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HAS THE FINANCIAL CRISIS BROUGHT TRUST IN THE EUROPEAN UNION AND HIS CURRENCY INTO QUESTION?

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Abstract

The main purpose of this paper is to present the views of the households in the Balkan countries, and in some of the emerging countries towards the European Union and its currency, after they experience the consequences of the recent financial crisis. The main incentive for the paper is the surveys which were conducted by the Gallup Balkan Monitor, Austrian central bank and Eurobarometer. In spite of the fact that each of the surveys is conducted on their special mode, and there are not fully comparable, we can still get a broader picture of the opinions and the attitudes that the households have towards European Union, in this period of uncertainties and vulnerabilities. The first part is focus on the financial difficulties that the households have after their salaries and jobs were put in a question, because of the crisis. The second part is showing the attitudes that the households have towards the European Union and its institutions, and their views about the functioning of the local governments, showing the lack of optimism and trust, comparing with the previous years. In the last part of the paper, we focus on the opinions of the households towards the European currency - euro. Regarding this findings, we can see that in spite of the decrease trust of the households in the European Union and euro as a currency, still it is higher than the trust that the households have in their local currencies and their local government institutions.

Keywords: households, European Union, euro, local currencies, government institutions

1. Introduction

The phenomenon of today's crisis for long time will be a subject of discussion not only among the state and financial institutions, but also by science that deals with character and dynamic of global economic processes. The financial crisis came as a storm affecting all the countries on the global market, from the richest to

1) The views and opinions expressed in this article are the authors' own and do not necessarily represent the official one(s) of the National Bank of the Republic of Macedonia.

the poorest. None of these countries were protected from this storm. The recession wave the institutions, the companies, the households, putting the governments in a position to defend and fight with their economic and financial policies. One of the initial findings that the future researches will be based on, is the effect of the global character of this crisis that has on the countries which did not participate in the disorder of the financial markets. However, these countries still face the challenges in overcoming the negative external factors, which were transferred over the global financial influence. If the countries belong to the group "developing countries" then their "vulnerability" of the crisis is expressed through high rate of unemployment and lower wages. The crisis causes redistribution of the social wealth, globally and on national level. The most vulnerable are those with lowest salaries, especially in the countries, which are still not ready to implement different social programs.

During these three years since the crisis started, the focus of the most of analyzes were the problems that the financial sectors and the companies faced. The reason for that was that they were the ones that experience the biggest financial failures. Still the households were not immune of this situation. The lack of liquidity of the banks and companies affect the labor market, bringing uncertainties among the households in their expectations towards working engagements and salaries. The shortage of work, force many of the companies to lay out their workers, making many households to face with financial difficulties, as they haven't face in years. Suddenly, the economies they believe in, and the institutions, which guarantee their safe future, started to fall apart in front of their eyes. So no wonder that the people started to loose their faith in the system they live in.

2. Households face bigger financial difficulties then before

Reaction of labor market in the time of crisis corresponded with its eminent characteristics which are described in the neoclassic theory. Decreased demand of products and services initially caused employee layoffs in the most sectors that are highly export oriented. In the development countries export oriented sectors in large part are labor intensive sectors where on average the employees are not highly qualified and knowledgeable, compared to the export sectors which rely on knowledge based economies. Such example is the export sector of the Balkan countries especially Macedonia, Albania and Bosnia and Herzegovina. Their export oriented sectors in the time of crisis look for strategy in lowering their expenses and that is mostly in expenses related to the work force. These leads to more layoffs of mostly lower qualified employees. National labor force market are increasingly growing with this kind of individual profiles considering that many families in this countries receive financial support from other family members that are working in developed countries. During the crisis major changes in demand of products and services occurred on the markets in the developed countries and its result was numerous closures of companies up to big changes in ownership structures of large corporations. The further consequence layoffs of less qualified workforce, majorly coming from Balkan countries, directly influence the increase of supply of the workforce on the national labor markets as well as decreased the border of social tolerance among the lower income classes in this countries.

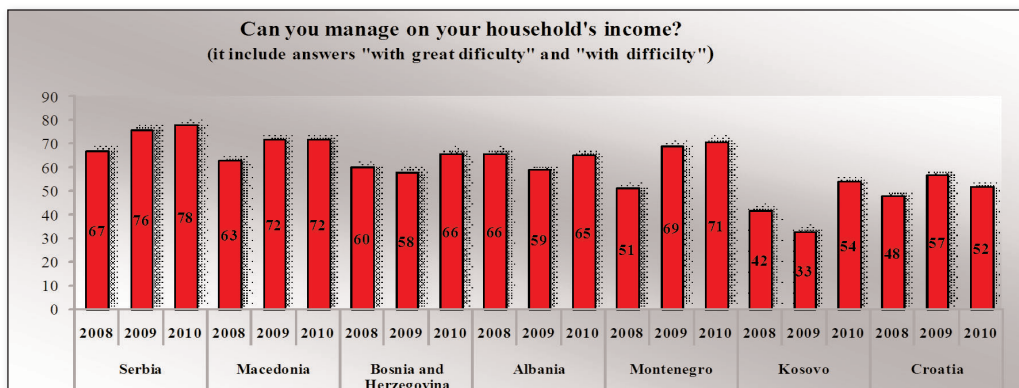
The survey that was conduct by Gallup Balkan Monitor² in june-july 2010 shows that most of the households in the countries of the Western Europe during this year face with financial difficulties. Comparing with the previous year there is an increase of the numbers of households who struggle to manage their lives on the household income in almost all survey countries, except in Macedonia and Croatia. Still, the lowest number of households with financial difficulties was register in Croatia (52%) while the highest number in Serbia (78%). On the other hand, the most intensive worsening of the financial situation of the households is found in Kosovo, where the number of households who cannot manage on their income increased from 33% in 2009 to 54% in 2010. According to Balkan monitor, one of the strongest effects from the crisis on the Balkan countries has been the shortfall of remittances. Because of negative developments on labor market, many of workers came home or send less money to their families. This was especially case in Kosovo, where its

2) Gallup Balkan monitor: insights and perceptions, November 2010. In the Balkan monitor survey, following countries were included: Serbia, Macedonia, Bosnia and Herzegovina, Albania, Montenegro, Kosovo and Croatia.

registered decrease of the households who rely on help from outside from 56% to 36%, on annual base, which is not surprise having in mind, that most of the Kosovo citizens have a family members who works in the other advance countries.

Can you manage on your household's income?

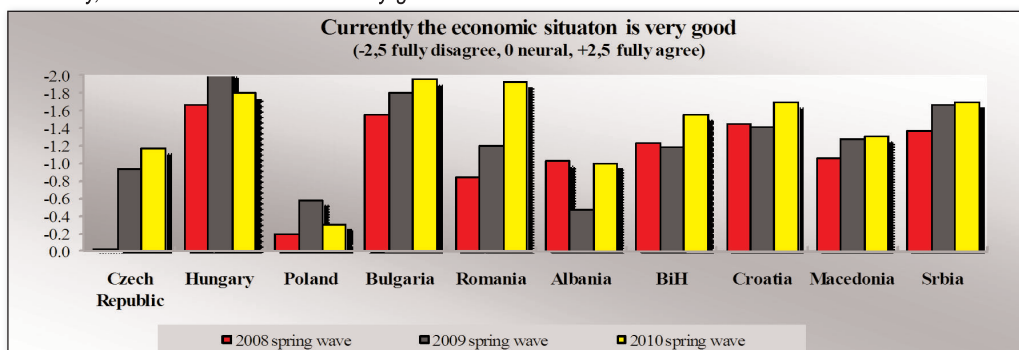
(Include answers "with great difficulty" and "with difficulty", in %)



Source: Balkan monitor, November 2010

So what are the expectations of the households in this time of crisis? The expectations are determined by many different factors. Among them, are also the ones with the political nature. The "memory" of inefficient management by the governments, effect on increasing the distrust, especially in times when big challenges needs to be faced. In spite of some recent improving in the macroeconomic data of the countries, the households do not believe that their economies are yet getting better. According the Survey, in all countries (except in Croatia) there was an annual increase in the percentage of people feeling that the economic situation in their countries was getting worse. The most pessimists are in Serbia, around 70% of the respondents, while the most optimists are in Montenegro and Kosovo (30% of the respondents in the both countries). This is also shown in the Euro Survey by the Austrian central bank³ which was conducted during may-june 2010, when is register an increase of the people who doesn't agree that the economic situation in their country is good, especially this is the case in Macedonia, Albania and Romania. In addition, the households are not very optimists about the future developments, where they mostly disagree that the economic situation in their countries will improve.

Currently, the economic situation is very good



Source: OeNB Euro Survey, December 2010

3) Euro survey, Central bank of Austria, December 2010. In the Euro Survey, following countries were included: Czech Republic, Hungary, Poland, Bulgaria, Romania, Albania, Bosnia and Herzegovina, Croatia, Macedonia and Serbia.

We are use to hear that people in these countries, especially from Balkan countries have problems in meeting their financial obligations. Especially for people living in the countries that are in the process of development, adjusting new reforms and new systems of functioning. However, it is quite surprising when we read that people in most advance countries cannot pay their every day bills. However, this financial crisis faces us with many surprises. Many of the households of the advanced European countries found themselves struggling with every day obligations, trying to cover their elementary financial needs. EU statistics shows that 17% of the people across the EU, which is around 80 millions Europeans, live below the poverty threshold. One in six EU citizens express having great difficulty in paying household bills, like buying food, on at least one occasion during the 2009, while 15% described this as a constant struggle.⁴

The knowledgment that "the EU citizens are living worse then before", for the people in the less developed countries, as the Balkan countries have a relative meaning. They are informed that the differences between the social programs in their countries and in developed countries are very big. The social programs in the Balkan countries are mainly inefficient in securing the elementary needs of the social deprived classes.

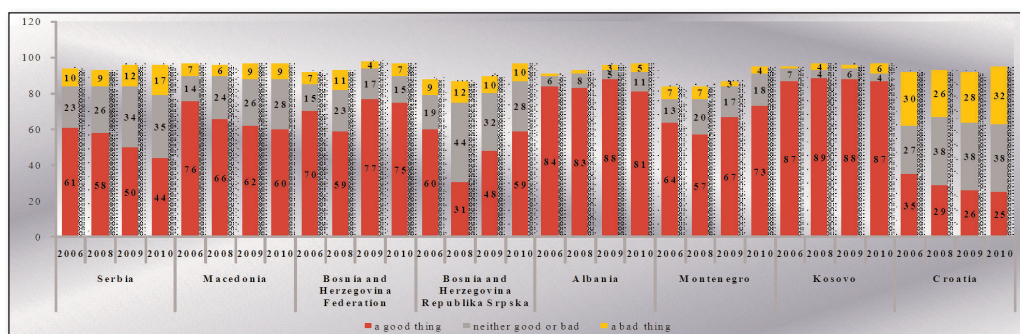
The finding of the surveys shows that all the households no matter are they from emerging country, Balkan or European country are facing with money issues and great uncertainties, because of the financial crisis. However, should the households pay this financial crisis? Who would help them, having in mind that they are the outsiders in this financial chaos which was produced by the most powerful and richest? When the big banks faced with financial difficulties and their incomes were not enough to pay the expenses and the obligations to their clients, the governments decided which is too big to fall and rush to save them, giving them an opportunity to continue. On the other side, the households, the ordinary workers were left alone, to struggle in finding new jobs and new financial opportunities.

3. Decrease trust in European union, but still higher then in the local government

The financial crisis proves that even the most powerful and most riches can found themselves on a verge of disaster. The "perfect" picture that many of the people had about the European Union was shadowed from all this news about the financial problems that the countries from the union have, and their struggling in finding a way out. Few months ago, it was the bail out of Greece with her huge debt problems. Recently, it is Ireland, and there are projections that soon Spain and Portugal will be found in this same situation. Therefore, it is quiet upsetting when countries powerful like this face with such a huge financial problems, and in same questioning their well know systems. We cannot but ask the question how powerful is European Union in order to protect and supervise her countries, in same time when they face their biggest challenges? Is this an effect only of the transmission on the American financial crisis, or it is also affect of the "double standards" that the European Union have. For example, by the Maastricht criteria and the Pact for Stability and Growth, each of the countries are allowed to have budget deficit to 3% of GDP and public debt to 60% of GDP. In the past, when a European country used to exceed the given criteria, it did not pay any fine. On the other side, these criteria must be obey by countries, which are struggling to found their way to the European Union, and criticized if they do not meet.

Therefore, the findings by the Gallup Balkan Monitor about the household's attitudes towards European Union and its currency are not surprising. They show that, the households reduce their confidence in the European Union. The visa liberalization that some of the Balkan countries received had a little effect on the respondents views of the EU accession. According to Survey of Gallup Balkan Monitor, the share of people thinking that EU accession would be a good thing fell from 62% to 60% in Macedonia and from 50% to 44% in Serbia (2009/2010). This percentage rise in Bosnia and Herzegovina from 48% in 2008 to 69% in 2010.

Do you think that country's membership of the European Union would be a good thing, a bad thing or neither good or bad?

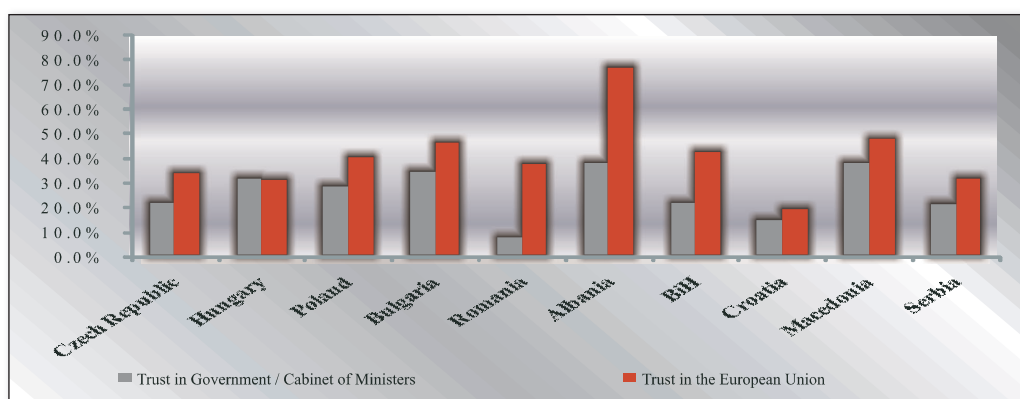


Source: Gallup Balkan monitor 2010

According to Euro Survey by the Austrian central bank, there is also a decrease of trust in the European institutions. For example, comparing with the previous results, in 2010, the biggest decrease of households who believe in the European institution is record in Bulgaria, Romania and Macedonia, and smallest decrease of households is registered in Czech Republic. On the other hand, comparing with the previous year, more households who believe in the institutions of EU can be found in Poland, Albania, Bosnia and Herzegovina and Serbia. Its interesting to see, that Croatia which is the most advanced in her negotiation for entering the European union comparing with the other Balkan countries, have the lowest number of households who believe in the institutions of the union (around 19%), while the highest is in Albania (around 70%).

In spite of these developments, still the trust that households have in the European institutions is higher than in the local government of their countries. In all of the survey countries, we found a smaller number of households who believe in the local government and their institutions than those who believe in the European institution. Comparing with the survey from 2009, there is big decrease of households who believe in the local government in Czech Republic (from 42, 4% to 21, 6%) and in Romania and Macedonia (from 17, 8% to 7, 4% and from 49, 1% to 38, 3%, respectively).

Trust in EU institutions and institutions of local government (in %)



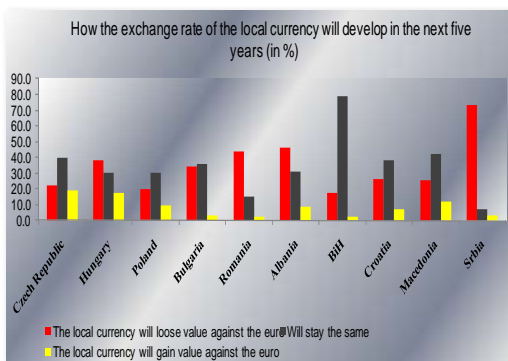
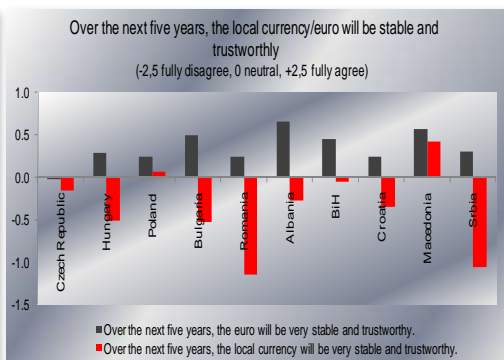
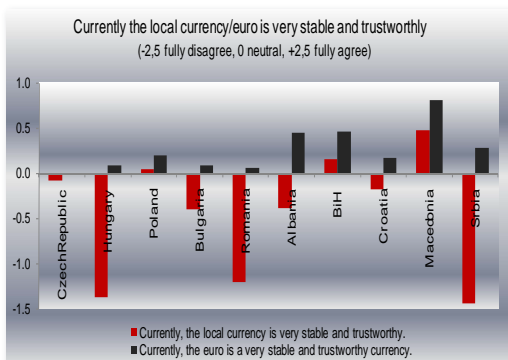
Euro Survey, Austrian central bank, spring wave 2010

4. The trust in euro, higher then in the local currency

The decrease of trust in the European Union brought a decrease in trust of its currency. According to Euro survey by the Austrian central bank there is a declain of trust in the euro among the countries included in the Survey, with the exception of Poland. In the uncertain surrounding of the euro area, it is not surprising to see the lowest level of trust in the countries, since the introducing of the survey (2007). Recent data from the markets shows lowest value of euro Vis-a Vis the u.s dollar. The decrease of trust in euro is a signal that there is a need for faster overcoming the consequences of the financial crisis in the real and monetary sector.

However, on the other side, the Survey, shows that the recorded lowest trust in euro, it is higher then the trust in the local currency. The lowest trust in the local currency is recorded in Serbia (where there is a depreciation of the currency), Hungary and Romania. For the future expectations, the countries are also more optimists about the developments of the euro, then in their local currency. The biggest pessimist in stability of the local currency in the next five years are Romania and Serbia, while the biggest optimist are Poland and Macedonia. According to Survey in Albania, Serbia and Romania their is a currency depreciation of the local currency against the euro since the beginning of the crisis, while in Hungary, Poland and Czech Republic the depreciation was recorded during the crisis but became stable afterwards. In Bulgaria, Bosnia and Herzegovina, Macedonia and Croatia, the exchange rate was stable, having in mind that in the first two countries their is a currency board, in Macedonia is fixed exchange rate, while Croatia implements the exchange rate regime of managed floating.

Household trust in euro currency and local currency and their expectations



Source: OeNB Euro Survey, 2010

Analyzing the opinion of the citizens if their local currency will lose or gain value against euro we can notice that there is a bigger share of households who believe that their currency will lose value, especially in Serbia, Romania, Albania and Hungary. This is specifically noticeable in Serbia, which is expected considering dinar currency situation during the past few months. In spite of intervention of the National bank of Serbia on the foreign exchange market in

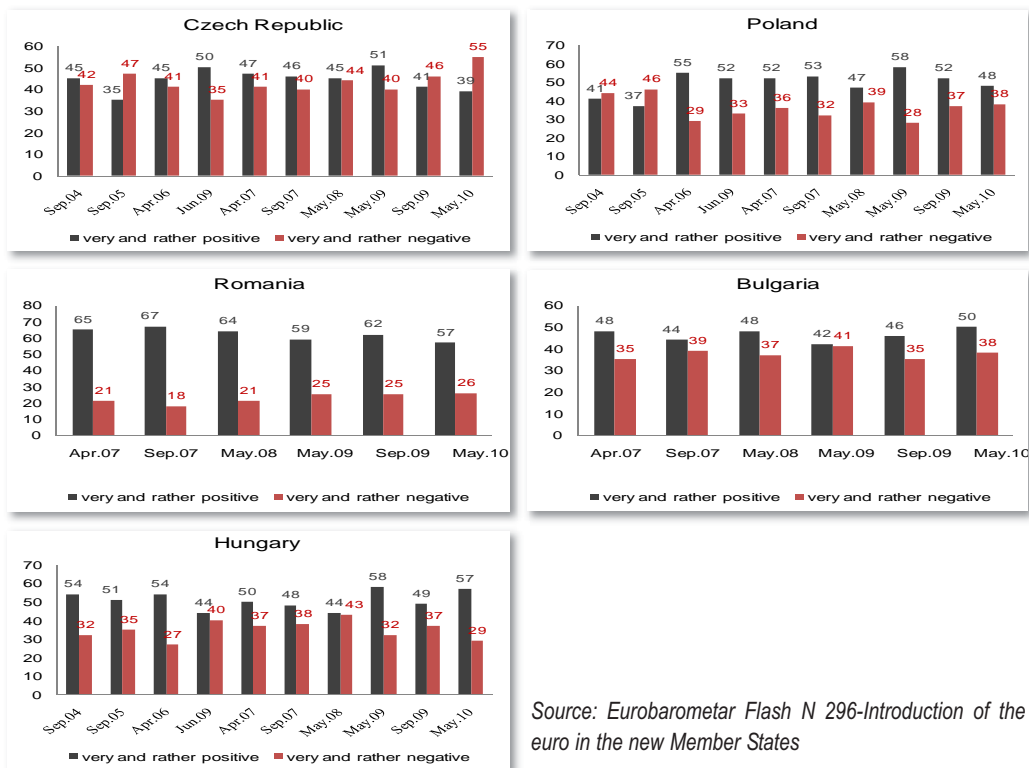
order to ease the volatile of the exchange rate, still dinar continued to lose his value against euro. This depreciation pressures were generated mainly of elevated risk premium and lower capital inflow from FDI, bank,

and enterprise external debt payment.⁵ Therefore, it is not a surprise that among the survey countries, Serbia is the only country where it has not registered a decrease of attractiveness of foreign currency deposits.

On the other hand, according to Flash Eurobarometer,⁶ there is a decrease in the proportion of the citizens who believed that the Euros introduction would have a positive impact at a national level. In May 2009, the percentage of the citizens who said that there would be a positive outcome was 55%, which decrease to 52% in September 2009 and to 49% in May 2010.

Consequences of the Euros introduction at a national level

(% of the respondents for very and rather positive and % of very and rather negative)



Source: Eurobarometer Flash N 296-Introduction of the euro in the new Member States

According to Transatlantic trends survey⁷ when asked whether using the euro has been a good or bad thing for their country's economy, almost all majorities in the euro zone sample responded negatively. Majorities of the British (83%) and Polish (53%), and a plurality of Bulgarians (42%), thought that using the euro would be a bad thing for their economies. However, more than half of the EU respondents (57%) felt that economic difficulties in Europe should lead to greater commitment to build a stronger European Union.

The candidate countries are still looking the European Union as a "space for faster development". In the time of crisis, is normal that the people in these countries will put more attention on short-term goals, which means securing the existence of their families, then towards long-term goals, which include participation in the EU.

5) Inflation report, November 2010, National bank of Serbia

6) Flash Eurobarometer, Introduction of the euro in the new member states, report July 2010 (the countries which are included in the survey are Poland, Romania, Bulgaria, Czech Republic, Estonia, Hungary, Latvia and Lithuania)

7) German Marshall Fund of the United States, Transatlantic trends survey 2010, which measures broad public opinion in the United States, Turkey, and 11 European Union countries

5. Conclusion

The recent financial crisis has been analyzed from all aspects, economical, political, social, and still the true view of all the events is unclear. One of the basic questions is the crisis could been predicted if financial control systems had analyzed enormous growth of financial assets on the market more systematically. The other guest on is the character of its feed-back: causes-consequences. If the character of crises causes are economics ones, is the "diffusion" of its consequences through many countries have only economic nature, or have political influences depending of one country position on the global financial market. It is interesting to see how this crisis is developing. The United States of America, the country where began the global financial chaos three years ago are now on "their feet again", improving in economical and political sense. On the other hand, the countries in EU although they were only part of transmission road of the crisis, they are still weak, facing more debt challenges then before crisis. In addition, there are the "developing countries", among them Balkan countries and some new members of EU, which are also fighting with the economical and social challenges that the crisis brought. Further on, we witness weakening of the euro, vis-a-vis the dollar. If we concentrate to consequences of the crises, will say the ultimate truth that they are distributed independently of their causes: the worst position have got countries, regions or citizen which are on the lowest level of endurance. Usually they have their development and social problems. In spite of the facts they did not participate in the crises causes, the negative effects have damaged them strongly longer than others. Therefore, while, the governments are giving billions of Euros to save those who cause the financial crisis, the ordinary people, the households are left on the edge of disaster, to fight for survival, not by their choice. So it's no surprise that in this time of crisis, the entrust spread among the households. Entrust to the companies they work in, in the banks they used to save, in the system they function, and in the government they vote for it. We can confirm this from the analyzed surveys that are showing decreasing of the trust in the local governments and local currency, which is smaller than the trust in the European Union and its currency. Reason for it is that European Union, in spite of her weakening in the last period, still presents a powerful union with strong regulations and system of functioning. On the other hand, the households from the survey countries refuse to believe in their local governments, after they were left on the street with the explanation "there less demand for export services and goods from advanced markets". In the countries could be expected, the long-term character of the crises.

The crisis, are part of economical cycles, and they did happened in the past and it will happened in the future. So they should not be used as an excuse for not managing the situation on the right way. The crisis highlights the weakness of the economies, the negative elements of the system and of the governments that were present before the crisis happen. This current crisis showed many weaknesses but one of the most important was the weak social programs and unprotected labor market with efficient regulation systems. All these aspect emphases once again the urgent need for global reforms and developments in this area.

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