

第9回 国際通貨論 I

International Monetary Study

The Euro and the International Monetary System

Professor MURASE Tetsuji

留学生センター教授 村瀬哲司

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1. The Euro as an international currency

(1) The Role of an international currency

	Private use 民間利用	Official use 公的利用
A medium of exchange 交換手段	Settlement (vehicle) currency	Intervention currency
A unit of account 計算単位	Invoicing currency (denomination)	Peg currency
A store of value 価値の保蔵手段	Investment (Finance) currency	Reserve currency

The Presence of the euro, US dollar and yen as an international currency

	Euro	US\$	Yen
Vehicle currency on foreign exchange markets (2001) BIS	18.8%	45.2%	11.4%
Invoicing currency in trade (1992) Masuda report	27.8%	47.6%	4.8%
International bond issuance (2002) BIS Quarterly Review	36.5% 842 bio \$	49.1% 1,132 bio \$	5.4% 125 bio \$
Foreign reserve (end 2001) IMF annual report	13.0%	68.3%	4.9%

(2) Required conditions to become a key currency

(a) A large scale of economy and currency zone

>nominal GDP: euro area \$6.1trillion (USA \$10.1 trio),
2001

>currency zone: over 40 countries in Europe and Africa

(b) Large and deep capital markets

>equity capitalization: Frankfurt + Euronext* = \$1,205 bio
(New York \$9,015 bio), 2002 *Paris, Amsterdam etc.

>external loan balance: Continental Europe \$5.6 trillion

(USA \$1.2 trio), 2002 (出所:財務省「わが国金融・資本市場国際化のための
研究会、2003年7月)

© Confidence in the central bank

(d) Back-up by the military power

(3) Comparison of basic economic figures

>Euro area's unemployment rate is high, while the current account is balanced.

>US economy is dynamic at the cost of current account.

	GDP (%)			Inflation (%)			Unemployment (%)			Current a/c (bio \$)		
	01	02	03	01	02	03	01	02	03	01	02	03
US	0.3	2.2	3.1	2.8	1.6	2.3	4.8	5.8	6.0	-394	-481	-542
Japan	0.4	-0.3	2.7	-0.7	-0.9	-0.2	5.0	5.4	5.3	88	113	136
Euro	1.5	0.9	0.4	2.4	2.3	2.1	8.0	8.4	8.8	14	78	53

(source: IMF World Economic Outlook, April 2004)

2. From the US dollar hegemony to a bipolar monetary system

*Since 1945 the US\$ has been **the key currency** in the world, but the birth of the euro may change its status some day.*

(1) Privileges and responsibilities of the US\$

>Privileges:

(a) seigniorage of about \$19 billion yearly ($\$630.6 \text{ bio}^* \times (55-70\%) \times 5\% = \text{about } \19bio *balance of bank notes as of end 2002)

(b) No exchange risk and merits for financial institution

© current account deficit and its finance by foreign capital

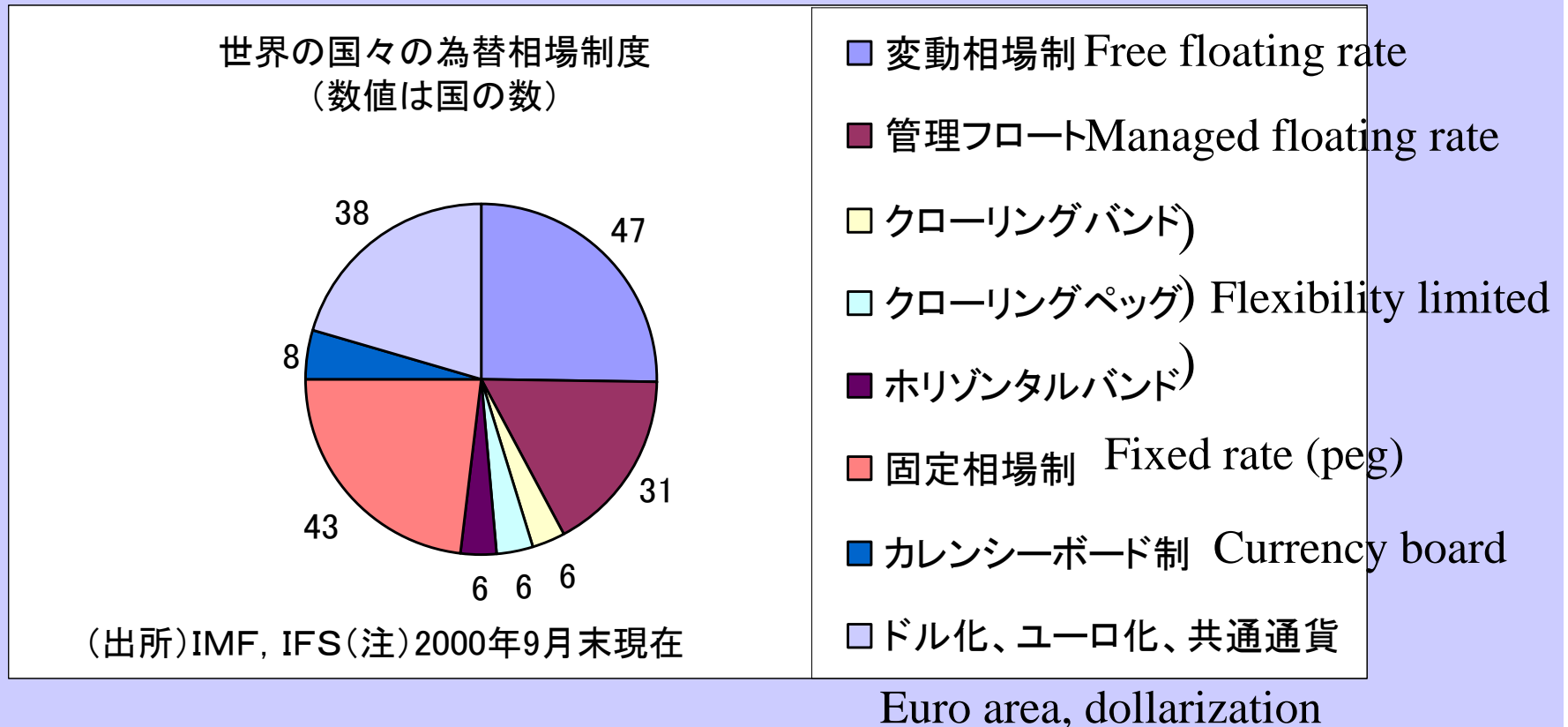
>Responsibilities:

(a) Bretton Woods System: obligation of gold dollar convertibility at \$35 per ounce gold → inflation control

(b) Today (floating rate dollar standard): de facto none

(2) The Bipolar monetary system is likely to be unstable.

Exchange rate arrangements in the world



>The euro zone consists of over 40 countries.

Three cases of capital flight from the US dollar

- (a) Nov 1978 the Carter shock: The stagflation and current account deficit of the US caused a sharp drop of the US dollar (DM2.11→DM1.75, ¥242→¥176 from Jan. to Oct. 1978) President Carter announced measures to defend the dollar.
- (b) 19 Oct 1987 the Black Monday: Because of the fear of free fall of the dollar, NY stock market prices dropped by 22.8%.
- © Apr 1995 the record low of the US dollar: Investors averted dollar assets because of the Mexican crisis. DM1.3438 (8 Mar 1995), ¥79.75 (19 Apr 1995)
→ When does it repeat itself next time?

3. The Possibility of a tripolar monetary system

Proposal of a *Zone of Asian Monetary Stability* アジア安定通貨圏 as the 3rd pole with the dollar and euro

(a) Merits of a tripolar monetary system

>Possible stability of the world monetary system through portfolio diversification of the international capital

>Economic security for East Asia and Japan

(b) Required conditions

>Closer integration of East Asian regional economies

>A sound regional economy

>Political consensus for common monetary arrangements

>Trusted Japanese economy and yen's internationalization

>Joint leadership by Japan and China

END