

Chapter 2, Section 1. Experiences in Euro Countries: Assessment of Euro Introduction ~ Verification of Monetary Union (1) Expanding International Presence ~

- The Euro's presence has not gone so far as to globally counter that of the dollar as the key currency, but its position as the main currency in Europe has been established. (Figs. 45-48)
- The Euro's value had been stable between its introduction and the global financial crisis. But its value has recently declined amid the risk-off trend under the European sovereign debt crisis. (Fig. 49)

Fig. 45 Global Foreign Exchange Reserves by Currency

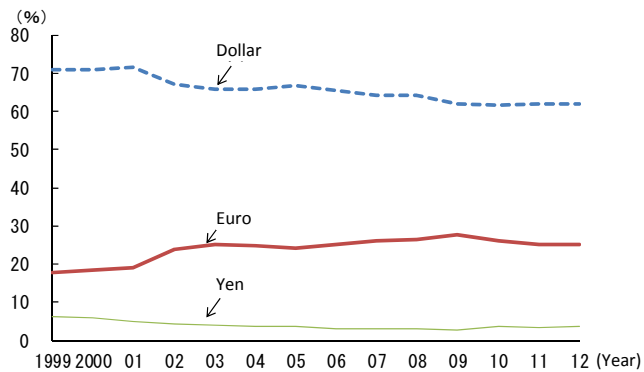


Fig. 46 Major Currencies' Shares of Trade Settlements In Countries/Regions

	Goods exports (%)		Goods imports (%)	
	Euro	Dollar	Euro	Dollar
EU countries				
Eurozone countries				
Non-Eurozone countries	56.7	31.5	50.7	40.2
Non-EU countries	49.7	44.0	35.2	55.7
Non-Eurozone countries	58.8	20.9	57.4	25.2
EU member candidates	61.1	34.3	63.3	33.3
Africa	23.3	75.5	52.9	-
Asia	5.3	80.1	5.2	76.4
USA	-	-	2.0	90.3

Fig. 47 Major Currencies' Share of Foreign Exchange Market Trading Volume

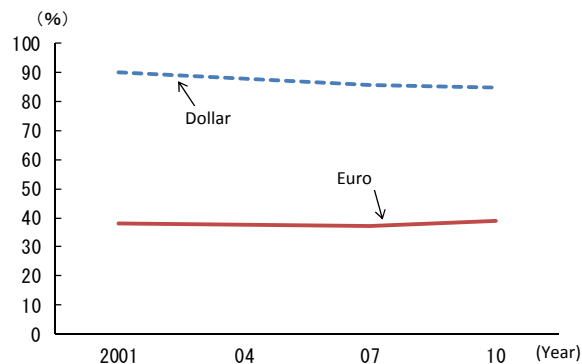


Fig. 48 Major Currencies' Shares of International Debt Securities

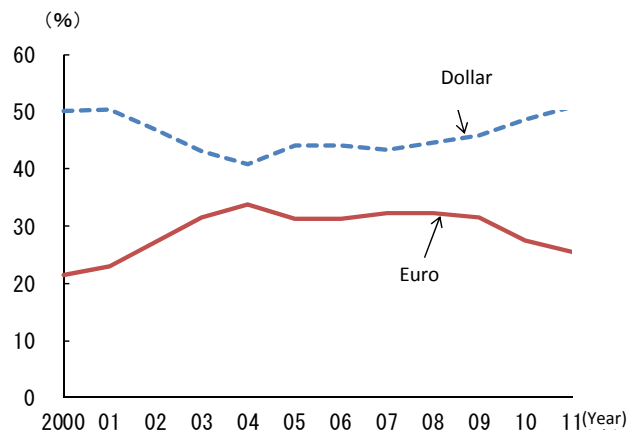
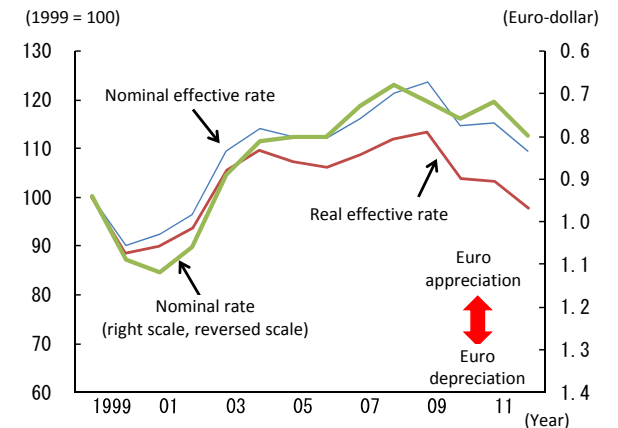


Fig. 49 Trends of Euro's Nominal, Nominal Effective, and Real Effective Rates against the Dollar



- The Eurozone's economic growth has not necessarily accelerated more remarkably than other free-trade economy zones. But some Eurozone countries, such as South European countries, have raised their average economic growth rates from levels before the euro's introduction. (Figs. 50 and 51)
- Germany's correlation increased relatively with other Eurozone countries, indicating deepening economic interdependence between Eurozone countries. (Fig. 52)

Fig. 50 Nominal GDP Trends

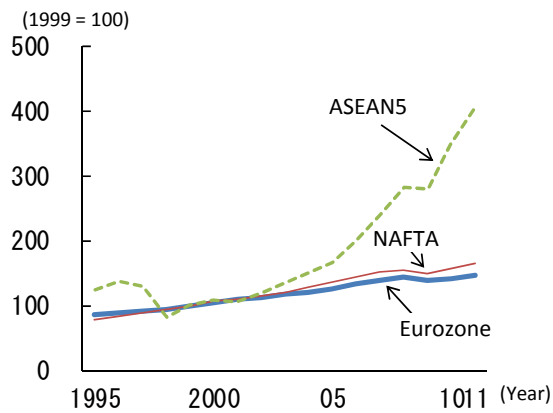


Fig. 51 Comparison between Average Economic Growth Rates before and after Euro Introduction

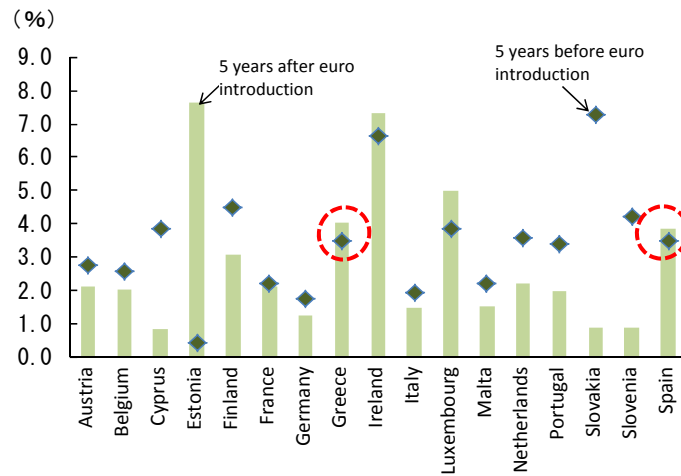
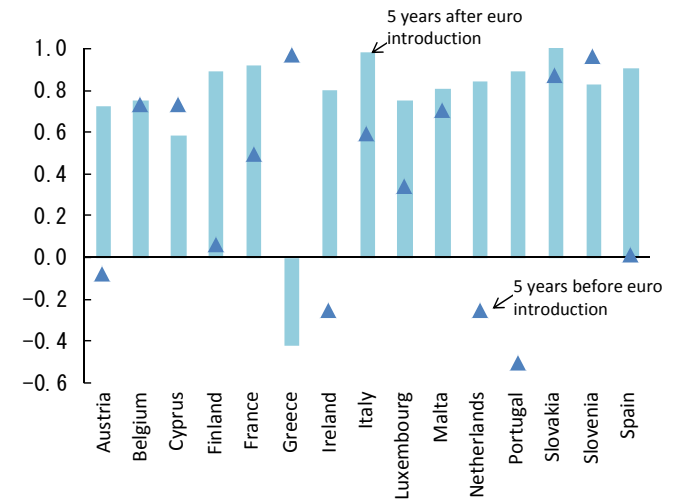


Fig. 52 Germany's Correlation Coefficients with Other Eurozone Countries



Chapter 2, Section 1. Experiences in Euro Countries: Assessment of Euro Introduction ~ Verification of Monetary Union (2) Effects on Economic Performance and Transactions (ii) Effects on Markets ~

- Since the euro's introduction, capital transactions have expanded rapidly. Particularly, Germany and France have invigorated investment in securities in South European countries. Long-term interest rates have converged at low levels. (Figs. 53 and 54)
- In Spain, a substantial increase in foreign investment in securities has become a factor behind rapid housing price hikes. (Figs. 55 and 56)
- In Greece, credits have increased mainly for securities investment. Investment has focused on Greek government securities. (Figs. 57 and 58)

Fig. 53 Capital Inflow/Outflow Trends in Eurozone Countries

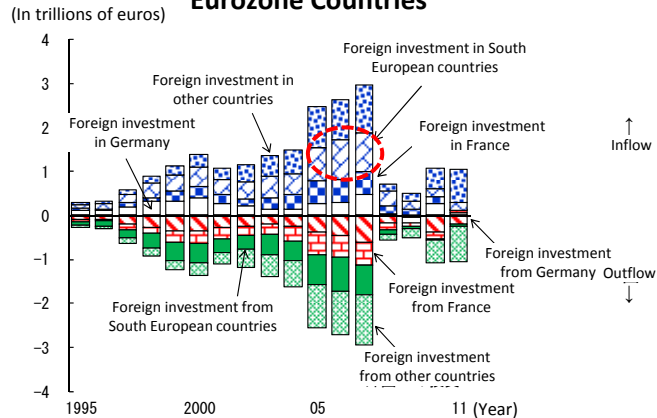


Fig. 55 Trends of Capital Transactions by Category in Spain

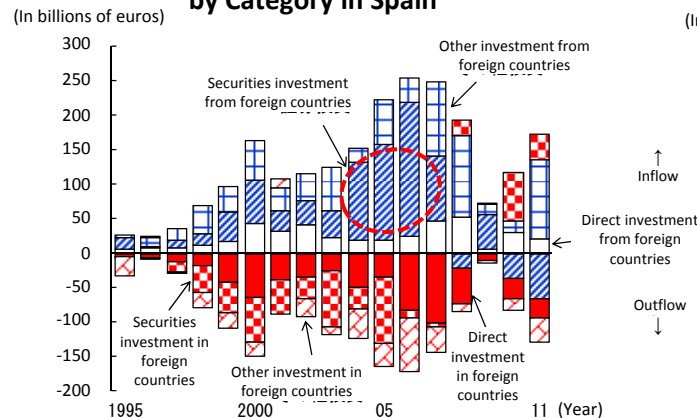


Fig. 57 Trends of Foreign Banks' Outstanding Credits to Greece

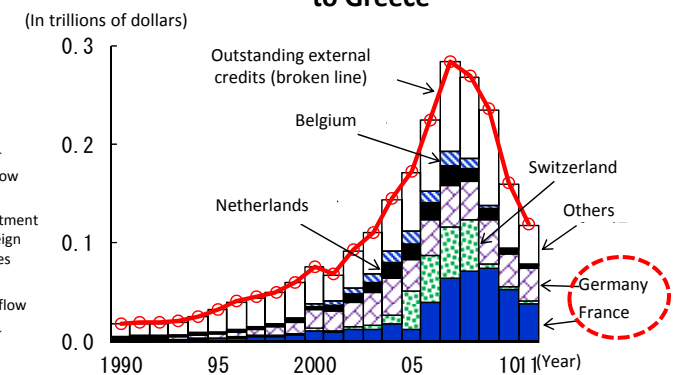


Fig. 54 Long-term Interest Rates in 7 Eurozone Countries

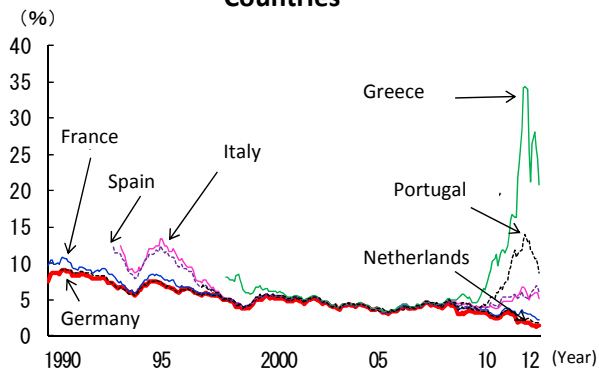


Fig. 56 Trends of Securities Investment from Foreign Countries and Housing Price Index in Spain

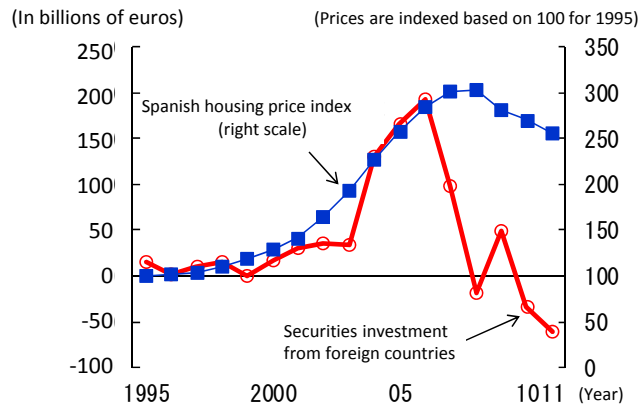
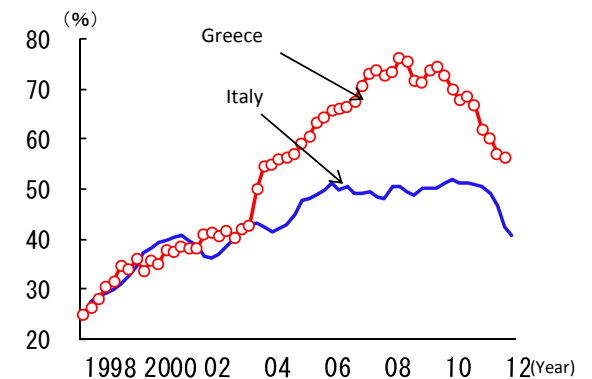


Fig. 58 Foreign Ownerships of Government Securities in South European Countries



Chapter 2, Section 1. Experiences in Euro Countries: Assessment of Euro Introduction ~ Verification of Monetary Union (2) Effects on Economic Performance and Transactions (iii) Effects on Trade ~

- Since the Euro's introduction, Germany, including its strong competitive automotive industry has increased its dependence on exports to non-Eurozone countries and retained a price-competitiveness advantage against other Eurozone countries. (Figs. 59 to 61)
- In the background to trade facilitation by the euro's introduction, Eurozone countries improved production efficiency through the division of labor within the Eurozone and maintain competitiveness against non-Eurozone countries. They have expanded trade in intermediate goods within the Eurozone and such trade with Central and Eastern Europe through the EU expansion, indicating the creation and deepening of a labor division setup. (Fig. 61-63)

Fig. 59 Major Eurozone Countries' Dependence on Exports within Eurozone and to Non-Eurozone Countries

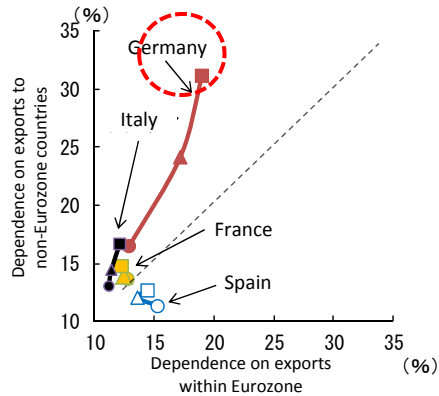


Fig. 61 Germany's Trade Specialization Coefficients with Other Eurozone and Non-Eurozone Countries

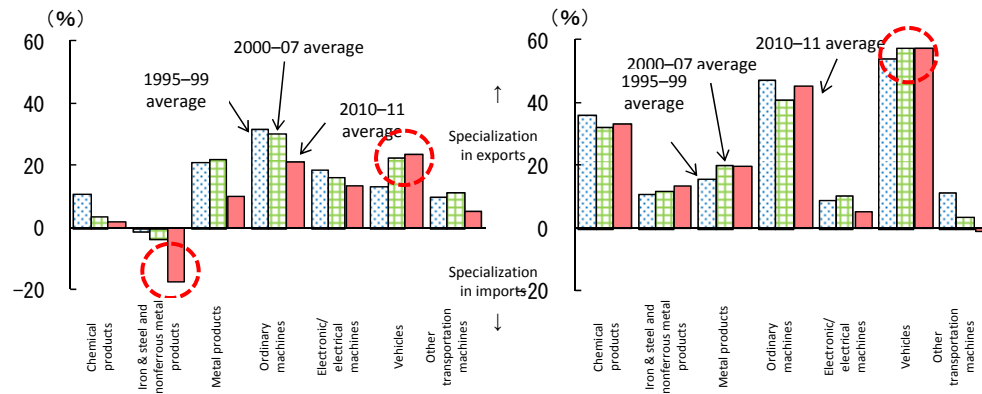


Fig. 63 Trends of Germany's Goods Exports and Imports

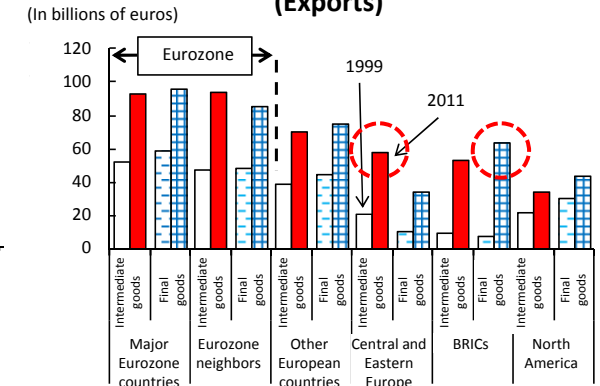


Fig. 60 Indicators of Price Competitiveness within Eurozone

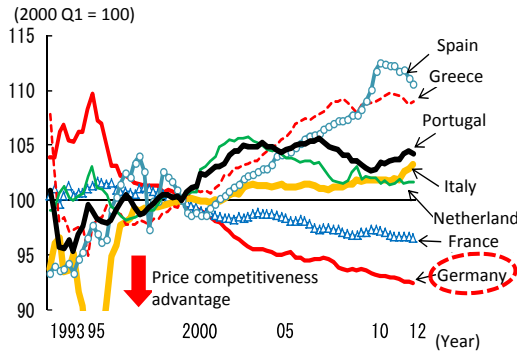
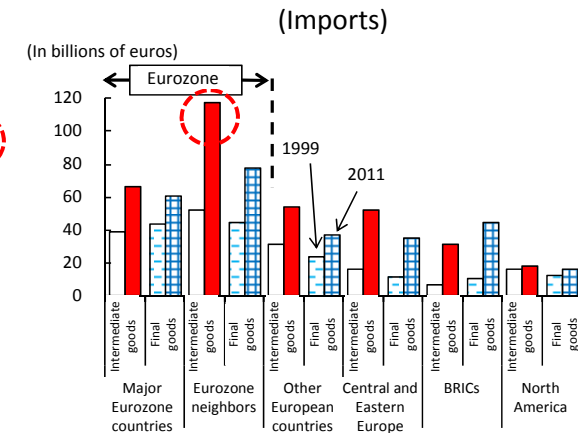
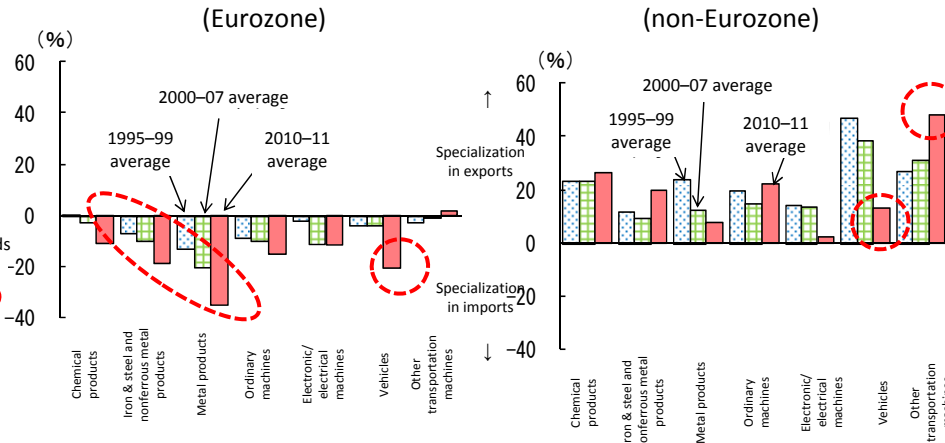


Fig. 62 France's Trade Specialization Coefficients with Other Eurozone and Non-Eurozone Countries



Chapter 2, Section 1. Experiences in Euro Countries: Assessment of Euro Introduction ~ Verification of Monetary Union (2) Effects on Economic Performance and Transactions (iv) Unsustainable Current Account Balance within Eurozone ~

- Since the euro's introduction, Germany has expanded its current account surplus, with South European countries increasing their deficits. (Fig. 64)
- Germany has maintained its current account surplus by utilizing its price competitiveness advantage through control of unit labor costs. On the other hand, France has remained in current account deficit due to a rise in unit labor costs (Figs. 60, 65 and 66). In South European countries, measures making it easier to finance their current account deficits, amid an increase in capital, led to a rapid decline in long-term interest rates. Their export price competitiveness has decreased, in response to real exchange rate increases due to such factors as a rise in unit labor costs. (Figs. 54 and 67-69)

Fig. 64 Eurozone's Current Account Balance

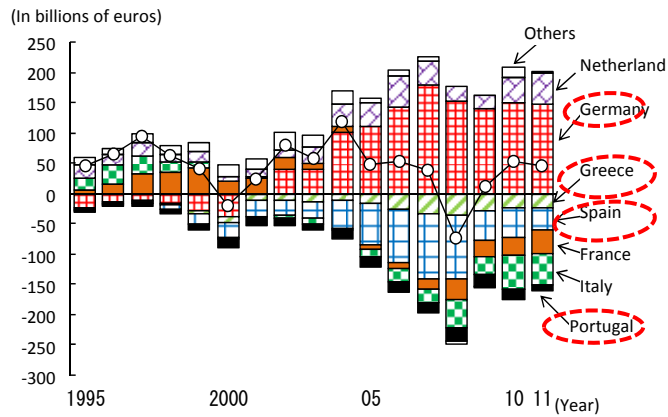


Fig. 66 France's Current Account Balance

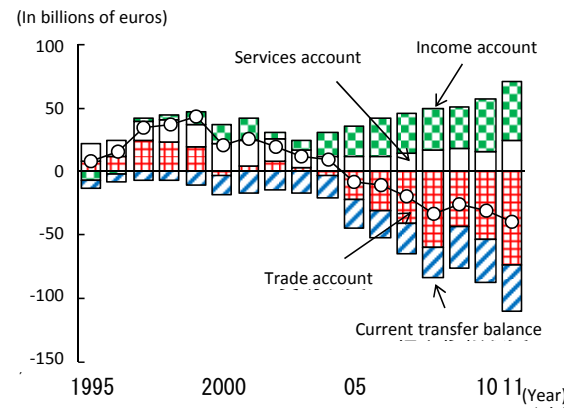


Fig. 68 Spain's Current Account Balance

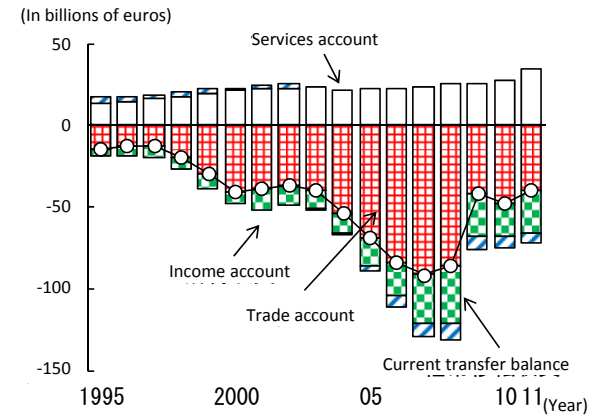


Fig. 65 Germany's Current Account Balance

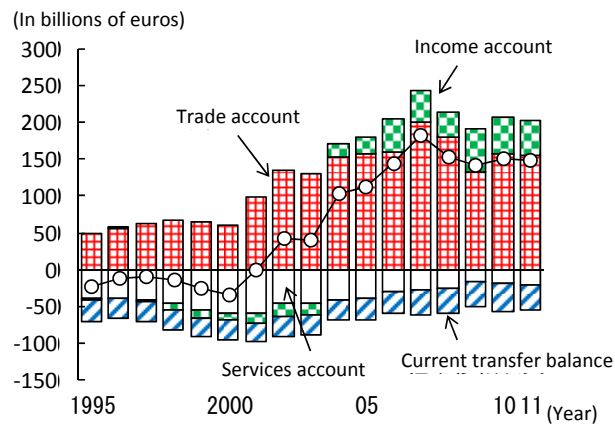


Fig. 67 Italy's Current Account Balance

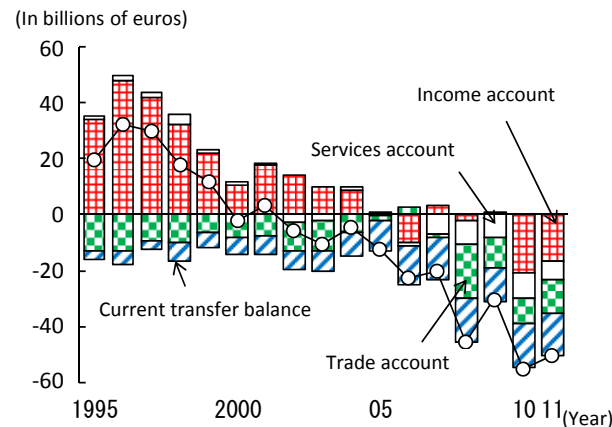
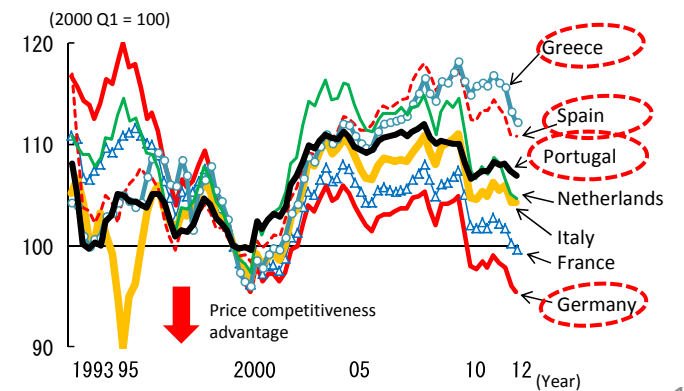


Fig. 69 Eurozone's Real Effective Exchange Rates



Chapter 2, Section 1. Experiences in Euro Countries: Assessment of Euro Introduction ~ Verification of Monetary Union (3)Improvement of Resistance and Tolerance to Risks and Shocks (i) Volatility Change on Euro Introduction (ii) Resistance to Shocks ~

- Since the Euro's introduction, currency volatility has declined in many Eurozone countries. Until the global financial crisis, foreign exchange reserves for currency protection had followed a downtrend. (Figs. 70 and 71)
- After the Euro's introduction, relatively better economic conditions and easier cross-border fundraising operations reduced incentives for correcting economic imbalances involving budget deficits and inflation rates. (Figs. 72 and 73).
- Market confidence deviating from fundamentals helped expand imbalances. The loss of market confidence after the crisis has triggered financial market turmoil. (Fig. 74)

Fig. 70 Kurtosis of Monthly Currency (Effective Exchange Rate) Volatility Rates in Each Country

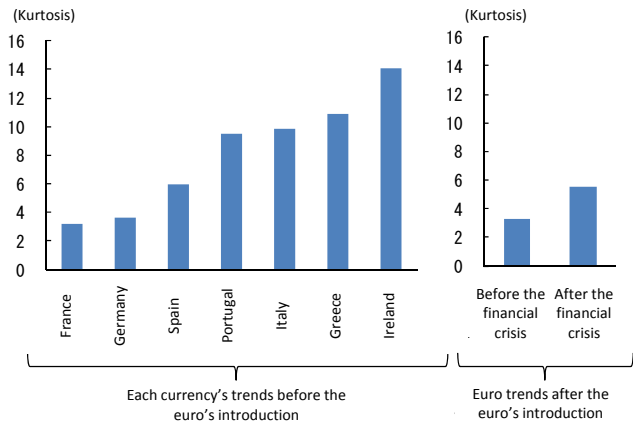


Fig. 71 Trends of Foreign Exchange Reserves

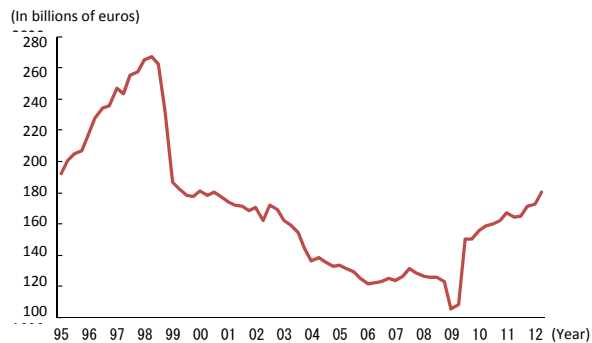


Fig. 72 Budget Deficit Trends in Each Country

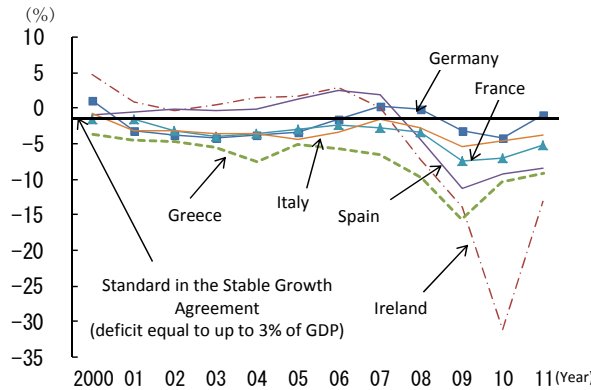


Fig. 73 Deviation between ECB Reference and Actual Inflation Rates

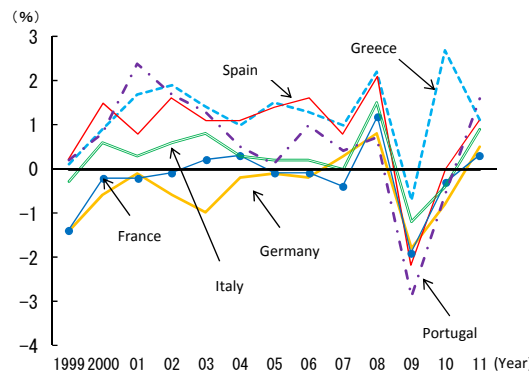


Fig. 74 Trends of Sovereign Debt Ratings in South European Countries

