
HEADING TO THE EURO-ZONE

Hopes and Fears about the Euro in the New Member States



A recent poll by the Gallup Organization reveals that a large majority of the people in the ten New Member States think the euro is an international currency, much like the Dollar and the Yen. Overall, people have positive expectations with regard to the euro, but somewhat more so for their countries than for themselves. Many people expect that introducing the euro will reinforce the place of Europe in the world as well as ensure sounder public finances but there are also many who fear it will increase inflation.

INTRODUCTION

The euro is currently the official legal tender of twelve European Union countries (e.g., Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland). Since its first release into circulation in 2002, it is now used by 300 million Europeans living in the so called Euro-zone.

The number of countries that use the euro is increasing. Slovenia is the next Member State to introduce it in 2007. Eventually, all the New Member States are required to use it as soon as they satisfy the necessary conditions set by the European Union.

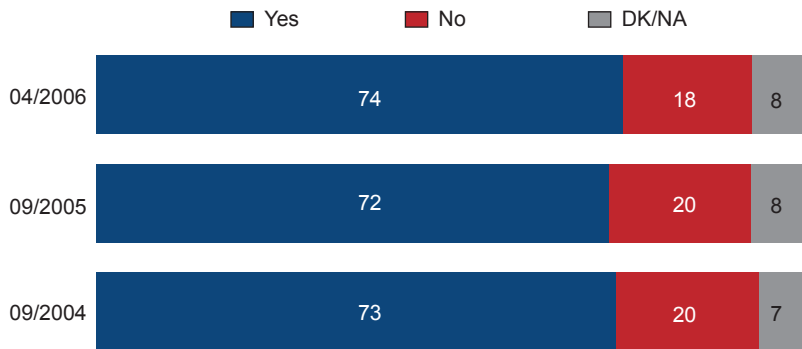
Outside the Euro-zone, the euro is also often circulated as the unofficial currency of many nations. It is, for example, the de facto currency in Montenegro and Kosovo even though these countries are not members of the European Union. While the euro has not reached the level to which the US dollar is used as a universal currency, one can expect that as it is becoming a stable, reliable currency with good interest rates for so many Europeans already, its role in the world, for example as a reserve currency, will also increase.

THE EURO IS AN INTERNATIONAL CURRENCY

The overwhelming majority of the people (74%) in the New Member States think that the euro is an international currency, one similar to the Japanese Yen or the US Dollar. This opinion is rather stable as it

has not really changed over the course of the past three years. There is also only a very little variation across countries in this regard. Slovenes are most likely to agree here, with 81% answering yes; while Hungarians, alongside Cypriots, are the least convinced about such status but still majorities (72% each) agreeing in both of those countries.

Status of the euro as an international currency (% , NMS -10)



Q 18. Do you think that the euro is an international currency like the US Dollar or the Japanese Yen?

A deeper look at the data reveals that a positive perception of the euro as an international currency leads to a greater degree of support for adoption of the currency in the respondent's own country. While 66% of those who see the euro as an international currency want it to become their currency sooner (rather than later), only 44% of those who think otherwise want it to become their currency. Such a positive association is statistically valid and significant for all but two countries, Cyprus and Malta, among the New Member States.

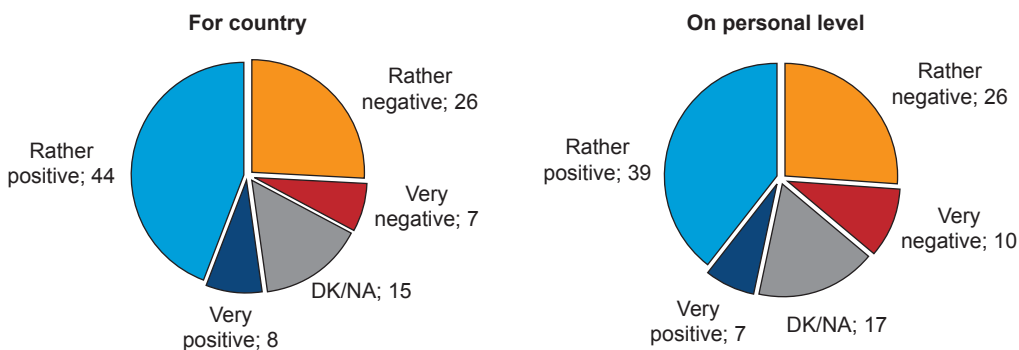
One of the most important findings of this study says **Dr. Zsolt Nyiri, Research Director for Europe, Gallup World Poll**, is that those who perceive the euro as an international currency such as the US Dollar or Japanese Yen are much more likely to support their own country adopting it. This should be a signal for decision-makers in Brussels that strengthening the image of the euro as one of the most important international currencies in the world will also create more internal, EU-wide, support for the euro.

Overall, people have positive expectations from the euro but somewhat less so on the personal level than for their country

The overall climate has become more positive in 2006 regarding the introduction of the euro than it was in 2004 or 2005. A slight majority, 52%, in the New Member States believe that the adoption of the euro will have, on balance, positive consequences for their country.

Generally, citizens expect that most of the advantages will be somewhat more positive to their country than for themselves. Only 8% think that the introduction will have a very positive but 44% believe that it will have rather positive consequences for the country.

Consequences of the introduction of the euro (% , NMS -10)



Q12 Do you think the introduction of the euro would have positive or negative consequences for (our country)...?

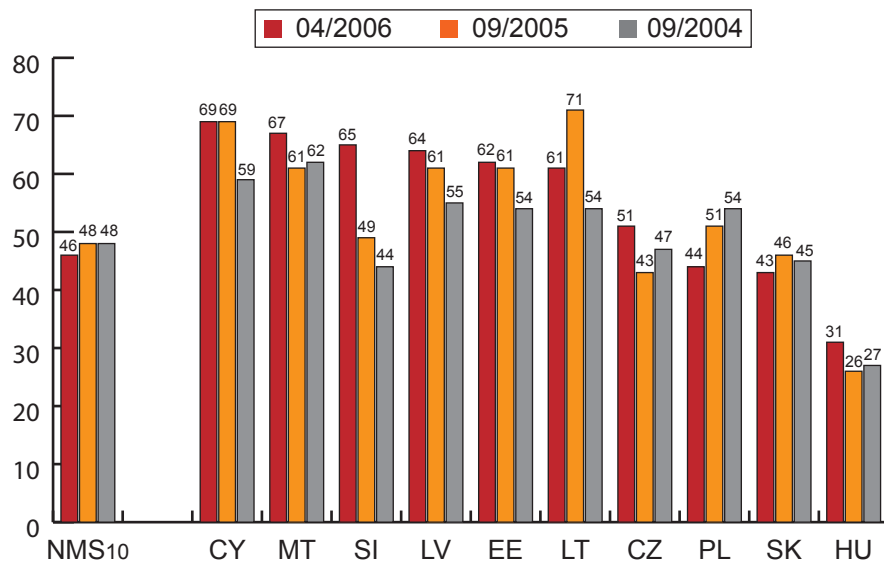
Q13 And for you personally, do you think that it would be positive or negative if the euro would be introduced?

Generally, citizens expect that most of the advantages will be somewhat more positive to their country than for themselves. Only 8% think that the introduction will have a very positive but 44% believe that it will have rather positive consequences for the country. Similar figures on a personal level are lower, 7% expect very positive, and 39% rather positive consequences when it comes to adopting the common currency in their country. A significant minority of 36% expect negative personal consequences, and almost as many citizens (33%) fear a similar outcome for their country. 15-17% can't decide if the euro will bring positive or negative consequences for their country or for themselves.

INFLATION AND THE EURO

Price stability is one of the main objectives of European Monetary Union. The European Central Bank's track record has been impressive with low inflation rates not exceeding 2.4% per annum since 1999. However, most citizens in the New Member States fear that introduction of the euro will increase inflation in their country. Overall, 46% of the people in 2006 feel that the euro will give rise to inflation. This is a slight decrease compared to previous years.

This pessimistic assessment is widespread but not universal across the region. In Hungary, more people see the euro as a vehicle for a more stable financial environment than as a threat to the current level of price stability. Nevertheless, in 2006, majorities of the population feel the euro will give rise to inflation in the Czech Republic, Lithuania, Estonia, Latvia, Slovenia, Malta, and Cyprus.



Q17. Do you think the euro will help to maintain price stability, or, on the contrary, increase inflation in (our country)? (% 'will increase inflation')

HOPES FOR THE EURO

Looking at the various potential economic or political effects of introducing the euro, two-thirds of the people in the New Member States (68%) agree that introducing the euro in their own country will reinforce the place of Europe in the world. This is the most widely agreed upon advantage of adopting the euro.

Forty-four percent of the residents of the NM10 also believe that the euro will ensure sounder public finances. This expectation is especially high in Hungary, where two-thirds of the population (66%) think this is going to be the major advantage of introducing the euro. The majority of the Slovenians (53%), who are next in line to get into the Euro-zone, also have high expectations of sounder public finances resulting from the euro.

Even though people are more sceptical on this item, still one third believe (35%) that the euro will lower debt charges and will ensure lower interest rates. Thirty eight percent of the population in the New Member States think that the introduction will improve growth and employment, however the plurality of respondents (40%) by a slight margin do not believe that the euro will help to increase employment or boost economic growth.

People are clearly worried that retailers will use the introduction of the euro to try to disguise increases in prices, which would temporarily push up inflation. There were many complaints from consumers of price gouging in France, Germany and especially Italy following the introduction of euro notes and coins in 2002, though there is no hard evidence to back up these claims.

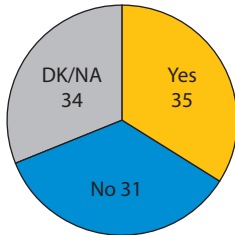
In addition, one often hears stories that some New Member States (NMS) have used administrative measures to contain price increases in some sectors in order to qualify for entry into the euro area. There may be a fear that governments will relax once membership to the euro area is secured and inflation will move back up again.

More fundamentally, it is certainly the case that after adopting the euro, the inevitable appreciation of NMS' real exchange rates can only occur through inflation, since the nominal exchange rate can no longer move. However, this would also be true if countries retained their own currencies and fixed them against the euro. Moreover, it doesn't necessarily mean that inflation will be higher in the future than at present.

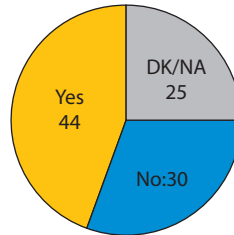
-Alan Ahearne
Research Fellow at Bruegel, the
Brussels-based economics
think-tank

Potential political and economic advantages of adopting the euro

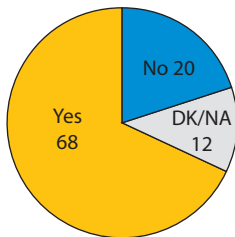
Will ensure lower interest rates, lower debt charges



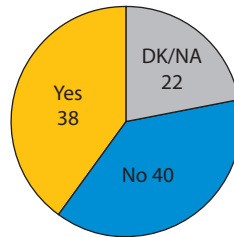
Will ensure sounder public finances



Will reinforce the place of Europe in the world



Will improve growth, employment



In your opinion, what are the main advantages of the adoption of the euro for (our country)?

METHODOLOGY

This survey was conducted in the 10 New Member States between the 31st of March and the 5th of April, 2006. Each national sample is representative of the population aged 15 years and above. The results in this survey are valid only between the limits of a statistical margin caused by the sampling process. This margin varies with several factors such as sample size, the result in itself, and the desired degree of confidence. For example, if one question has been answered by 500 people, the analyzed result is around 50%, and we choose a significance level of 95%, the statistical margin is +/- 4.4% around the observed 50%.