2. European economy facing various problems as a microcosm of the world

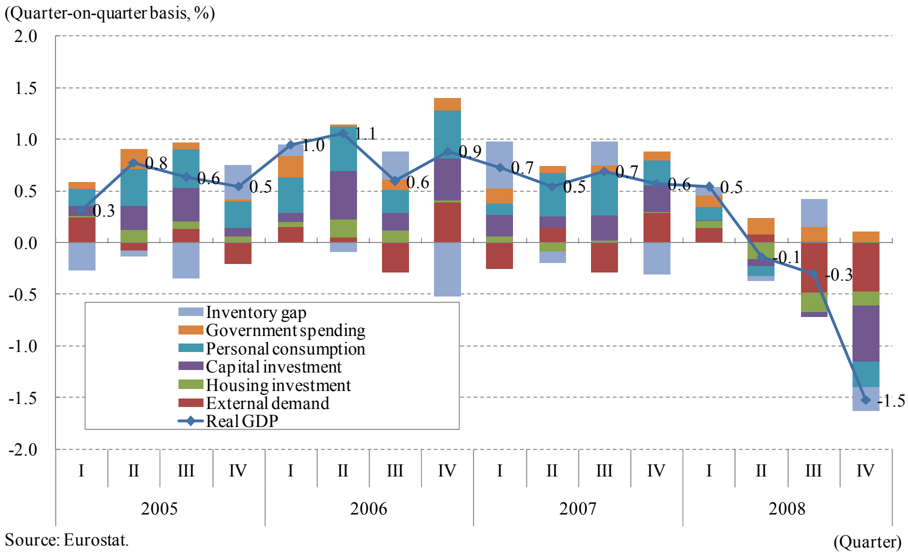
(1) Current status of the European Economy

(A) European Economy enters recession after the financial crisis occurs

The economy of the EU27 (hereinafter referred to as the "EU"),[31] which accounts for about 30% of global GDP, maintained GDP growth of more than 2% on a year-on-year basis between 2004 and 2007. This growth was the result of an increase in intra-EU trade and investment, and an expansion of the intra-EU consumer market.

However, the growth in the EU economy started to slow down gradually around the autumn of 2007 because of the impact of the U.S. subprime mortgage problem, and the economy has taken a sharp downturn since the Lehman shock occurred in September 2008. Real GDP growth, which stood at minus 0.1% in the second quarter of 2008 on a quarter-to-quarter basis, deteriorated to minus 1.5% in the fourth quarter of the same year (see Figure 1-2-2-1). By demand component, external demand made a significant negative contribution to real GDP growth, and the contributions by domestic demand components, including capital investment, personal consumption and housing investment, generally became worse.

Figure 1-2-2-1 Changes in EU's real GDP growth by demand component



Source: Eurostat.

(B) Trends in the euro area economy

As for the euro area economy,[32] which accounts for some 70% of the EU economy, exports declined 6.7% in the fourth quarter of 2008 from the same period of the previous year and real GDP growth was minus 1.6%. This is because of the economic downturn in the U.S. and the UK, which take up a large portion of exports from the euro area, and a sharp decline in exports to emerging markets, including Central and East European countries and Russia, which until then continued to grow strongly.

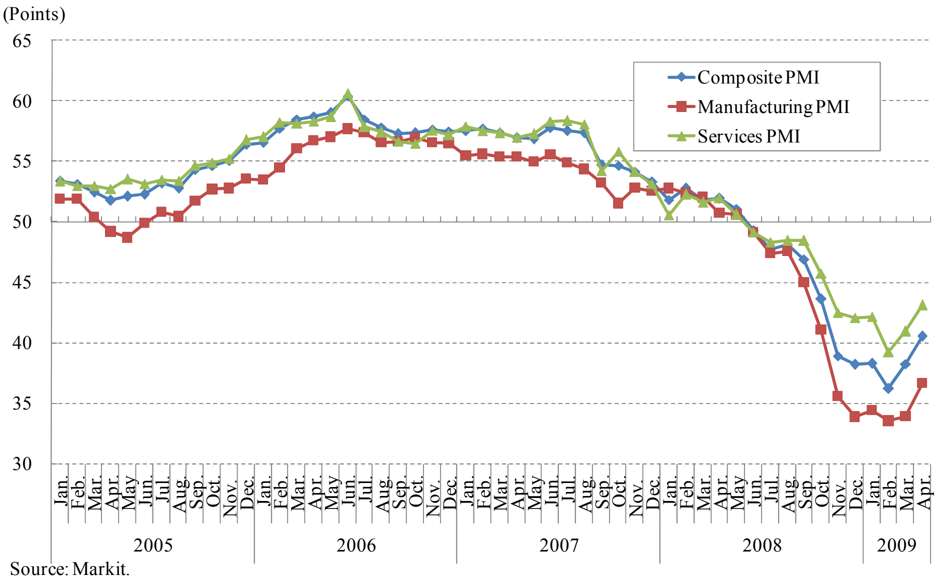
---

[31] Compiled based on the "World Economic Outlook Database" by the IMF.

[32] Eurostat

Domestic demand has also generally slowed down. Reflecting a decline in external demand, the business sentiment about the state of the economy deteriorated rapidly. The PMI index[33] remained slumped at historic lows from the end of 2008 through the beginning of 2009 (see Figure 1-2-2-2). Personal consumption is also weak. The retail sales volume index and new vehicle sales volume in the euro area have been declining since around the end of 2007 (see Figure 1-2-2-3), presumably because of accelerated employment adjustment following the shrinkage of the market and uncertainty of the prospects of the economy. The unemployment rate in the euro area rose from 7.2% in March 2008 to 9.2% in April 2009 (see Figure 1-2-2-4). According to a survey by the European Commission, the consumer confidence index in the euro area fell to a new record low of minus 33.7 in March 2008, mainly because of uncertainty regarding the future course of the economy and concerns about unemployment (see Figure 1-2-2-5). As household income comes under pressure due to the ongoing employment adjustments, personal consumption is expected to remain sluggish.

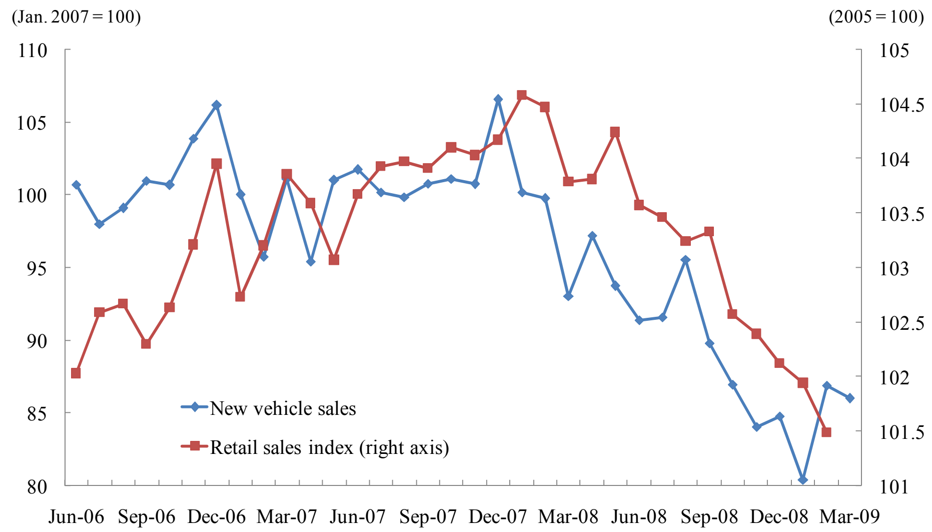
Figure 1-2-2-2 Euro area PMI index



Source: Markit.

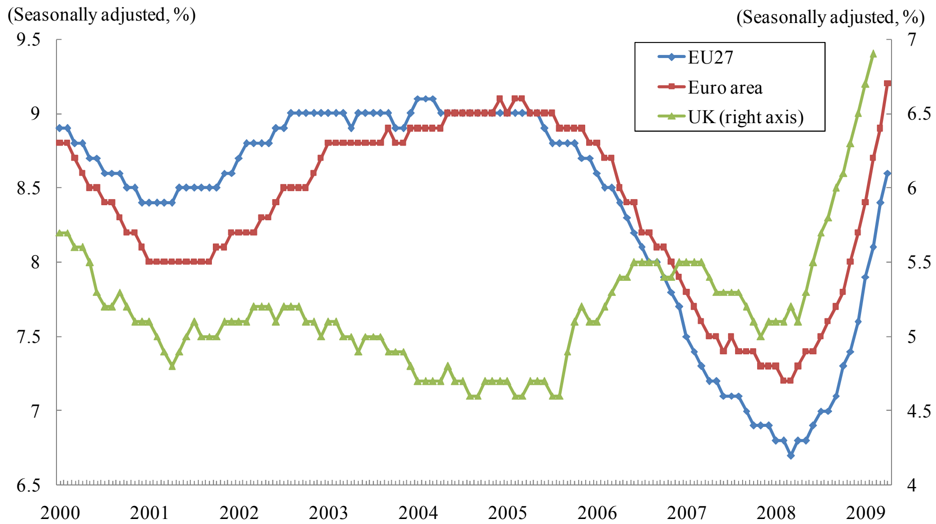
33 The PMI index, which indicates purchasing managers' sentiment about the state of the economy, is calculated based on the weight-averaging of composite sub-indexes, including production level, new orders and employment level.

Figure 1-2-2-3 Trends in retail sales index and vehicle sales in the euro area



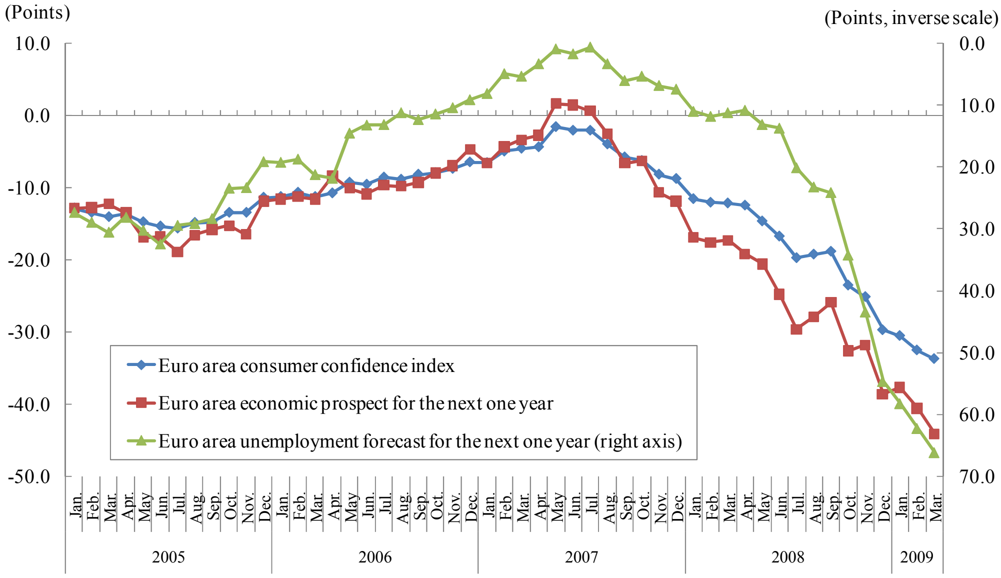
Source: Eurostat, ECB.

Figure 1-2-2-4 Changes in unemployment rate



Source: Eurostat.

Figure 1-2-2-5 Changes in euro area consumer confidence index



Source: European Commission.

(C) Trends in major EU countries and central and East European countries

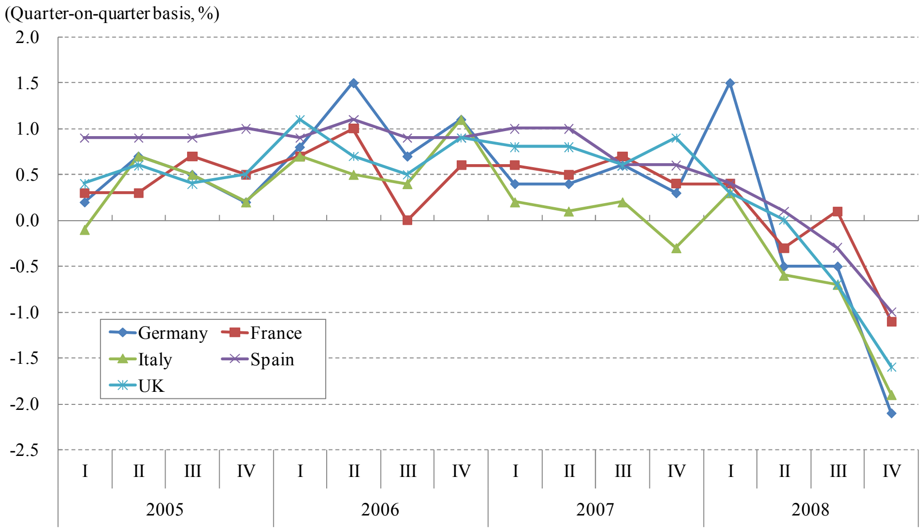
Many countries have entered into recession since the second half of 2008.

Economic growth began to slow down in the second half of 2007 in major countries, including Germany, France, Italy, Spain and the United Kingdom, which account for a large portion of the EU economy,[34] and all of these countries posted negative economic growth in the fourth quarter of 2008 (see Figure 1-2-2-6). In the United Kingdom, inventory investment declined sharply, in addition to drops in personal consumption and capital investment. This distinguishes the United Kingdom from the euro area, indicating that the country has made progress in inventory adjustments.

As for Central and East European countries, although economic trends vary somewhat from country to country, real GDP growth turned negative in the Czech Republic, Hungary and the three Baltic countries (Estonia, Latvia and Lithuania) in the fourth quarter of 2008, and growth slowed down in Poland (see Figure 1-2-2-7).

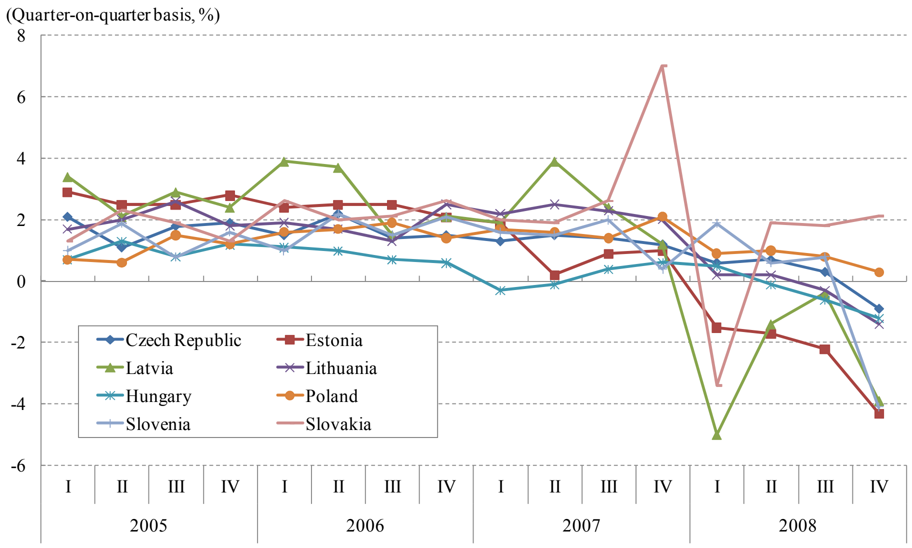
[34] As of 2008, Germany accounted for 20.9% of the entire real GDP of the EU. The ratio came to 15.4% for France, 11.8% for Italy, 7.5% for Spain and 17.9% for the United Kingdom.

Figure 1-2-2-6 Changes in major euro area countries and UK's real GDP growth



Source: Eurostat.

Figure 1-2-2-7 Changes in Central and East European countries' real GDP growth



Source: Eurostat.

(D) Negative cycle started by the financial crisis

As shown above, while many countries have entered recession, including major euro area countries, the United Kingdom and Central and East European countries, the background to the recession varies from country to country.

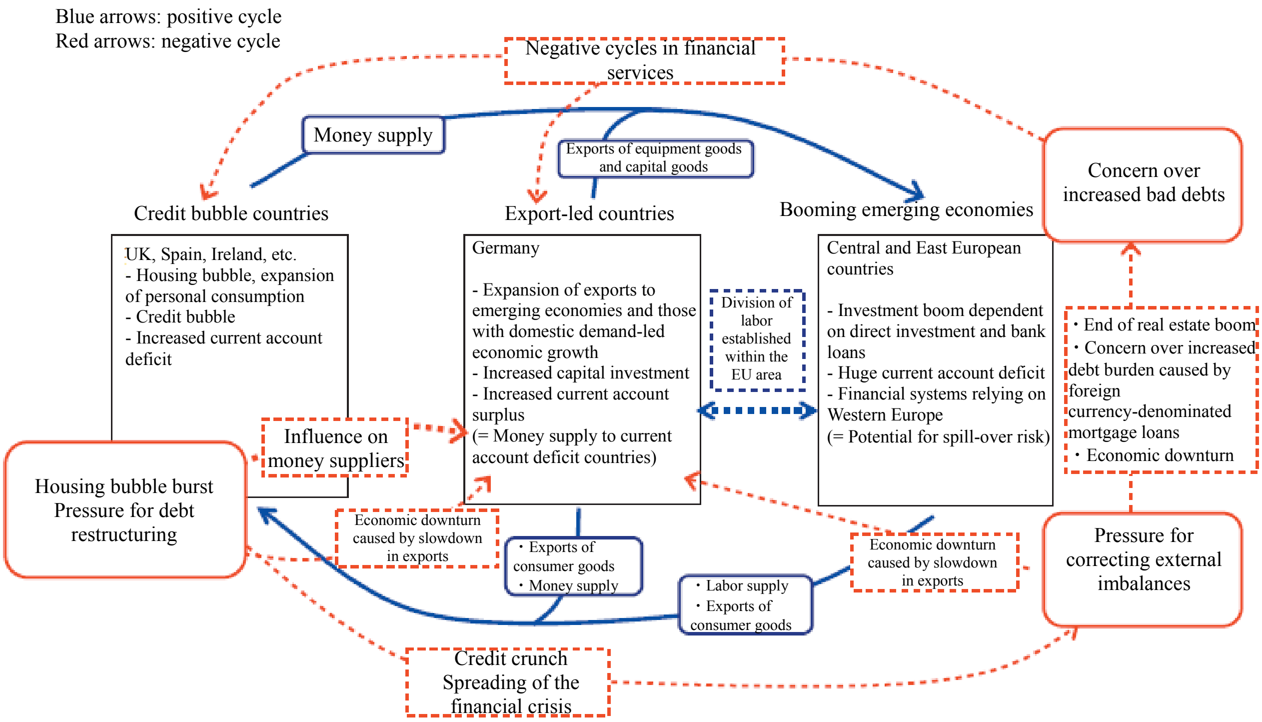
The European economy had achieved steady economic growth amid the ongoing integration of intra-EU economies, as the countries in the region received benefits through their relationships with each other.

Regarding the multi-layered and complex relationships among major EU countries, they can be summed up as follows: (i) The United Kingdom and Spain served as the recipients of exports from other EU countries by achieving domestic demand-led economic growth; (ii) Germany and some other countries expanded their exports, mainly to EU countries with domestic demand-led economic growth, and provided Central and East European countries with money for growth through direct investments and loans; (iii) Central and East European countries secured money for growth by increasing the inflow of funds from other EU countries on the hopes for strong growth.

However, this positive cycle was reversed into a negative cycle by the U.S. subprime mortgage problem and the financial crisis, and the negative cycle accelerated thereafter. To be more specific, the patterns of the reversal of the positive cycle are: (i) the United Kingdom and Spain, which we classify as "credit bubble countries," benefited from a housing bubble during the expansion of domestic demand but were hurt by the collapse of the bubble caused by the financial crisis; (ii) Germany, classified as "export-led countries," lost its main economic engine as its exports declined due to economic slowdown in EU countries whose economies were led by domestic demand and in Central and East European countries; (iii) Central and East European countries, classified as "booming emerging economies," became unable to secure money for growth as a result of the economic downturn in the countries that had served as the source of such money (see Figure 1-2-2-8).

Below, we will describe the major features of the patterns (i) to (iii) above by taking up typical examples.

Figure 1-2-2-8 Positive cycles and negative cycles in the EU economy



Source: Created by the Ministry of Economy, Trade and Industry using Mizuho Research Institute's data.

(2) Credit bubble countries

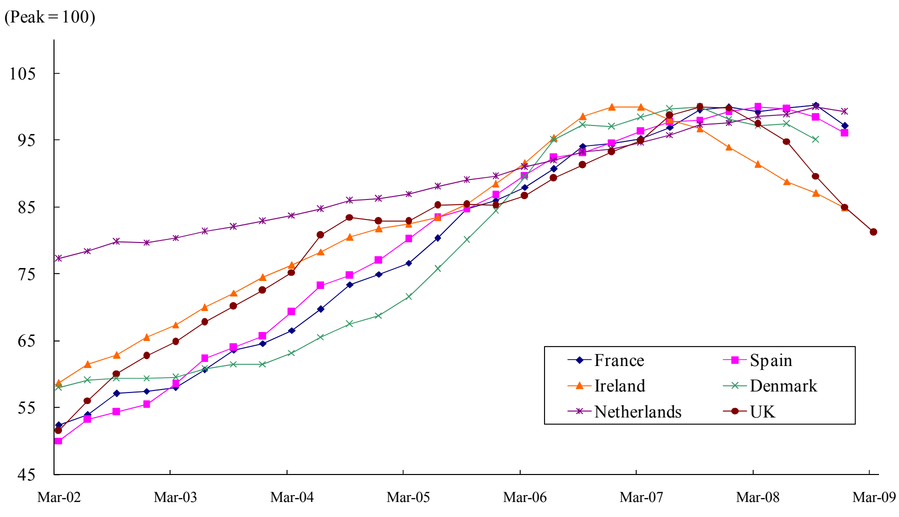
(A) Expansion of domestic demand and housing boom

The most notable feature of the countries classified as a credit bubble countries is that they faced a rapid economic downturn as a result of a credit crunch and increased pressure for household-sector balance sheet adjustments as soon as the housing market entered a correction phase and the impact of the financial crisis spread following economic growth led by domestic demand and a prolonged rise in housing prices (see Figure 1-2-2-9). Typical examples are the United Kingdom, Spain and Ireland.

In the United Kingdom, for example, housing prices continued to rise amid the housing market boom due to economic growth and the resulting increase in household income as well as low interest rates, which reflected low inflation, and an inflow of investments made by overseas investors (see Figure 1-2-2-10). As housing prices rose rapidly, mortgage loans for new home purchases slowed down. However, personal consumption continued to grow as homeowners increased borrowings by using the net asset value of their homes (the asset value minus the value of the mortgage loan balance) as collateral and used the additional borrowings for consumption.

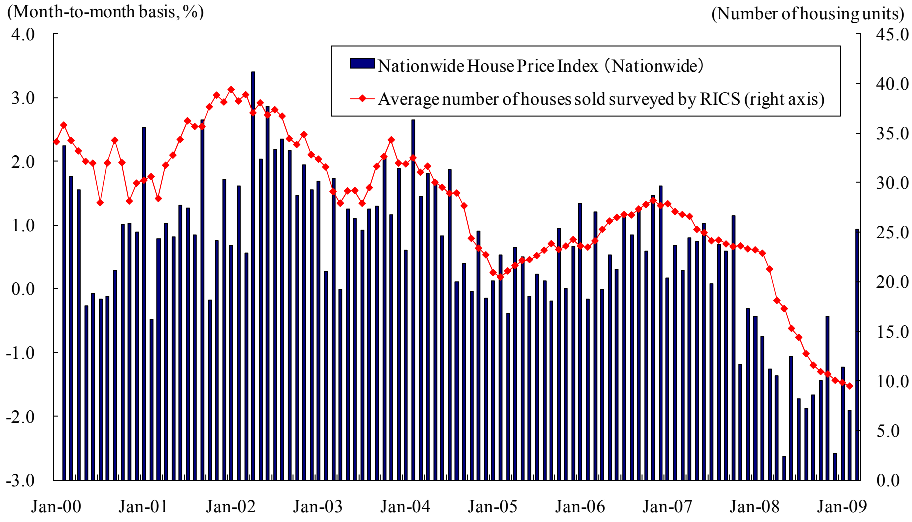
In Spain, the inflation rate stayed high compared with other euro area countries after the country joined the euro area. In the meantime, as interest rates in the euro area were kept low under the monetary policy centralized under the European Central Bank (ECB), corporate capital investment and production activity became brisk, leading to growth in employment and personal consumption. In addition, a virtual drop in mortgage loan interest rates stimulated housing demand, and housing investment started to expand as financial institutions, saddled with excess liquidity due to a prolonged period of low interest rates, turned their attention to mortgage loans as the target of their fund management.

Figure 1-2-2-9 Changes in housing prices in the UK and major euro area countries



Source: INSEE, Spanish Ministry of Housing, ESRI, Statistics Denmark, Statistics Netherlands, Nationwide.

Figure 1-2-2-10 Trends in UK housing market



Source: Nationwide, RICS.

(B) Impact of the global financial crisis

However, the economic condition of both the United Kingdom and Spain deteriorated rapidly due to a downturn in the housing market and a rise in interest rates.

In the United Kingdom, the ratio of outstanding debts to household disposable income rose above 150% in 2008, while the savings rate, which stayed at around 10% in the first half of the 1990s, dropped below 5% (see Figure 1-2-2-11). The debt burden on households also increased in Spain (see Figure 1-2-2-12). As mortgage loans in the United Kingdom and Spain carry adjustable interest rates,[35] household debts increased significantly as a result of the rise in interest rates that started around the middle of the 2000s.

Meanwhile, financial institutions saw the fund-raising environment worsen due to the impact of the U.S. subprime mortgage problem and the global financial crisis and tightened their stance on lending. In the United Kingdom, the default rate for secured loans to households rose, and as a result, financial institutions tightened their stance on lending to households (see Figure 1-2-2-13). Financial institutions in the euro area also tightened their stance on both mortgage loans and consumer loans (see Figure 1-2-2-14), and the amount of outstanding loans has declined since November 2008 (see Figure 1-2-2-15).

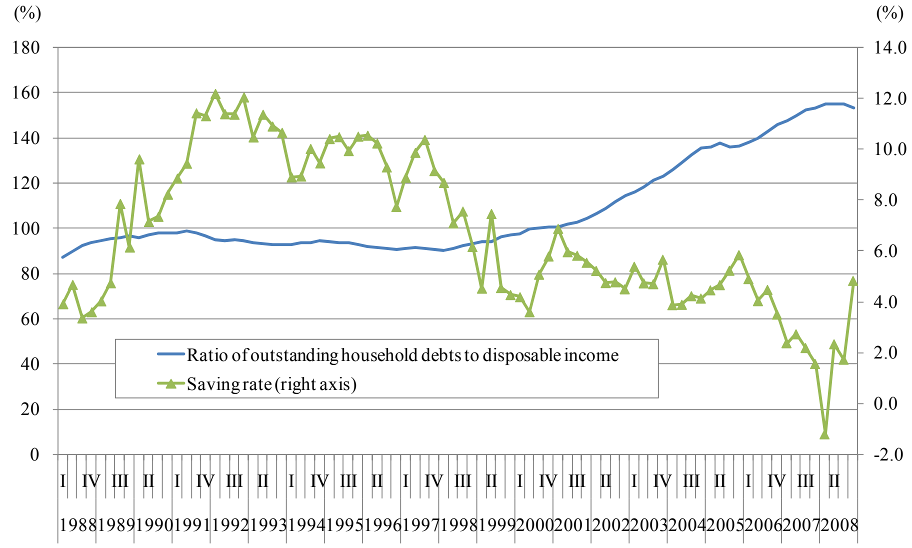
The situation has become difficult as corporate earnings are deteriorating and employment adjustments are proceeding[36] because of a slump in domestic demand and the drop in wages is dampening personal consumption further.

---

[35] European Mortgage Federation, "Study on Interest Rate Variability in Europe"

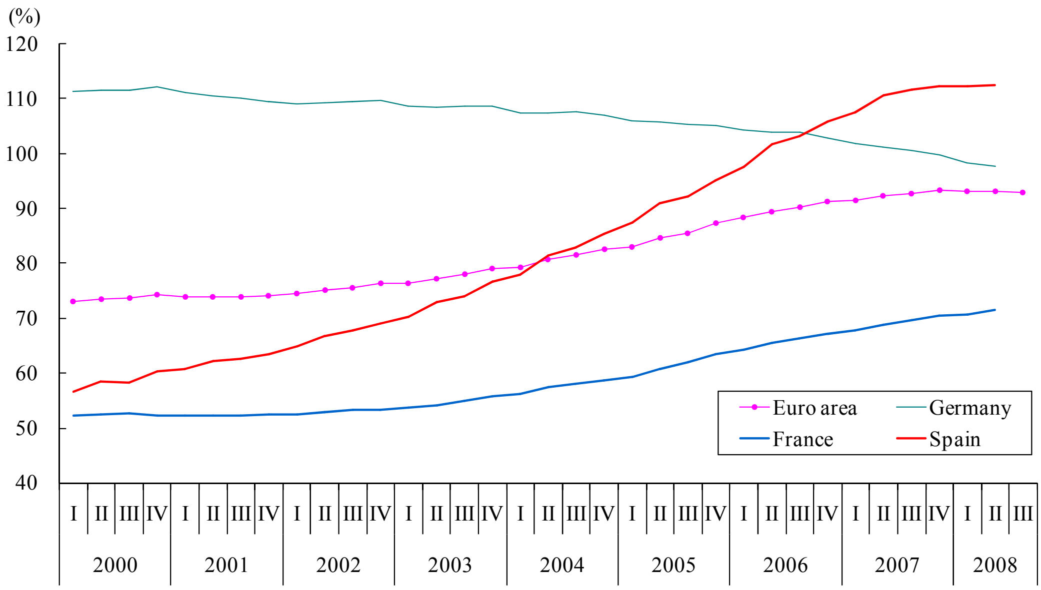
[36] Among the EU countries, Spain experienced a particularly sharp rise in the unemployment rate. In Spain, the ratio of employees working under a fixed-term contract to overall employees is high, at around 30%. The employment practice of depending on fixed-tem contract employees, combined with the economic downturn, is presumably contributing to the sharp rise in unemployment.

Figure 1-2-2-11 Changes in UK households' debt burden and savings rate



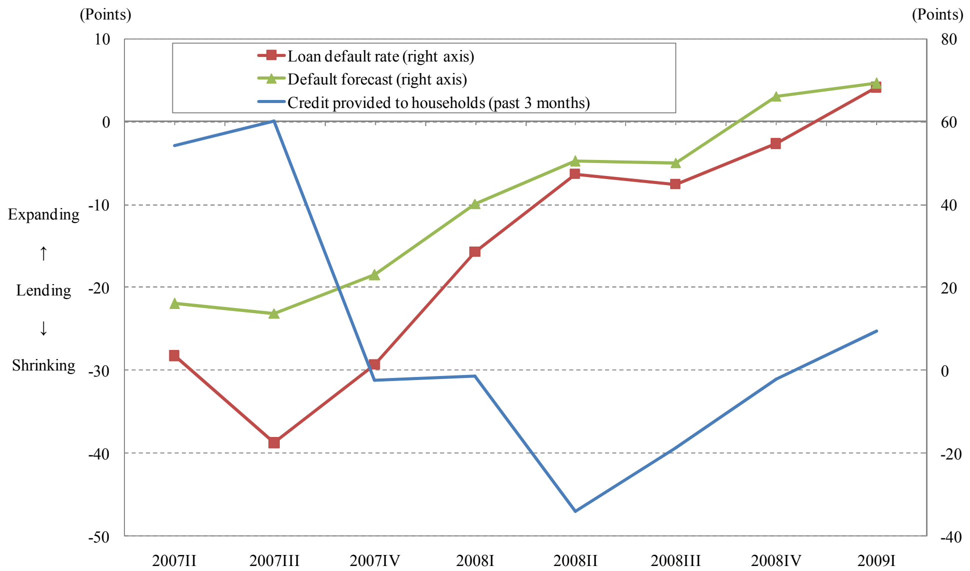
Source: UK's ONS.

Figure 1-2-2-12 Trends in debt burden on households in major euro area countries



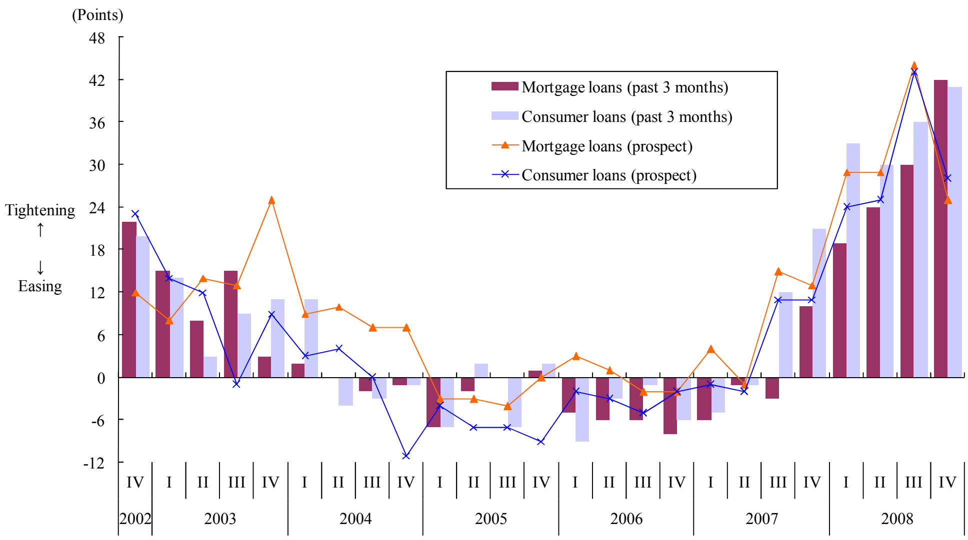
Notes: Changes in the ratio of outstanding household debts to disposable income.
Source: Eurostat, central bank of each country, etc.

Figure 1-2-2-13 UK financial institutions' stance on lending and default rate



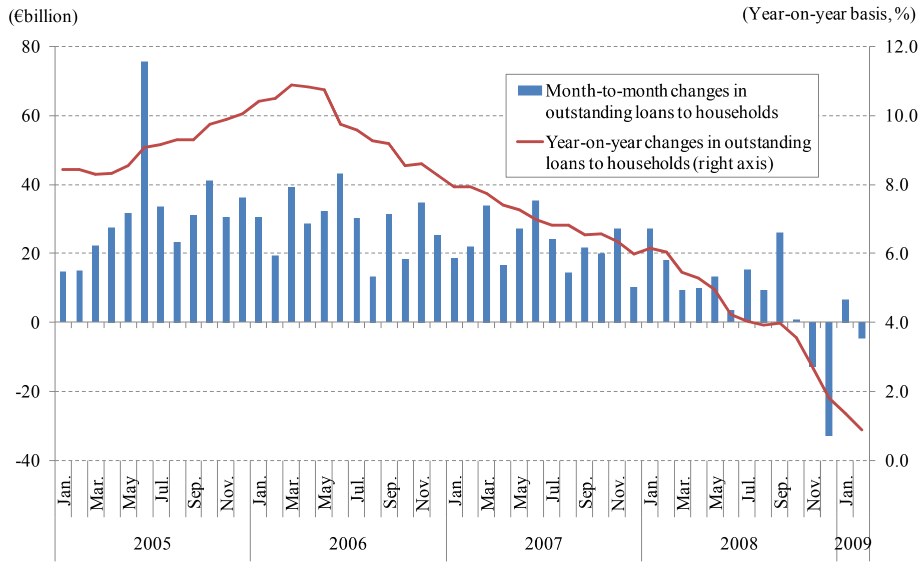
Source: BOE.

Figure 1-2-2-14 Euro area financial institutions' stance on lending to households



Source: ECB.

Figure 1-2-2-15 Changes in euro area financial institutions' amount of outstanding loans to households



Source: ECB.

(C) Effects of financial stabilization measures

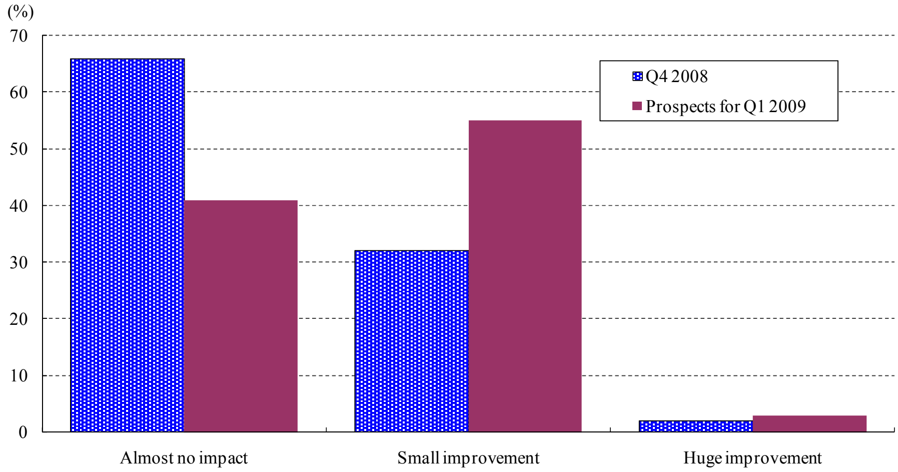
Although the economies of these countries are still in a difficult condition, signs of an easing of financial institutions' stance on lending are starting to appear. In the United Kingdom, financial institutions tightened their stance on secured loans to households (e.g. mortgage loans) in the first quarter of 2009 as they did in the previous quarter. However, they are expected to expand the provision of credit in the next three months.[37] In the euro area, too, there are signs that financial institutions are easing their tight stance on lending, albeit only slightly (see Figure 1-2-2-14). Presumably, such signs are attributable to the effects of financial stabilization measures. According to a survey by the ECB, nearly 70% of financial institutions replied in the fourth quarter of 2008 that financial stabilization measures had little effect on the fund-raising environment. However, as for the prospects for the first quarter of 2009, just under 60% replied that they expected some improvement in the fund-raising environment (see Figure 1-2-2-16).

According to the most recent data, the deterioration in the sentiment of euro area companies about the state of the economy moderated,[38] while in the United Kingdom, an improvement is recognized in the index concerning home buyer inquiries.[39] If the functions of the financial system are restored, the benefits of historically low levels of interest rates may spread to companies and households and gradually start to prop up the economy.

---

[37] Bank of England, "Credit Conditions Survey"
[38] See Figure 1-2-2-2 "Euro area PMI Index."
[39] This index is published by the Royal Institution of Chartered Surveyors (the index represents the ratio of surveyors seeing an increase in home buyer inquiries minus the ratio of surveyors seeing a decrease in such inquiries).

Figure 1-2-2-16 Impacts of government aid on euro area financial institutions' fund-raising environment



Notes: Percentage of each answer to the degree of impacts on financial institutions' fund-raising environment.
Source: ECB.

(3) Export-led countries

(A) Sharp decline mainly in intra-EU exports

The most notable feature of the countries classified as export-led countries is that their economies, which grew because of an increase in exports to other EU countries and the ensuing expansion of capital investment, took a sharp downturn as a result of a decrease in the volume of intra-EU trade caused by an abrupt change in the export environment since the end of 2008. A typical example is Germany.

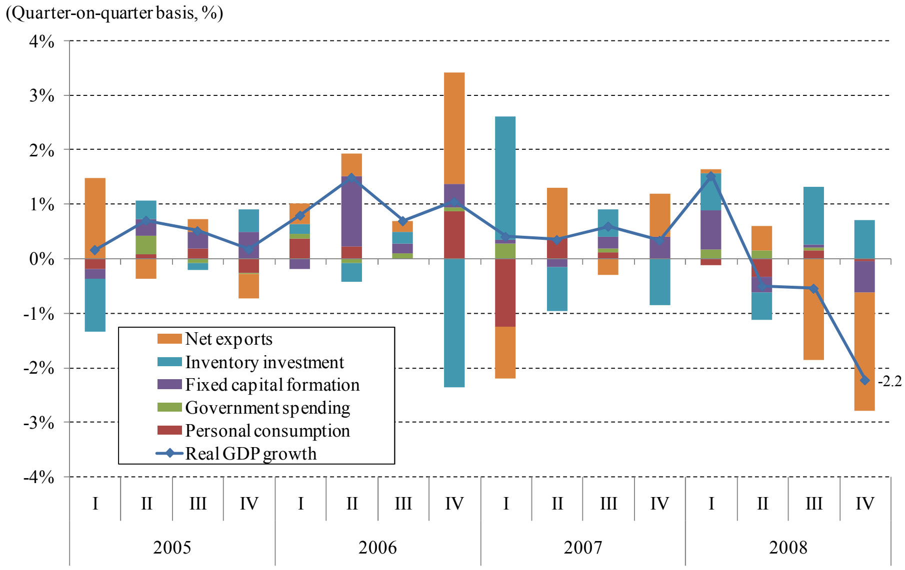
The export-led countries growth in exports started to slow down around the middle of 2008 because of a decline in domestic demand in domestic demand-led countries, such as the United Kingdom and Spain, and economic slowdown in emerging economies, mainly those in Central and Eastern Europe, and since the Lehman shock, exports have declined (see Figure 1-2-2-18). As for exports by Germany, looking at the shift in level of contributions by exporting country and region, the exports shipped to euro area countries and other EU countries decreased (see Figure 1-2-2-19)[40].

Production adjustments proceeded in Germany in line with the sharp decline in exports. In March 2009, the most recent month for which data are available, the industrial production index posted a negative growth of 0.4%, marking the seventh consecutive month of decline (see Figure 1-2-2-20). In particular, production of industrial products, which constitutes the core of German economy, decreased sharply in the fourth quarter of 2008. The sharp decrease was attributable in part to the fact that outstanding orders, which supported production until the third quarter of 2008, had mostly been fulfilled.[41] In addition, the manufacturing order index, which is a leading indicator of the production trend, declined

[40] Given that support for trade credit was called for at the London Summit, held on April 2, 2009, a trade credit crunch may have significantly contributed to the drop in exports. In order to stem the economic downturn, it is very important for governments of individual countries to not only create public-sector demand but also provide financial support intended to restart global trade flows.
[41] Deutsche Bundesbank, "Monthly Report," February 2009.

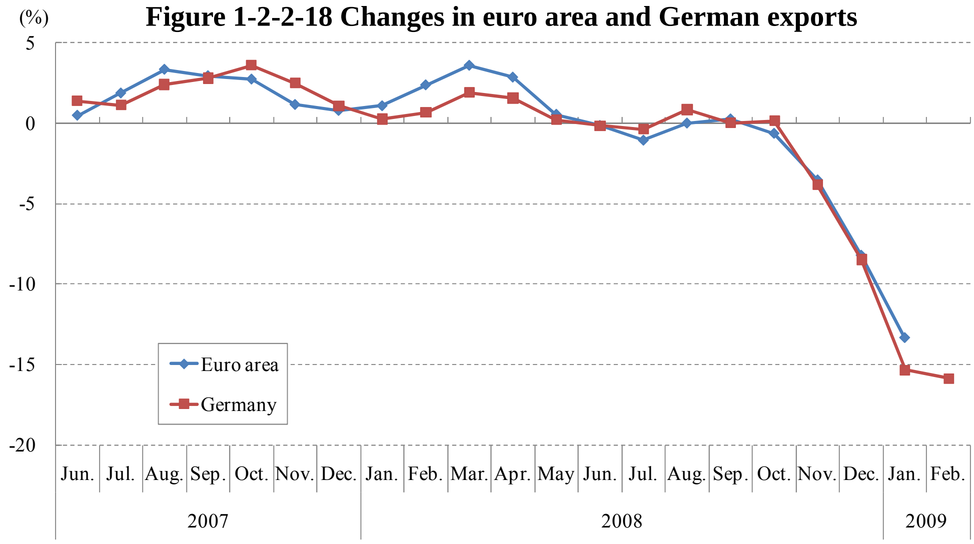
sharply (see Figure 1-2-2-21). Currently, Germany is in the process of adjusting the huge pile of inventories built up toward the end of 2008, and demand remains weak. Therefore, it is expected to take a long time to reduce inventories, so production is likely to continue to decline for some time.

Figure 1-2-2-17 Changes in German real GDP growth by demand component



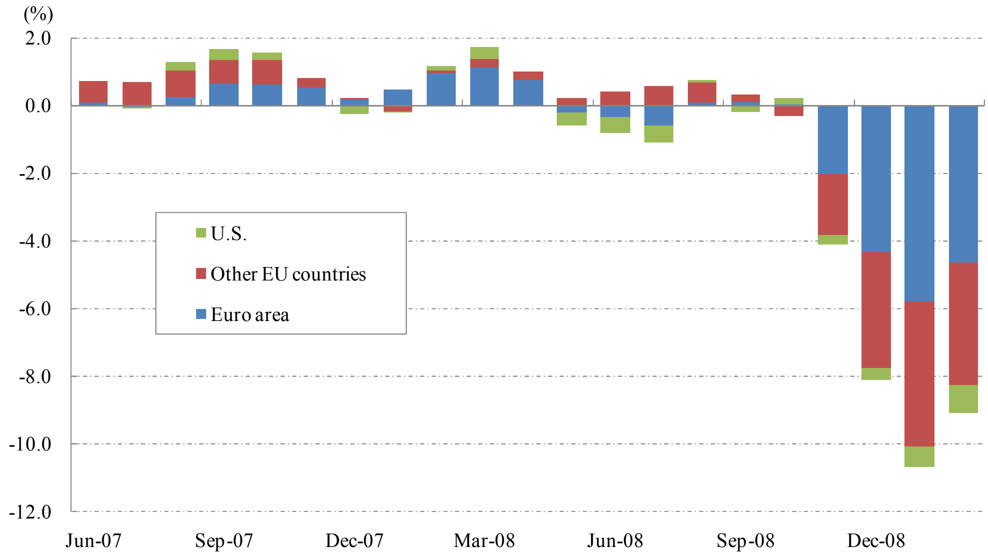
Source: German Federal Statistical Office, *Oversea Economic Data* (Cabinet Office of Japan).

Figure 1-2-2-18 Changes in euro area and German exports



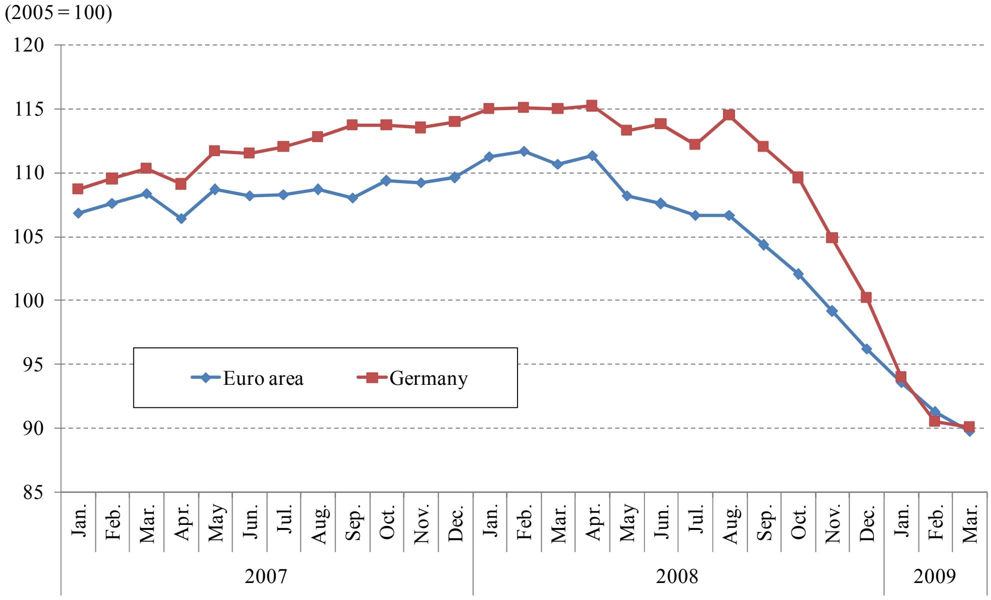
Notes: Three-month moving average compared with three months earlier.
Source: Eurostat, German Federal Statistical Office.

Figure 1-2-2-19 Percentage contribution to German exports by country and region of destination



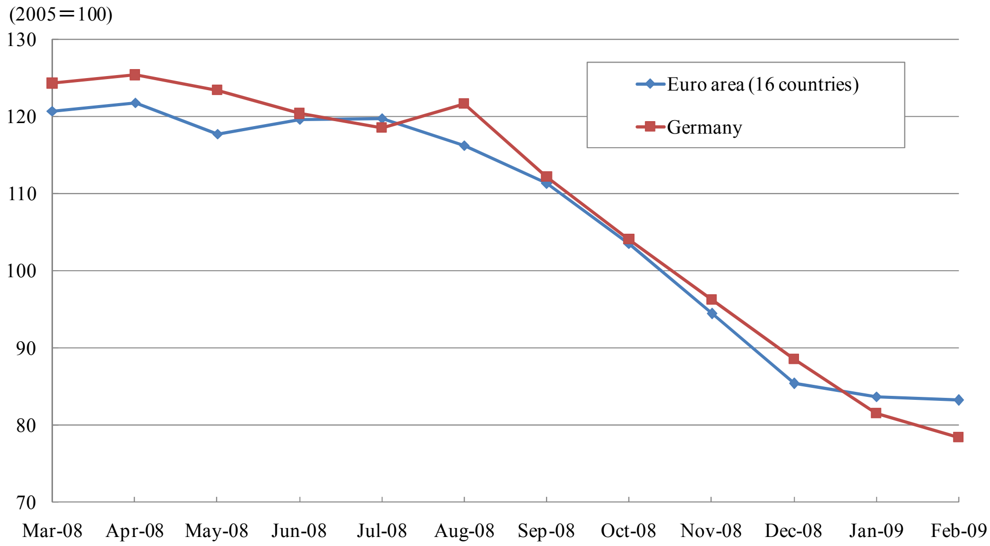
Notes: Three-month moving average compared with three months earlier.
Source: German Federal Statistical Office, German Federal Bank.

Figure 1-2-2-20 Changes in euro area and German industrial production indices



Notes: Seasonally adjusted. Figures do not include the construction sector.
Source: Eurostat, German Federal Bank.

Figure 1-2-2-21 Changes in euro area and German new manufacturing orders indices



Notes: The euro area (16 countries) figures are estimates by Eurostat.
Source: Eurostat.

(B) Hopes for economic stimulus measures

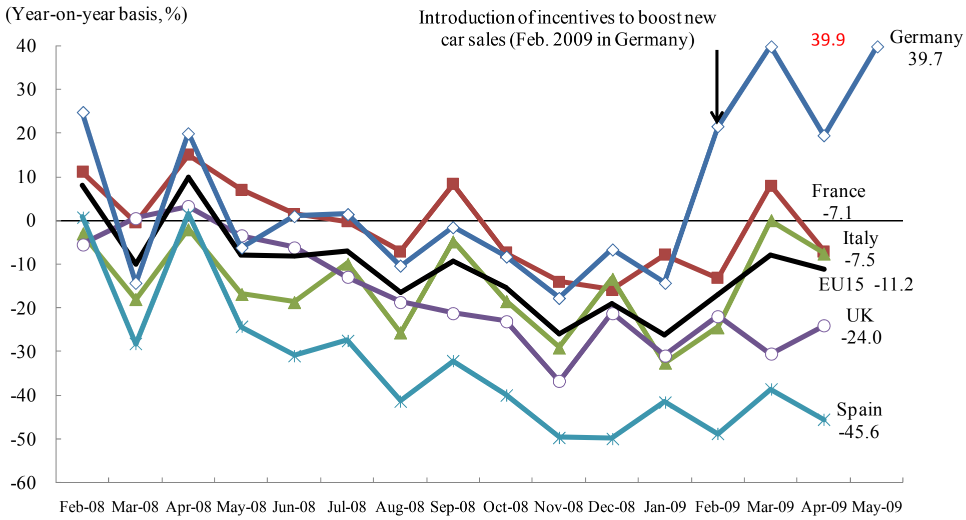
Under these circumstances, production adjustments in the auto industry are especially drawing attention. Movements in the auto industry produce very widespread spin-off effects, as the industry's production system has close and multilayered relations with the systems of other industries.[42] In Germany, new orders received by the auto industry declined by more than 20% in the second half of 2007 compared with the first half of the year, producing a considerable impact on the entire German economy.

To deal with this situation, governments announced economic stimulus measures one after another. The German government introduced an incentive scheme for the purchase of new cars in February. Under this scheme, a subsidy of 2,500 euros is given for the replacement of a car which is at least nine years old with a low-emission car. Thanks to the positive effects of this scheme, the number of new cars registered in Germany in March increased 39.9% on a year-on-year basis, which is the largest increase since 1991 (see Figure 1-2-2-22).

However, the temporary nature of the effects of a policy measure must be kept in mind. Germany decided to expand the budget allocation for the subsidy and extend the period of this scheme until the end of this year after receiving a flood of applications for the scheme. The budget allocation was expanded from the initial 1.5 billion euros, enough to subsidize the purchase of 600,000 cars, to 5 billion euros, enough to subsidize the purchase of 2 million cars, or equivalent to about two-thirds of new cars registered in 2008 (3.09 million cars). While hopes are growing that this scheme will underpin demand through the second half of 2009, there are concerns that by bringing demand forward, a slump in demand may follow its expiry.

[42] According to an estimate by Deutsche Bundesbank, an increase of one unit of final demand in the German auto industry generates 2.2 units of sales in the entire German industry. This impact is second in strength only to the impacts of the steel and chemical industries (Deutsche Bundesbank, "Monthly Report," February 2009).

Figure 1-2-2-22 Changes in new car registrations in Germany



Notes: Figures for April and May 2009 are preliminary figures.
Source: ACEA, German Association of the Automotive Industry.

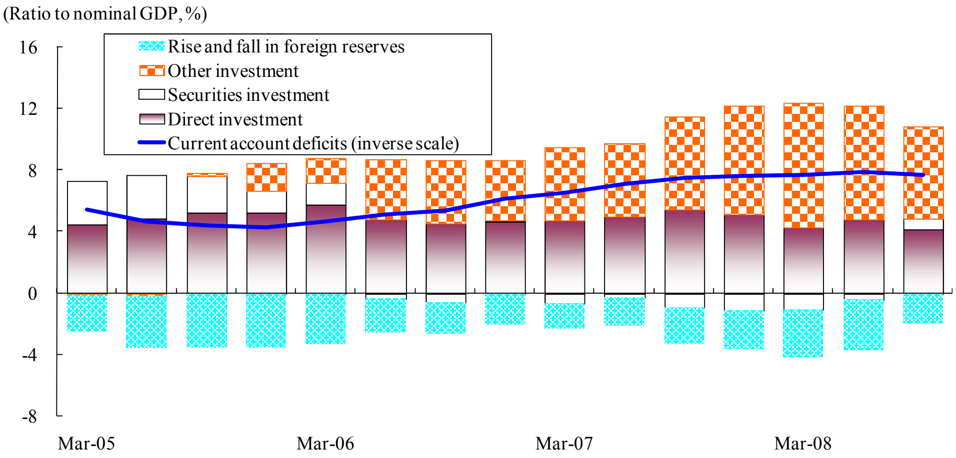
(4) Booming emerging countries

(A) Intra-EU exports and inflow of money for growth from Western Europe

Booming emerging economies are mainly Central and East European countries that have rapidly been integrated into the EU economy. These countries suffered a considerable external shock because of a decline in domestic demand in Western Europe, which was their major exports market and which provided them with money for growth.

Emerging economies in Central and East European countries continued economic growth by taking advantage of increasing direct investments from abroad, mainly Western Europe. In recent years in particular, West European financial institutions actively expanded their business operations in Central and East European countries through subsidiaries, providing money for an expansion of domestic demand there. Meanwhile, Central and East European countries' current account deficits increased. Data on changes in the capital account balance of Central and East European countries show that in addition to inward direct investment, "other investments," including bank borrowings, have increased in recent years. This means that the inflow of funds from Western Europe is financing the current account deficits of Central and East European countries (see Figure 1-2-2-23).

Figure 1-2-2-23 Changes in the capital account balance and current account balance (% of GDP) of Central and East European countries



Notes:
1. Latter four-quarter average.
2. Total of EU member states (excluding eurozone countries) after 2004.
Source: Eurostat, central bank of each country.

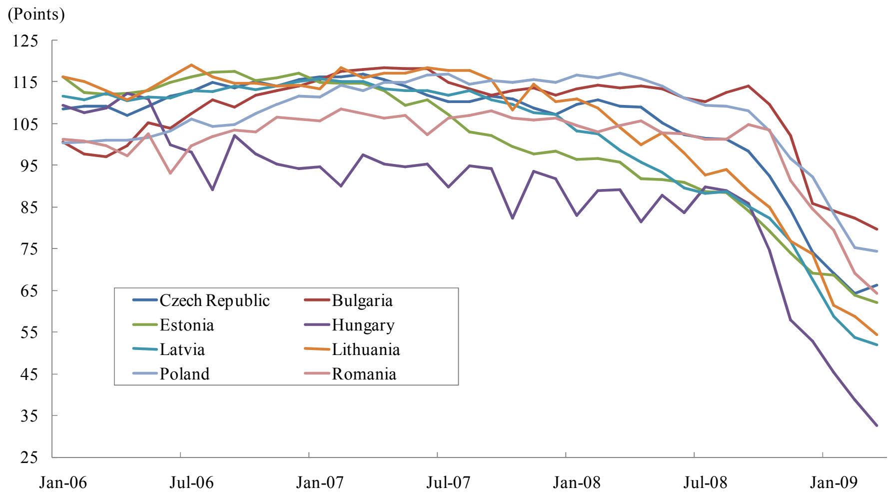
(B) Impact of the complex negative cycle of the EU economy

In the meantime, business sentiment about the state of the economy has deteriorated rapidly in Poland, the Czech Republic, Hungary and the three Baltic countries since October 2008 (see Figure 1-2-2-24). This was primarily because external demand declined due to economic slowdown in West European countries, which had until then played the role of creating final demand under a division of labor that allowed East and Central European countries to serve as manufacturing sites by receiving direct investment from Western Europe, mainly in the auto and auto parts and machinery industries.

In addition, the financial crisis presumably squeezed the flow of money from Western Europe, putting the brakes on the economic growth of Central and Eastern Europe. Until recently, West European financial institutions actively expanded the provision of credit to emerging economies. Not only financial institutions in Austria and Germany, which have traditionally had close relations with Central and East European countries, but also those in Italy, France, Belgium and Sweden have vast amounts of outstanding credit provided to those countries (see Figure 1-2-2-25). However, since the outbreak of the financial crisis, West European financial institutions have quickly tightened their stance on lending. Southeast European countries like Romania and Bulgaria and the three Baltic countries depend heavily on foreign money, as their current account deficits have stayed at high levels, equivalent to 10 to 20% of GDP, for the past several years. Moreover, foreign financial institutions, particularly those in the EU, account for a very large portion of the overall assets of financial institutions in Central and East European countries (see Figure 1-2-2-26). Therefore, the tightening of West European financial institutions' stance on lending is presumably producing a considerable impact on Central and East European countries.

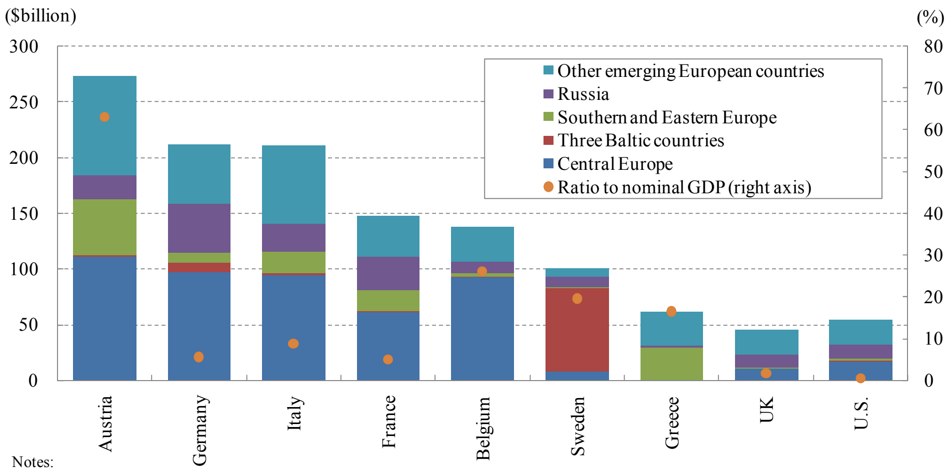
Another cause for concern is that household debts denominated in foreign currencies, mainly mortgage loans, have increased rapidly in recent years (see Figure 1-2-2-27). In Central and East European countries, their currencies have maintained firmness in the foreign exchange market because of hopes for their strong economic growth and growth potential. However, those currencies declined after the financial crisis deepened, as the flow of money that had until then financed the current account deficits of Central and East European countries reversed. The financial burden on households will increase in connection with this currency decline, and therefore, it may be some time before a recovery is seen in personal consumption.

Figure 1-2-2-24 Trends in business sentiment indices in Central and East European countries



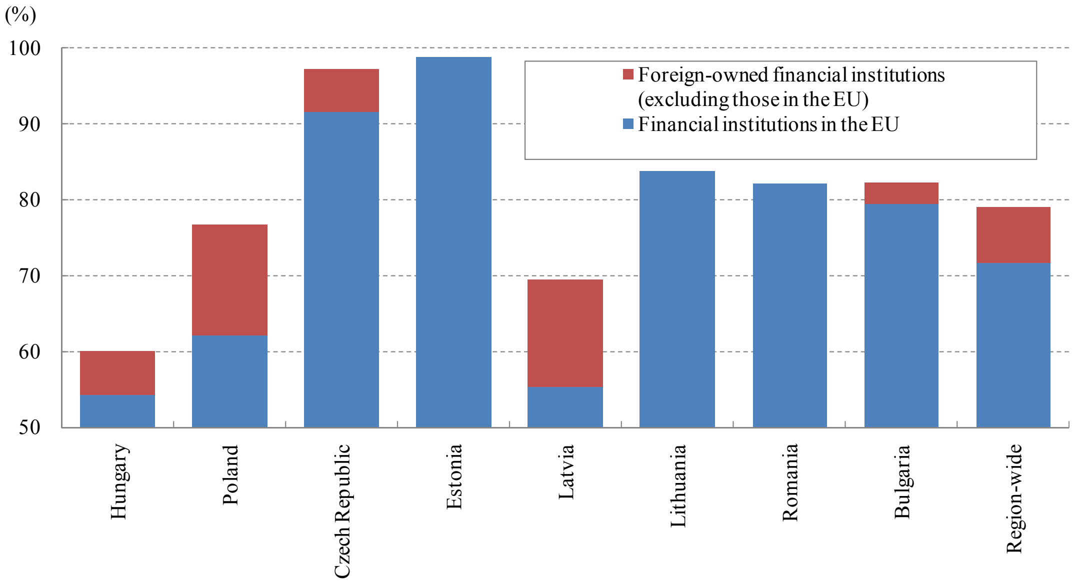
Source: European Commission.

Figure 1-2-2-25 West European financial institutions' lending to emerging European countries



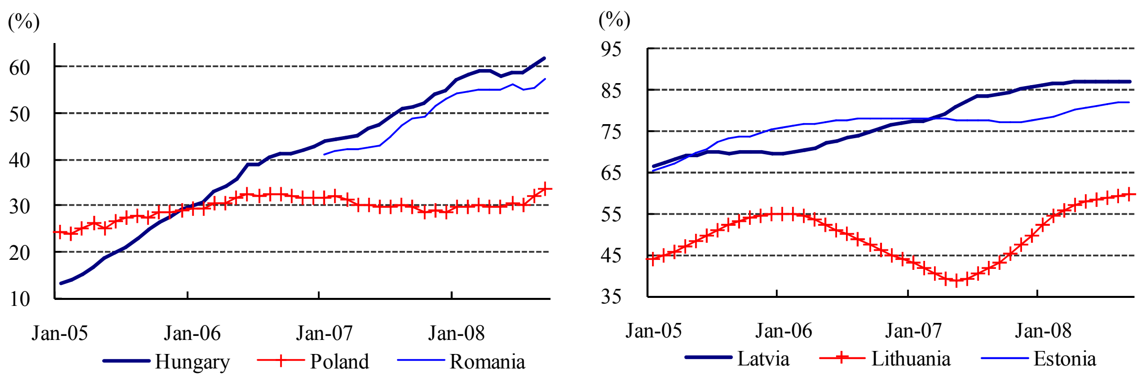
Notes:
1. Figures as of the end of September 2008. Final risk-based outstanding credit of financial institutions subject to the reporting requirement.
2. Central Europe: Czech Republic, Hungary and Poland.
Southern and Eastern Europe: Romania and Bulgaria.
Three Baltic countries: Estonia, Latvia and Lithuania.
Source: *Quarterly Review* (BIS), *World Economic Outlook* (IMF).

Figure 1-2-2-26 Foreign financial institutions' share of the total assets of financial institutions in Central and East European countries



Notes: Figures are 2007 data. Ratio to the total assets of financial institutions in each country.
Source: ECB.

Figure 1-2-2-27 Ratio of foreign currency-denominated household debts in Central and East European countries



Source: central bank of each country.

(C) Enhancement of the international framework of support

Although optimism is not warranted about the prospects of the European economy, there are some bright spots in Central and East European countries, which have constituted a risk factor for the entire European economy.

The IMF and other organizations have provided loans to Central and East European countries since the financial crisis deepened in November 2008, and the EU decided at its summit meeting held during March 19–20, 2009, to raise the limit on financial aid to member countries from 25 billion euros to 50 billion euros. In addition, it was agreed at the London Summit held on April 2, 2009, that the financial foundation of the IMF would be enhanced and support money would be provided through international organizations.

Owing to these support measures, the sovereign CDS spread for Central and East European countries has been declining and the depreciation of their currencies has slowed down. This is likely to curb the expansion of foreign currency-denominated debts owed by those countries, thereby easing concerns over the financing of their fiscal deficits, which are expected to increase exponentially due to the economic downturn.

However, it should be kept in mind that these problems faced by Central and East European countries have not been resolved. These countries cannot expect to achieve strong growth by heavily depending on the inflow of foreign money as they have done for the past several years, and they could be forced to experience huge current account deficits and adjustments of external debts. Moreover, from the perspective of the euro area and West European countries, their loans to Central and East European countries may deteriorate if the recession lasts long, imposing a heavy burden on West European financial institutions and making it difficult to expect strong growth in exports to those countries.

As shown above, against the background of the ongoing integration of intra-EU economies, a negative cycle of economic deterioration arose in the EU through various channels, including finance, trade and division of labor in production. Although there are signs of a bottoming-out in some sectors, employment adjustments and housing market adjustments are continuing and Central and East European countries still constitute a risk factor. Therefore, optimism is not warranted about the prospects of the European economy.

The slowdown of the EU economy is expected to have a considerable impact on the Japanese economy as well. The EU, which takes in around 15% of Japanese exports, is an important trading partner for Japan. In addition, business in Europe accounted for 8.5% of the total sales and 6.8% of the total recurring profits generated by listed Japanese-owned companies in Japan and abroad in fiscal 2007. Although the sales and profits generated in Europe were smaller than those generated in the Americas or in the Asia-Pacific region, those figures represented a record high for earnings generated by Japanese listed companies in Europe.[43] It will be necessary to pay close attention to the future course of the European economy, not to mention that of the U.S. economy and the East Asian economy, including the Chinese economy.

Column 3　10 Years since the introduction of the Euro — challenges and achievements

January 1, 2009, marked the 10th anniversary of the introduction of the euro, the single European currency. When the euro was introduced in 1999, its use was limited to credit transactions between companies and non-cash transactions concerning currency exchanges, stocks, debt securities, checks and credit cards. In January 2002, euro bills and coins entered circulation. The European Central Bank (ECB) was established in June 1998, ahead of the introduction of the euro.

The number of countries using the euro, which initially stood at 11 (Belgium, Germany, Spain, France, Ireland, Italy, Luxemburg, the Netherlands, Austria, Portugal and Finland) has now increased to 16, after

[43] JETRO (2008), “White Paper on International Trade and Foreign Direct Investment”

the addition of Greece in 2001, Slovenia in 2007, Cyprus and Malta in 2008 and Slovakia in 2009. A huge economic area with a population of some 320 million people has been established as a result of the introduction of the euro and the market integration that has been going on in the EU.

Although there was skepticism voiced from various quarters about the ambitious project of the monetary union, achievements of the introduction of the euro have been confirmed over the 10 years since the introduction of the single European currency. In a paper issued in May 2008, the European Commission stressed the following points as the positive effects of the introduction of the euro.[44]

(1) A single monetary policy under the ECB combined with coordinated national fiscal policies has fostered macroeconomic stability.

(2) Prices (inflation rate) and interest rates have stabilized at low levels.

(3) National fiscal balances have improved.

(4) The disappearance of exchange risk and lower cross-border transaction costs have helped develop the single market and integrate product markets (expansion of intra-EU trade and direct investment).

(5) Financial market integration proceeded (fund-raising has become active through the issuance of euro-denominated corporate debt securities).

(6) The euro area's resilience against external and global economic turbulence has improved.

(7) The euro has been established as the world's second-strongest international currency, behind only the U.S. dollar.

(8) Sixteen million jobs have been created.

Regarding (2) "Prices (inflation rate) and interest rates have stabilized at low levels," for example, the inflation rate in the euro area averaged around 3% in the 1990s, compared with 8% to 10% in the 1970s and 1980s. Over the 10 years since the introduction of the euro, the inflation rate declined to around 2%. In addition, nominal interest rates fell to around 5% during this period, compared with an average of 12% in the 1980s and 9% in the 1990s. In light of the fact that crude oil prices more than tripled from 2003 to 2008 and import price inflation occurred due to the depreciation of the euro from 1999 to 2002, some people give high marks to the ECB's monetary policy management for stabilizing prices at low levels.[45]

The ratio of direct investment within the euro area to the region's GDP, which previously stood at some 20%, has risen to just over 30% since the introduction of the euro. The European Commission argued that two-thirds of the increase in direct investment was attributable to the effects of the introduction of the euro, such as the disappearance of exchange risk.

The financial crisis that has developed since September 2008 has reminded some Central and East European countries of the benefits of adopting the euro. Many Central and East European countries, which had large current account deficits, suffered an expansion of external debts as a result of the

[44] European Commission, "EMU@10: Successes and challenges after ten years of Economic and Monetary Union," European Economy 2-2008。

[45] Deutsche Bank Research, "The euro turns ten," July 23, 2008. This report also praises the ECB for displaying flexibility and pragmatism in managing its monetary policy to ensure price stability. As examples of the pragmatism and flexibility, the report points out (i) that the ECB conducts monetary policy management from a medium-term perspective, rather than reacting to temporary price jumps, and (ii) that it revised the definition of price stability from an inflation rate of between 0 and 2% to an inflation rate of below but close to 2%.

depreciation of their own currencies. Some Central and East European countries are increasingly eager to participate in the euro at an early date as a way to eliminate or ease exchange risk.

While the introduction of the euro is praised for the above-mentioned benefits and achievements, there are challenges that need to be kept in mind. For example, it is difficult to manage monetary policy while there are differences in the inflation rate and the labor costs between individual countries in the euro area. Although market integration is proceeding in the EU, the region's price adjustment function is not perfect because of the presence of various technical impediments and differences between the labor practices of individual countries. The difficulty of centralizing the monetary policies of the euro area, in which the economic condition varies from country to country, was actively discussed before and after the launch of the euro in 1999. If the euro area expands further with the participation of more Central and East European countries, the ECB will be required to be even more careful in monetary policy management.

In relation to this, it is also important to promote the coordination of fiscal and economic policies by governments in euro area countries. Under the EU's Stability and Growth Pact, EU member countries are required to keep the budget deficit below 3% of GDP and the amount of outstanding government debts below 60% of GDP. The ratio of the combined budget deficits of the euro area to GDP averaged around 4% in the 1980s and 1990s but declined to around 0.6% by 2007, the lowest level in several decades. However, in times of economic slowdown and recession, governments of individual countries have to place priority on dealing with their own economic condition, a situation which leads to differences in policy responses among countries. The coordination of policies by the countries participating in the euro remains a critical challenge that must be overcome in order to deal with the current financial crisis and achieve further development of the euro area economy and the euro as an international currency.