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A still fragmented Euro Zone Illustration with a few charts

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A still fragmented Euro Zone

Illustration with a few charts

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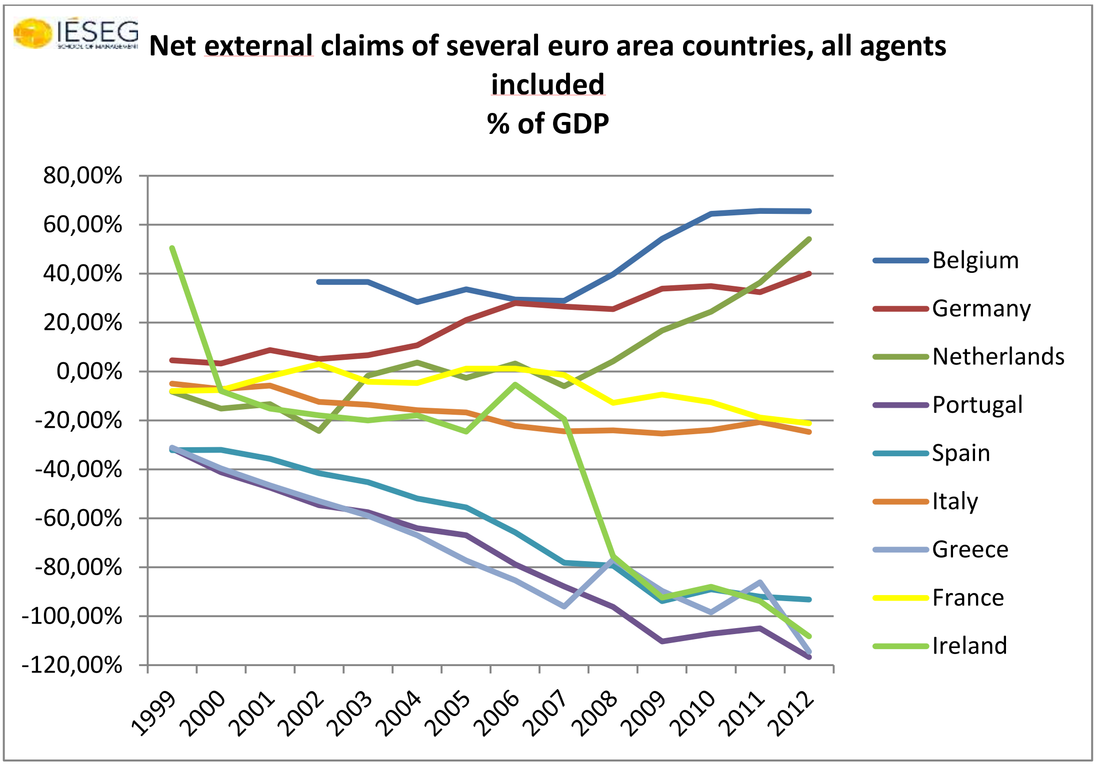
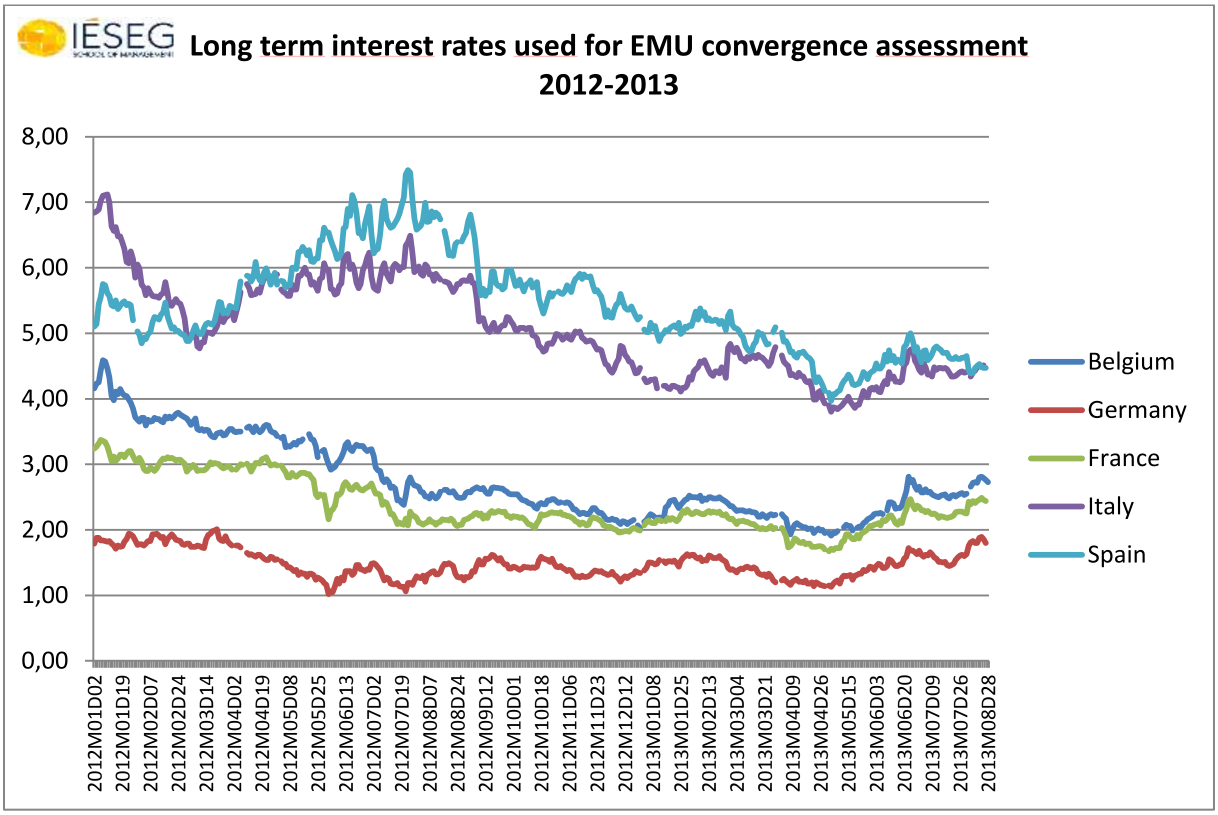
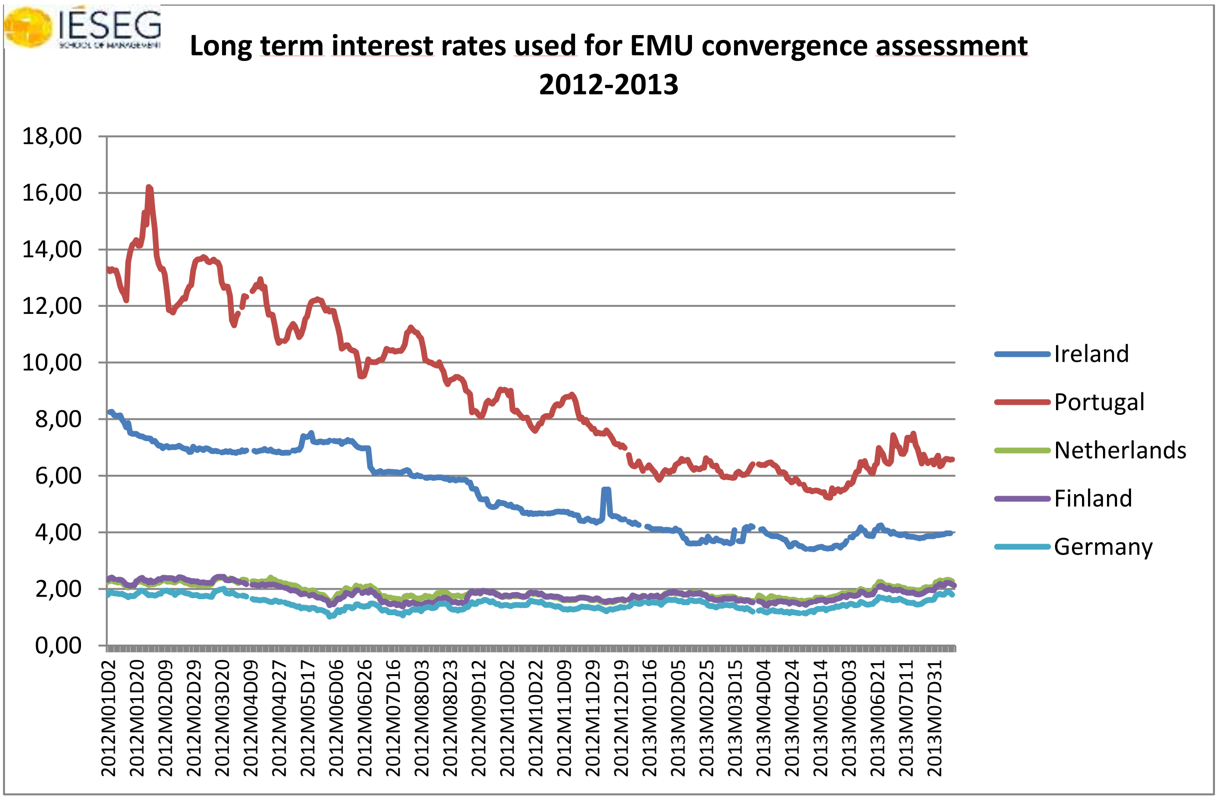
The structural heterogeneity of the Euro Zone cannot be better described than by the following chart:



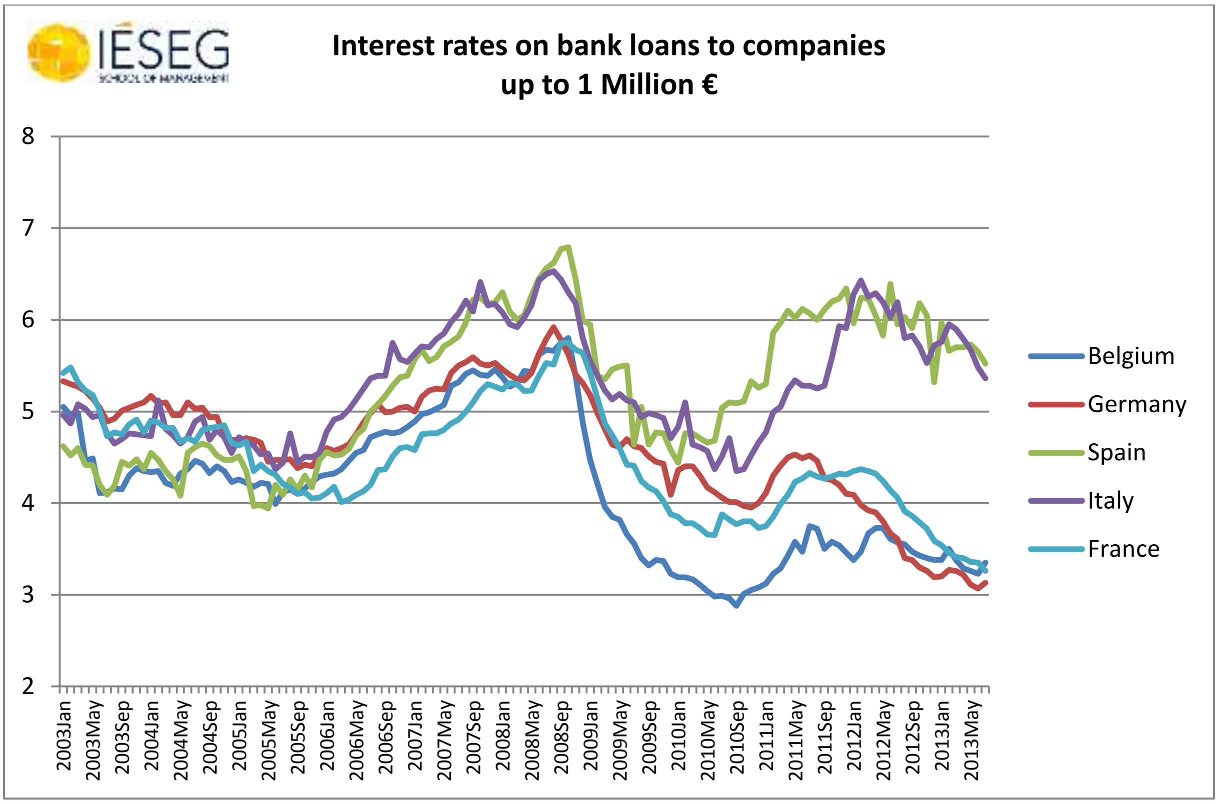
These net external financial positions result from the cumulative effect of all the past current account balances. Countries with a high indebtedness to the rest of the world critically depend on external funding. It is not a surprise that it is in these countries that high public debt ratios have led to rocketing sovereign bond yields during the crisis. On the contrary, Belgium has been easily funding its large public debt which is near 100% of gross domestic product, and which is partly held by foreign investors. In Belgium the weak financial situation of the public sector is compensated by a wealthy private sector which has accumulated large net claims on the rest of the world.

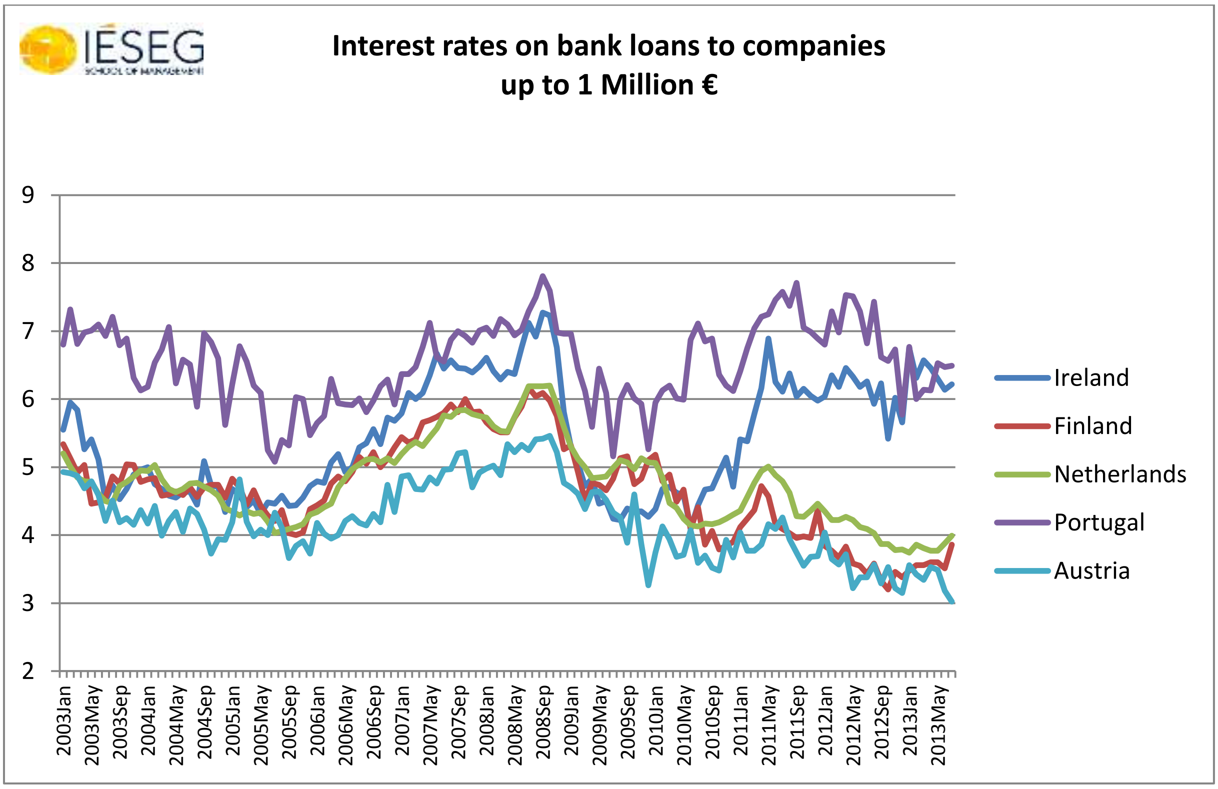
The announcement by the ECB of the possibility to conduct Outright Monetary Transactions has triggered a sharp decrease of the sovereign spreads of the European distressed countries.



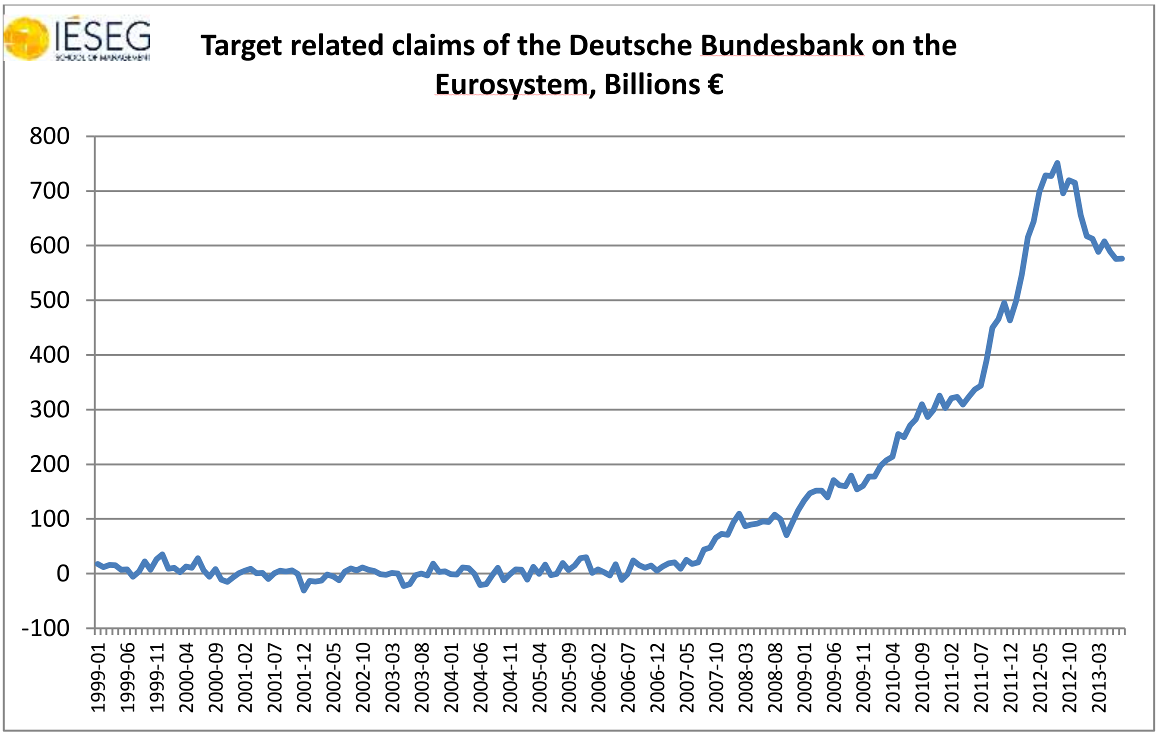


However the announcement of the possibility of OMT was not successful to significantly reduce the fragmentation of the financial market of the Euro Zone. There remain large differences between the interest rates at which the companies of the different countries can borrow.

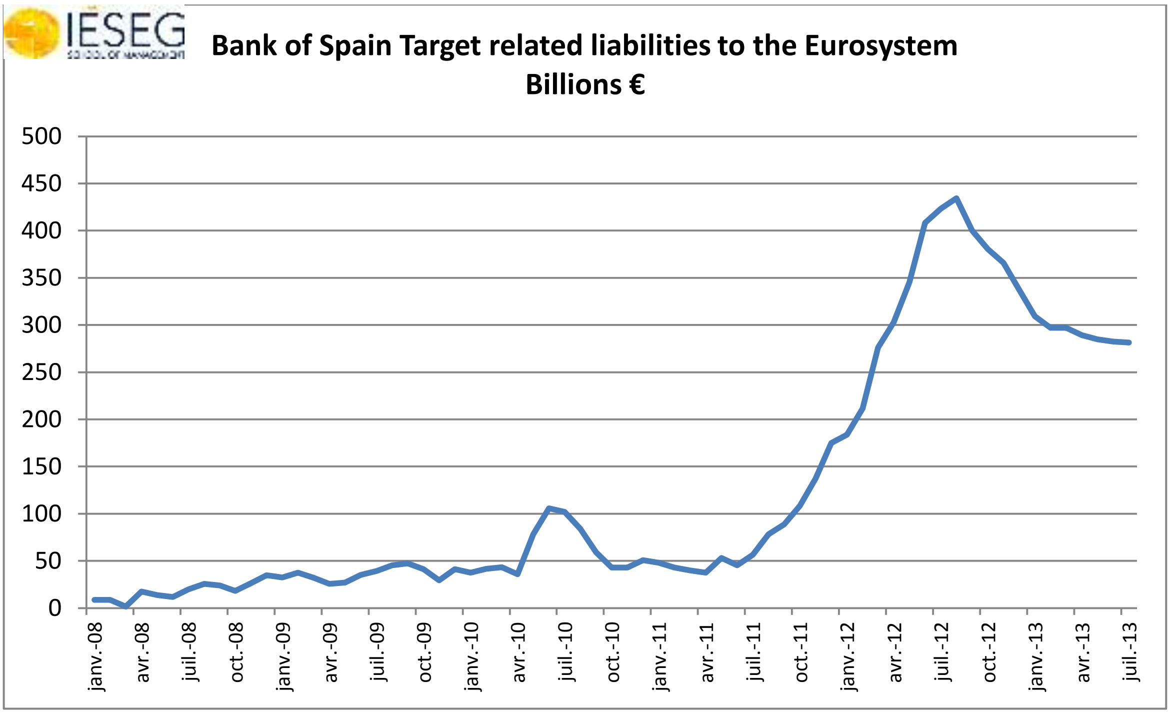




Capital outflows from the distressed peripheral countries to the core of the Euro Zone have temporarily been replaced by small inflows, reducing the intra-Eurosystem imbalances of the TARGET2 accounts. These imbalances however remain very large and their trend could reverse again if there are new worries about the solvency of the distressed countries or doubts about the real willingness of the ECB to conduct OMT



It is particularly in Spain that the situation has improved after the announcement of the ECB



The liabilities of the Bank of France are very volatile, contrary to those of the other countries of the Eurosystem.