

## **How has the Covid-19 Pandemic Affected Incomes And Euro Perceptions In Romania**

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**Abstract:** These are times of uncertainty and fear. The pandemic effects will be felt for a long time and will bring changes to the social, economic and political sphere. The European Union is trying to adopt measures in order to protect its member states, encourage economic cooperation and boost trust in the European mission. Even so, the Eurozone will still face significant challenges. We are interested in finding out if Romanians' confidence in the Euro currency has been affected by this pandemic. High levels of confidence are a key ingredient for a healthy economy and the success of the euro adoption also depends on people's perception of the transition process. In order to assess this matter, we have addressed some of the Eurobarometer questions to 1000 people from Romania and compared the results to the survey conducted in 2019. As attitude towards the future is influenced by income fluctuation, we have also considered analyzing the impact of the pandemic on the household income and expenditure to be important.

**Keywords:** euro adoption; Covid-19; coronavirus; confidence; Romania

**JEL Classification:** O11; O40; E60; F15; F36

### **1. Introduction**

The adoption of the euro represents a key step for the economy of each EU Member State. In the current context of a turbulent European environment troubled by the Brexit effects and severely affected by the Covid-19 pandemic, it is more than ever imperative that the decision to join the euro area is well-founded and debated at a national level.

Accession to the euro zone is requested by the EU Accession Treaty. In order for a country to be allowed to adopt the euro currency, it needs to meet a number of nominal criteria set out in the Maastricht Treaty, which refer to: HICP inflation rate, excessive deficit procedure, exchange rate, and long-term interest rate.

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Besides meeting the convergence criteria, we also believe that it is essential for the governments to consider the populations opinion regarding this matter when setting a target date for the euro transition.

Presently, the European Union is in a difficult stage of its existence, needing immediate measures to raise the confidence level of the population. The existing confidence crisis endangers cooperation between Member States and deepens the polarity between them.

In order to determine the level of confidence in the EU's mission and which aspects need extra attention, the European Parliament conducts regular studies on the state of public opinion in the Member states. The survey that has drawn our attention is the Flash Eurobarometer study, carried out once a year and addressing citizens from eurozone candidates' countries.

We have conducted our own survey in June 2020 that contained 36 questions divided into four sections. The survey was sent online to 1000 people with the only participation requirement being that they are currently residing in Romania.

Part 1 of the survey referred to socio-demographic aspects as for further research we are interested in analyzing the respondents' profiles based on the development regions of Romania. It included seven questions about gender, county, age, income, education, occupation, and whether they reside in a rural or urban area.

Part 2 focused on COVID-19 pandemic effects on income and expenses and included a total of nine questions.

In Part 3 we have addressed our respondents 16 questions from the Eurobarometer study. We aimed to perform a comparison between the results obtained through Flash Eurobarometer 479 in2019 and our own results in2020. In order to ensure the integrity of our research data the number of respondents from Romania was 1000.

In Part 4 we added new questions regarding euro accession that we believe are essential in order to increase the efficiency of the adoption process. The four questions should be considered when creating the framework for the strategy that our national government follows in order to better satisfy the population needs and to maximize its impact.

Scientists (Roth, 2009, p. 2) believe that high levels of trust play a decisive role in maintaining a stable social and economic system. If there is a lack of trust, the social system can become unbalanced.

People who benefit the most from European integration have displayed more confidence in government, while those with less skills and education have shown little support. Residents confidence levels are also influenced by revenue (Foster & Frieden, 2017, p. 3): citizens of countries with superior levels of income per capita tend to view their own governments and the European Union activity with less enthusiasm, possibly due to the higher expectations that people have from their administration in countries that are socially and economically developed.

A currency's international use is greatly influenced by the confidence in its stability, as it affects the attractiveness of utilizing it as a store of value. There are several factors that impact the confidence in a currency (Hyoung-kyu Chey, 2013, p.13) such as the monetary and fiscal policy used by the government, the national current account deficit, domestic policies, and institutional arrangements.

The analysis of the residents' currency perception is even more important (Barabas, 2018, p.7) as the complete and correct informing of the population of a Eurozone candidate country highly increases the effectiveness of the adoption process and the confidence in the euro accession.

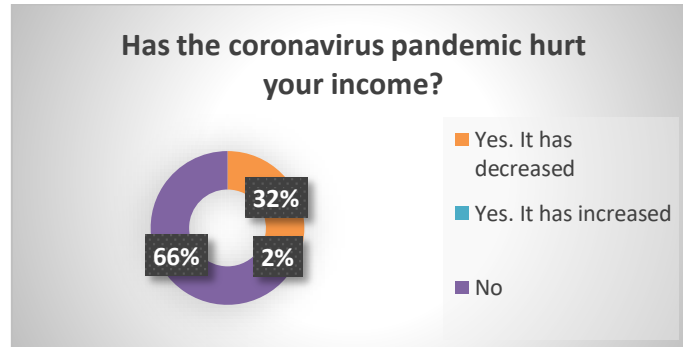
## **2. Covid-19 Pandemic Effects on Income and Expenses**

Covid-19 pandemic has deeply shaken countries and their economies proving that it does not only represent a health crisis but will also affect many industries and life as we know it.

Each country will be differently impacted by the pandemic, but we expect that the overall result will be an increase in poverty and in inequality. Therefore, it is essential to analyse the impact on society and economy in order to implement efficient recovery measures.

Several industries were affected by the pandemic. Food and hospitality and aviation industry suffered the greatest losses while there are other industries that thrived in this period: online retailing, video conferencing, supermarkets, and pharmaceutical industry.

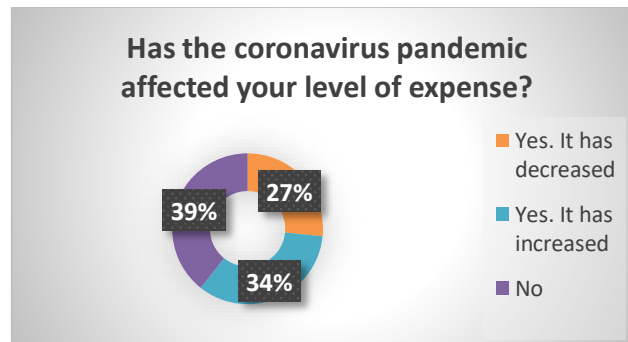
In the first section of our study we were interested in finding out if the Romanian citizens suffered any major income adjustments during the past months. For most of our responders (66%), the income levels hadn't modified so it is safe to assume that they are employed in industries that did not suffer major changes since the pandemic.



**Figure 1. COVID-19 Pandemic Effect on Incomes in Romania**

*Source: Author's Computation*

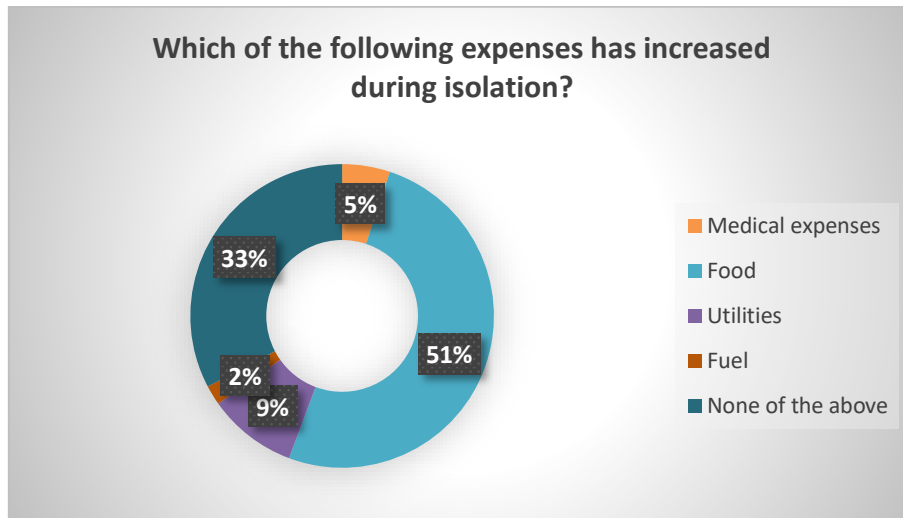
The current situation has made people more financial conscious, especially if their revenue has dropped or if their jobs are at risk. For most of our respondents in Romania, the expenses levels have not changed, meaning that overall, the monthly spending has remained the same.



**Figure 2. COVID-19 Pandemic Effects on Expenses in Romania**

*Source: Author's Computation*

The pandemic has also affected our expenses as grocery prices increased mostly due to major disruptions within the food supply chain. But there are other areas where the prices went up. Many employees were required to work from home since the outbreak and this meant that new home office expenses arose. Most participants have allocated larger amounts of money towards food supplies. One of the reasons can be the increase in prices, but we should also consider the psychological effects that the pandemic has had on people, one of which was food hoarding.

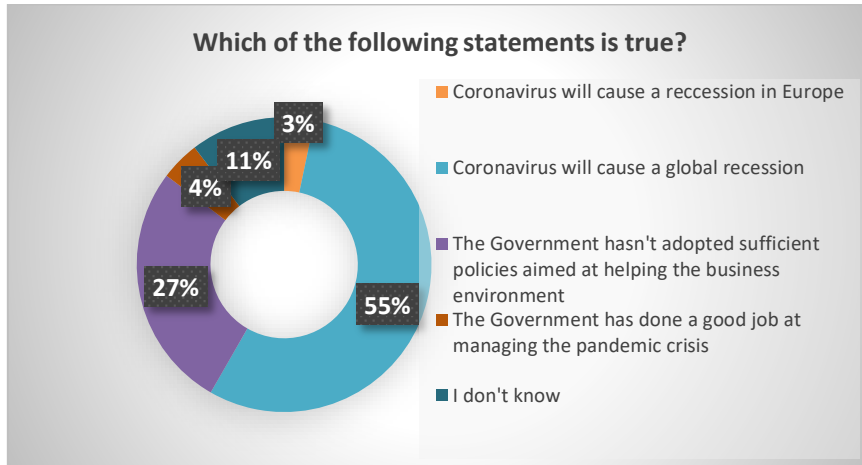


**Figure 3. Expenses that Increased During COVID-19 Pandemic**

*Source: Author's Computation*

It is essential for governments to provide relevant and updated information about coronavirus in order to help them set clear expectations about the future. Even so, the long-term consequences of the pandemic are still uncertain, and so far, we can only observe some of the short-term effects. We have tried to understand how the present situation is perceived by our respondents and if they feel that the recent measures taken by the government have been sufficient and effective.

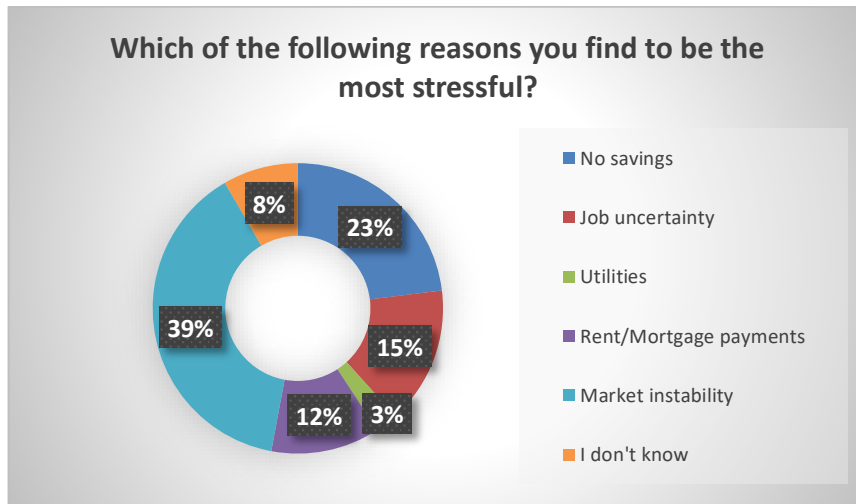
Most of the study participants (55%) are anticipating a global recession in the near future, as the most evident economic pandemic effects so far are the increasing unemployment rates and the crashing stock markets. Several economists are expecting the pandemic to trigger the worst economic fallout since the Great Depression and do not foresee any major recovering opportunities until earliest 2021. Many of our respondents (27%) do not believe that the Government has taken enough measures in order to help the business environment.



**Figure 4. COVID-19 Aftermath**

Source: Author's Computation

Pandemics can be a stress factor for numerous people as the rising uncertainty can prove be difficult to manage. The misinformation is not helping, and many find it hard to cope with social distancing. We were interested in determining the main reason for stress nowadays and our respondents proved to be most worried about the market instability and their lack of savings.



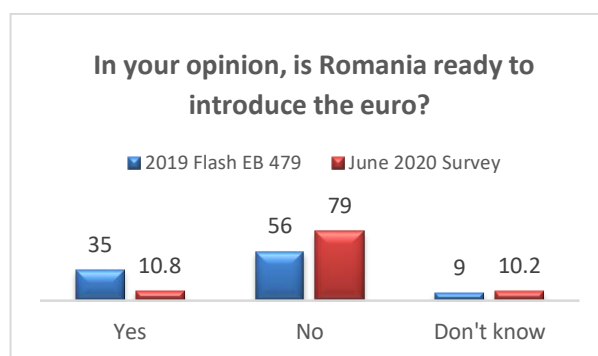
**Figure 5. COVID-19 Reasons for Stress**

Source: Author's Computation

### 3. Covid-19 Pandemic Effects on Euro Adoption Public Opinion in Romania

In the second section of our study we have focused on determining whether the pandemic has negatively impacted Romanians confidence in the euro currency and their openness to the accession.

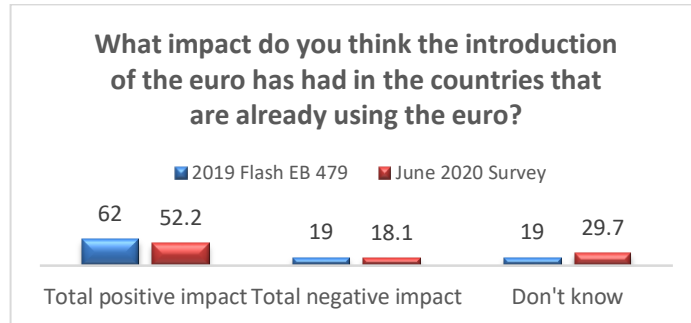
Compared to 2019, in 2020 the number of residents who believe that our country is not ready for euro adoption has risen by 41%. This increase was amplified by the current uncertainty, but also by the Brexit experience and the poor convergence performance from last year, when Romania did not manage to fulfil any of the Maastricht criteria.



**Figure 6. Is Romania Ready to Introduce the Euro?**

*Source: Author's Computation*

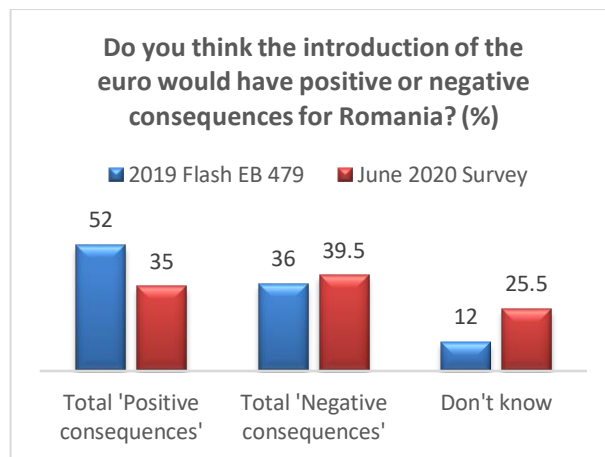
The euro currency reduces transaction costs, risks and uncertainty, provides transparency, boosts production, and encourages trade, investment and growth. Therefore, it facilitates the stability and the optimal functioning of the eurozone economy and stimulates European integration while shipping the EU's identity. The most important costs of adopting the euro currency are related to the loss of monetary policy independence, the occurrence of operational costs, and the loss of income from currency issuance. The advantages and disadvantages of the accession depend on the global economic context and the evolution of the EU's institutional framework. The percentage of Romanians who believe that the euro adoption has had a positive impact has decreased by 15.8%, whereas the number of abstentions has increased by 56.3%.



**Figure 7. Euro Adoption Impact in Eurozone Countries**

*Source: Author's Computation*

The optimistic expectations regarding euro adoption advantages have also decreased for Romania by 32.7%. In 2020, most Romanians believe that the accession will bring about negative effects, while 25.5% of them prefer not to answer.

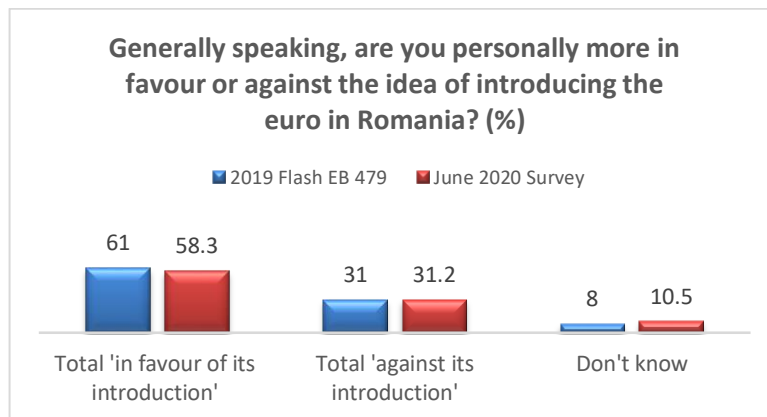


**Figure 8. Euro Adoption Consequences in Romania**

*Source: Author's Computation*

By signing the EU accession agreement, Romania is bound to replace the national currency with the euro, given that it fulfills all the nominal convergence criteria. The last scheduled date was 2024, but Romania is still not part of the European Exchange Rate Mechanism and we are currently far from meeting the required conditions. Even so, most Romanians favor introducing the euro in Romania and these results are similar to the ones from 2019.

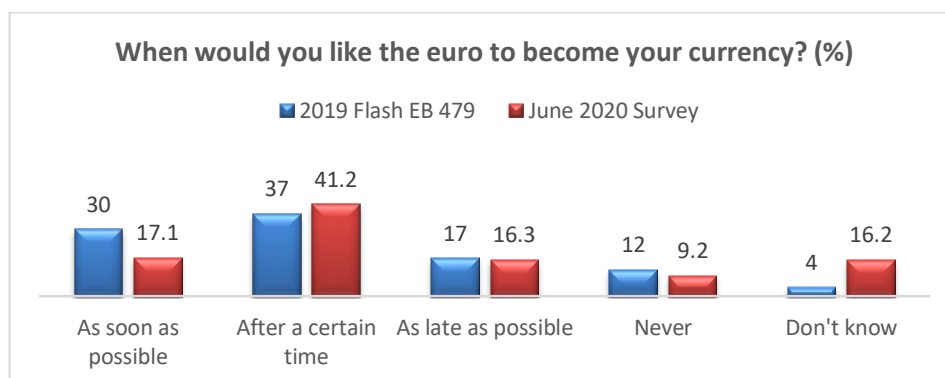




**Figure 9. Pro or Against Euro Adoption in Romania**

*Source: Author's Computation*

The mandatory two years participation in the European Exchange Rate Mechanism provide the candidate countries with a large manoeuvring space when deciding the accession moment. Very often, the more cautious attitudes of the candidates are not related to the difficulty of meeting the required criteria but represent a strategy to choose the best time of the accession in order to allow the states to maximize benefits and minimize costs. In 2020, the percentage of Romanians that prefer that the euro adoption occurs as soon as possible has decreased by 43%, while the majority (41.2%) wish the accession takes place after a certain time.

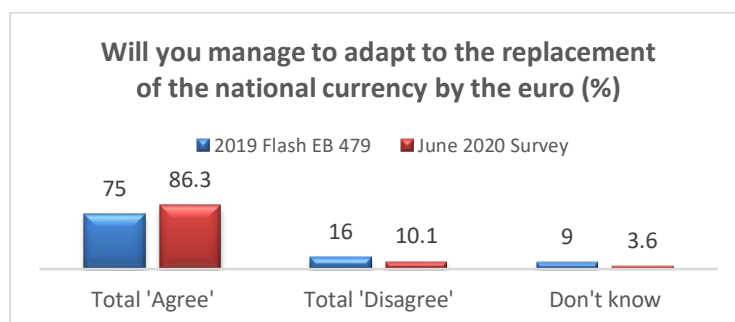


**Figure 10. Euro Adoption Timing in Romania**

*Source: Author's Computation*

Everyone perceives the euro adoption in a unique manner, depending on several factors: economic, social, and even political. The positive and negative effects that

are visible at an individual level are diverse and usually refer to better life quality, more stable prices, but also reduced purchasing power. An increased percentage of citizens (86.3%) believes that the adaptation process will be manageable, and they will successfully cope with all the changes linked to it.



**Figure 11. Euro Adoption Adaptability in Romania**

*Source: Author's Computation*

#### 4. Conclusions

In order to choose the right moment for the euro adoption, candidates can use their own, unique economic reasoning focused on assessing the advantages and disadvantages of the accession, as there is no established methodology in this regard. But public opinion also plays an important part in the success of the transition and should be constantly assessed and included in outlining the adoption strategy.

As a result of unpredictable events, vulnerabilities and new eurozone disadvantages are emerging. The immediate effects of the pandemic felt by the population were the income and expense levels modifications. However, most of the survey participants did not experience any changes but are still genuinely worried about the high probability of a global recession.

The public opinion regarding the euro adoption has deteriorated, as Romanians are less confident that their country is ready for accession and that the positive effects will overpower the negative ones. Still, most of the participants are in favor of the currency transition and believe they will successfully adapt to the coming changes.

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