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Who benefits from the devaluation of the euro?

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Over the course of the last year, the euro has lost nearly 20 % of its value against the US dollar. Compared with the currencies of the 38 most important trading partners, the loss was in the order of 10 %. Travelling to the United States and buying electronic goods manufactured in Asia have thus become more expensive for Europeans. At the same time, however, European export goods have become cheaper abroad, resulting in an increased demand for European goods and in higher export and economic growth.

This is good news for the eurozone, which is thankful for any new source of growth. It should be said, however, that not all member states will benefit from this development to the same extent. Those that export a larger share of their goods to countries outside the eurozone will experience these effects more strongly. Exchange rates are, of course, entirely irrelevant for goods exported from one eurozone country to another.

Some of the growth stimulus is "eaten up" by the fact that imports from outside the eurozone become more expensive. The less able we are to replace such imports with goods produced inside the eurozone, the less effect the stimulus will have. Even if it is possible to source imports from inside the eurozone, it will still take quite some time for any effects to be felt, as new supply relationships have to be established first. The outcome of the stimulus would also depend on the extent to which demand for exported goods varies according to price. This is a very difficult relationship to quantify.

Large variation in trade patterns

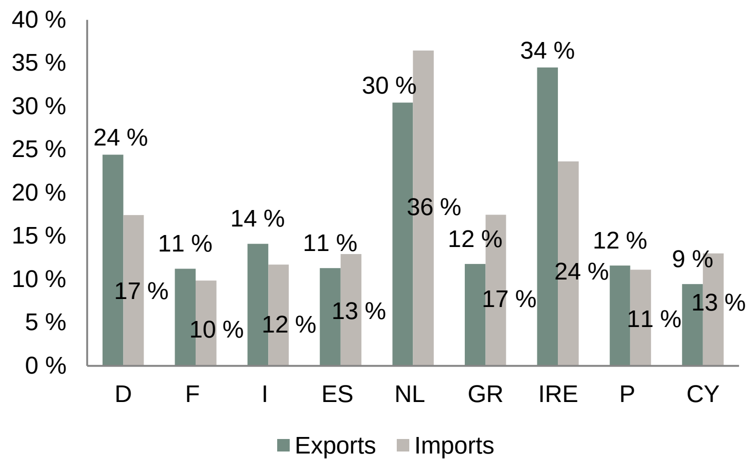
One would therefore expect the effect on growth of the exchange rate to be greater in countries that have high levels of exports to non-eurozone countries and low levels of imports from them. The countries featured in the figure can be split into four groups. The first group, comprising Germany and Ireland, exports a much greater share of its GDP to non-eurozone countries than it imports from them. In Germany's case, the respective shares are 24 and 17 %. Ireland actually exports a third of its GDP outside the eurozone and imports only 24 %.

The second group still exports a greater share of its GDP to non-eurozone countries than it imports from them but the gap is much narrower. This group comprises Italy, France and Portugal. In Group 3, the share of imports is slightly higher than the share of exports. This group has just one member: Spain.

In Group 4 the share of imports relative to GDP from non-eurozone countries is significantly higher than the share of exports relative to GDP. This includes the Netherlands, Greece and Cyprus. The Netherlands is something of an exception, however, as a major share of Dutch trade can be attributed to the important port of Rotterdam which also benefits from stronger export growth in other eurozone countries. Greece and Cyprus export few goods overall. Cyprus' exports to non-eurozone countries represent 9 % of its GDP but this is actually 71 % of the nation's entire exports. Prior to the crisis, Greece and Cyprus performed much better with regard to their trade in services.

Countries in the first two groups ought to be the first to detect any signs of growth attributable to the devaluation of the euro. Studies suggest that Spain will also benefit from devaluation, as there is a greater demand for Spanish export goods with falling prices than there is for export goods from other eurozone countries. There are no expectations, on the other hand, that the already stricken economies of Greece and Cyprus will see any form of stimulus from the devaluation of the euro. ■

Figure: Share of goods exports and imports to and from countries outside the eurozone (as a percentage of GDP*)



* Values are average shares over eight quarters from Q4 2012 to Q3 2014. There is no evidence of any change in pattern since summer 2014, as a result of the devaluation of the euro.

Source: ITC, Eurostat