



THE EUROPEAN UNION AND THE CHANGEOVER TO THE EURO

SURVEY REPORT

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Commissioned by Eesti Pank, the social and market research company Saar Poll conducted a poll over the period of 2–12 September in 2004 to study the attitudes of Estonian residents towards the European Union and the changeover to the euro. This was a nationwide survey involving personal interviews with 1,200 residents aged 15-74. The poll was based on the proportional random sampling method, and the total number of interview items was 222. The questioning was conducted in the form of face-to-face interviews in the homes of the respondents.

Attitude towards the European Union

In general, it can be said that Estonian residents' attitudes towards the European Union are neither uniform nor singularly interpretable. Agreement or disagreement with several statements concerning the European Union is often divided fifty-fifty (see Graph 1). Nor is it possible to say for sure whether Estonian residents have a good or a bad attitude towards the European Union - many of them feel there are both negative and positive consequences arising from the accession to the European Union. The area concerning studies abroad constitutes an exception to the current survey – most of the Estonian residents hold that the accession to the European Union presents Estonian young people with improved opportunities in that field.

Different public opinion surveys indicate that subsequent to the accession to the European Union, the attitude of the Estonian residents towards the European Union has become more positive. Approximately two thirds of the Estonian population support membership of the European Union.

Surveys conducted in earlier years (prior to the accession to the European Union) have indicated that non-Estonians have always been more Euro-optimistic than Estonians. However, the outcome of the present survey does not support the above-mentioned result – relying on the statements of this survey, Estonians are slightly more Euro-optimistic than non-

Estonians. Meanwhile, it must be pointed out that the survey did not embrace the aspects significant to non-Estonians, such as social protection, standard of living, and employment; studying these areas might have yielded somewhat different results. The positive attitude of non-Estonians towards the European Union has been strongly tied to the expectations that accession to the European Union would improve the situation of non-Estonians in the areas mentioned.

The topics covered by the survey, such as security, culture and macro economy, have always been slightly more important for Estonians than for non-Estonians. The attitudes towards the European Union greatly depend on the age – the most positive attitude towards the European Union was expressed by young people aged 15-19. Younger people have always tended to be more optimistic than older people.

When analysing education groups it can be concluded that people with higher education have the most neutral attitude towards the European Union – they have fewer fears but also relatively fewer positive expectations compared to other education groups.

Politically active people (those who participated in the last elections to Riigikogu) are somewhat more positively inclined towards the European Union than politically inactive people. Those who support a fast changeover to the euro have a significantly more positive stand on the European Union than the ones who oppose the changeover.

Price Increase

Estonian residents perceive price increases in the aftermath of the accession to the European Union considerably higher than they have actually been. One of the underlying reasons undoubtedly lies in the numerous price growth reports published in the media prior to the accession, which lifted price rise expectations of the consumers very high, and these have remained high ever since. As the standard of living of Estonian residents is low enough, various reports about possible price increases have made people cautious. Besides, many residents still quite vividly remember the Soviet-time rhetoric concerning price rises, which meant that when the government claimed there was going to be no price increase, it actually served as a clear signal of a real rise. Such background is the reason behind the residents' higher price rise estimates. Nor can one talk about price increases simply in an abstract way,

but the structure thereof has to be viewed instead. People's assessments of higher prices also depend on the product groups that were affected by the price rise. When people assessed possible price increases, their estimates were based on the so-called personally sensitive commodity groups, not on the average price rise gauged by different indices. An assessment is essentially an emotional not a rational category. A significant price rise in a single commodity group (for example, the price of sugar, which was very evident, or the petrol price increase, which went up in line with the excise duty as of 1 May 2004) is sufficient for an overall perception of a higher price growth than actually indicated by consumer price indices. Such price rises, however, have not been observed in Estonia in recent years. Such situation, in turn, created a background for intensified assessments.

The consumer price index rose just 0.6% in the third quarter of 2004 compared to the second quarter, while in the second quarter it had increased 2.5% from the quarter before. The growth in other price indices (the industrial production index, the construction price index, the export price index, the import price index, and the index of purchase prices of the means of agricultural production) also remained below 5% in the second and third quarter.

While the growth rate of different price indices during that period has remained below 5%, most Estonian residents perceived a considerably faster increase in prices than 5% (see Graph 2).

Slightly more than three quarters of the Estonian population hold the view that prices will rise even faster in the coming years (see Graph 3). The next chapter provides a more detailed discussion of the relationship between price rise expectations and the changeover to the euro.

Non-Estonians, residents not holding Estonian citizenship, older people, people with lower educational level, people with smaller income, politically inactive people, and people opposing the changeover to the euro have had a more pronounced perception of the recent price rise as well as expectations of further increase in prices.

In general, it can be stated that people with smaller income, whose representation is bigger among non-Estonians, people without Estonian citizenship, older people, and people with a lower educational level perceive price hikes to be bigger. People's attitudes towards economic issues are mainly determined by their own economic status.

Which are the areas where the steepest price rise is predicted, and which are the areas where price rise would cause the greatest problems for the residents? Such areas are groceries and

housing-related expenses (see Graph 4). The expectations of rising food prices can partly be explained by the fact that such increases have received extensive media coverage. The fear of an electricity price advance, which is not related to the accession to the European Union, probably mainly lies behind the expectations of higher housing expenses. The specific electricity price hike project was being discussed in the Estonian media a long time before Estonia's accession to the European Union. Today we know that electricity price will be increased on 1 March 2005. The fear of housing price rise is also based on the fact that value added tax will be applied to heating as well, and that rent charge restrictions will be abolished. According to the Statistical Office of Estonia, namely food and housing were the predominant expenses in the structure of households' expenditure in 2003; hence it is logical that price advances in these areas would worry many residents.

A comparatively large number of respondents also predicted a rise in the prices of alcohol and tobacco products, increased outlay on transportation and health care, as well as more expensive real estate. While the growth in the prices of alcohol and tobacco products, transportation, and real estate has consistently been associated with the accession to the European Union by the media, the latter have not linked the increase in health care expenses to the accession to the European Union. The comparatively high price rise expectations in the health care area can probably be explained by consistent reforms in the given area, peoples' personal experience of long waiting lists to see medical specialists as well as by continually amplified reports on the constant decline in the number of doctors and subsequent rise in the price of medical attention. Besides, the given attitude may also be affected by the reports on the policy of the Estonian Health Insurance Fund being changed towards providing mainly cheap services.

From the point of view of problematic issues, in addition to rising food and housing costs, an increase in health care and transportation costs would also constitute a major problem for many, which has been predictable, since these are areas of primary relevance that concern all people.

Meanwhile, such fields as the real estate, alcohol and tobacco products are the areas, where many predict considerable price advances, but only a comparatively small number of people view this as a major problem.

Changeover to the Euro

In order to understand the attitudes towards the changeover from the Estonian kroon to the euro, an aspect that certainly has to be taken into account is the social memory with its specific peculiarities. The experience of the last monetary reform plays quite a big role mainly in the attitudes of older people.

In 1992 Estonia replaced the rouble with the Estonian kroon. The changeover to the Estonian kroon was effected against the background of hyperinflation and an extremely acute deficit of elementary goods. This was the context in which the rouble was replaced by the Estonian kroon.

The switchover to the Estonian kroon was of pivotal importance to the residents of Estonia both economically and politically. The macro level, however, is not always clearly understandable for private individuals. People have a tendency to fetishise their memories. This concerns mainly those people, who had reached older middle age by that time and who had acquired a significant amount of rouble savings in their bank accounts throughout years, whose value was practically nullified by the hyperinflation. Even though the hyperinflation would eventually have made those savings valueless in any case, the subjective impression that the value of the savings was lost in the monetary reform has been deeply ingrained in the consciousness of the holders of those savings.

Besides, it should be taken into consideration that privately owned commercial banks were established very early in Estonia compared to other eastern European socialist countries as well as to the former Soviet Union, and the first of such banks, Tartu Kommertspank, was registered in 1989 already. However, the period of banking regulation along with the modernisation and organisation of the banking market, both of which started immediately after the monetary reform, resulted in the bankruptcy of several commercial banks, which in turn caused insecurity and meant loss of savings for a part of the population. These are the factors affecting the attitudes of a section of Estonia's population towards the changeover from the Estonian kroon to the euro.

The position towards adopting the euro is also influenced by the long-term negative experience from Soviet-time monetary reforms or even earlier adverse experience still alive in the memory of the latter generations. An example to illustrate this is the way a certain part of Estonia's population reacts to possible social changes (for example, prior to Estonia's

accession to the European Union) by stocking up on the most price-sensitive commodities, such as food and fuel.

Due to Estonia's considerably lower income base, the above-mentioned items account for a bigger part of the consumer basket of Estonian households than in the member states of the European Union on average (see A. Saarniit, "On Inflation in the Immediate Past and Future", *Kroon & Economy* No 4, 2004). Public opinion projects past experience onto the future. Sometimes it is based on a current experience, sometimes on an experience from a past time period or a myth. The actual economic situation of a person in turn either amplifies or alleviates the past experience while establishing a foundation for future predictions.

The attitude of Estonian residents towards the euro has always been comparatively tepid. For example, according to a survey conducted at the beginning of 2004, the number of supporters and opponents of the common currency of the European Monetary Union, the euro, was almost identical (46% and 47%, respectively). By way of background information, one can say that support for the changeover to the euro has gradually increased in recent years, but has still remained among one of the most modest in the former European Union accession countries.

The number of people finding it expedient to adopt the euro either within the next three years, in four to five years, later than that, or not at all is almost equal (see Graph 5).

A fast changeover to the euro is mainly supported by Estonians, Estonian citizens, the young, people with higher education, people with higher income, and politically active people.

As far as the organisational side of the changeover to the euro is concerned, most Estonian residents favour maintaining the kroon and the euro in parallel circulation during a certain transitional period (see Graph 6), and they want to be informed of the detailed schedule of the changeover to the euro from comparatively early on (at least a year or six months in advance, see Graph 7).

Immediate switchover from the kroon to the euro is more favoured by people with higher education, those who support a fast change to the euro, Russian citizens, and the young.

Older people and those who oppose the switchover to the euro want a warning well in advance compared to the young and those in favour of a fast changeover to the euro.

According to the residents of Estonia, the principal merit associated with the changeover to the euro is that it eliminates the need to exchange currency when travelling, whereas the main

demerit as seen by the inhabitants of Estonia is the price advance expected to go hand in hand with the adoption of the euro. Besides practical aspects, emotional aspects also determine attitudes towards the euro. Many Estonian residents feel sad about the disappearance of the Estonian kroon, which has been one of the most significant symbols of Estonia's economic success and political independence in the course of the past 12 years.

The fear of price rises associated with the changeover to the euro is also evident in the next question. Namely, the majority of Estonian residents think that prices will rise more upon the adoption of the euro than they would if we continued to use the kroon (see Graph 8). In addition, the news from Europe reporting significant price increases upon the changeover to the euro has contributed to spurring these fears.

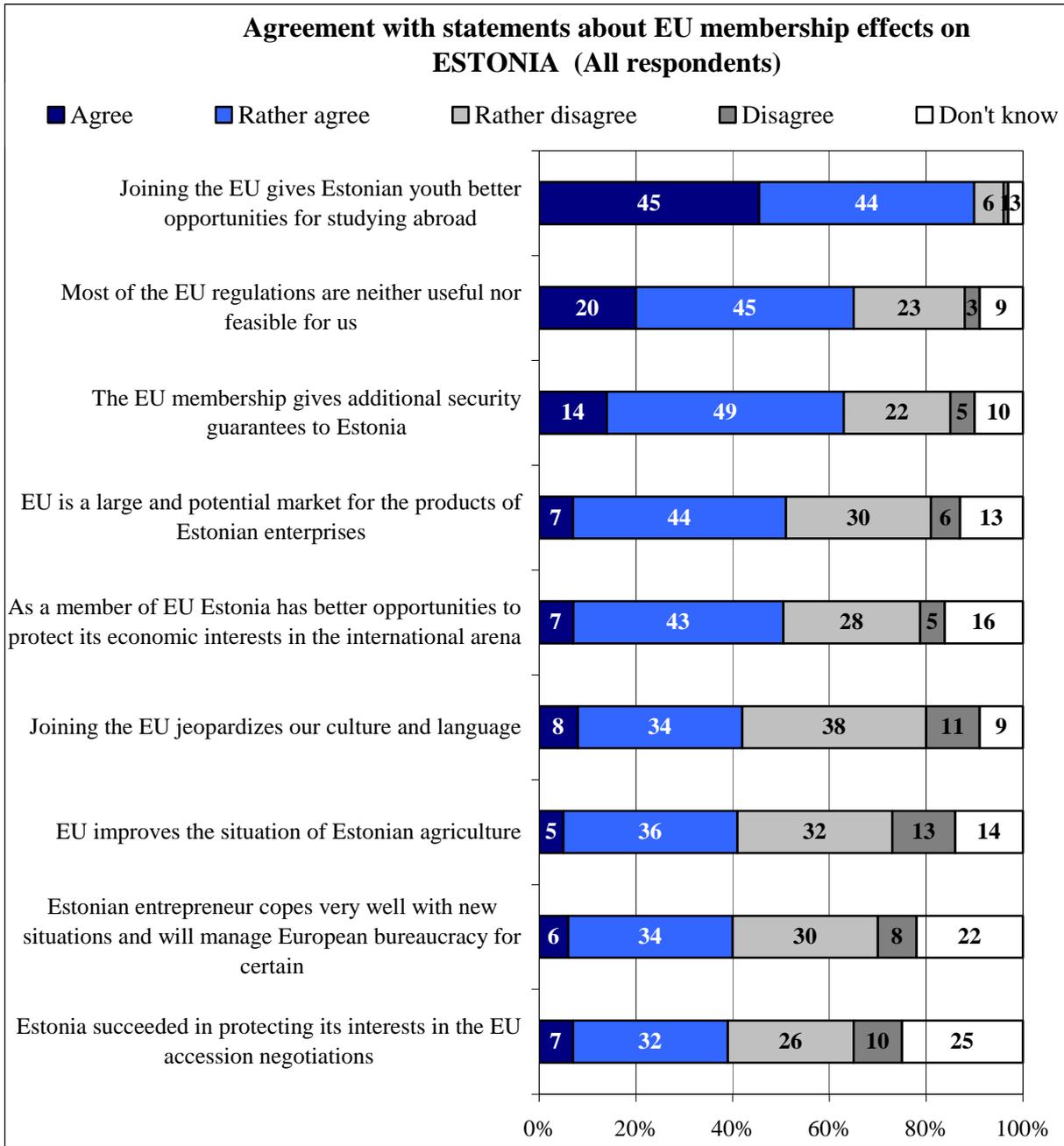
Estonian residents' fears linked to the changeover to the euro are not limited just to the fear of higher prices. Most Estonian residents are of the opinion that the changeover to the euro will reduce the value of their savings held in kroons (for example, the money kept at home or with a bank) (see Graph 9).

Both the rise in prices linked to the euro as well as the decline in the value of the savings held in kroons is feared more by non-Estonians, older people, people with lower income, people with lower education, those opposed to the adoption of the euro, and those who do not hold Estonian citizenship.

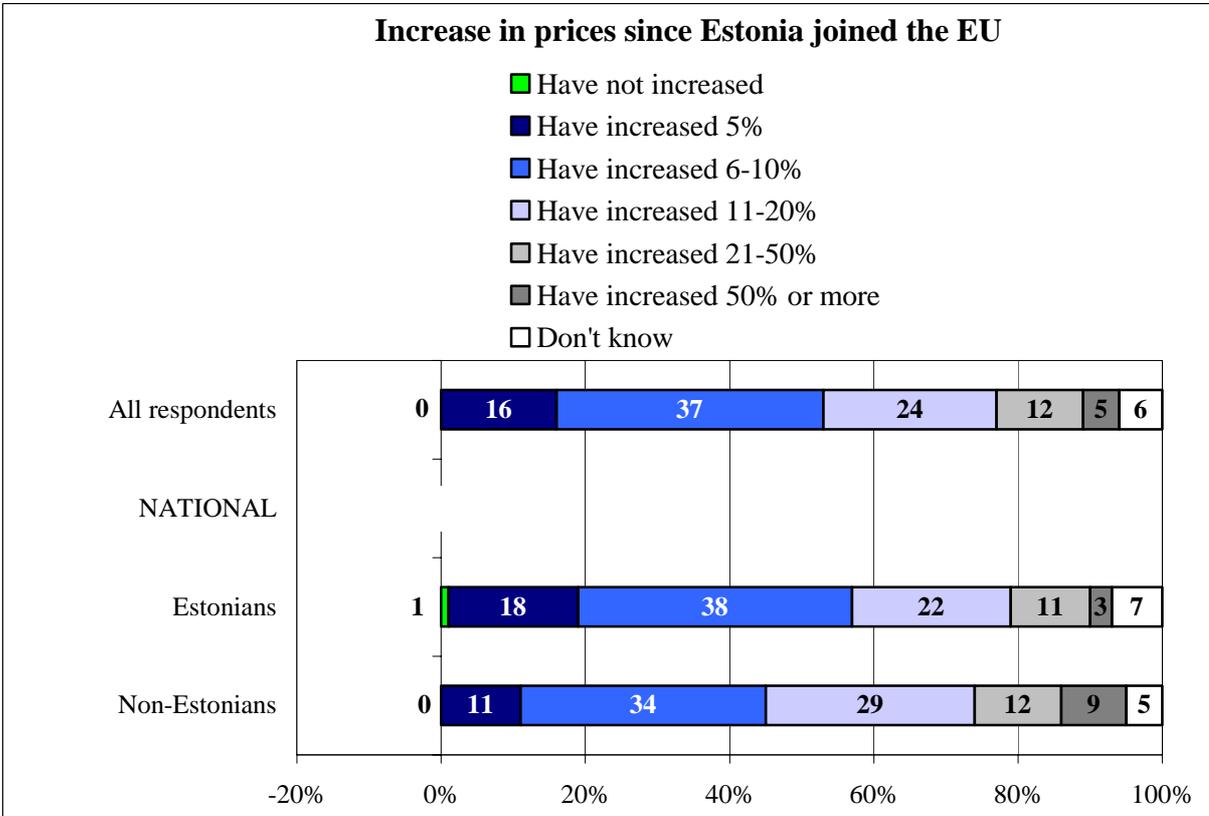
Providing sufficient and objective information to the population regarding the changeover process and its results would certainly reduce the fears Estonian residents have in relation to the adoption of the euro. It is very important to avoid that the information communicated be not contradictory, so that the messages forwarded to the residents would support each other. The reports on prices rising or not rising prior to Estonia's accession to the European Union were very controversial. Propagandist messages said that there was going to be no price rise and that the prices would sooner fall. In the context of such information, reports on huge price rises had a very strong effect.

Therefore, prior to the adoption of the euro, it is important to create a background of objective information, provide public analyses of other countries' experience, and let the residents know what the state (the central bank) would undertake to avoid voluntarist price rises upon the changeover from the Estonian kroon to the euro. Such approach would alleviate the fears of a part of the population in relation to the adoption of the euro in Estonia.

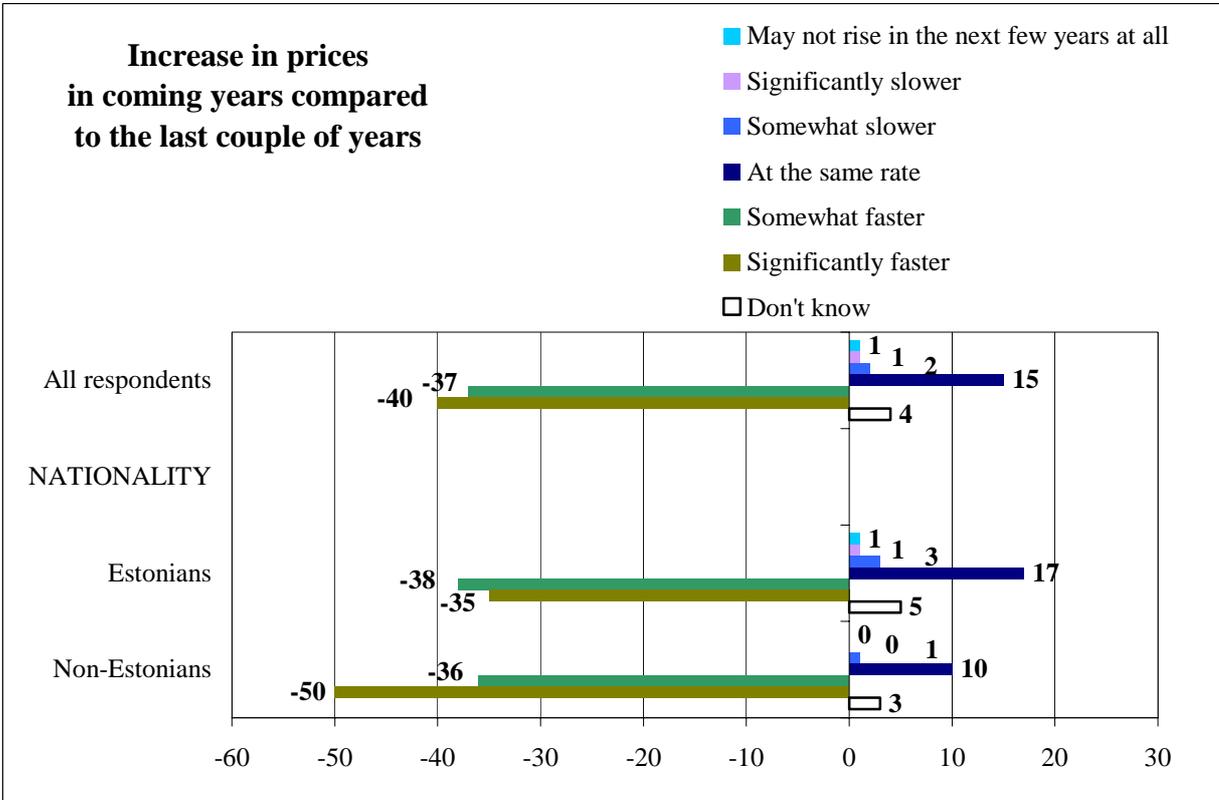
Graph 1.



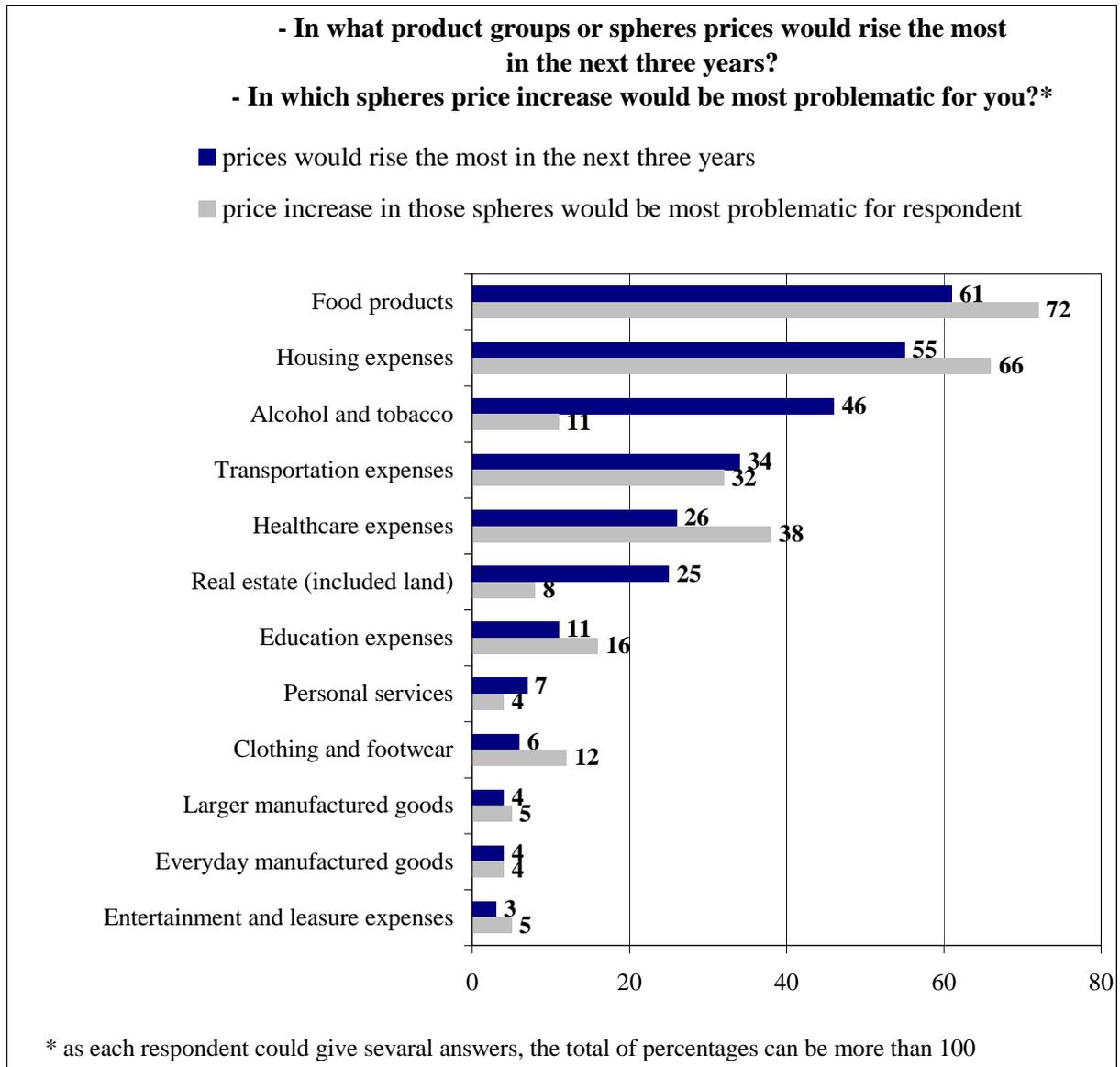
Graph 2.



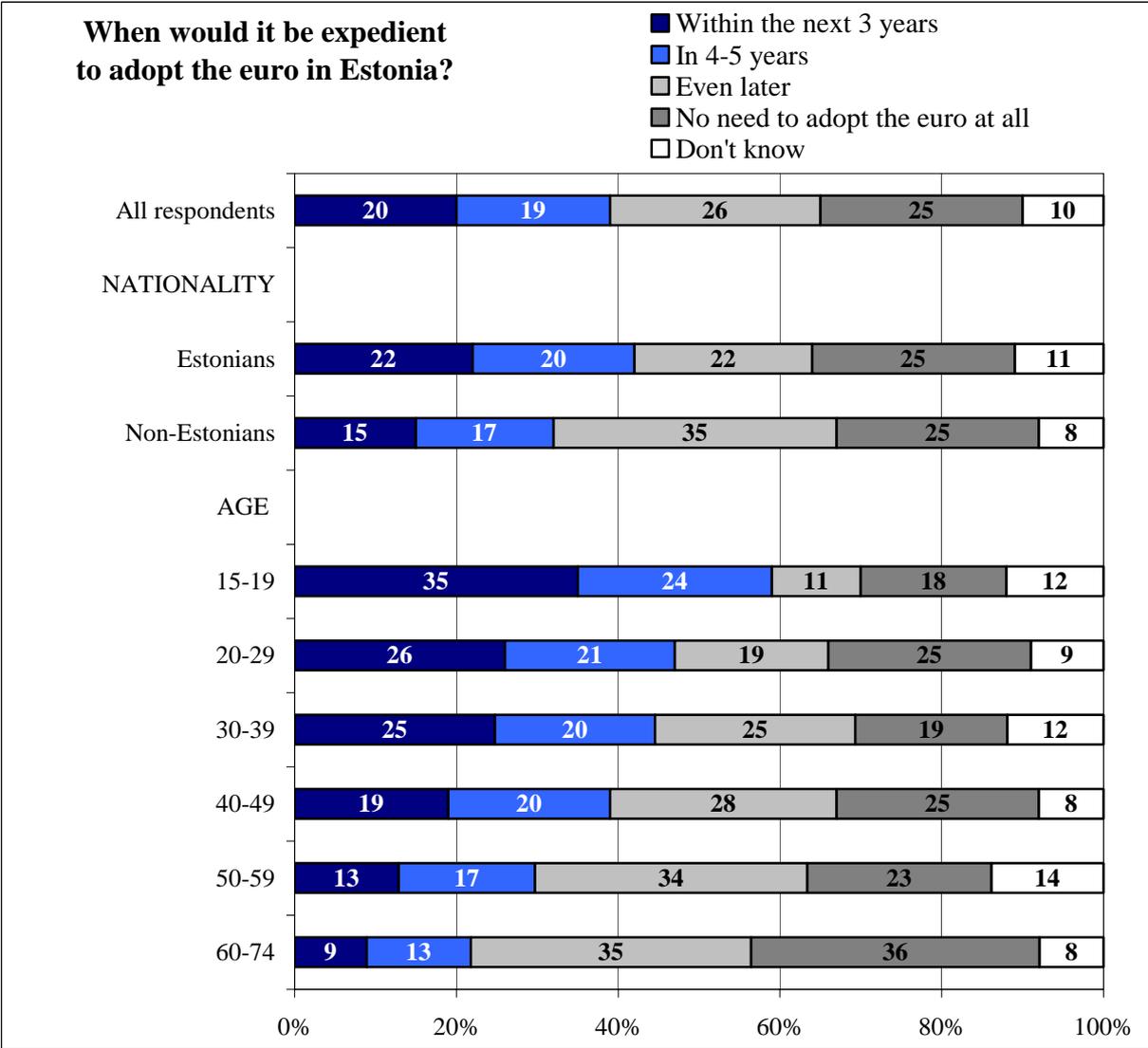
Graph 3.



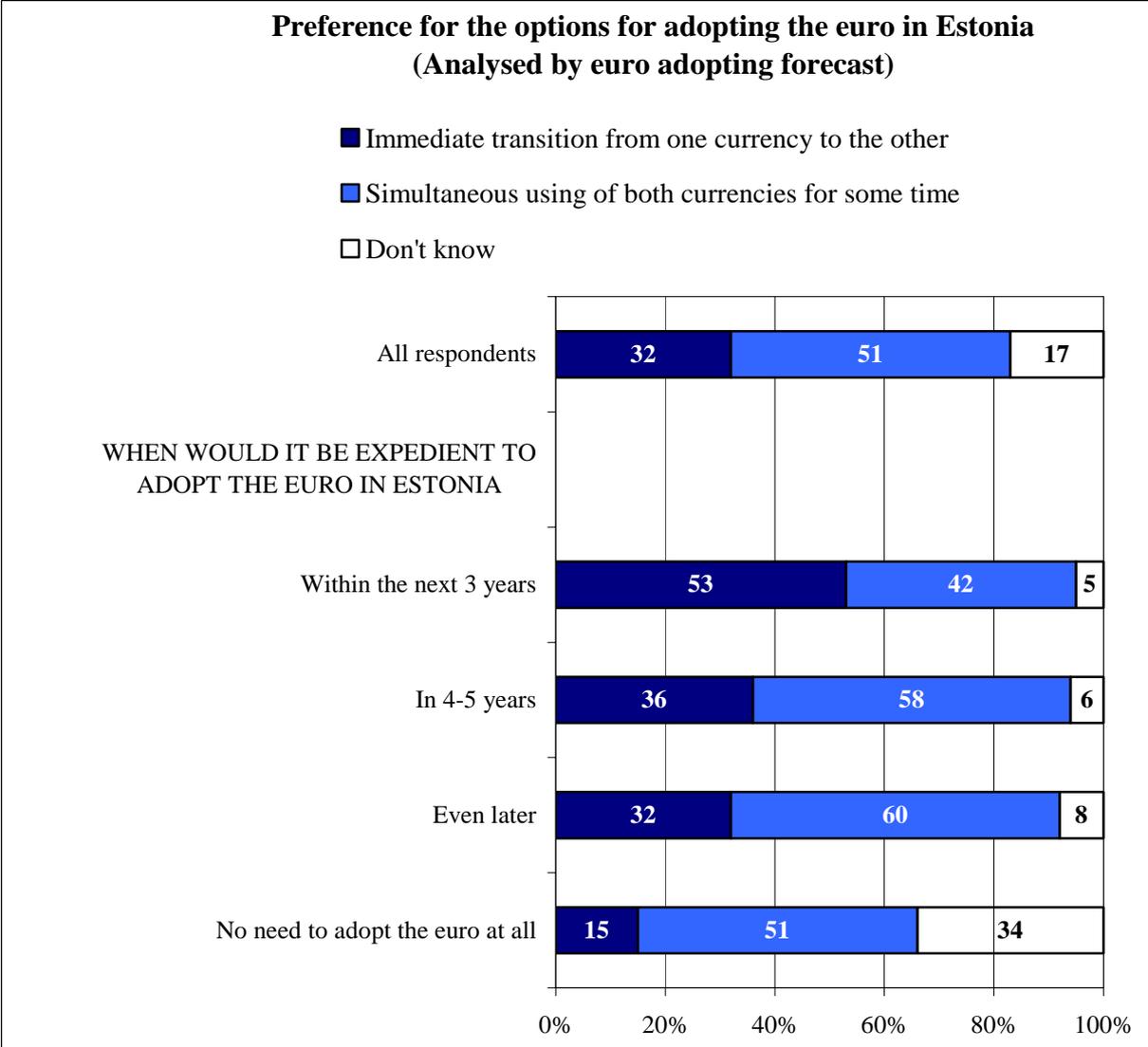
Graph 4.



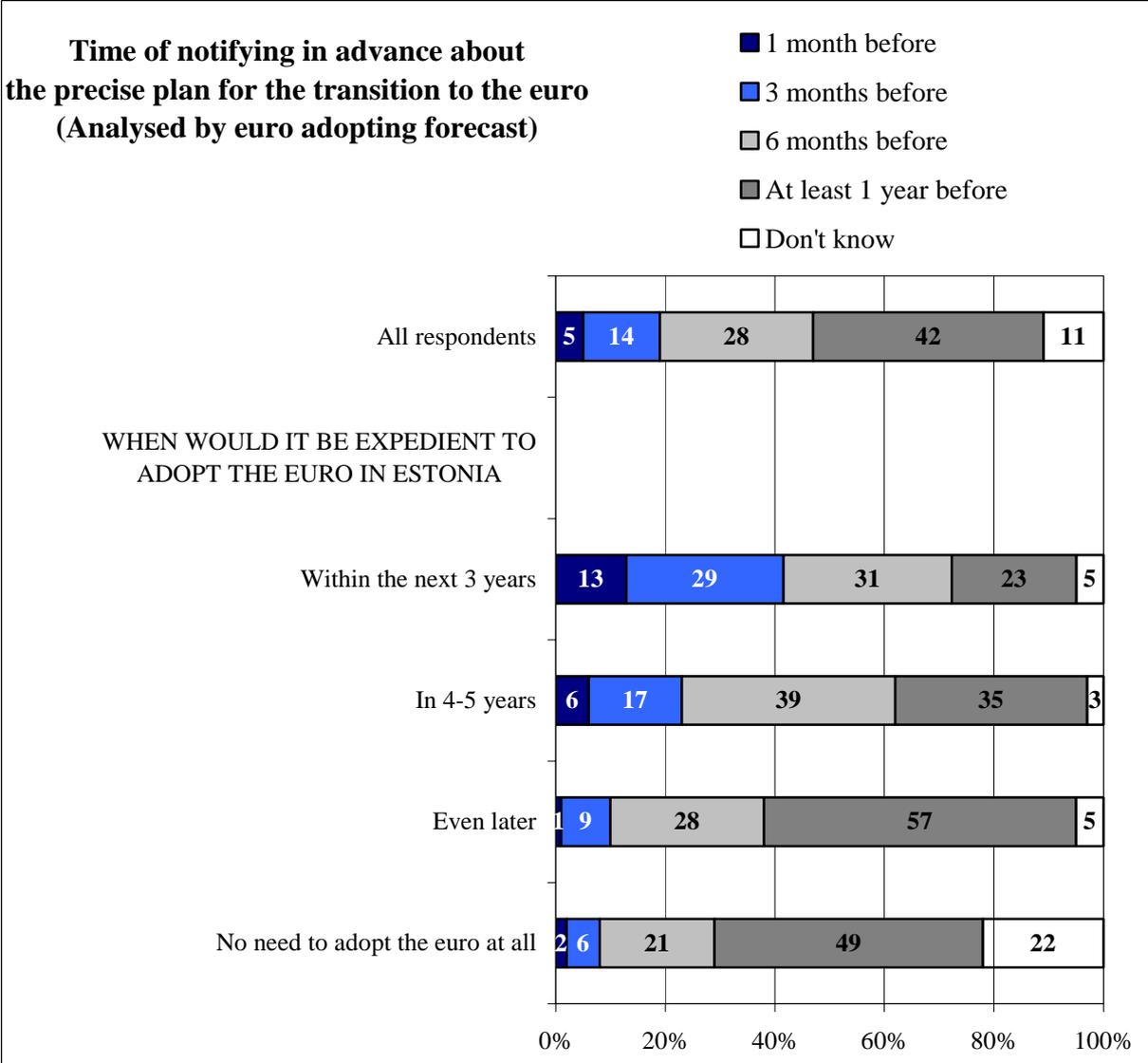
Graph 5.



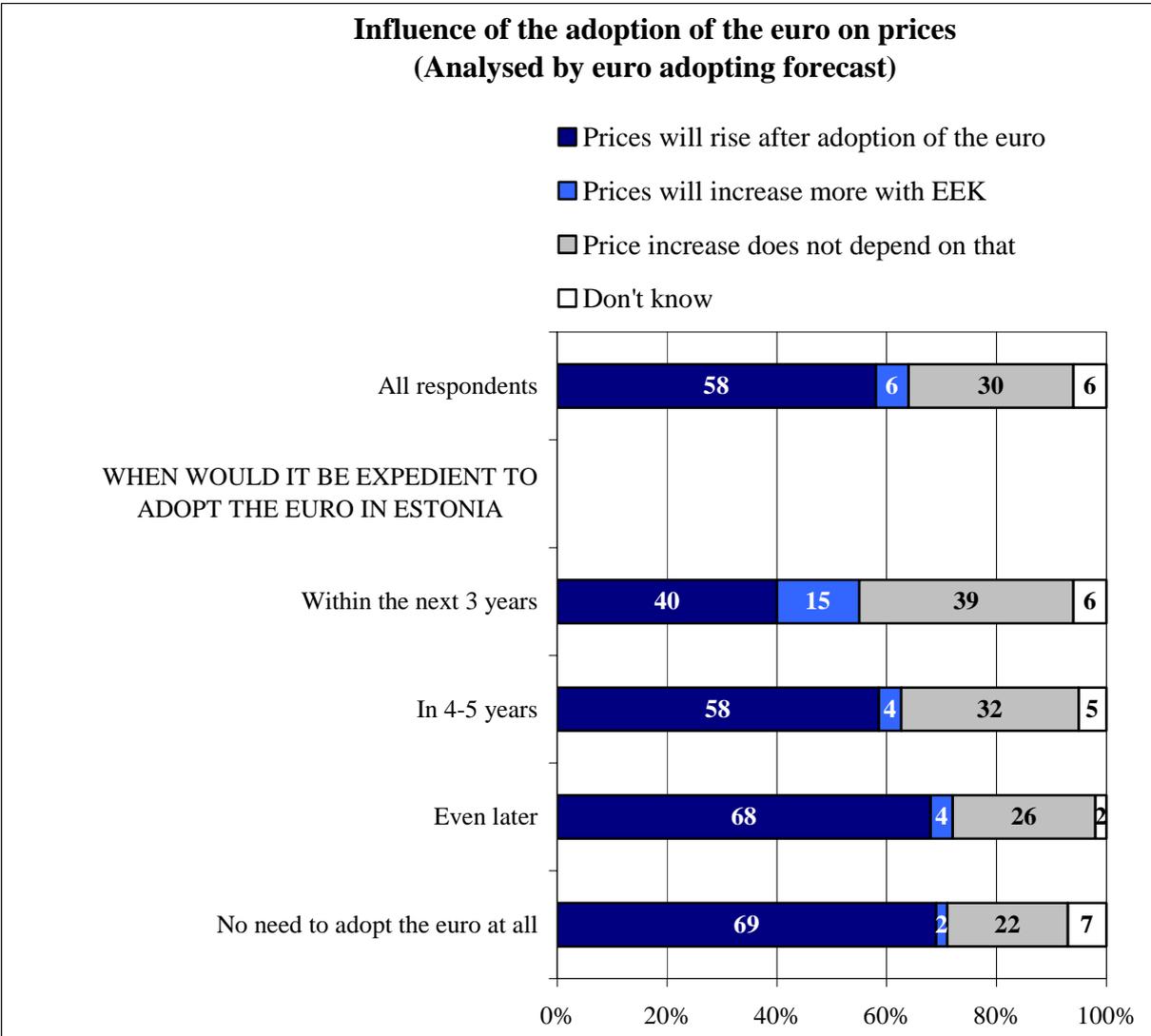
Graph 6.



Graph 7.



Graph 8.



Graph 9.

