro to be introduced before 2020. The degree of uncertainty, measured as the share of “Don’t know/no answer” replies, ranges from 18% (Hungary) to 56% (Romania).

The results of the OeNB Euro Survey are more pessimistic than the results obtained by the Flash Eurobarometer (European Commission, 2011) five months earlier in May 2011. The general sentiment that it will take longer before the euro may be introduced probably reflects (1) that Bulgaria, the Czech Republic, Hungary and Poland recently suspended their official target date for euro adoption and (2) that the culmination of the sovereign debt crisis in the fourth quarter of 2011 left a fairly strong mark on CESEE households’ sentiments.

4 Trust in the Euro versus Trust in the Local Currencies

The OeNB Euro Survey also inquires into respondents’ confidence in the respective local currencies. The resulting picture is rather mixed. In Hungary, Romania and Serbia, the majority of respondents continues to distrust the local currency and, compared to spring 2011, assessments deteriorated even further. These results might reflect the exchange rate depreciations of the respective three local currencies vis-à-vis the euro over the past months. For another six countries, a slight overhang of negative statements can be found: While in Poland and Croatia trust levels remained roughly unchanged over the last year, confidence in the currencies of the Czech Republic and Bosnia and Herzegovina slid into negative territory. By contrast, Albanian and Bulgarian respondents revised their assessments for the better. Only in the Former Yugoslav Republic of Macedonia did the majority of households expect the local currency to be stable and trustworthy over the next five years.

In their actual portfolio decisions, households are, however, likely to be influenced by whether they consider the local currency or the euro to be more stable. Although the sovereign debt crisis triggered an unprecedented deterioration of trust in the euro, it did not lead to an overall change in the relative assessment of

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Table 1

<table>
<thead>
<tr>
<th>EU Member States</th>
<th>2008 spring wave</th>
<th>2010 spring wave</th>
<th>2011 fall wave</th>
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<tbody>
<tr>
<td>Czech Republic</td>
<td>2013</td>
<td>2016</td>
<td>2020</td>
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<tr>
<td>Hungary</td>
<td>2015</td>
<td>2015</td>
<td>2020</td>
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<tr>
<td>Poland</td>
<td>2012</td>
<td>2015</td>
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<td>Bulgaria</td>
<td>2011</td>
<td>2013</td>
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<td>Romania</td>
<td>2013</td>
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<td>2016</td>
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Source: OeNB Euro Survey
Note: The calculated median years are based on the answers to the question about the year in which respondents thought that the euro would be introduced in their country. Excluding respondents answering “Don’t know” and “No Answer.”

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*The results are not shown in this study, but the respective tables and charts are available at [http://ceec.oenb.at](http://ceec.oenb.at).
the local CESEE currencies vis-à-vis the euro. Chart 2 shows the percentage share of respondents who agree that the euro will be stable and trustworthy minus the percentage share of respondents who agree that the local currency will be stable and trustworthy. In eight of the ten countries, the share of respondents having trust in the euro still exceeds the share of those placing confidence in the local currencies. The exceptions are Poland, with about equal shares, and the Czech Republic, where a higher share of respondents trusts in the stability of the Czech koruna.

However, the difference in trust between the local currencies and the euro shrank substantially in seven of the ten countries compared with the values recorded before the outbreak of the sovereign debt crisis. Only in Serbia and Croatia did the gap between the local currency and the euro not narrow.

5 Currency Denomination of Savings – Household Preferences

Research on euroization concludes that the portfolio decisions of CESEE households are inter alia sensitive with respect to the credibility of the local currency vis-à-vis safe haven currencies, which in the case of the CESEE region is predominantly the euro (e.g. De Nicoló et al., 2005). Given households’ reduced confidence in and growing uncertainty about the euro since the conclusion of the first support program for Greece in May 2010, one might expect households to adjust their saving preferences.

In fall 2011, all respondents were for the first time asked to state in which currency they would save if they had to deposit an amount worth twice their
monthly salaries in a savings account. Chart 3 shows that the regional pattern of trust in the local currency versus trust in the euro is mirrored in saving preferences. In the Czech Republic and Poland, more than 70% of respondents would choose to save in the local currency. By contrast, in Serbia, only 20% of respondents would save in dinar and more than 70% would save in euro. Generally, the euro is chosen more frequently than the U.S. dollar. In Hungary and Bosnia and Herzegovina, the share of respondents who would deposit their savings in U.S. dollar is relatively high at 9% and 15%, respectively. Overall, however, these results show that, despite the loss of trust in the euro, a remarkably high share of respondents would continue to save in euro, especially in SEE.

The picture might be different for respondents with actual savings as they have a higher stake in taking portfolio decisions. The static picture of savings deposits denomination is remarkably similar to that of hypothetical savings in chart 3. In CEE, more than 85% of respondents owning a savings deposit hold it in the local currencies. By contrast, in Serbia, the analogous share is 16%, while around 70% have a savings deposit in euro. In Croatia, the shares of respondents with savings deposits in kuna and in euro are about equal at 44% and 47%, respectively.

An analysis of whether households reacted to the crisis by adjusting their portfolio also renders a rather stable picture. Only few households adjusted their portfolio composition after the crisis (see chart 4). Respondents with savings were asked whether they had changed the currency composition of their financial assets in response to the crisis since 2008. In all countries, the majority of respondents did not change the share of their financial assets denominated in foreign

1 Here, these results are not shown in detail.
currency. In Croatia, the Czech Republic and Poland, the share of households that reacted to the crisis by changing their portfolio composition is below 10%. However, SEE households seem to have been more sensitive in their reactions, in particular in Albania, where 22% of respondents with savings responded to the crisis.

It is important to note that Euro Survey data refer to incidence and do not reflect amounts, i.e. the survey contains information about whether respondents have savings but not how much. Similarly, chart 4 shows the incidence of changes in portfolio composition but not the amounts converted. Respondents with higher savings might be more sensitive to crises in adjusting their portfolio composition, which could lead to changes in deposit substitution at the aggregate level. Looking at the aggregate data from national banks provides limited support for this hypothesis.

In line with the picture of relative trust in the local and foreign currencies, deposit substitution is much lower in the CEE countries (at below 20%) than in the SEE countries, where it ranges between 40% (Albania) and 97% (Serbia). Overall deposit substitution has been very persistent, with some indication of a decline evident only in Bulgaria, Hungary and FYR Macedonia.

### 6 Summary

The recent OeNB Euro Survey finds a marked decline in trust in the euro, but provides evidence that the euro remains relatively more trusted than the local currencies. Households’ preferences with regard to the denomination of their savings seem to have been little affected to date. As long as the euro is considered to be relatively more stable than the local currencies and is not superseded by another safe haven currency, it seems at present unlikely that larger portfolio shifts will occur.
References


