

Eurozone Crisis

Europe in World Economy 2015

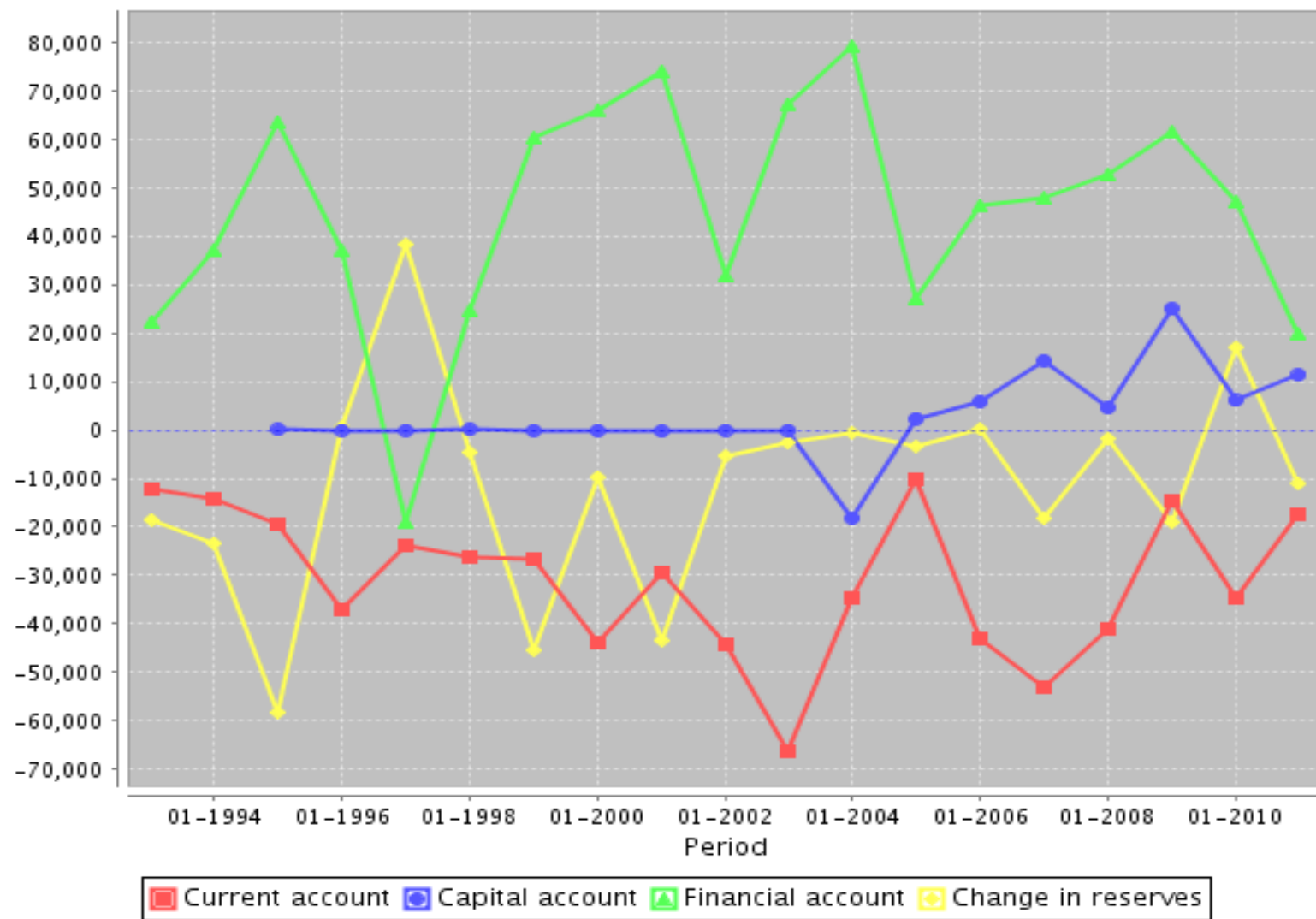
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Current position in the IMS

- One of the reasons for the euro creation was to challenge the dominance of the US dollar
- Euro in the world
 - 24% of world reserves (dollar 61%; 2013)
 - 33% of all international transactions (dollar 87%; 2013)
 - 32% of all debts (dollar 45%; 2009)
 - 27 countries have their currency fixed to Euro (66 to dollar; 2009)
 - less than 40% eurozone exports invoiced in euros (around 95% in dollars)

- **Balance of payments**
 - Accounting accord of all monetary transactions between a country and the rest of the world
 - The sum of all accounts has to be equal 0 by definition
- **Composition**
 - Current account – exports, imports, income of factors of production
 - Capital account – usually negligible
 - Financial account – change in ownership in assets (investment, loans)
 - Change in reserves – reserves of the central bank
- **Balancing mechanisms**
 - Exchange rate adjustment
 - Internal prices adjustment
 - Various others (debt forgiving, war, emigration)
- **International investment position**
- **Relationship to government deficits and debts**

Balance of payment statistics (in millions of CZK)



- **What is money?**
- Neoclassical economics has almost no place for money
 - defined by functions
 - medium of exchange
 - lowers transaction costs
- Common story – evolution of **medium of exchange** from barter exchange (Menger)
- Money is supposed to be the most readily exchangeable commodity
- Current money developed from commodity money – notes were originally promises to pay gold to the bearer
- But history has some counterfactual evidence – money matters and is more than medium of exchange

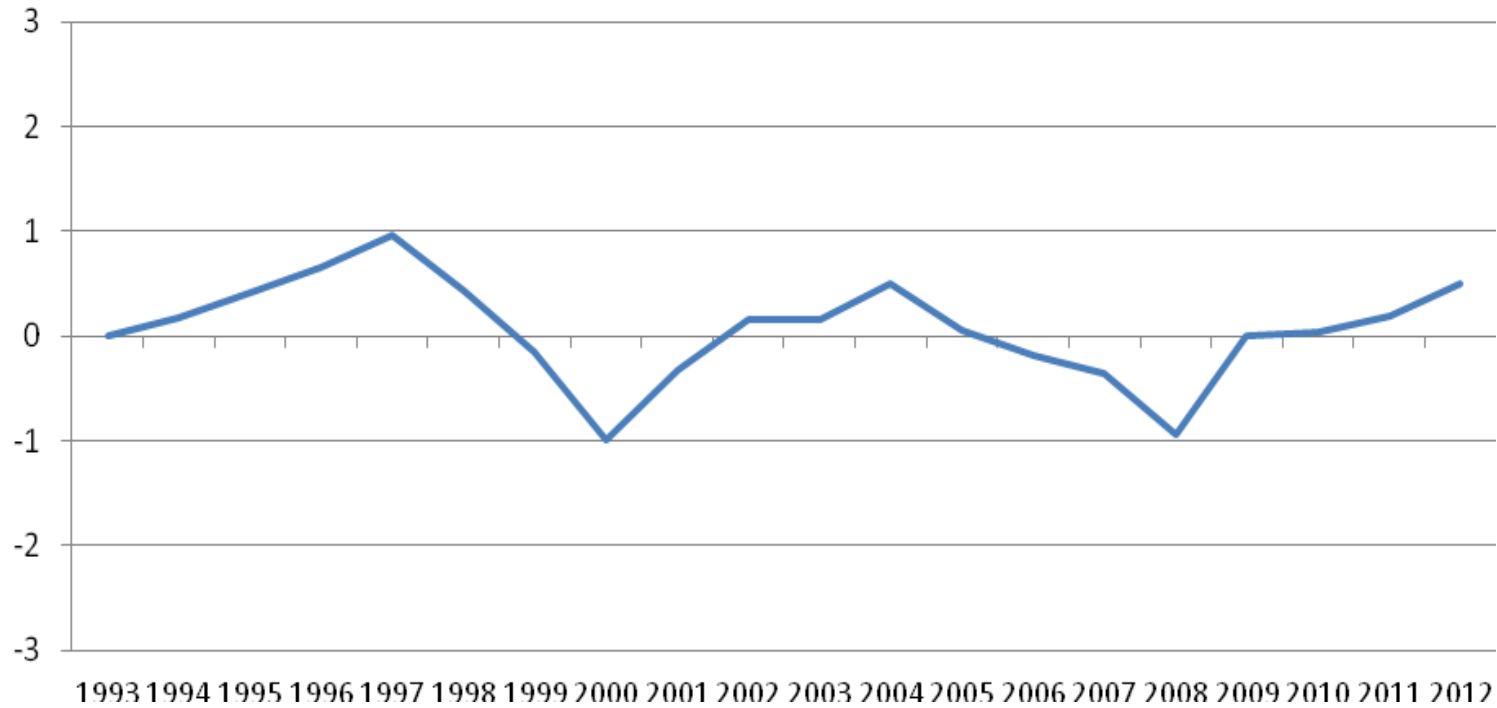
- A way of coordinating intergroup relations (esp. production) – rose out of obligation (means of payment)
- Money is a **social relation** (institutionalized)
- First „sort of money“ – **unit of account** in Sumer
 - temple economy
 - value assignment
 - obligations became quantifiable – first **debts**
 - rationalization of cooperation
- It is an artificial product of human conduct, can be redesigned or „renegotiated“
- Almost anything can be a „money thing“

- Money creation implies power, therefore money is inherently political
- Money and taxes are closely linked
 - money obtains some of its value through taxation
 - channeling of resources for a public purpose
 - redistribution maintains intergroup stability
- Government does not have to go bankrupt in its own currency – money creation as an emergency tool during crisis (war, political turmoil)
- Real constraints of government spending
 - inflation
 - international economic relations
- „Voluntary“ financial constraints of government (budgetary process, CB independence, fixed exchange rate etc.)

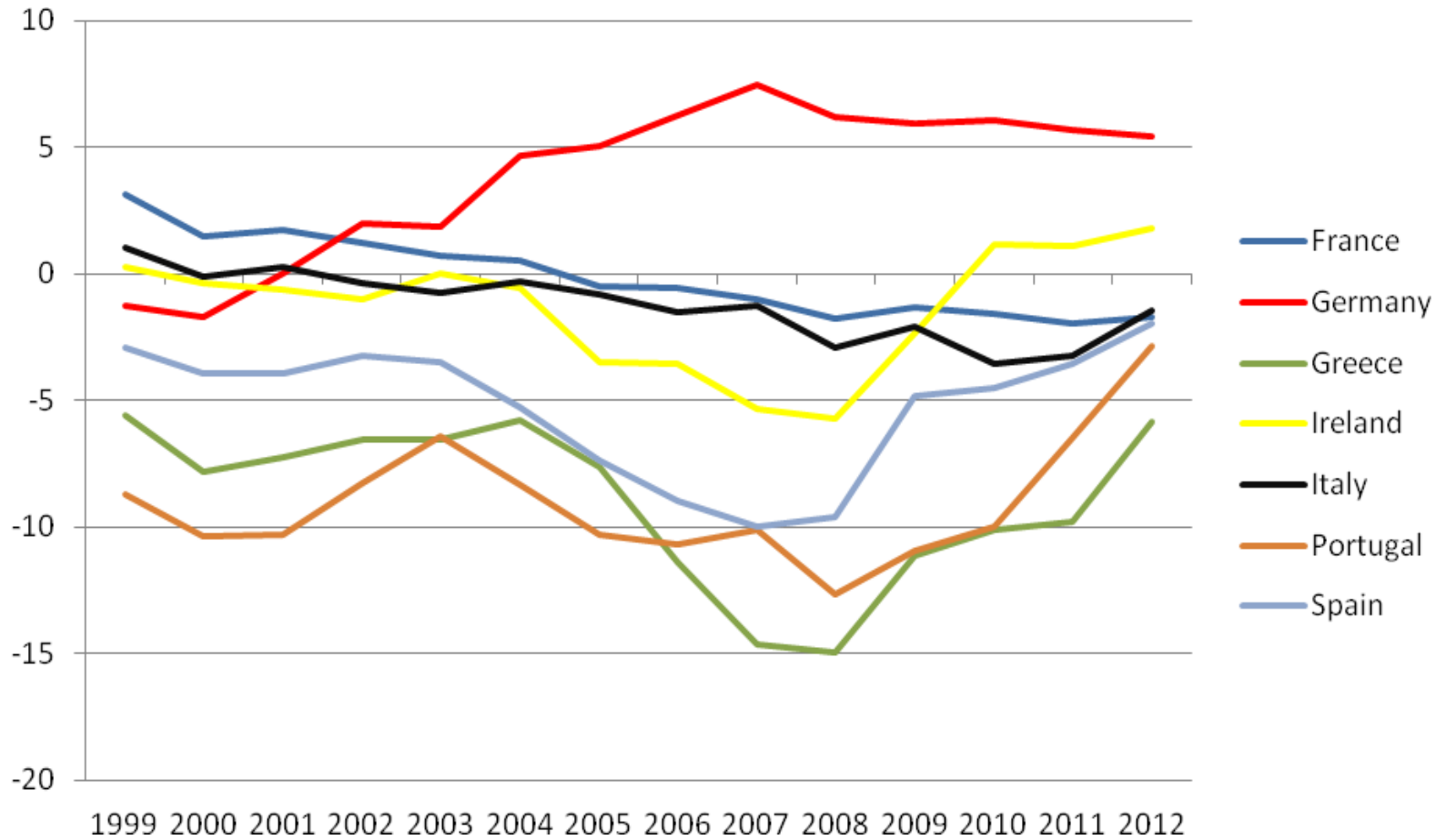
Eurozone Crisis

- In 2010 Greece announced problems with financing its debt
- Later affected – Portugal, Ireland, Spain
- Reasons
 - Excessive budget deficits
 - Inefficient financial regulation
 - Intra-European imbalances
- Eurozone response
 - Euro plus pact – ex-ante coordination and surveillance
 - European Semester – timetable of coordination
 - Six Pack – semiautomatic sanctions
 - Fiscal compact – strengthened Stability and Growth Pact
 - European Stability Mechanism (ESM) – emergency fund
 - Banking union – surveillance of financial markets

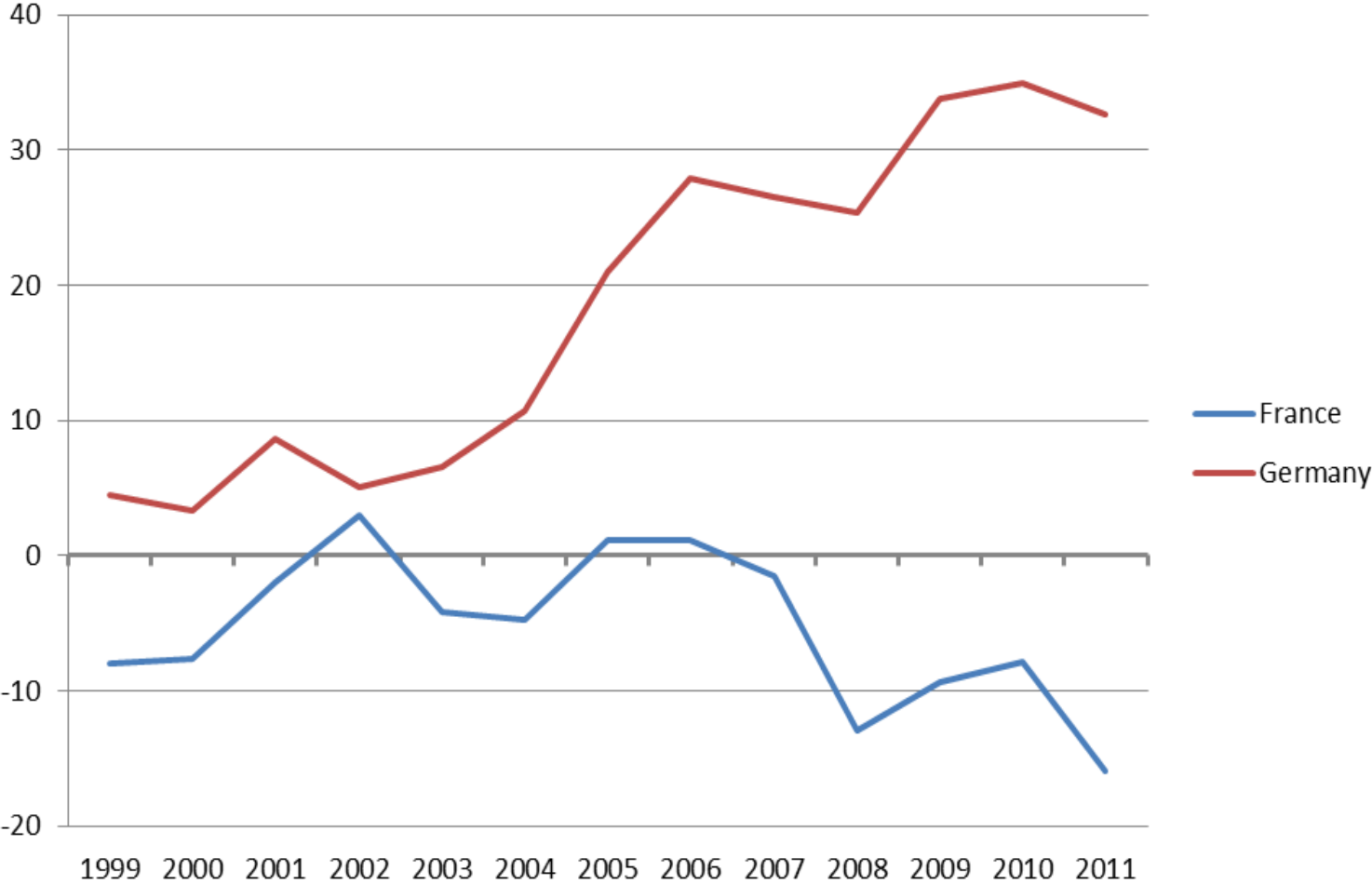
Development of the EU Current Account to GDP between the Years 1992 -2011 (%)



Current Account to GDP in the Years 1999-2012 (%)



Net International Investment Position (in % of GDP)



Central Bank Balance Sheets within TARGET2 System (Millions of EURO)

