

Financial Crisis and its Asymmetric Macroeconomic Impact on Eurozone Member Countries

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Motivation

- Eurozone enlargement by NMS – ongoing political discussion how far or slow process – recommendations for policy makers
- Role of Germany during 1992 – 3 EMS crisis and recent role of Germany
- Recent crisis of eurozone - Forbidden topic – the problem will be not solved if we are not talking about its existence

Aim of the paper

- The purpose of this paper is to analyze the dynamics of EMU (The Economic and Monetary Union, i.e. the group of European countries who use the common currency Euro) and to discuss the possible alternative futures for EMU in a wake of the ongoing world wide financial difficulties and economic recession.

Figure 1: Three Possible Scenarios for the Development of Potential Product in the Eurozone

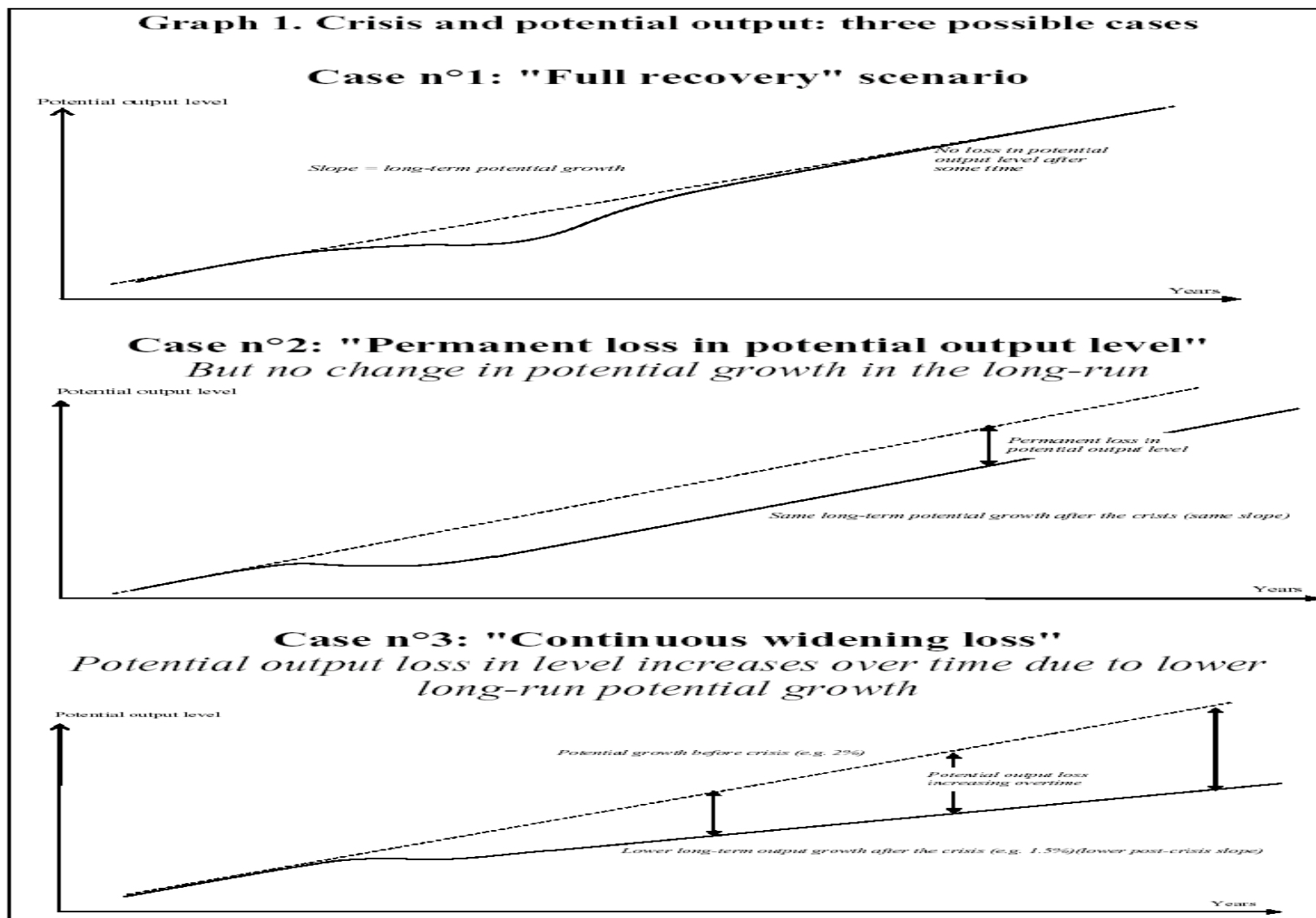


TABLE 1 – GDP, UNEMPLOYMENT, INFLATION: 1999:Q1 - 2008:Q1

	Annualized Average Quarterly GDP growth	Unemployment Rate		Annualized Average Monthly CPI Inflation
		1999:Q1	2008:Q1	
Eurozone (EU12)	2.26	9.5	7.2	2.10
Total EU	2.46	9.5	6.7	2.04
Belgium	2.30	9.0	6.9	2.04
Germany	1.77	8.6	7.6	1.61
Ireland	6.55	6.3	4.8	3.39
Greece	4.14	11.4	7.8	3.23
Spain	3.64	13.3	9.2	3.18
France	2.17	10.8	7.6	1.82
Italy	1.49	11.1	6.5	2.32
Luxembourg	5.01	2.4	4.4	2.75
Netherlands	2.54	3.5	2.8	3.39
Austria	2.54	4.0	4.0	1.79
Portugal	1.45	4.6	7.7	2.94
Finland	3.28	10.6	6.3	1.61
USA	2.58	4.3	4.8	2.75
Japan	1.60	4.7	3.8	-0.28

TABLE 2 – GDP, UNEMPLOYMENT, INFLATION: 2008:Q2 - 2009:Q3

	Annualized Average Quarterly GDP growth	Unemployment Rate		Annualized Average Monthly CPI Inflation
		2008:Q1	2009:Q3	
Eurozone (EU12)	-3.28	7.2	9.1	1.71
Total EU	-3.20	6.7	9.6	1.05
Belgium	-2.93	6.9	7.9	1.34
Germany	-3.79	7.6	7.6	0.83
Ireland	-5.95	4.8	12.5	-0.32
Greece	-1.44	7.8	9.4	2.01
Spain	-3.06	9.2	18.8	0.81
France	-2.03	7.6	9.8	2.01
Italy	-3.97	6.5	7.6	1.56
Luxembourg	-4.10	4.4	6.5	0.86
Netherlands	-3.20	2.8	3.6	1.42
Austria	-3.44	4.0	4.7	1.13
Portugal	-2.42	7.7	9.9	0.03
Finland	-8.78	6.3	8.6	2.41
USA	-2.62	4.8	9.8	0.53
Japan	-5.17	3.8	5.2	-0.44

TABLE 3 – Competitiveness Indicators: 1999:Q1 – 2008:Q1

	Unit Labor Costs (ULC)	Real Effective Exchange Rate (ULC based)	Real Effective Exchange Rate (CPI based)	Total Labor Costs	Real Wages and Salaries
EU12			110.34	125.29	124.65
Total EU				133.83	133.74
Belgium	115.84	103.66	105.04	128.27	128.87
Germany	100.93	87.09	99.32	114.84	116.45
Ireland	135.52	127.88	123.92	N/A	N/A
Greece	124.21	112.09	108.86	132.80	132.33
Spain	132.29	116.66	114.20	141.35	138.43
France	117.35	104.17	102.08	131.27	129.39
Italy	125.50	111.80	106.17	126.46	126.59
Luxamburg	127.80	115.32	111.47	130.43	132.93
Netherlands	119.12	109.17	107.57	134.82	129.60
Austria	107.13	94.73	98.93	121.85	125.06
Portugal	N/A	N/A	107.95	124.81	124.12
Finland	114.69	100.89	101.19	N/A	N/A
USA	104.80		80.88		
Japan			77.85		

TABLE 4 – Competitiveness Indicators: 2008:Q1 – 2009:Q3

	Unit Labor Costs (ULC)	Real Effective Exchange Rate (ULC based)	Real Effective Exchange Rate (CPI based)	Total Labor Costs	Real Wages and Salaries
EU12			92.98	103.75	103.65
Total EU				101.61	101.21
Belgium	107.23	101.34	99.87	104.90	104.38
Germany	108.07	102.30	98.84	106.51	106.00
Ireland	102.35	97.48	98.52	N/A	N/A
Greece	108.34	99.39	100.70	98.71	97.43
Spain	101.11	95.66	99.38	105.20	103.65
France	104.63	98.69	98.93	99.60	99.80
Italy	105.78	99.74	99.59	102.41	102.31
Luxamburg	108.73	101.66	97.65	103.03	103.44
Netherlands	107.01	99.93	99.48	100.70	101.81
Austria	106.63	100.40	99.74	105.37	104.96
Portugal	N/A	N/A	98.99	103.14	102.53
Finland	111.36	104.57	101.66	N/A	N/A
USA	106.20		109.25		
Japan			107.75		

TABLE 5 -- Public Debt and Current Account

	The Share of Public Debt in GDP (in %)			Current Account as the Share of GDP (in %)		
	2000:Q1	2008:Q1	2009:Q2	1999:Q1	2008:Q1	2009:Q2
EU12	72.0	67.4	76.3			
Belgium	116.0	87.8	96.7	5.44	-1.46	4.13
Germany	61.0	65.2	71.1	-1.76	8.23	3.98
Ireland	44.6	27.6	59.3	0.55	-9.00	-2.90
Greece	115.5	96.5	109.4	-3.65	-14.51	-11.31
Spain	61.0	35.3	47.0	-1.85	-11.31	-3.92
France	57.7	65.3	73.9	3.01	-0.98	-2.90
Italy	113.5	106.1	113.3	0.31	-4.35	-3.22
Netherland	61.9	46.3	61.1	4.24	6.81	5.70
Luxemburg	6.1	7.0	14.7	18.90	10.08	-4.20
Austria	70.7	61.3	68.7	-0.07	7.31	-0.24
Portugal	52.8	62.6	74.1	-7.07	-9.81	-8.44
Finland	47.1	33.6	35.2	3.08	4.78	-1.78
USA						
Japan				2.07	5.08	2.10

TABLE 6 -- Loan Dynamics and Ratios

	The Loan Dynamics - % change relative to base period		The Total Loans to GDP Ratios		
	2008:Q4 – 1999:Q1	2009:Q3 – 2008:Q4	1999:Q1	2008:Q4	2009:Q3
Belgium	75.87	-2.78	583.97	667.20	700.77
Germany	29.73	-3.36	761.65	759.78	746.27
Ireland	386.09	-7.63	665.47	1509.78	1534.54
Greece	198.84	3.49	320.87	439.73	443.32
Spain	247.81	-2.82	488.15	832.94	903.23
France	92.56	-1.40	613.14	791.51	830.17
Italy	161.91	-0.86	355.55	608.12	650.47
Netherland	91.35	0.98	672.93	780.41	886.97
Luxemburg	86.82	-13.42	5919.87	5235.80	4880.92
Austria	103.14	-1.21	662.18	881.63	892.53
Portugal	133.80	0.13	530.31	777.39	806.50
Finland	182.59	-1.88	233.94	396.54	441.01

Scenarios of the Future

- Future, especially in the realm of national (and transnational) economies is always difficult to predict – even when such predictions are the sine qua non for the both general and economic policies. The reasons are that modern economies (and societies) are not only the interplay of the rational market forces (bread and butter of economic modelling) but are affected by a variety of, social political and generally random factors. These are generally unpredictable, often even for the participating actors. Hence, anytime an analysis pertaining the future is contemplated, it pays to specify some basic assumptions.

Assumptions for scenarios of the future (1)

- Firstly, as has been true of economic crises in the past, it may be presumed that this crisis, too, will be connected to a slowdown in the integration process and the growth of "eurodecentralization" tendencies within the individual member countries

Assumptions for scenarios of the future (2)

- The second important presupposition which must be taken into account with all of the envisioned scenarios is the nonexistence of legislation (a precedent) under which a country may exit the eurozone.

Assumptions for scenarios of the future (3)

- The third point which fundamentally impacts how well the scenarios presented conform to reality is the fact that any withdrawal of the country from the eurozone would likely lead to a deepening of economic problems for the economy in question instead of an immediate improvement in the country's situation.

Scenarios of the Future (1)

- **Scenario 1: The current crisis is successfully overcome in the eurozone expands further**
 - **Sub-scenario 1a: Rapid expansion of the eurozone without requiring fulfilment of the convergence criteria, using a "halfway membership" status for new eurozone member countries**
 - **Sub-scenario 1b: Unilateral euroization**

Scenarios of the Future (2)

- **Scenario 2: Collapse of the eurozone in its existing form and the creation of a new monetary union featuring countries which have traditionally pegged their currency to Germany's and countries with a substantial amount of foreign trade with Germany – a so-called "markozone"**
- **Scenario 3: Collapse of the eurozone and a return to national currencies**
- **Other alternatives**

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Questions, comments?

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