Eastern European
Journal of Regional Studies
ISSN: 1857-436X / ISSN: 2537-6179

Volume 10 / Issue 1/ June 2024
DOI: https://doi.org/10.53486/2537-6179.10-1.02

WHY ECONOMIC FREEDOM MATTERS IN DETERMINING FINANCIAL STABILITY: A CASE STUDY ON SIX EASTERN EUROPEAN COUNTRIES

Andrei-Ionuț PRICOP*1
Laura MAXIM*2

Abstract: *The down turning events from the beginning of the XXIst century, starting with the 2008 crisis and then the COVID-19 pandemic, shortly followed by Russia's invasion in Ukraine, exacerbated some preexisting vulnerabilities and created new risks. In this context, the financial stability in the Eastern European states (we will consider Eastern Europe in Winston Churchill's terms, namely those countries on the eastern flank of the Iron Curtain) represents an important debating issue for both policy-makers and researchers. Therefore, the present paper aims to quantify the financial stability and to determine the factors that can influence it. In doing so, we first have to establish what we consider to be financial stability: what it means at the microeconomic level (focusing on the behaviour of the citizens) and what it means at the macroeconomic level (looking at the role of states in ensuring financial stability). It is important to note that the analysis we wish to undertake will be at a regional rather than at an overall European level, focusing on the Eastern European countries that have joined the European structures. We will present, by means of statistical analysis, the importance that both economic freedom and education have in increasing the financial stability of Eastern European citizens, taking into account the evolution of the financial stability of Eastern European citizens over the last years. In order to perform an analysis for more countries and over a longer period of time, we will utilize panel data analysis. We will observe the role that both variables play in ensuring a greater level of financial stability for the people from these countries.*

Keywords: *Financial stability, European Union, economic freedom, tertiary education, Eastern Europe*

UDC : *005.336:336.1(4-11)*

JEL Code: *E10, F61, F62, I15.*

Introduction

The peculiarity of the contemporary era is that the XXIst century has been marked by various events which, although recent, have had a serious and powerful impact on the whole humanity, in particular transnational events such as the 2008 financial crisis and the crisis generated by the Coronavirus pandemic. In such a context, where the certainty of continued and gradual prosperity has been strongly questioned, citizens around the world have begun to

*1 *Andrei-Ionuț Pricop, PhD Student, Alexandru Ioan Cuza University, Iași, Romania, E-mail: ap.pricop@gmail.com*
*2 *Laura Maxim, Coordinator, PhD, Professor, Alexandru Ioan Cuza University, Iași, Romania, E-mail: lauradiaconu_07@yahoo.com, ORCID:/0000-0001-9641-6649*

Received: 12.12.2023 Accepted: 17.03.2024 https://csei.ase.md/journal

Eastern European
Journal of Regional Studies
ISSN: 1857-436X / ISSN: 2537-6179
Volume 10 / Issue 1/ June 2024
DOI: https://doi.org/10.53486/2537-6179.10-1.02

reconsider their own priorities, emphasising the importance of the economic factor more than in the previous years. This premise, therefore, leads us to consider the area of financial stability as a particularly important one for contemporary economic science, taking into account that the very concept of financial stability is bi-dimensional: on the one hand we have the financial stability of nation states (at the macroeconomic level) and on the other hand we have the financial stability of individuals in their own households (the microeconomic level).

The present paper aims to quantify the financial stability and to determine the factors that can influence it, by conducting cross-dimensional research, as we need both microeconomic and macroeconomic perspectives. Moreover, the analysis will focus on a regional level, looking closely at the Eastern European countries that have joined the European Union since 2004. The countries selected for our analysis were the Czech Republic, Slovakia, Poland, Hungary, Romania and Bulgaria.

The objective of this research is to clarify the meaning that citizens attribute to financial stability, starting from the definitions offered by experts in the field and providing our own vision on financial stability (which will be legitimised by further data analysis). We will, therefore, try to present a vision of financial stability that is as close as possible to the ordinary European citizen, easy to understand and to be interpreted. In doing so, however, we will focus on the six countries mentioned above because they belong to the same geographical area and, dare we say it, had the same starting point in the last decade of the last century: the fall of the Eastern Bloc.

We will see what effects the transition period from a communist regime to a capitalist one had in determining the degree of economic freedom in these countries (which subsequently influenced financial stability). Considering this, we consider it more than appropriate to focus this analysis on Eastern Europe because the countries in this geographical area have a very dynamic and impressive history: on the one hand, they were subject to a long period of communism and violation of private property, and on the other, they have rapidly adapted to the economic liberalism offered by the European Union.

Defining financial stability

The area of financial stability is extremely wide, which, starting from the financial stability that each individual has in his or her own household, can determine the degree of welfare of the nation-state. In order to better understand this phenomenon, it is necessary to provide a definition of financial stability ourselves, but this can only be done if we examine the literature on financial stability, which is vast and diverse. In order to simplify this task, we will present the main definitions of financial stability in the followings.

A first definition that we can retain, in chronological order, is that offered by Smythe, in which financial stability is described as being a relationship between different variables, such as expenditures, income and the ability to handle sudden changes in the household's financial status

Eastern European
Journal of Regional Studies
ISSN: 1857-436X / ISSN: 2537-6179
Volume 10 / Issue 1/ June 2024
DOI: https://doi.org/10.53486/2537-6179.10-1.02

quo (Smythe, 1968). It is a clear and straightforward definition, but one that, at the same time, describes very well what financial stability means to citizens in their own household. We could outline the whole analysis using the above definition, but we must also take into account the existence of other perspectives. In this regard, we note the contribution that Gary Schinasi has made in this area, considering financial stability as a synonym for a financial system where performance is facilitated and the financial imbalances (provoked by unexpected adverse events) can be easily eliminated (Schinasi, 2004). Moreover, Schinasi considers financial stability as a wide concept that encompasses institutions, infrastructures and markets (Schinasi, 2004).

Čihák's approach is also extremely interesting, because he assumes that the area of financial stability is very vague in terms of definition and, at the same time, he proposes a method of calculating it. Čihák affirms that the major problem with the field of financial stability is the absence of an operational definition, and in this sense, he proposes the distribution of systemic loss as the measure of default risk in the system (Čihák, 2007). Professor Ramlall, on the other hand, outlines a true description of how financial stability should be studied, stating that if we want to approach the area of financial stability, we should consider the fact that problems in the financial system would have repercussions on the economy as a whole (Ramlall, 2018).

Of course, we are also interested in the perspectives on financial stability of the major financial and monetary institutions. They often offer their own perspective on their official websites. In the following, we will analyse the World Bank's definition of financial stability, where it is considered as a synonym for a financial system which is stable and has the capacity of correctly allocate the resources, manage financial risks and elaborate a stable monetary policy (World Bank, 2016).

What we can see is the practical approach of the World Bank, which reveals financial instability as a quasi-inevitable phenomenon, at some point, in the age of globalisation. However, the World Bank offers some solutions, both micro and macro-economic, to curb this financial instability. We consider the definition given by the World Bank to be extremely pragmatic and appropriate to modernity.

In addition to the World Bank, we also note the definition provided by the ECB, which describes financial stability as the capacity of the financial system – composed by the market and its intermediaries –to withstand shocks (European Central Bank, 2023).

As far as the ECB is concerned, we note a financial rather than an economic definition, but we can say that this is due to the nature of this institution.

We will also take into account the Federal Reserve's view that financial stability would mean a stable financial system is that system which works effectively even when major disruptions appear (Federal Reserve, 2023).

The definition provided is broadly inclusive of the previous ones as it underlines a fundamental point, namely that of creating economic conditions that provide stability for

Received: 12.12.2023 Accepted: 17.03.2024

Eastern European
Journal of Regional Studies
ISSN: 1857-436X / ISSN: 2537-6179

Volume 10 / Issue 1/ June 2024
DOI: https://doi.org/10.53486/2537-6179.10-1.02

citizens in both 'better' and 'worse' times. This is ultimately the purpose of our financial stability research: to identify the best means of enhancing financial stability in every citizen's household. Some researchers are concerned with the financial side (such as Čihák, Ramlall or even the ECB), others are more focused with the everyday life of citizens (Smythe). Goodhart (2006), on the other hand, states that there is a definitional blur in terms of financial stability, which we have also seen in the table above. This vagueness does not necessarily derive from the complexity of the term financial stability, but rather from the two-dimensionality, as this provides ample opportunities for interpreting financial stability.

Financial stability, then, is not just the result of more or less functional government policies, but the expression of different areas that intersect within a state. Financial stability is marked, in this sense, by influences from the economic area, but also by the political, judicial, financial, social and even cultural aspects. In the following, we will try to outline the interaction between financial stability and the above-mentioned areas, in order to gain a deeper understanding of this broad concept.

Financial stability and the political arena are strictly interrelated, considering that no matter how much citizens may be confident in their own ability to survive financially, they are in any case subjects of the political system in which they live. A citizen with a higher degree of financial education, therefore, is not immune from a government that discourages economic initiatives by any means possible, suppressing it and extending governmental powers as far as possible. We note, however, that the countries analysed in this research are consolidated democracies of the European Union, which have therefore managed to overcome the dramas of a communist past in which all private economic initiative was suppressed. Yet, the degree of expression of economic freedom, especially at the political level, differs across the six countries selected. In the Czech Republic, for example, Václav Klaus had been promoting the principles of economic freedom since the early post-communist years, both politically and academically (Klaus, 2002), whereas in Romania such initiative was almost non-existent or precarious, especially in politics.

The relationship between financial stability and the judicial aspect is also relevant. A country's laws can favour or disfavour financial stability, especially when it is strictly correlated with the degree of economic freedom of the country. If we understand financial stability as a mean by which citizens choose for themselves the best way to survive economically, then it is particularly important to consider that some laws may limit this freedom of choice, including tax laws. A higher percentage of the salary going to the state will provide a smaller financial base for the citizens in defining their financial stability.

The financial aspect plays a very important role in shaping financial stability, as we have seen previously from the definitions of different authors or financial institutions. If by financial aspect we mean the banking system, then we can say that the role of banks is indeed central in providing financial stability, especially at the macroeconomic level. If we also

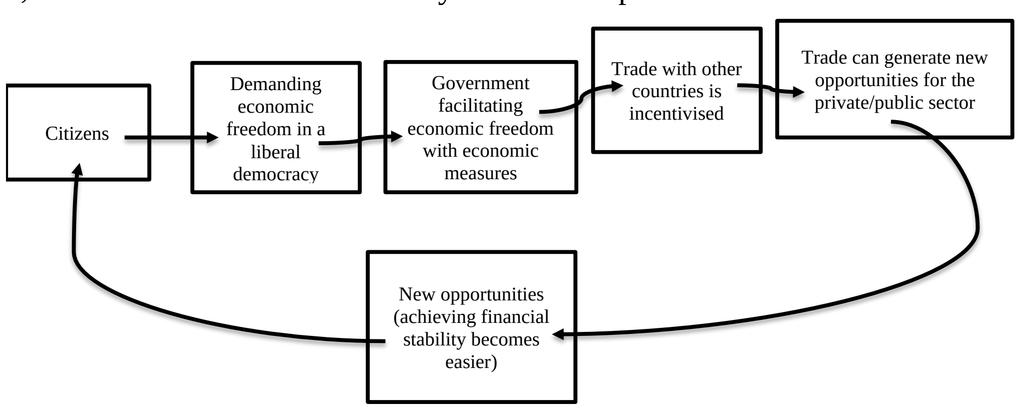
Eastern European
Journal of Regional Studies
ISSN: 1857-436X / ISSN: 2537-6179
Volume 10 / Issue 1/ June 2024
DOI: https://doi.org/10.53486/2537-6179.10-1.02

consider the microeconomic level of financial stability, we will note how banks play a particularly important role, considering that we live in a historical period when the need for bank credit has become a quasi-formality for the vast majority of Western citizens and not only (even though the 2008 financial crisis shook this paradigm). Banks, whether commercial or national banks, also have an interest in relating to a status quo in which there is financial stability. Considering this, our research focuses on household financial stability, which is why we will place less emphasis on the role that banks play in ensuring financial stability.

Financial stability is also an important social phenomenon, since a state will not be financially stable if its citizens doesn't acquire financial stability. A society that is not financially stable, in this sense, may be more susceptible to choose political extremes (which is what happened in Greece after the 2008 financial crisis). So, the relationship between financial stability and the social aspect is a very crucial one, especially in our research, because we want to emphasise the social side of financial stability rather than the financial one.

Last but not least, we also note the importance that culture has in shaping financial stability, as we will not deny that some cultures pay particular attention to the phenomenon of financial stability while others show less relevance to it. However, in the case of our research, we will consider that the cultural aspect is not so relevant, as we are talking about countries that belong to the same cultural area and have had a broadly similar past. However, as mentioned earlier, there are different approaches to economic freedom in these countries, especially between those located in Central-Eastern Europe (the Czech Republic) and those located in Eastern Europe (Bulgaria and Romania).

For us, financial stability is a whole cycle, which starts with the necessity of the citizens to being able to enjoy economic freedom, in a liberal democracy, and then, with the willingness of the authorities to guarantee economic freedom. Some would argue that financial stability is about the decisions that each individual makes. This is completely correct and legitimate but, at the same time, we cannot turn a blind eye to the economic system in which that individual finds himself. For example, you can have a very developed personal culture in terms of financial education, but a state that does not favour you in this respect can become a serious obstacle.



Received: 12.12.2023 Accepted: 17.03.2024

Eastern European
Journal of Regional Studies
ISSN: 1857-436X / ISSN: 2537-6179
Volume 10 / Issue 1/ June 2024
DOI: https://doi.org/10.53486/2537-6179.10-1.02

Figure 1. The financial stability cycle

Source: own elaboration

For this reason, we propose the following definition (valid for this article but which could be repeated in the future): Financial stability is the ability of individuals to cope with unforeseen economic circumstances that may affect their households. It is with this definition that we will proceed in this analysis, trying to determine the best ways to enhance such stability, which links the microeconomic and macroeconomic levels.

Research Methodology

Our empirical investigation is conducted on six Eastern European countries: the Czech Republic, Slovakia, Poland, Hungary, Romania and Bulgaria, and the period we will consider will be the last 10 years: 2013-2022.

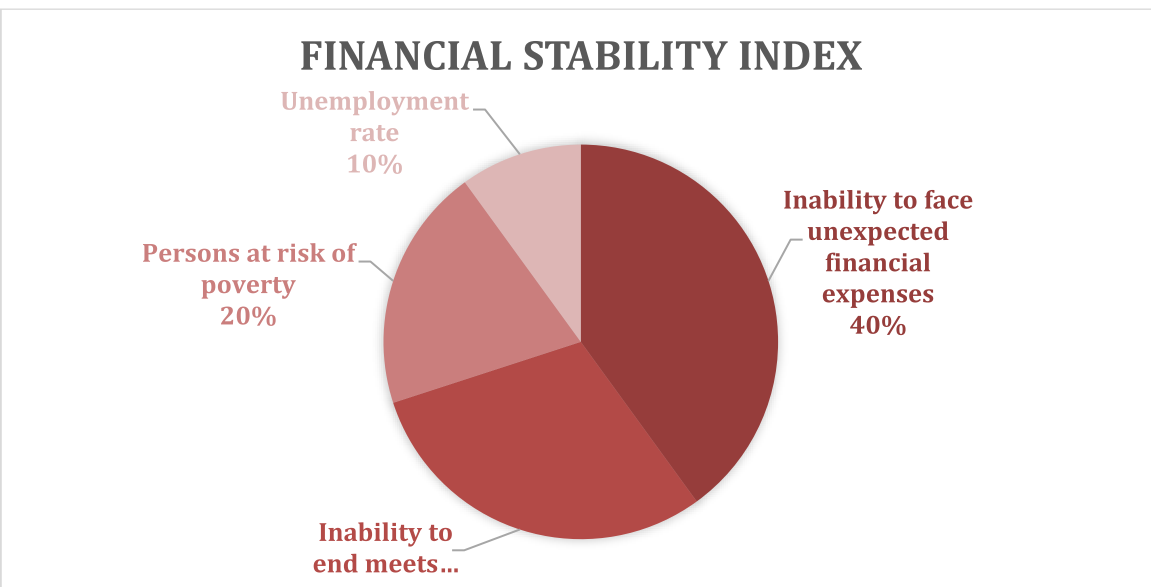
In order to be able to use financial stability as a dependent variable, we have stipulated an aggregate indicator, composed of the following variables:

Financial stability = Inability to face unexpected financial expenses + Inability to make end meets + Persons at risk of poverty or social exclusion rate + Unemployment rate

The database used for these variables was the official website of the European Union, namely Eurostat.

The financial stability indicator will then be weighted in order to provide a greater degree of realism. In this sense, as a result of the weighting, we will obtain the following aggregate indicator:

$$\mathbf{Fsx} = \mathbf{0,40} * \boldsymbol{INUFEx} + \mathbf{0,30} * \boldsymbol{IMEMx} + \mathbf{0,20} * \boldsymbol{PRPx} + \mathbf{0,10} * \boldsymbol{Ux} \quad (1)$$



Received: 12.12.2023 Accepted: 17.03.2024 https://csei.ase.md/journal

ISSN: 1857-436X / ISSN: 2537-6179
Volume 10 / Issue 1/ June 2024
DOI: https://doi.org/10.53486/2537-6179.10-1.02

Figure 2. Aggregate indicator composition

Source: own elaboration

We collected data for all those six countries and for the period of time mentioned, then we created the aggregate indicator and inverted it (inversion being necessary because the variables used would indicate rather financial instability than financial stability). If we consider, for example, the Czech Republic and the year 2013, we will have the followings:

Table 1. Example of elaboration of the financial stability indicator

Year	Country	INUFE (40%)	IMEM (30%)	PRP (20%)	UNMP (10%)	Pondered total score	Inverted score (100-x)
2013	Czech Republic	41,7	9,1	8,5	7,0	21,81	78,19

Source: own elaboration

Results and discussions

As it can be seen in Figure 3, the financial stability of the six analysed states had a positive trend during the last 10 years.

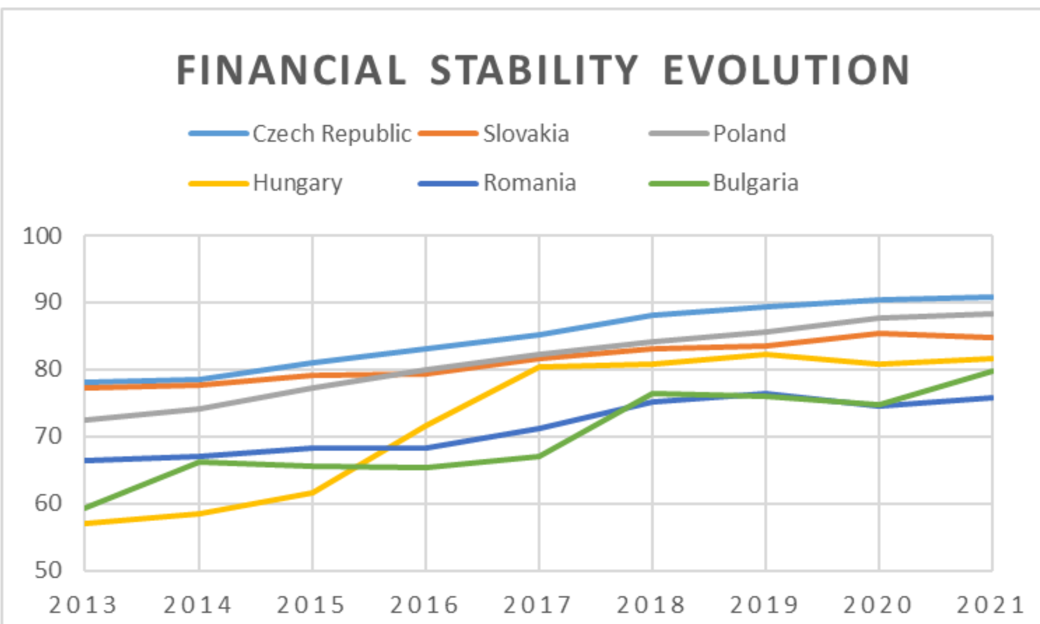


Figure 3. Financial Stability evolution in Eastern Europe 2013-2021

Source: own elaboration

We decided to use a statistical analysis with the panel data methodology because, considering the nine-year period we want to analyse, and also that we are interested in all the six countries presented, the most appropriate and simple solution to obtain concrete results is

Received: 12.12.2023 Accepted: 17.03.2024

Eastern European
Journal of Regional Studies
ISSN: 1857-436X / ISSN: 2537-6179

Volume 10 / Issue 1/ June 2024
DOI: https://doi.org/10.53486/2537-6179.10-1.02

panel data analysis (more efficient than if we had analysed each country with time series or cross section methodologies).

Using various predictors (provided by both Eurostat and the World Bank), we can observe the following patterns:

Table 2. Correlation matrix of the variables

Variable/Probability	FS	ICT IMPORT	MANUF EXPORT	TERTIARY EDUCATION
FS	1.000			
ICT IMPORT	0.517	1.000		
MANUF EXPORT	0.532	0.836	1.000	
TERTIARY EDUCATION	0.383	-0.059	-0.258	1.000

Source: Own elaboration

What we can observe is a positive correlation between all the predictors and our dependent variable, while the variable Tertiary Education as a negative correlation with both the percentage of ICT Import and the percentage of Manufactures export.

Table 3. Panel data regression results with random and fixed effects

	Model 1		Model 2		Model 3		Model 4	
Variables	Fixed effects	Random effects	Fixed effects	Random effects	Fixed effects	Random effects	Fixed effects	Random effects
ICT IMPORT	0.599 (0.531)	0.068 (0.460)	-	-	0.787 (0.606)	1.072** (0.402)	0.711 (0.669)	-0.198 (0.549)
MANUF EXPORT	1.155*** (0.294)	0.747*** (0.183)	1.185*** (0.294)	0.711*** (0.138)	-	-	1.999*** (0.312)	0.855*** (0.205)
TERTIARY EDUCAT	1.850*** (0.347)	2.000*** (0.274)	1.866*** (0.348)	1.969*** (0.262)	2.586*** (0.335)	2.088*** (0.293)	-	-
CONSTANT	-61.641***	-26.763**	-57.908	-22.326*	12.690	20.364**	-90.373***	10.775
ADJ R^2	0.806	0.615	0.805	0.611	0.746	0.484	0.691	0.220

*Notes: Standard errors are mentioned in parenthesis., Significance levels are *** for 1%, ** for 5% and * for 10%.*
Sources: own elaboration

Considering the results, where we can see that we have different models that have a valid level of significance, we can say that there is an influence between the selected predictors

Eastern European
Journal of Regional Studies
ISSN: 1857-436X / ISSN: 2537-6179

Volume 10 / Issue 1/ June 2024
DOI: https://doi.org/10.53486/2537-6179.10-1.02

and our financial stability indicator. Each of the four models presented is important and at the same time interesting, but we have chosen model number 3 and model number 4 to better explain our analysis. Therefore, we can state that it is appropriate to perform a Hausman test to check whether the models fit better with fixed or random effects. We note:

Table 4. Hausman test for model number 3

Hausman Test			
Equation: Model 3			
Cross-section with random effects			
Summary	Chi-Sq. Stat	Chi-Sq. d.f.	Probability
Cross-section random	9.273167	2	0.0097

Source: Own elaboration

Table 5. Hausman test for model number 4

Hausman Test			
Equation: Model 4			
Cross-section with random effects			
Summary	Chi-Sq. Stat	Chi-Sq. d.f.	Probability
Cross-section random	23.628595	2	0.0000

Source: Own elaboration

Observing the probability level obtained in the two Hausman tests, we consider the models with the fixed effects as rather appropriate for our analysis. The two fixed models selected, however, have some limitations (as can be seen in Table 3), but we can still discuss the influence that the three variables have on the financial stability of European citizens, namely ICT imports as a percentage of Gross Domestic Product (World Bank), manufactures exports as a percentage of merchandise exports (World Bank) and the percentage of the population with tertiary education (Eurostat). First of all, what we can observe is the existence of a correlation between the independent variables mentioned above and our indicator of financial stability. We could also observe different statistical models, each showing a more or less relevant degree of significance. What we were able to gather from these models is that, broadly speaking, the financial stability of Eastern European citizens could be predicted exactly by the three independent variables chosen: ICT imports, manufactures exports and the percentage of the population with tertiary education. Of the three variables, two are expressions of economic freedom and the opportunity to engage in unrestricted trade, while the third variable shows how important education is to enjoying a greater degree of economic freedom.

The ICT imports variable leads us to the premise that if a country, enjoying economic freedom, will import technology, more opportunities will arise for the citizens of that country,

Received: 12.12.2023 Accepted: 17.03.2024 https://csei.ase.md/journal

ISSN: 1857-436X / ISSN: 2537-6179
Volume 10 / Issue 1/ June 2024
DOI: https://doi.org/10.53486/2537-6179.10-1.02

making it possible for them to earn an income that will allow them to 'survive economically'. On the other hand, we also have manufactures exports, a variable that also shows how through economic freedom, citizens and firms as a whole can be stimulated to increase their own productivity which, again, is parallel to an increase in the degree of financial stability in their own household. Tertiary education, in turn, helps us to better understand the relationship between personal skills and financial stability in one's own household, as we can say that having skills from tertiary education certainly has a positive role in finding opportunities.

We will also look in more detail at the differences between the six countries analysed, taking into consideration that the results produced derive from a multitude of historical, social and economic factors that have differentiated these six countries, even though they all belong to the Eastern European area. On the one hand, we have some countries, such as Slovakia, the Czech Republic, Hungary and Poland, which managed to join the European structures since 2004, and this is reflected in the scores they obtained on financial stability (even if Hungary was in the last place in the period between 2013 and 2015, it recovered in the subsequent period). On the other hand, however, we observe how Romania and Bulgaria, which had a delayed accession to the European structures, managed to obtain lower scores on financial stability. Moreover, we have to take into account the phenomenon of mass emigration, which concerns both countries, and therefore retain that they could have an even lower score on financial stability than the one projected in this analysis.

The differences between the Czech Republic, the Eastern European country at the top of the financial stability ranking, and Romania, the country at the bottom of the six, can also be found in the importance that the political classes of these two countries attached to private property, including during the period of communist rule. Regarding this topic, we have to consider that after World War II, the Czech Republic turned to communism, and the new political class prepared a new Constitution, approved in 1948. Despite that, human freedom and human rights still had an important degree of importance. On the other hand, Romania had the same political path, turning into a communist state, but private property and human rights had a lower degree of importance in the various communist constitutions, especially for peasants (Socoliuc et al., 2021). In the Czech Republic private property was never fully eliminated, while Romania, on the other hand, faced the process of collectivization, one of the most brutal in all the Eastern Bloc.

Moving on from the evolution of the Cold War, we arrive to the 1990s, when the Iron Curtain was brought down once and for all. This crucial moment in contemporary history proved nothing other than that the capitalist system, which placed economic freedom at the centre of the social and economic life, was a more workable system than the communist one, which promoted forced state control, especially over trade. As a result, the Eastern European states, that had fallen under Soviet influence, chose to abandon their former ideologically

Eastern European Journal of Regional Studies
ISSN: 1857-436X / ISSN: 2537-6179
Volume 10 / Issue 1/ June 2024
DOI: https://doi.org/10.53486/2537-6179.10-1.02

charged political institutions and practices in favour of a political system in which economic freedom really mattered.

The last decade of the second millennium began with a widespread exaltation of economic freedom as a result of the 'triumph of capitalism over communism'. We must consider, also, that during this period there were important differences in the political approach between Romania and the Czech Republic (as mentioned above, the difference in approach was also visible in the period necessary for the accession of these two countries to the European structures), such as the citizens attitude towards democracy and freedom, considering that the Czech citizens were natively predisposed towards democracy and freedom, while in Romania the situation wasn't the same (Socoliuc et al., 2021). The post-communism Constitution, in the Czech Republic, was modified in accordance with the healthy principles of the western civilized societies, and laws were adopted as to restrict the former communist party members' access to the new political environment. A fundamental aspect of the Czech transition was the lustration law, that had a key role in protecting the institution of private property, while in Romania a law of that type was not popular, giving former political dignitaries the opportunity to mark the new post-Decembrist political scene.

Subsequently, the countries that had begun to enjoy the benefits of capitalism expanded their own economic freedom by joining the European Union. This aspect of accession to European structures is particularly important to remember, because the European Union has been and still is a vector for the expression of economic freedom, because economic freedom and free trade itself have been the values on which the European Union has been built since the 1950s. Moreover, the European Union has also been a real source of investment and economic partnerships between private individuals, offering new opportunities to the citizens of these Central and Eastern European countries.

In conclusion, it is necessary to state, that these variables show us the possibility of a much closer link between economic freedom and the financial stability of European citizens, capable of being extended to the European Union as a whole and also explained by variables that further accentuate the expression of the economic freedom. We believe that this study can be a starting point for future, more nuanced studies with an even stronger focus on this relationship.

Conclusions

The results we have obtained are at a preliminary stage, requiring of course further deepening and new ways of calculating both financial stability and economic freedom.

Nevertheless, we dare to say that the present analysis can be a starting point for more detailed analyses, which would highlight in more depth the impact of the economic freedom in generating financial stability in the households of European citizens and beyond. We will see

ISSN: 1857-436X / ISSN: 2537-6179
Volume 10 / Issue 1/ June 2024
DOI: https://doi.org/10.53486/2537-6179.10-1.02

the financial stability as an area of continuous progress, capable of being improved both from a strictly financial perspective, highlighting the importance of banks and financial control institutions, and from an economic perspective, as it was the case in this analysis, where we saw what works and what does not work in countries' attempt to provide the greatest possible degree of financial stability for their citizens.

We have noticed that the situation in Eastern Europe is very different, because we have a country that has been embracing the economic freedom even since the beginning of the 1990s – the Czech Republic, which has managed to guarantee a fairly high degree of financial stability for its citizens, while we also have other countries, such as Romania, which, although it started out ahead of countries such as Bulgaria and Hungary (as can be seen in figure 3), has stagnated in successive years, offering an extremely low degree of financial stability to its citizens. Other surprising aspects that emerge from this research are the substantial increase in financial security in Hungary in recent years, but also the stagnation of the financial stability in Slovakia (but we must consider that the financial stability of the Slovak citizens, overall, is relatively higher than that of Romanians). In the present research, we have also noted the very important role that trade, an expression of the economic freedom, plays in shaping the financial stability. Trade can be expressed through different initiatives of the nation states. In this case we have chosen technology imports and manufactures exports because we considered that they play a fundamental role in creating economic welfare in Eastern Europe and financial stability in this sense. Meanwhile, we have also taken into account the level of the tertiary education, because this is a generator of working opportunities and such opportunities can facilitate the financial stability.

If we consider the fixed effects models (which are more appropriate from a statistical point of view, if we value statistical validity as our main objective), of all the variables tested, the most important is the export of manufactures, showing us that a country with this characteristic can be synonymous with a country where the population is active on the labour market and, in this sense, is more protected from unforeseen economic situations.

It is important to note that this research is aimed at both ordinary citizens, demonstrating how education and active involvement in the labour market are the best antidotes to financial instability, but also at citizens involved in political decision-making, demonstrating that this research also explains how economic freedom (i.e. less state intervention in the economy) can produce more financial stability for citizens. However, we assume that our research has some limitations, namely that: financial stability could also be calculated using many other indicators (thus creating a more comprehensive financial stability aggregate indicator) and also that there is some degree of difficulty to explain in detail the whole process linking economic freedom and financial stability.

We conclude that this analysis has a certain degree of relevance, as it provides a new perspective on financial stability but, at the same time, we want to continue the research on this phenomenon, improving the models we proposed in this analysis.

Eastern European
Journal of Regional Studies
ISSN: 1857-436X / ISSN: 2537-6179
Volume 10 / Issue 1/ June 2024
DOI: https://doi.org/10.53486/2537-6179.10-1.02

References

Čihák, M. (2007). Systemic Loss: A Measure of Financial Stability. *Czech Journal of Economics and Finance*, 5-26.

European Central Bank. (2023). *Financial stability*. https://www.ecb.europa.eu/pub/financial-stability/html/index.en.html

Eurostat. (2022). *Inability to face unexpected financial expenses*. https://ec.europa.eu/eurostat/databrowser/view/ilc_mdes04$DV_421/default/table?lang=en.

Eurostat. (2022). *Inability to make end meets.* https://ec.europa.eu/eurostat/databrowser/view/ilc_mdes09$defaultview/default/table?lang=en.

Eurostat. (2022). *People at risk of poverty or social exclusion.* https://ec.europa.eu/eurostat/databrowser/view/ilc_peps01n/default/table?lang=en.

Eurostat. (2022). *Unemployment.* https://ec.europa.eu/eurostat/databrowser/view/une_rt_a/default/table?lang=e

Federal Reserve. (2023). *What is financial stability?* https://www.federalreserve.gov/faqs/what-is-financial-stability.html

Goodhart, C. (2006). A framework for assessing financial stability? *Journal of Banking & Finance*, *30*(12), 3415-3422.

Klaus, V. (2002). The Czech Republic: progress towards freedom and a market economy. *Institute of Economic Affairs*, 36-39.

Ramlall, I. (2018). *Understanding Financial Stability*. Emerald Publishing. https://www.emerald.com/insight/publication/doi/10.1108/9781787568334

Schinasi, G. J. (2004). *Defining Financial Stability* (IMF Working Paper, WP/04/187). IMF. https://www.imf.org/external/pubs/ft/wp/2004/wp04187.pdf

Smythe, K. D. (1968). An approach to determining “safe” levels for family credit commitments. *Journal of Consumer Affairs, 2(2),* 167-181.

Socoliuc, O., Iacobuță-Mihăiță, A., & Ciortescu, E. (2021). Private property - the inclusive institution which shaped dissimilar economic dynamics. Evidence from the Czech Republic and Romania. *Eastern Journal of European Studies*, 213-243.

World Bank. (2016). *Global Financial Development Report 2015/2016: Long Term-Finance.* World Bank.

World Bank (2022). *Manufactures export (% of merchandise exports)*. https://data.worldbank.org/indicator/TX.VAL.MANF.ZS.UN]

World Bank (2022). *ICT goods imports (% of total goods imports)*. https://data.worldbank.org/indicator/TM.VAL.ICTG.ZS.UN]