World Economic Movement

Europe In Stagnation Process

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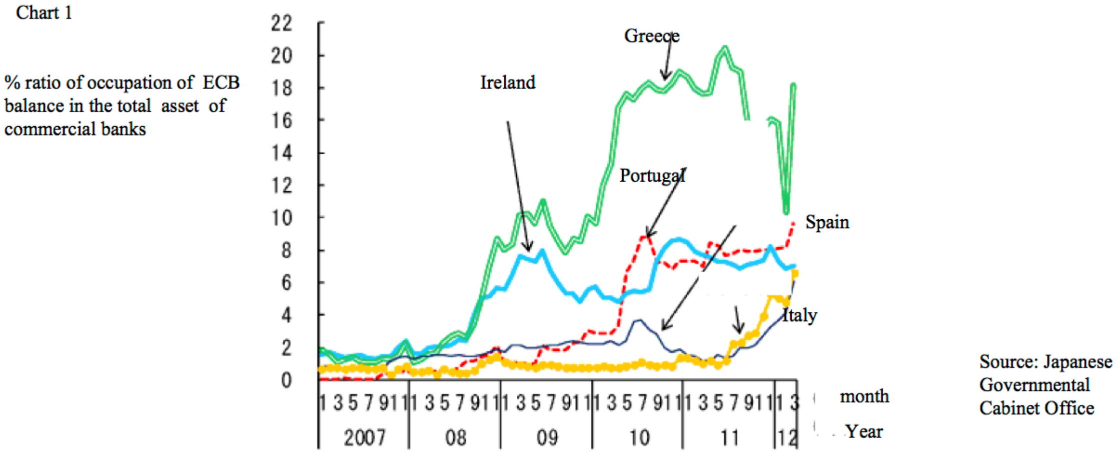
1.Introduction

The report " world economic movement", issued by Japanese Governmental Cabinet Office in June 2012,carried out excellent analysis of the world economy. On this report they stated that the European economy stands in the stagnation process, and showed very interesting data and charts. By using these information and adding further data from other sources, we would like to study about the direction of Euro currency in coming future.

2. Fiscal status of Euro countries

At the beginning of introduction of "Euro" in year1999, it was valued rather low against Japanese yen, but from the bottom in 2001 it appreciated up against Japanese yen during year 2003 and 2009. In October 2009 the manipulation of the fiscal report by Greek government was revealed, and since May 2010 Greece, Ireland and Portugal have been receiving monetary and financial support from ECB and IMF. Furthermore, Spain, of which regional governments are facing fiscal bankruptcy, will soon ask Euro commission and ECB for the monetary and financial support .It is feared that this trend will move to Italy. The president of ECB, Mr. Mario Draghi announced that he would try and use all possible counter measures to settle the problem. After this announcement, rate of Euro against yen returned to parity 1Euro: 100yen, from the bottom 1 Euro: 93yen. At IMF general meeting, held in the week of 8th of October in Tokyo, the matters concerning Euro and sovereign bond was discussed, but experts could not find any concrete and fundamental solution, except the provisional ideas only.

Chart 1



% ratio of occupation of ECB balance in the total asset of commercial banks（Source: Japanese Governmental Cabinet Office）

As the chart 1 shows, ECB invested rather large amounts already in the countries with fiscal difficulties. However, if the same problem extends to larger countries, like Spain and Italy, ECB will need enormous fund. As to with unlimited support by ECB, Germany and northern Euro countries have shown disapproving opinions. Euro member-countries are sitting in the same boat, but with different views. The world is getting smaller and world economy is relating tight each other. The slump of European Economy has seriously negative influences on the economy worldwide. It is important for us to watch and analyze how EC and ECB control and manage these problems for the maintenance Euro as the key currency.

The chart 2 shows the current situation as to the accumulated fiscal debt of 17 Euro member countries at the end of 2011, which was published by German newspaper “Frankfurter Allgemine” on 5th of July, 2012.

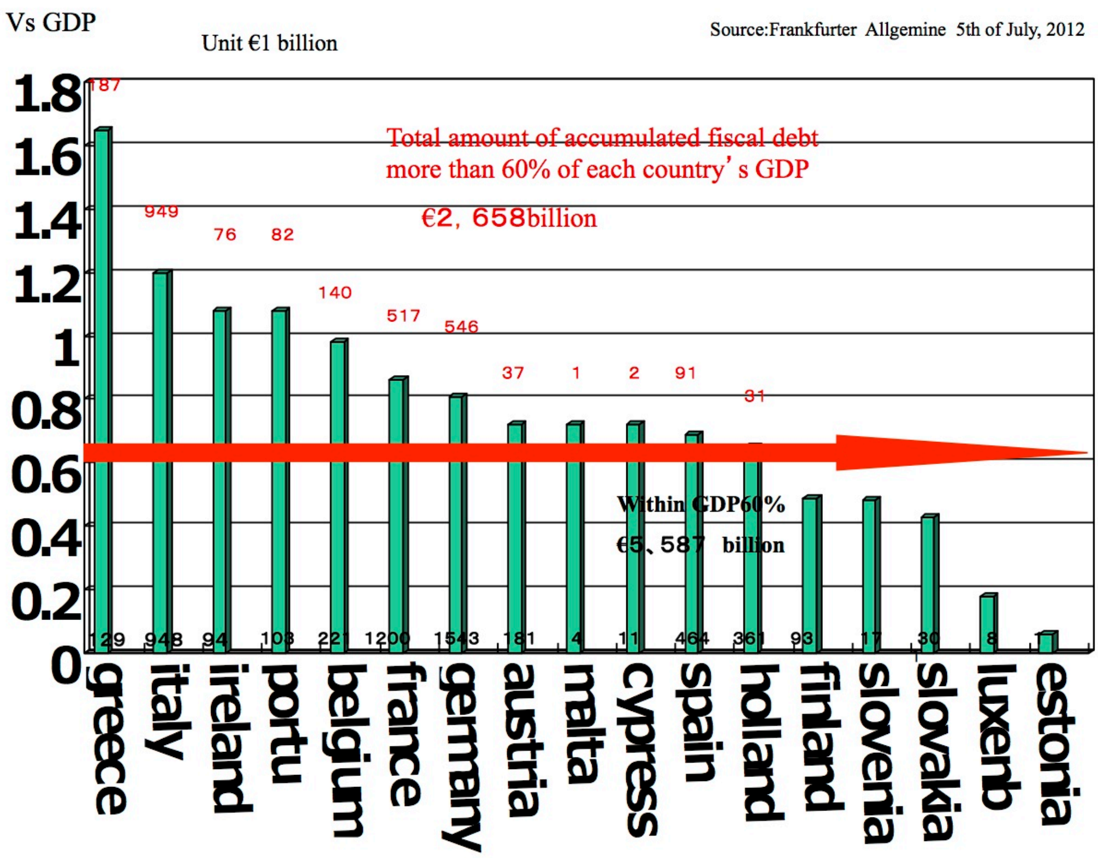
According to the Maastricht Agreement in year1999, Euro member-counties keep their accumulated fiscal debt within 60 % of each country’s GDP and annual fiscal debt within 3% of GDP. However, only 5 countries are in accordance with this agreement.

The total amount of 60% of each countries GDP is € 5,587bilion.

The total amount of fiscal debt exceeding this 60% is € 2,658bilion

The situation of accumulated fiscal debt of Euro members

Chart 2



Seventeen Euro-member countries are divided into 4 groups according to the status of debt shown in chart 2.

their fiscal debt exceed more than

1) 100% of own GDP : Greece, Italy, Ireland and Portugal

2) 80% ~ 99% : Belgium, France and Germany

3) 70% ~ 79% : Austria, Malta, Cypress, Spain, and Holland

4) within 60% : Finland, Slovenia, Slovakia,Luxemburg and Estonia

Contrary to our guess, Spain, of which regional fiscal system is facing bankruptcy, belongs to group 3.

Due to the collapse of real estate market, commercial banks have problem with bad debts and are not in healthy condition.

3. The unemployment status

Keys for the economic growth are purchasing power and level of investment.

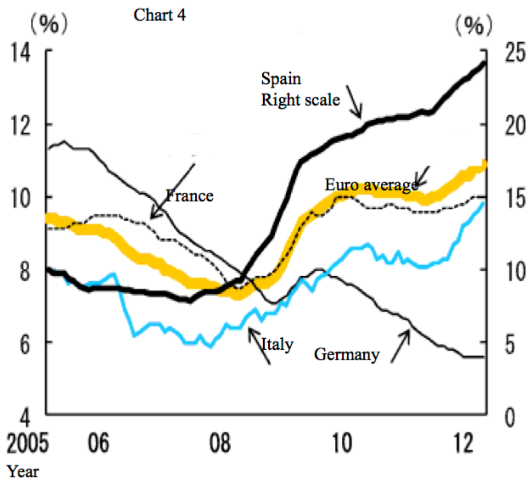
Euro countries have problem in these two areas. They are concerned weak purchasing power due to high level of unemployment and stagnation for the investment in the real estate market. Chart 3 shows the unemployment ratio of world leading countries. In 2009 USA and Europe showed almost the same level. But afterwards USA has slightly recovered, whereas Europe has been gotten worse.

We analyze the situation of main Euro member-countries in more details.

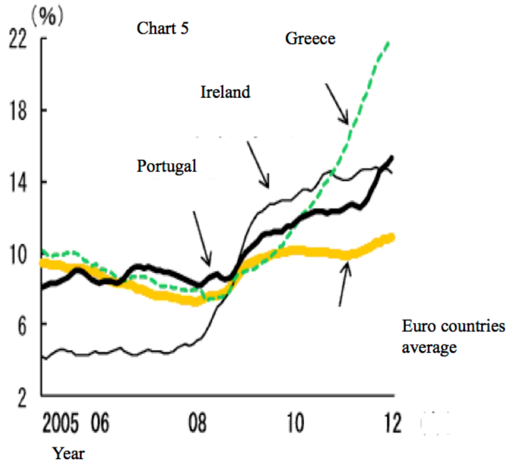
On the chart 4, only Germany is improving. Average level of Euro countries stays at about 11%(see left scale of graph.)

Spain shows 25%(see right scale),and its level stands in the dangerous situation .

Further chart 5 shows countries whose sovereign bond are in the critical situation. Greece shows also the problematic level same as Spain.



Source: Japanese Governmental Cabinet Office



Source: Japanese Governmental Cabinet Office

Only Germany shows positive curve. During economic stagnation period we have often seen 10 % level of unemployment in Europe.

However, Greece and Span situation exceed acceptable level. German weekly magazine "der Spiegel" gave warning in their 11th of June 2012 edition." There would be a possibility for serious social uncertainty, if this extraordinary level of unemployment continues longer. The situation is similar to that of Germany in 1930's, hyper inflation, high level of unemployment, and collapse of parliament system.

4. Stagnation in the field of investment

The chart 6 shows the trend of asset's investment, especially as to acquisition of immovable property in leading European countries. (to treat status 2008 Q3 as 100). Spain, of which real estate market has collapsed, shows extremely weak trend. France and Italy did not return to the level of year 2008 (at the time of world financial crisis). However, again Germany shows a exceptional case. We can see the growing tendency for property acquisition.

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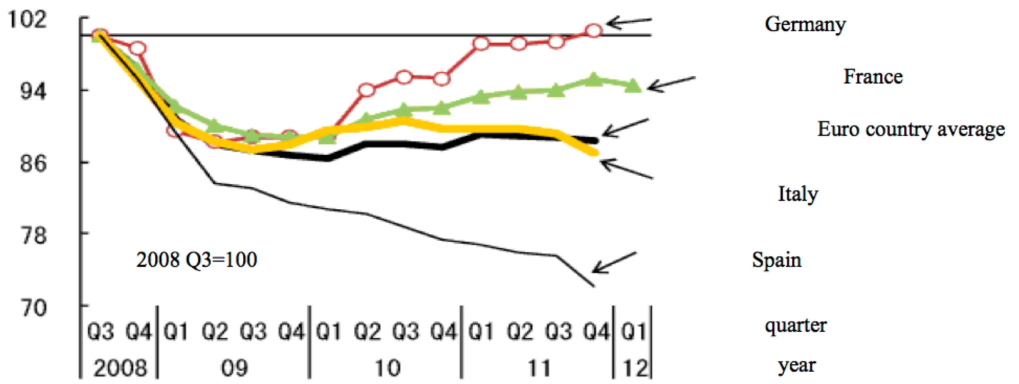


Source: Japanese Governmental Cabinet Office

5. Money and fond procurement by European commercial banks

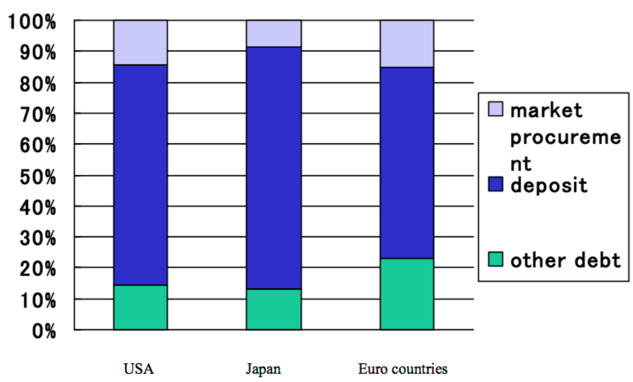
The chart 7 shows procurement sources for money and fund by commercial banks in USA,Japan and Europe.

Banks in USA and Japan procure money and fund mainly through deposit. But European banks look for the source more from inter-bank market and issuing bank bonds.In this case, if the European banks re-estimate the sovereign bond of fiscally critical countries ,they must look for additional sources to fill the gaps. The Japanese sovereign bond has been transacted mostly in Japanese market.and the ratio of ownership by foreign organization is only 8.3%.

It is remarkable that the money runs out from the critical countries and it causes the shortage of fund for commercial banks. That is the reason why these countries have requested ECB for immediate support. See chart 8

The composition of money and fund procurement

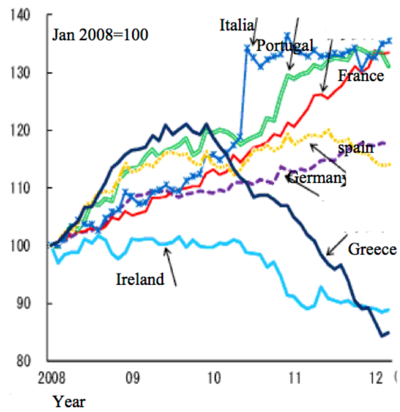
Chart 7



Source: Japanese Governmental Cabinet Office

Deposit balance of European commercial banks

Chart 8



Source: Japanese Governmental Cabinet Office

6． Internal trade between Euro countries

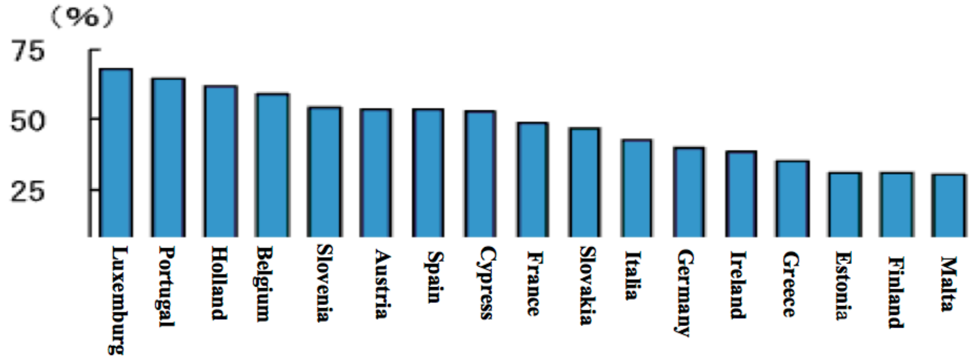
So far we have observed problems, namely, fiscal debt,unemployment, money procurement etc for the Euro member-countries .

In these areas we have noticed the excellent position of Germany. So now we move to watch the internal trade between Euro countries.

The chart 9 shows the trend . From this data,we can see that about 50% of each countries' exports are for Euro area.

Ratio of Export of Euro member countries (for Euro countries vs total export

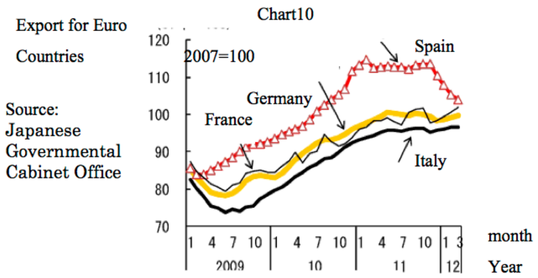
Chart 9

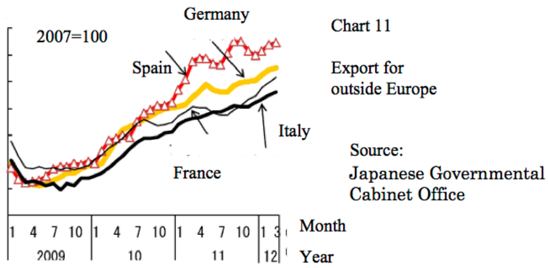


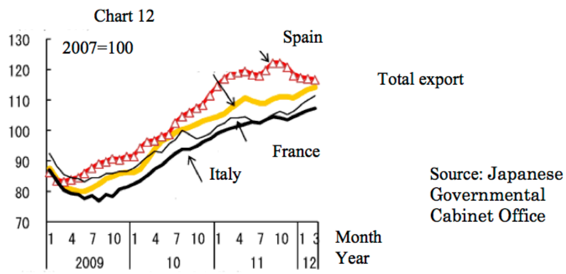
Source: Japanese Governmental Cabinet Office

Three charts (from 10 to 11) show the export trend of leading Euro countries. (chart 10 for Euro territory, chart 11 for outside of Euro, chart 11 for total export.) European Economy stands in the mutual dependency as shown in chart 9.

From these chart, growth of inter-trades is weaker in comparison with those for outside Europe. Especially Span is facing with negative growth. These facts derive from the stagnation of European economy. If this trend continues, it is possible German economy to enters the recession as well.







Now, we will slightly change our point of view.

7. Superior position of German economy

In case ofcountry which enjoys the favorable economy, like Germany, its currency is normally estimated high. German Mark will be appreciated. So long as the Euro is estimated low due to bad economic situation, Germany can keep the favorable trade condition and can develop competitive export business. They enjoy the superior position. Knowing this fact, some member-county insist that Germany should support southern Europe. because they take advantage of the weak Euro for their own Export business.

This opinion may be reasonable. However, German government had introduced their economy stabilization act in year 1967, well before start of Euro currency. There are 4 targets. 1) stabilization of price level, 2) high rate of factory operation ,3) stable trade balance,and 4) reasonable economic growth, which should be realized for long term. At the time of bad fiscal situation they tightened expenditure, or they control the budget in case of high economy boom. Please refer to the booklet of speech “Prof. Muensterman of Cologne University held in Tokyo 3rd of April 1970 at Keio University. (This booklet was issued in the name of Koizumi memorial speech collection No.7 “ German economy stabilization act and growth of enterprise by Prof. Hans Muenstermann” translated in Japanese by myself under supervision of. Honorable Prof Tasuku Noguchi.) Keeping this stabilization act in mind, German government managed their fiscal policies and budget。 Despite of this act, the accumulated fiscal debt of Germany stands now at the 80% of GDP which exceeds the level 60% of GDP fixed at Maastricht agreement in year 1999. The main reason is the vast fiscal expenditure at the time of integration of East Germany in year 1993. For more than 40 years, they have managed fiscal budget respecting stabilization act, it is reasonable for them to complain about insufficient fiscal budget control by southern European countries. Some parliament members of Germany have claimed to the federal court that it is against the German constitution low to use money collected from people in the form of tax for the support of southern countries without discussion and acceptance through German Parliament. But this claim was not accepted.

8. About German character and their DNA

part 1)

German spirit,” to tread the goods in the best efficient way, may be built in each personality as DNA. I lived 13yearsin total in Germany including 3years as University student. The wives carry out house cleaning in perfect way. Sole of white socks remains white after walking without shoes on the floor. The young man, who visits the home of future wife and asks her parents for permission to marry her, checks at first the cleanliness of their toilet. If it is not clean enough, he goes home without asking them. But the back ground of this story derives from the middle ages. The families, of which house was kept clean, survived through the period when a large number of population died due to epidemic of such disease as pest.

Part 2)

On day In Germany, I took a train. A young girl was sitting next to me. At lunch time she was eating an apple with peel.

But afterward I noticed that she was twisting the stem. She ate its peel, core and seed. Japanese eats grapes, and throw peel and seeds aside. The sweetest part is just inside the peel. Japanese cannot enjoy the most delicious part of grape.

Part 3)

I lived in Paris for three years. DNA of German and French are quite different from each other. The size of garbage can for French household 1 meter high 40 cm wide. The collecting truck comes from Monday to Friday. But can size of Germany is smaller than one third of French one, and to be collected only once a week. German people use their range and oven for cooking(so called warm dishes) only on week end. On working day they water. The range and oven of German family are kept clean, because they do not use them. The term " ecology" is for German. This habit to use good efficiently is the back bone of Germany, they save also the fiscal budget in efficient way. It is natural that the elaborated dishes like French cuisine has not been worked out by German.

Part 4)

In Germany it is custom to dry the washed clothes either inside of room or garden without being seen from outside, and curtains facing the road side are normally white. In Naples,people say," you must visit Naples before you die". We do not know, who said this words. There are many clothes hung up over our heads in streets of Naples.

As mentioned above, DNA of each Euro countries are quite different from one another . The success to organize EC and to introduce Euro currency is the work of God.

9. Greece

Why Greece, the country located at East end of Europe, does not have any outstanding industries, mining etc, could join the Euro member? In order to observe the inside of Greece, I started my cruise trip for Greece islands starting from Venice Italy on 17th of June,2012. One of my intention of this trip was to hear about Euro currency matters from European guests. But unfortunately, ship wasowned by an American company and guests were almost all Americans and Canadians.They were strongly interested in American presidential election in coming November, but no concern about Euro. However, during cruise trip I have watched the local situation and problems. The biggest industry is tourism. In the case Santorini Island, inhabitants are about 3,000people. But in summer vacation season it climes up to 50,000people. Tourist guide, interpreter, restaurant employee, taxi driver, and tourist of cruise, some ship brings more than 3,000 passengers in one time. If three to four ships of this kind arrive on the same day , the population of this island will increase rapidly. But this situation will continue only for the period from April to September. At the end of October the island will return to the 3,000 inhabitants.

47,000people are tourists and seasonal workers who work only for 6 months' summer season .

In this situation, Greece can not secure economic stabilization. Due to lack of permanent employment, governmental office should hire more people than they need actually. However, the price of vegetables and fruits are very low. For example 1 kg cherry cost only 1 Euro, whereas in Rome 10 Euros , in Japan it may be 50 Euro or more. We could not find any interesting goods for shopping, except wines and leather sandals. There any outstanding export industries.

We could find in the tourist book the reason for joining of Greece to Euro. The territory of Greece was under the control of Osman Turk for a long time . At the end of 19th century, when Turk was losing the power, Britain obtained the power in Mediterranean sea, and they supported Greece for establishment of country. Baylon, a famous poet, lost his life at the independence war against Turk.. In Island close to Italian border ,there was a governmental office of Britain. Greece is the country, for which Europeans sacrificed with their own blood. From this kind of feeling, I think, EC accepted them as the member-country.

Why could the EC commission not judge earlier the problem of the fiscal situation . People might expect good income from various source from Olympic games held in Athens in year 2004. Euro commission had failed to check their fundamental weakness.

Euro commission never doubted that the big problem will happen from small country like Greece. We see the same kind of risk from small countries, like Malta, Cypress, Slovenia, Slovakia and Estonia

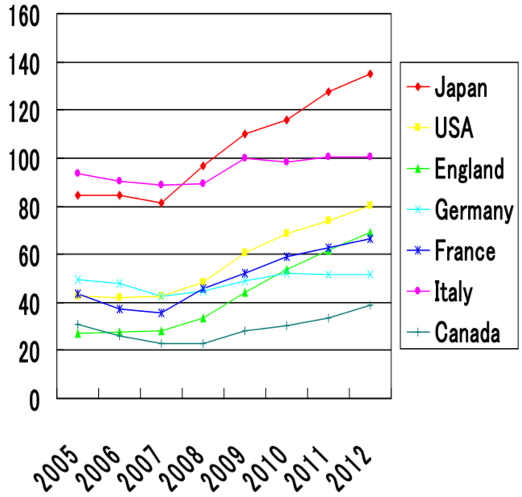
10. The accumulated fiscal debt of Japan

Now we look at the fiscal debt of Japan. It is expected , at end of year 2012, to reach 940 trillion yen as accumulated fiscal debt.

This is the equivalent of 196% of GDP (Chart 13). This contains 1) regional bond 200 ,2) borrowing 30 and 3) the balance of governmental fiscal debt 709 trillion yen. But this status is quite different from the one of Greece, island and Spain etc. Japan posseses the largest external net assets in the world, it amounts to 251 trillion(see the chart 14) , reserves for foreign currency 101 trillion, in total 352 trillion yen which is equivalent of 73% of GDP. Out of Japanese debt only 8.3% is kept by foreign organization. Under this situation, the interest rate for Japanese governmental bond is 0.9% which stands in the lowest level after Switzerland. See the chart 14. The anxiety about Japanese fiscal budget does not exist in the world market.

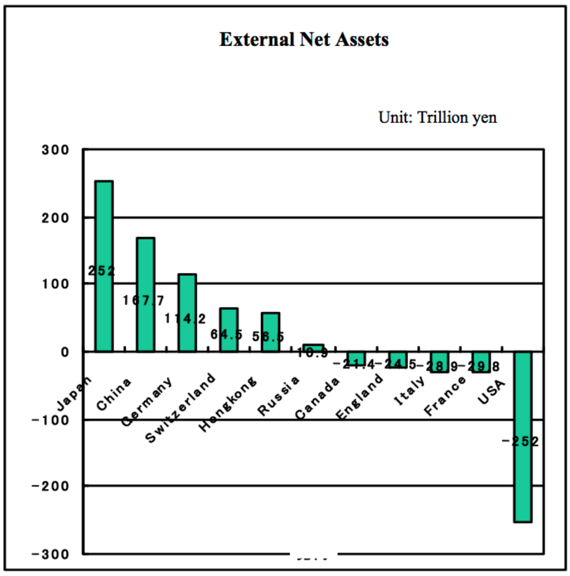
Chart 13

Balance of net fiscal debt vs GDP



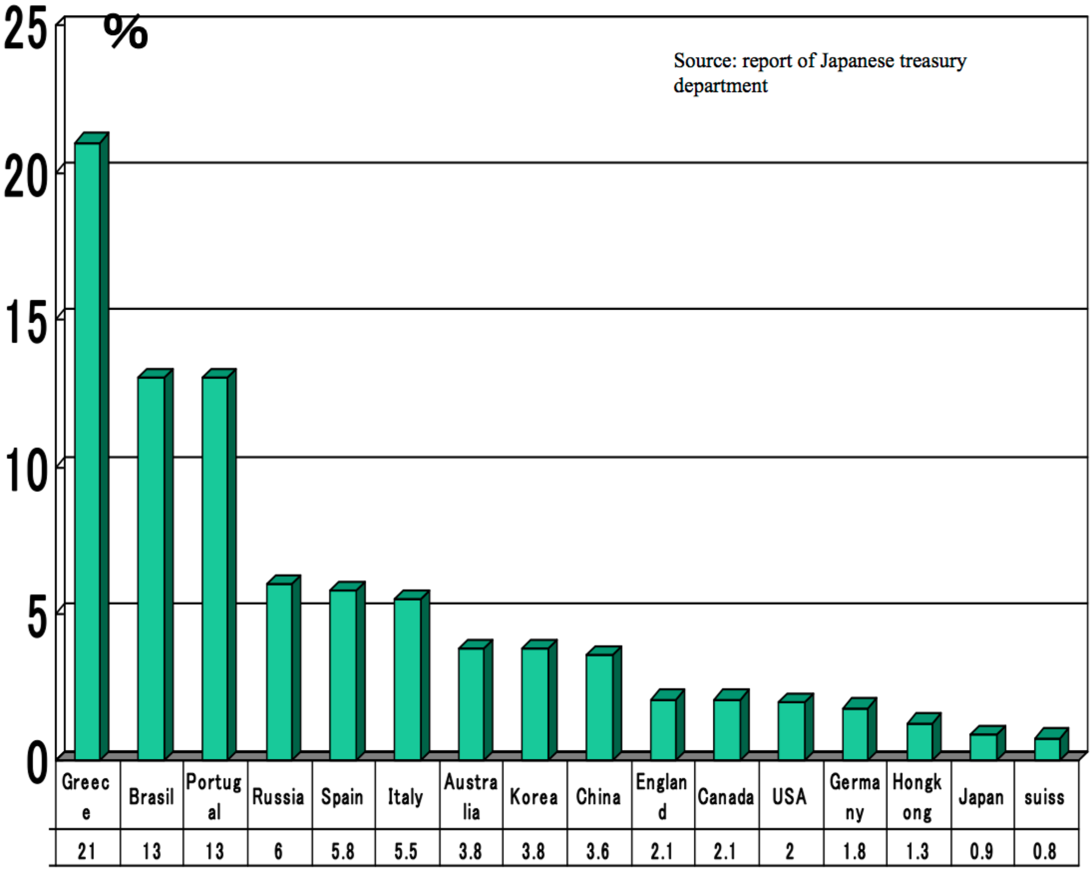
Source: report of Japanese treasury department

Chart 14



Source: report of Japanese treasury department

Interest rate for sovereign bonds (status on 18th of April 2012) chart15



Expected development in coming future

11. Summaries

1. Stagnation of Euro economy will affect world wide.

   Stagnation of Euro economy

   Slow down of economy of China and South east Asia

   Recession of Japan

2. Recovery of Euro Economy is strongly required.

   Maastricht agreement: Accumulated fiscal debt within 60 % of GDP

   Annual fiscal debt within 3 % of GDP

   Almost all member countries exceed the line of agreement, serious cases are Greece, Ireland and Italy

(Dilemma of chain)

Tightening fiscal budget slow growth of economy& GDP

low tax incomeincrease of unemployment

slow down of private consumption further deterioration of fiscal debt

3. More than 50% of Export of Euro members are for internal territories.

   Slow down of Euro economy means weak growth of export.

soon

4. Only Germany improves GDP, unemployment and fiscal budget.

   The currency of country with favorable economy will appreciate. But Germany has been increasing

   export business thanks to weak Euro. German economy, however, will face the recession soon .

5. The source of money and fund for European commercial banks depend on the inter-market and debt.

   They have not enough room for creating new credit. ECB has already supplied a large amount of money and fund for problematic countries,

   like Greece, Ireland, and Portugal . Has ECB a possibility to purchase sovereign bonds furthermore?

The president of ECB Mr. Drahgi has announced that they wouldt try to manage this problem with all measures.

6. Expected processes

1. ECB will purchase the sovereign bond of southern European countries without limitation. But money source will exhaust one day. Northern Euro countries will not support this actions.

2. Tightening fiscal budget makes the problem worse. Changing the target by Maastricht agreement to lower than 60%,

Governments moderate their fiscal budget, accelerate economical growth,and ensure more tax income.

Creation of fund to accumulated fiscal debt (It was done in September 2012),which amounted to €2,658 billion at the end of 2011.

3. Acceptance to leave some countries from Euro under certain conditions.

Especially small countries like Greece, Ireland, Portugal, Cypress, Slovenia etc.

Euro countries have too much differences in language, industry, fiscal system and DNA.

4. Expansion of integration not only for currency, but also for fiscal budget.

But, it means that each country should abandon the freedom to manage and develop own fiscal budget.

The centralized Euro government develops and operates all of fiscal system and fund.

This is similar to USA. It is question , if European countries can give up the independence, or not.

However, Ireland, Greece, Portugal have already lost their freedom to manage fiscal budget actually.

1-3 can be realized within half or 1 year. Regarding 4 it is very difficult to reach agreement or it takes a long time.

Nevertheless, as in the case of establishment of European Union, God might save the Euro.