

**Communication by Sophie Javary to the Public Hearing on  
Strengthening the international role of the Euro  
Organised at the EESC  
On 4 April 2019**

***The international perspective: how can the euro support a more balanced economic development?***

Good morning, Ladies and Gentlemen, and thank you for inviting me to participate in these hearings.

My name is Sophie Javary.

I am the vice Chairman of CIB EMEA of BNP Paribas. In my talk today, I will speak - not as an economist - but as a long-time banker in one of the largest financial institutions in the Eurozone. I will also take the perspective of our corporate clients and the private sector at large.

The question on this panel refers to “a more balanced economic development”. What is it then? For me, it is an economy that generates more growth, more jobs, and that is well fitted towards the future sectors of tomorrow, helping companies and entrepreneurs to develop their strategy. It is also an economy which is self-dependent for its funding and fosters international trade inside its zone and outside and provides safety for our people to protect their savings.

By “more balanced”, I also think we refer to an economy that relies upon a currency which has an international role in line with the size of its economy and of its power internationally.

In the current state of international business, what we are talking about is essentially the relative strength and weight of the euro versus the US dollar. The dollar hegemony has been somewhat endangered by the rise of the euro in 20 years but it seems its international role has been reinforced since the 2008 crisis in particular through the role of US investment banks. They have become much stronger in Europe in 10 years. Until the renminbi also becomes an international currency, maybe in 10 years, the question is then how can we gain even more sovereignty versus the dollar.

I will cover my subject in three points:

1. The diplomatic and political strength of the Euro
2. The role of the euro in international trade
3. The role of the Euro as a means of financing and the depth of our financial markets

**As regards my first point**, the diplomatic and political strength of the euro, it seems obvious that the more the European union and its core countries from the Eurozone speak as one voice on the international scene, express its power and unity internationally, the more the euro as a currency will be synonymous of trust. This stability and strength in turn enable the euro to be considered adequate as a reserve currency by Central Banks across the world and as a safe store of value not only for central banks but also for all international investors and savers.

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On this regard, everything that is done by the Commission or by our leaders to show a united front diplomatically is key.

An illustration of this has been for instance the decision to greet Mr XI Jin Ping together between President Macron, Ms Merkel and Mr Juncker during his state visit last week in Paris. Another key step is that all governments of members of the Eurozone involved in negotiations of large industrial or partnership contracts insist and have as a rule to push for the euro to be the currency of denomination of those contracts : with India, Australia, Brazil etc...

**My second point relates to the role of the euro in international trade.** The statistics, after 20 years of the euro, are impressive with 36% of international trade denominated in euros and 40% in dollars. To note a very favourable trend which is that – excluding intra euro zone volumes – the share of the euro denominated trade payments now account to 39% of trade by non-euro countries, at par with the dollar. In 2015, the same figures were 49 % for the dollar and 30% for the euro.

This is a real success. Yes, there are entire sectors that remain dominated by the dollar. In the energy sector, especially the oil sector, there are all dollar denominated transactions whether on the physical or derivatives markets. The OPEC's policy has been and is to invoice in dollars and all actors of the value chain reason in dollars including Euro based corporates. It is the same in the aeronautics industry. Airbus invoices airlines in dollars and we have the paradox of Airbus on one side and Lufthansa and Air France each hedging their currency risks but in a reverse way. Here one of the ideas for regulators and the Commission would be to favour derivatives contracts in euros on oil and other commodities in order to then induce and promote the use of the euro for physical transactions. This has already happened for wheat for which there are euro denominated derivatives. Since last year, the Chinese have decided to put in place a renminbi derivative contract on oil as a substitute for the Brent and WTI contract. This is one possible initiative. But the private sector's players and our clients will most likely continue to adopt the system of their relevant vertical; we, as banks can do little to influence them or promote other practices. There is certainly a need to promote widely the use of the euro in these two verticals and the Commission has started some initiatives to push for this. It must be continued and explained to the private sector's players in these two sectors. But – and I will come to that – this should not be the priority of the Commission given the already good achievements in this area.

**My third point is where there is a lot to do and a lot to promote: this is the depth and maturity of our financial markets.** What makes financial markets deep relates to a number of things and I would like to go through 5 main ones:

1. The depth and liquidity of the safe asset as represented by the public debt instruments which investors will invest in as part of their portfolio diversification and as a benchmark for all other riskier assets. This is one area where we are not competitive with the US dollar.

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We do not have one pan European safe asset. We have Bunds, French treasury bonds, Italian bonds, all of them presenting their own characteristics and some kind of political risk. It is in effect the German bund which is a proxy of pan European euro public debt instruments. But, given the particular situation of the German Treasury, there are not enough volumes of Bunds providing for sufficient liquidity and attractiveness of the instrument. It is key therefore that we push for a euro denominated Eurozone instrument in line with the idea of a budget of the Eurozone with one single agency that issues the debt for the account of the Member countries and maybe somehow mutualises the risk. It may sound utopic but this the clear way forward. All market participants and the ECB have recently stressed that the establishment of a single safe asset in euros is key to expanding the international role of the euro. One statistic on that regard to illustrate the difference in liquidity : Public debt outstandings in the US amount to 21.5 trn dollars and is growing while euro denominated debt is only 7.5 trn€, for all countries' debt and its stock is decreasing. Our total public issuance in 2018 was 788Bn € versus 840m€ in 2017 when the US treasury issued 2.4 Bn€ , up 20% versus 2017. There is no way we can compete with US treasuries as a worldwide safe asset if we do not provide our savers and investors throughout the world with a Eurozone safe asset.

2. The depth of the euro denominated market for corporates to fund large acquisitions. Our euro denominated bond market is still less than 50 % of the dollar denominated market, the latter offering longer maturities, depth and liquidity. For instance, the total corporate issuance in 2018 was 300Bn € when the US corporates issued 700 Bn\$. The stock of corporate debt in the US is 9.2 trn \$ when in the Eurozone we have only 1.3 trn € outstanding corporate debt from our eurozone issuers.
3. The existence of large pension funds and large international asset managers equivalent to Blackrock, Fidelity. There is still not a European status for pension fund or a unified pension fund regulation
4. Our equities markets and market infrastructures are largely fragmented and organised in different ways. The US total market capitalisation is four times larger than ours. Big IPOs are making the headlines again every day especially for tech companies. When the US has only two stock exchanges, in Europe we still have one exchange per country. We do not have a single infrastructure. Capital markets union is paramount to achieve deeper, more liquid and competitive euro markets versus the US financial markets.
5. Looking towards the future, and the funding of our tech and innovation champions in Europe, we are dwarfs compared with the US. In 2018, the US venture industry injected 131 Bn\$ in more than 7500 transactions while we had 3.3bn\$ in France, 3.7bn \$ in Germany. Israel alone could invest 2.4Bn\$. This is where future growth and values are created. Europe must absolutely

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consider this aspect when talking about the international role of the euro. The US venture industry raised 400 bn\$ in 2018 almost double the raisings in 2017. And 20% of our own VC fund raising in Europe went to US hands. The key to catch up will be to set up a European status for Corporate venture funds which are developing fast and favour a mix of a public innovation fund and private sectors money especially from the corporate world.

Overall, after 20 years, we must set a new frontier for the progress of the international role of the euro. There is a growing recognition that this is part of building our European sovereignty. The ability of Europe to speak with one voice in international affairs is key. We must react to the aggressiveness and power of US financial institutions which are attacking Europe, take advantage of our fragmentation and lack of will power. The risk of not doing it on the front of capital markets union and defragmentation of our financial industry is clearly to leave our companies and our entrepreneurs in the hands of US financial institutions and investors who will then be the ones benefitting from the value creation potential of Europe.

Sophie Javary

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