

# The 2008 Fall Wave of the OeNB Euro Survey – A First Glimpse of Households' Reactions to the Global Financial Crisis

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*This article presents selected results of the third wave of the OeNB Euro Survey, which was conducted in Central, Eastern and Southeastern Europe (CESEE) in October/November 2008, i.e. at a time when the global financial crisis had arrived in Europe. Therefore, this article focuses on first evidence of households' reactions to the crisis by comparing the most recent results with those of the preceding survey wave of May/June 2008. Although people's general assessment of the economic situation and their trust in banks have both deteriorated substantially, according to our results, this has not (yet) changed people's behavioral patterns in terms of their foreign currency holdings. In particular, the dissemination of euro cash holdings and euro-denominated savings deposits remained stable relative to earlier waves of the OeNB Euro Survey.*

*JEL classification: E41, E50, D14*

*Keywords: Euroization, global financial crisis, economic sentiment, survey data, CEE, SEE*

## 1 Introduction

This article presents selected results of the third wave of the OeNB Euro Survey, which was conducted in Central, Eastern and Southeastern Europe (CESEE) in October/November 2008. The survey period coincided with the time when the global financial crisis arrived in Europe. Therefore, this article focuses on first evidence of households' reactions to the crisis by comparing the most recent results with those of the preceding survey wave of May/June 2008. Although the general sentiment of the people has deteriorated substantially, according to our results, this has not (yet) changed people's behavioral patterns in terms of their foreign currency holdings.

The article is structured as follows. Section 2 recalls the main features of the OeNB Euro Survey. Section 3 presents the respondents' assessment of the present and future economic situation as well as results on interviewees' confidence in their local currencies and in the euro and on their trust in the local banking sector. Section 4 examines whether the global financial crisis had already led to a change in foreign currency cash (FCC) holdings or foreign currency deposits (FCDs) by households. Section 5 summarizes the survey results.

## 2 The OeNB Euro Survey – Main Features

As in previous survey waves, the geographical scope of the survey comprised 11 countries,<sup>2</sup> namely six EU Member States (Bulgaria, the Czech Republic, Hungary, Poland, Slovakia and Romania) and five EU candidate and potential candidate countries<sup>3</sup> (Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia<sup>4</sup>

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<sup>2</sup> 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.

<sup>3</sup> The survey does not cover Montenegro and Kosovo, which have both unilaterally introduced the euro.

<sup>4</sup> "FYR Macedonia" refers to the former Yugoslav Republic of Macedonia.

and Serbia). In fall 2008, Slovakia was covered by the OeNB Euro Survey for the last time; it will thus not be included in the country sample as of 2009. The fall wave 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>).

The OeNB Euro Survey is conducted at half-year intervals. The first wave had been carried out in October/November 2007 and the second wave followed in May/June 2008. The third wave was incidentally conducted at the time of the first peak of the global financial crisis in the region. However, it was not conducted at the same time in each of the surveyed countries. Therefore, when interpreting some survey results, it may be helpful to bear in mind the exact timing of the interview period in order to fully understand respondents' behavior (see table A in the annex).

### **3 Economic Sentiment**

Since the 2007 relaunch of the OeNB Euro Survey the questionnaire has been containing a set of questions on general economic sentiment. Given the timing of the 2008 fall wave, we expect the results to provide very interesting insights into interviewees' perceptions of the economic situation against the background of the arrival of the global financial crisis in the region. Furthermore, the survey results are likely to present first evidence of cross-country differences in how the crisis is perceived in the respective countries.

#### **3.1 Economic Confidence Weakens**

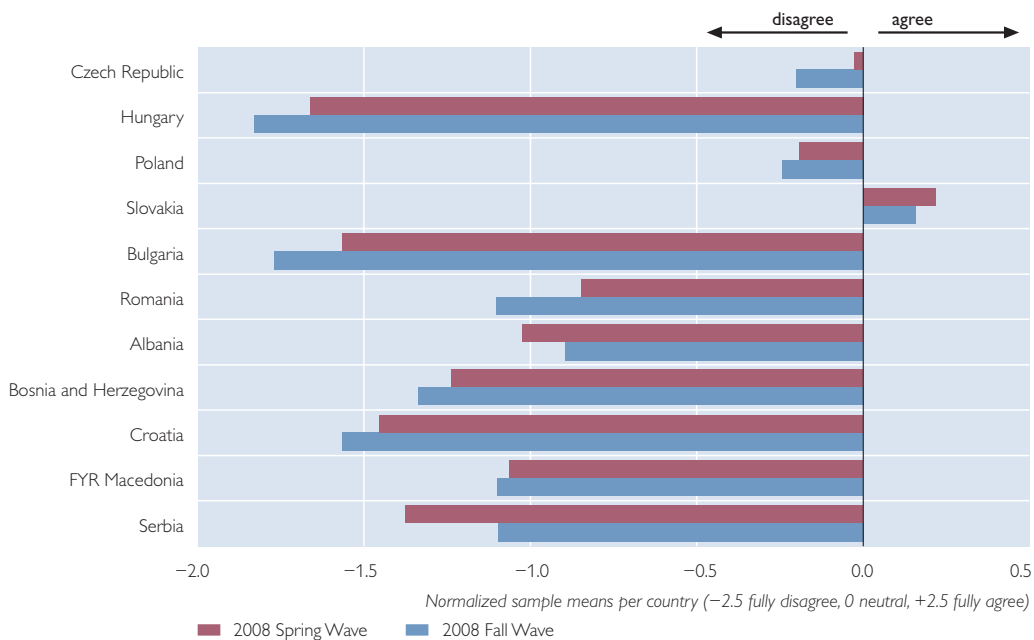
Not surprisingly, respondents' assessment of the economic situation in the fall of 2008 had deteriorated in comparison with the 2008 spring wave, even though the changes are not always significant (see chart 1). In general, pessimism continued to be the dominant sentiment. In Hungary and Bulgaria, the pessimistic sentiment was particularly pronounced relative to the regional average, which had already been found to be the case in the preceding two survey waves. In both countries, this general sentiment largely corresponds with macroeconomic performance, which had fallen short of the regional average in several aspects (see Dvorsky, Scheiber and Stix, 2008b). A remarkable exception in this context is Slovakia, where respondents' economic assessment was on average positive. This finding was undoubtedly influenced by the then upcoming introduction of the euro.

#### **3.2 Assessment of Economic Prospects also Worsened**

It is worth noting that respondents are, in general, less pessimistic in their expectations for the future economic situation than in their assessment of the current situation. Nevertheless, we observe that respondents' assessment of the future economic situation worsened significantly in Hungary, Bulgaria, Romania and Serbia compared with the previous survey wave (see chart 2).

Chart 1

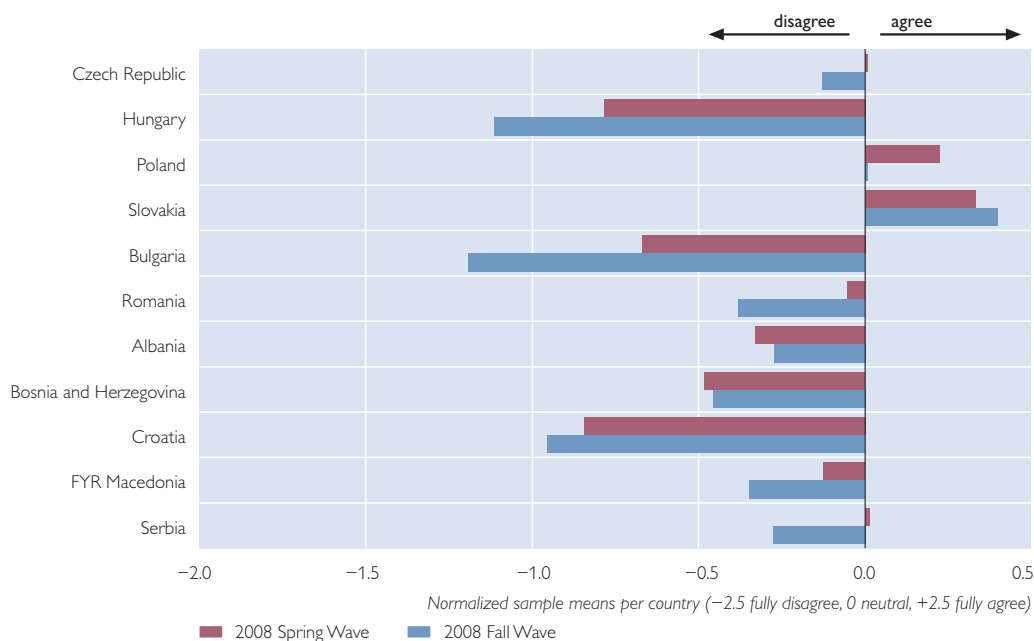
**Response to "Currently, the Economic Situation Is Very Good"**



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

Chart 2

**Response to "Over the Next Five Years, the Economic Situation Will Improve"**



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

### 3.3 Confidence in both Local Currencies and Euro Declines

In most countries analyzed, interviewees' confidence in the local currency seems to have declined compared with the previous survey wave. On average, respondents disagreed with the statement that their local currency was very stable and trustworthy (see chart 3). Again, answers in Hungary and Bulgaria were found to be particularly negative. To some extent, country averages might reflect differences across countries which are genuine and not explainable by economic factors. In this regard, it is worthwhile to focus on changes over time. Nevertheless, even when bearing this qualification in mind, we consider the result for Bulgaria remarkable given that Bulgaria has successfully been operating a currency board arrangement. A marked loss of confidence in the local currency was reported in the Romanian survey results. By contrast, the results for FYR Macedonia and Bosnia and Herzegovina are surprisingly positive, which reflects widespread optimism following the countries' strong economic performance in recent years that had not yet abated when the fall wave was conducted (Pöschl, 2008).

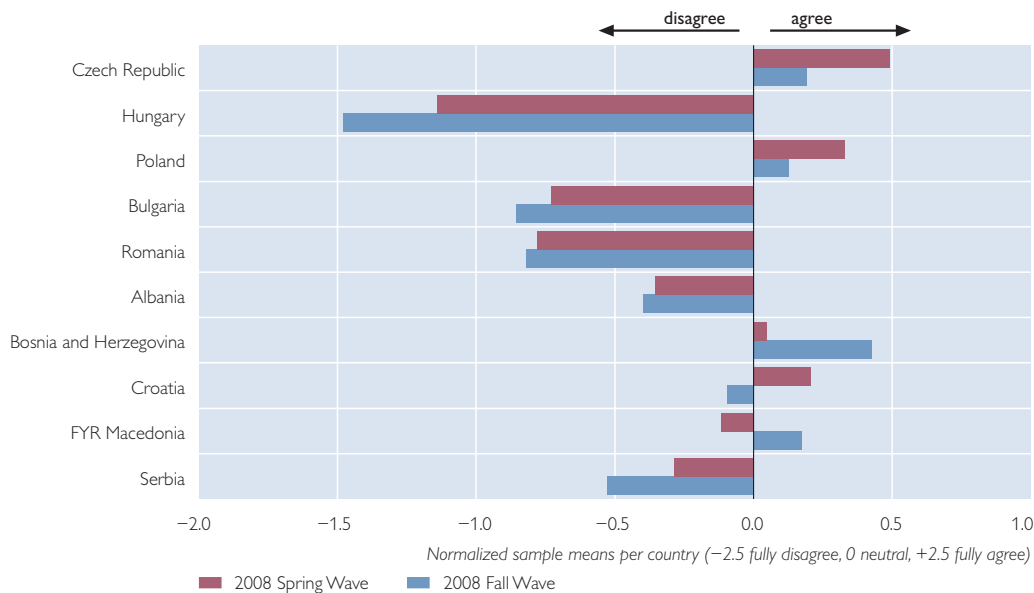
It is worth noting in this context that the questionnaire also explores people's expectations about exchange rate developments over a five-year horizon. Here, the picture that emerges from the 2008 fall wave has remained virtually unchanged from six months earlier (see Dvorsky, Scheiber and Stix, 2008b). In most countries, the share of respondents agreeing with the statement that the "local currency will lose value against the euro over the next five years" remained at around 40% to 65% of all interviewees. Hungarian respondents remained by far the most pessimistic in the region, with still over 80% expecting a depreciation of the exchange rate. On the other end of the spectrum, more than 75% of the Czech<sup>5</sup> and 60% of the Macedonian interviewees said that their local currency would "stay the same" or even "gain value" vis-à-vis the euro. The currency board arrangement in Bosnia and Herzegovina obviously enjoys a high degree of support, with 75% of respondents expecting the exchange rate to "stay the same."

The euro, by contrast, continued to be perceived as a stable and trustworthy currency in all countries analyzed. However, it seems that the global financial crisis did not leave people's confidence in the euro totally unaffected. Consequently, during the 2008 fall wave, the statement that the euro is a stable and trustworthy currency found less support from respondents than six months earlier (see chart 4). Statistically significant changes were found for Hungary, Poland, Romania, Albania, Croatia and Serbia. However, this may be attributed not only to diminishing trust in the euro per se, but also to a general loss of confidence in the financial sector.

<sup>5</sup> The survey results from the Czech Republic are remarkable insofar as the exchange rate of the Czech koruna started to depreciate vis-à-vis the euro as of September 2008, which obviously had not yet fed into people's exchange rate expectations.

Chart 3

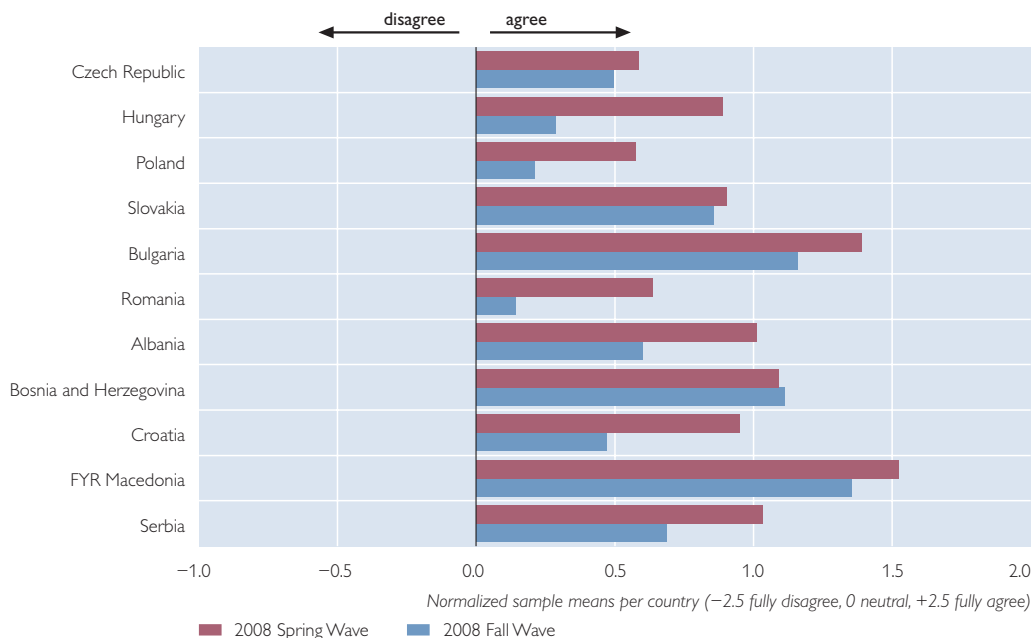
**Response to "Currently, the Local Currency Is Very Stable and Trustworthy"**



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

Chart 4

**Response to "The Euro Is a Very Stable and Trustworthy Currency"**



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

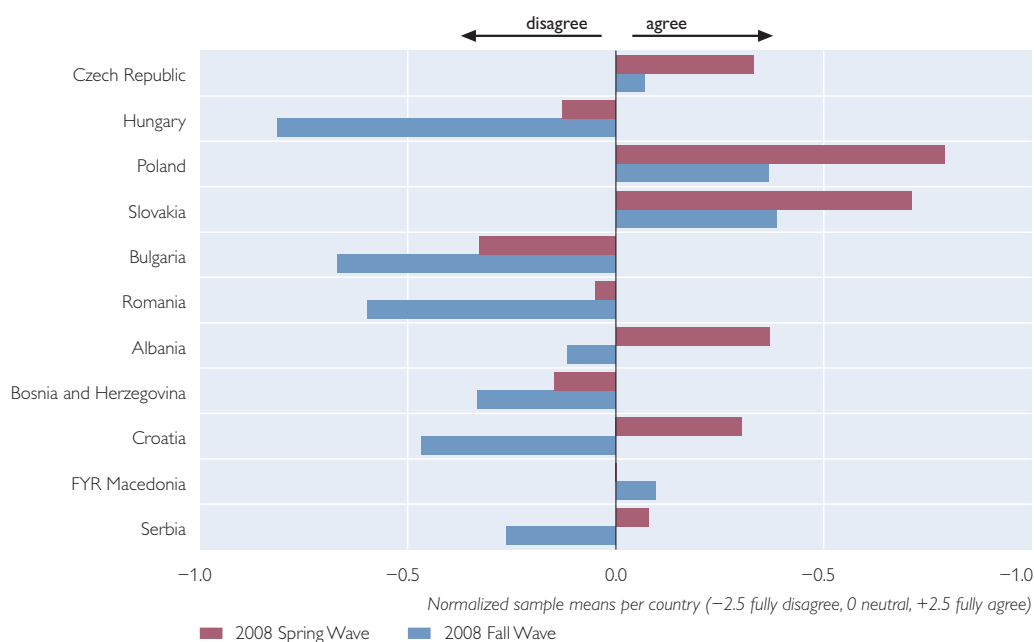
### 3.4 Trust in Banks Declines in Most Countries

The global financial crisis also manifests itself in a statistically significant erosion of trust in the banking system in CESEE countries – except for FYR Macedonia. For Croatia and Albania, we observe, on average, a relatively strong shift from a positive to a negative assessment of the domestic banking system. In the same vein, the response in Hungary and Romania indicates a relatively sharp decline of trust in banks (see chart 5).

People's trust in the banking system was most likely influenced by the arrival of the global financial crisis in the region and by the respective governments' policy responses in the fall of 2008. Therefore, in order to better understand interviewees' answers, we compared the exact dates of deposit guarantee scheme announcements in the respective countries with the interview schedule of the 2008 fall wave of the OeNB Euro Survey.<sup>6</sup>

Chart 5

#### Response to "Currently, Depositing Money at Banks Is Very Safe"



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

<sup>6</sup> In particular, in three countries survey interviews were conducted before and after deposit guarantee schemes were announced or raised by the respective governments, namely in Croatia (announcement: October 12, 2008; interview period: October 4 to 24, 2008), in Hungary (announcement: October 13, 2008; interview period: October 4 to 20, 2008) and in Bulgaria (announcement: October 15, 2008; interview period: October 13 to 31, 2008). Econometric breakpoint analysis did not, however, reveal significant differences in the results.

#### 4 Degree of Euroization – First Evidence from the Global Financial Crisis?

In light of the discussed darkening of economic sentiment, the question arises whether recent developments have had an impact on the degree of euroization.

From the literature on euroization one would expect that households change the composition of their portfolios in order to safeguard the value of their savings. Here, they have two options at hand, which are linked to opportunity costs and trust in institutions. They may decide on (1) whether to hold financial assets in domestic or foreign currency and on (2) whether to hold cash or to commit money to a bank.

Furthermore, at the current juncture, a substantial depreciation of the domestic currency increases the opportunity cost of holding domestic money. The influence of depreciation on euroization depends on the size of the depreciation and its expected duration.<sup>7</sup>

Given the historical background of dollarization during the transition recessions in some of the countries sampled, the willingness to switch to foreign currency/ the euro may be even greater because of established positive network externalities in the use of the foreign currency. In some countries in Southeastern Europe (SEE), it is, for instance, rather common to use euro cash to buy an apartment or a car or to pay the rent. Hence, some people already think in euro when making certain purchases. Moreover, the psychological barrier to switching is supposed to be lower nowadays. Stix (2008) shows that past experience is a key determinant for the use of foreign currency even though macroeconomic stabilization has wiped out many previous reasons for using a foreign currency. Amid the current crisis, former patterns of behavior could be reactivated, which might lead to a reshuffling of portfolios.

In the following, we want to take a closer look at the dissemination of euro cash holdings and euro deposits and at the amounts held (i.e. extensive and intensive margins) in order to determine whether the global financial crisis has already induced any shifts in household portfolios.

##### 4.1 Euro Cash Holdings Remain Virtually Unchanged

According to chart 6, the national shares of respondents holding euro cash remained stable compared with the average percentage shares of the 2008 spring and 2007 fall waves.<sup>8</sup> Hence, the dissemination of euro cash holdings in CESEE remained unaffected in the early days following the arrival of the global financial crisis in the region.

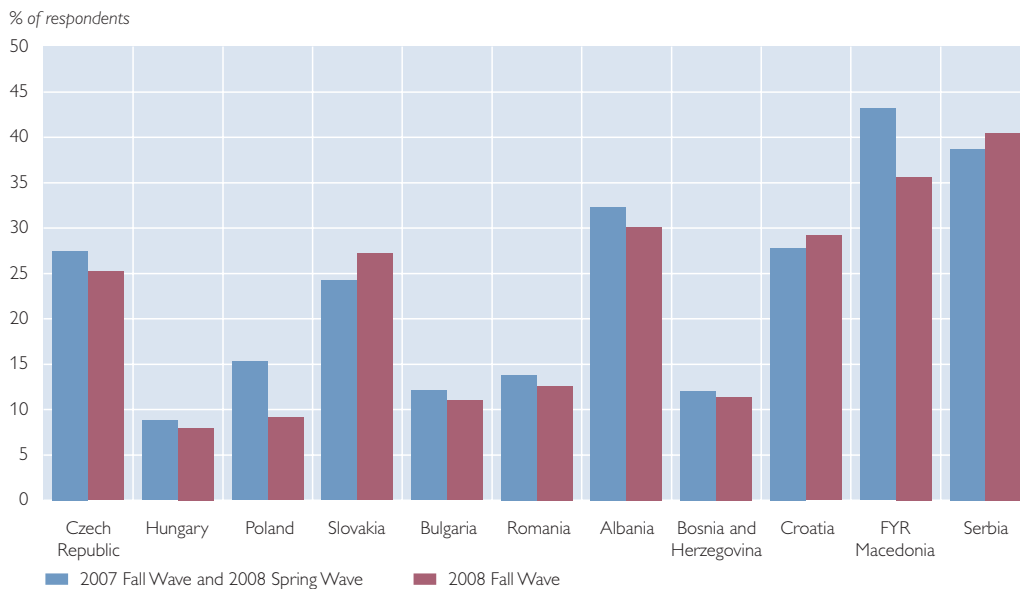
Furthermore, the intensive margin of euro cash holdings stayed the same (see chart 7). We did not find statistically significant changes in the median amount of euro cash holdings except for Croatia. There, the median amount of euro cash had soared from EUR 470 in fall 2007 to EUR 870 in spring 2008 and attained a level of EUR 920 in fall 2008, which was the highest in the region at the time. One explanation for this temporal pattern could be that residents had sold a substantial share of their stocks already in spring 2008 and may have converted a sizeable share of those revenues into euro cash.

<sup>7</sup> Another important factor explaining euroization dynamics is inflation (and interest rate differentials), but this is not considered to be the main determinant at the current juncture.

<sup>8</sup> Though the decline in the dissemination of euro cash for Poland and FYR Macedonia turns out to be statistically significant at the 1% level, we do not have a reasonable economic interpretation at hand.

Chart 6

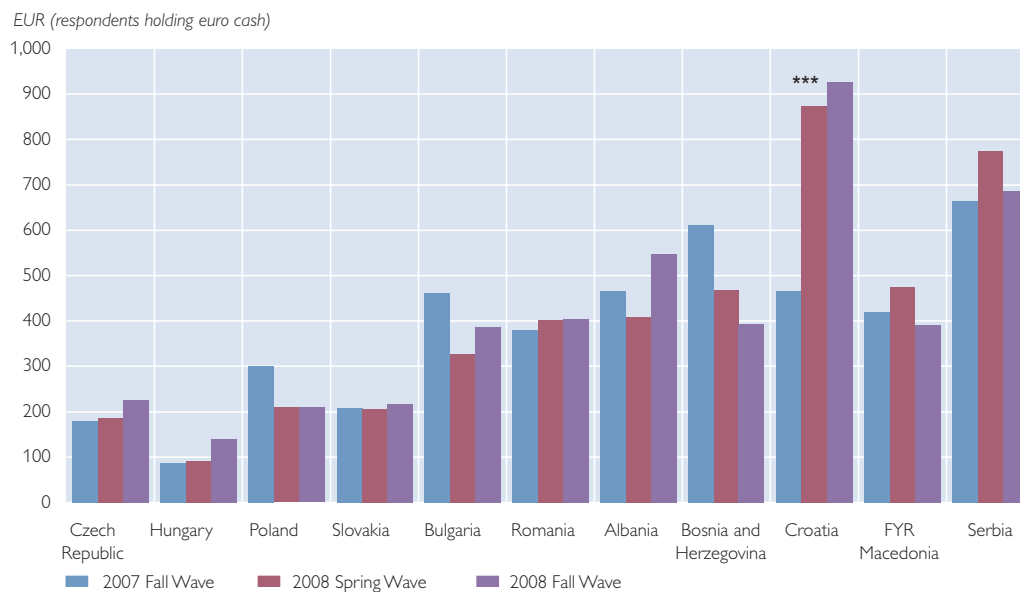
### Euro Cash Holdings as in Fall 2008



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

Chart 7

### Median Euro Cash Holdings as in Fall 2008



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

Note: \*\*\* indicates a statistically significant change at the 1% level.



#### 4.2 Savings Deposits Somewhat Lower, Currency Composition Almost Unaffected

Although trust in banks has deteriorated, results from the OeNB Euro Survey show that the dissemination of savings deposits did not change significantly, neither for local currency deposits nor for foreign currency deposits (FCDs). The low number of observations in some countries clearly limits a reasonable application of methods of statistical inference. Nevertheless, we found a statistically significant increase of euro-denominated FCDs in Slovakia, which ties in perfectly with the proposition that some Slovaks thus anticipated the upcoming adoption of the euro.

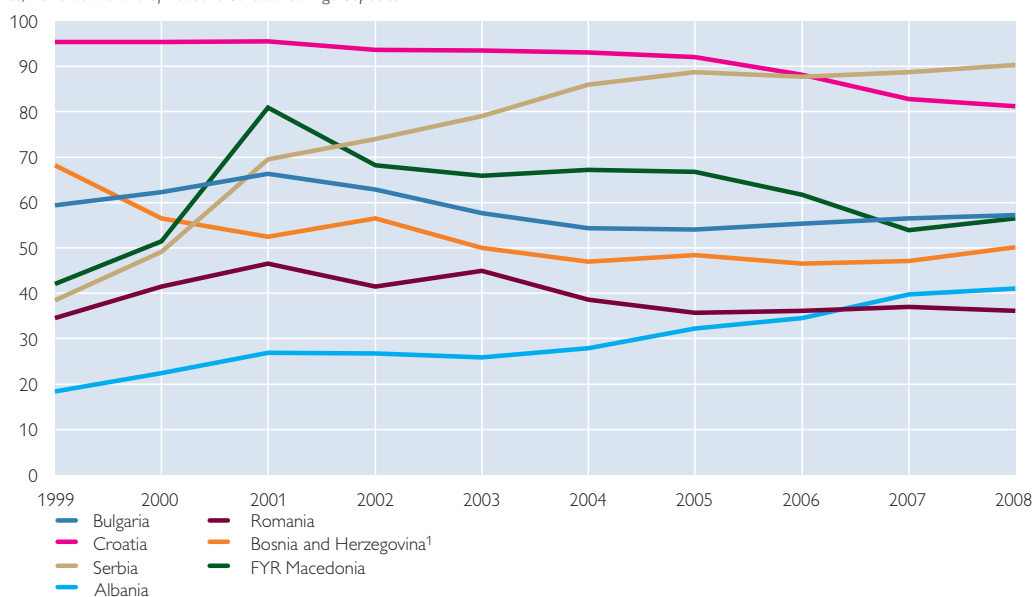
Another measure of the degree of deposit substitution is the relative share of FCDs in households' total deposits (see chart 8). The monetary statistics published by the national central banks do not evidence a change of major trends up until the cutoff date of January 2009. Since the global financial crisis arrived in the region only in the fourth quarter of 2008 and the private sector tends to react somewhat sluggishly and only gradually, we did not expect volatile movements. Nonetheless, the downward trend of deposit substitution seems to have decelerated slightly within the last quarter of 2008, while time series with an upward trend seemed to have picked up somewhat recently.

Focusing on the foreign currency share of savings deposits does not give the full picture, though. When we analyze data at a monthly frequency, we find persistent withdrawals of savings deposits (in both local and foreign currency) in four countries of SEE. In October 2008, the stock of household savings deposits declined by 5% in Croatia, by 6% in Serbia and by 12% in Bosnia and Herzegovina.

Chart 8

#### Degree of Deposit Substitution in SEE

% FCDs as a share of households' total savings deposits



Source: National central banks.

<sup>1</sup> Entries for Bosnia and Herzegovina comprise savings deposits of households and the corporate sector.

In Albania, households withdrew 3% of their savings deposits in November 2008. We presume that households withdrew money in the currency in which their savings deposits were denominated.

After November 2008, savings deposits stabilized again, but at a lower level, which suggests that governments' announcements of state guarantees for savings deposits were effective and succeeded in restoring trust in the local banking systems.

## 5 Summary and Outlook

The 2008 fall wave of the OeNB Euro Survey conducted in October and November 2008 coincided with the first peak of the global financial crisis and its arrival in the CESEE countries analyzed.

Not surprisingly, respondents' assessment of the economic situation in fall 2008 had deteriorated in comparison with the 2008 spring wave. Furthermore, the global financial crisis also manifested itself in a statistically significant erosion of trust in banks. However, the impact on the structure of households' financial assets in CESEE was rather limited at the time the survey was conducted. In particular, the dissemination of euro cash holdings and foreign currency deposits remained stable relative to earlier waves of the OeNB Euro Survey, which implies that the currency composition remained broadly the same in all the countries surveyed.

The fact that no significant changes became evident does not imply, however, that people are not wary of the impact of the crisis. Given people's great sensitivity toward financial turmoil (exchange rate movements, loss in confidence), the emergence of an acute crisis situation could lead to a reshuffling of portfolios. As a case in point, data from aggregate monetary statistics indicate that savings deposits declined in October and November 2008 in four countries.

Against this background, it remains a key policy challenge – both in the euro area and the CESEE countries – to sustain overall trust in the banking system. The 2009 spring wave of the OeNB Euro Survey will be conducted in May/June 2009 and will focus on the influence of the global financial crisis on households' behavioral patterns.

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## Annex

Table A

### 2008 Fall Wave Schedule

Albania	November 3–10, 2008
Bosnia and Herzegovina	November 2–16, 2008
Bulgaria	October 13–31, 2008
Croatia	October 4–24, 2008
Czech Republic	October 15–27, 2008
FYR Macedonia	November 6–12, 2008
Hungary	October 4–20, 2008
Poland	October 8–13, 2008
Romania	October 27 to November 4, 2008
Serbia	October 9–13, 2008
Slovakia	October 15–26, 2008

Source: OeNB.