



EUROPEAN CENTRAL BANK

EUROSYSTEM

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The euro's international role: trends, determinants and policy considerations

European Economic and Social Committee

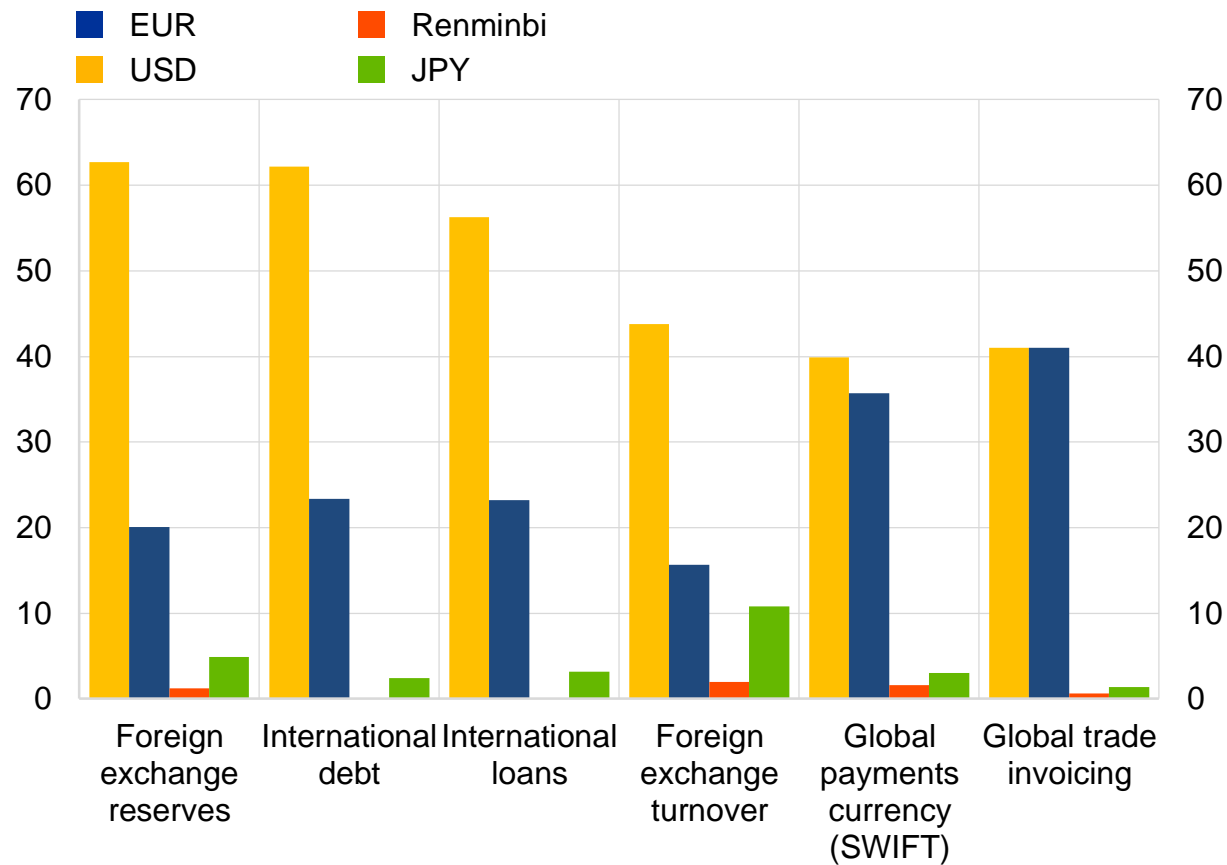
*Public hearing on strengthening
the international role of the euro*

4 April 2019

1. **Recent developments in the international role of the euro**
2. Determinants of the euro's international role
3. Policies supportive of the euro's international role
4. Monetary policy considerations
5. Conclusions

The euro is the undisputed second most important international currency

Snapshot of the international monetary system (percentages)

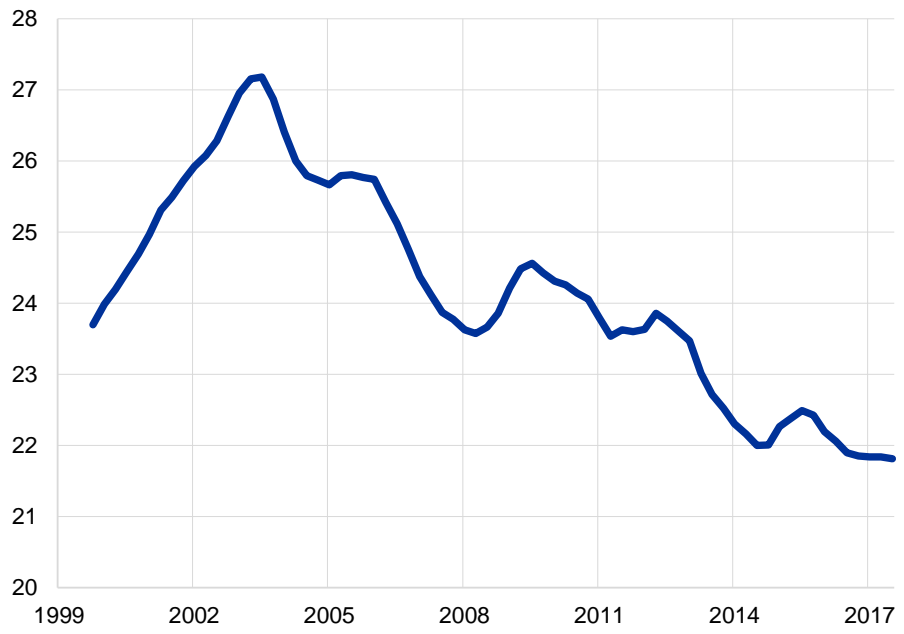


Sources: BIS, IMF, SWIFT, Gopinath (2015) and ECB calculations.

Note: Data as at the fourth quarter of 2017 or latest available. Data for the euro exclude intra-euro area transactions except for payments and invoicing.

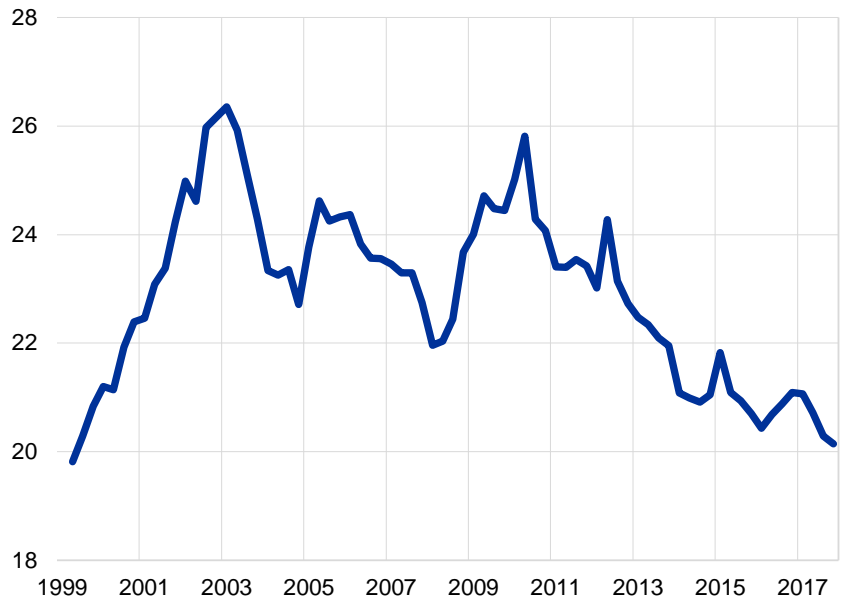
But the euro's international role has gradually declined since the mid-2000s

Index of the euro's international role (percentages; four-quarter moving averages)



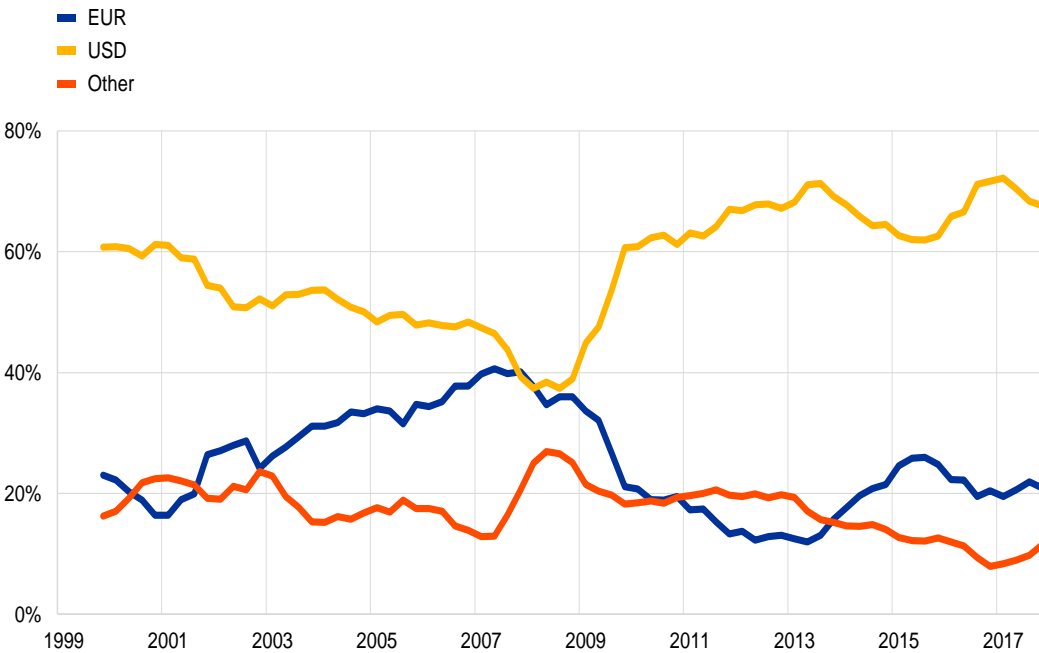
Sources: BIS, IMF, CLS, Ilzetzi, Reinhart and Rogoff (2017) and ECB calculations.
Notes: Simple arithmetic average of the shares of the euro at constant exchange rates in stocks of international bonds, cross-border loans, cross-border deposits, foreign exchange settlements, global foreign exchange reserves and exchange rate regimes. Data at constant exchange rates for foreign exchange settlements and time series observations for the share of the euro as a global invoicing currency were not available. The latest data are for the fourth quarter of 2017.

Share of the euro in global foreign exchange reserves (percentages)



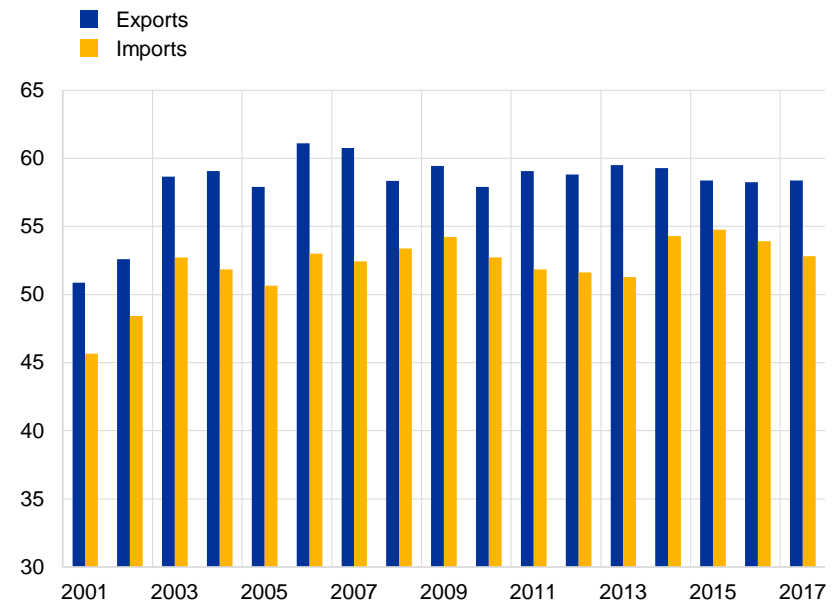
Sources: IMF and ECB calculations.
Note: Data at constant exchange rates. The latest data are for the fourth quarter of 2017 and are used as the base.

Share of the euro in foreign currency-denominated debt issuance (percentages)



Sources: Dealogic and ECB staff calculations.
 Note: The latest data are for the first quarter of 2018.

Share of the euro as an invoicing currency in extra-euro area trade in goods (percentages)



Source: *The international role of the euro*, ECB, June 2018.
 Note: The latest data are for 2017.

General

- The euro area sovereign debt crisis raised concerns about the euro's future

Investment currency

- Increased diversification of official portfolios towards other currencies (AUD, CAD, RMB)
- Relatively low interest rates lowered the attractiveness of investments in euro-denominated securities

Financing currency

- Rising share of global debt issuance by emerging market economies (which is traditionally dollar-oriented)
- Higher currency swap costs reduced the attractiveness of the euro as a funding currency for acquiring dollars

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Economic size

Stability (economic, financial, political)

Sound institutions

Financial openness

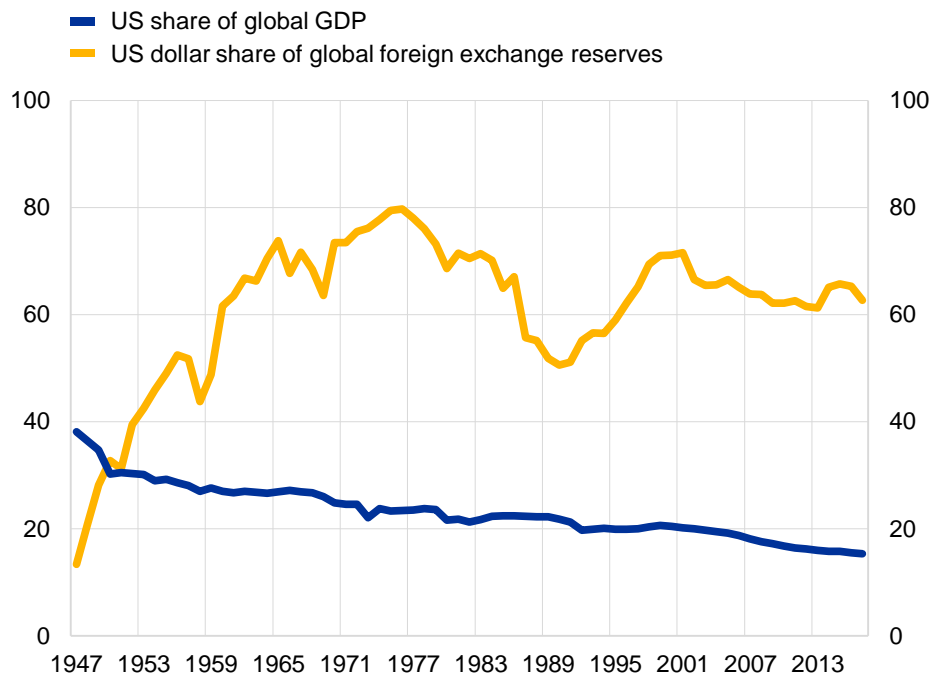
Liquidity/depth of financial markets

Efficient financial market infrastructures for payments and settlements

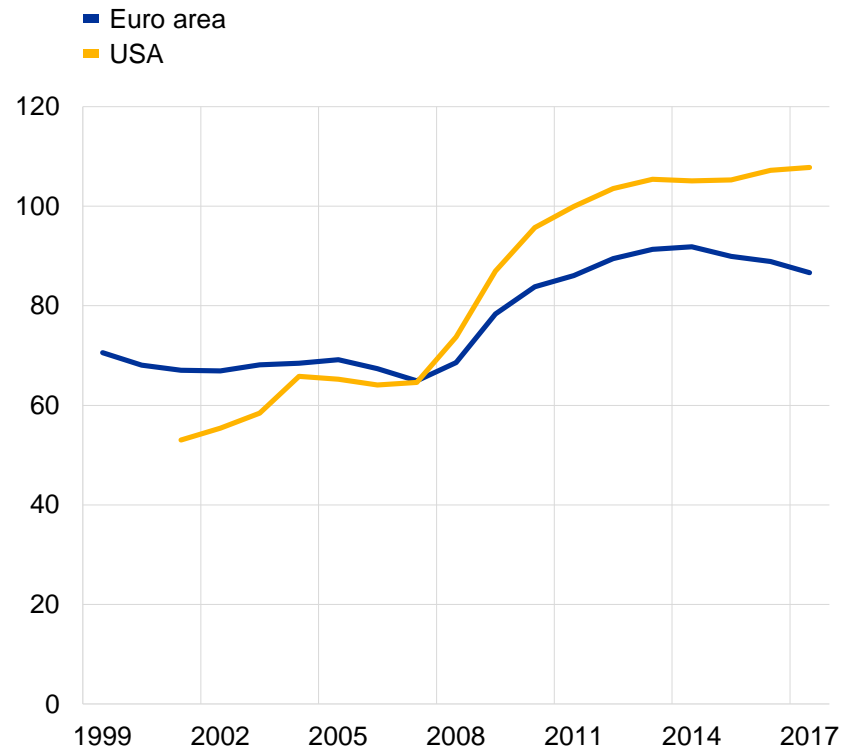
Geopolitical outreach

Inertia and network effects

Importance of the US and the US dollar in the global economy (percentages)



Gross government debt (percentage of GDP)

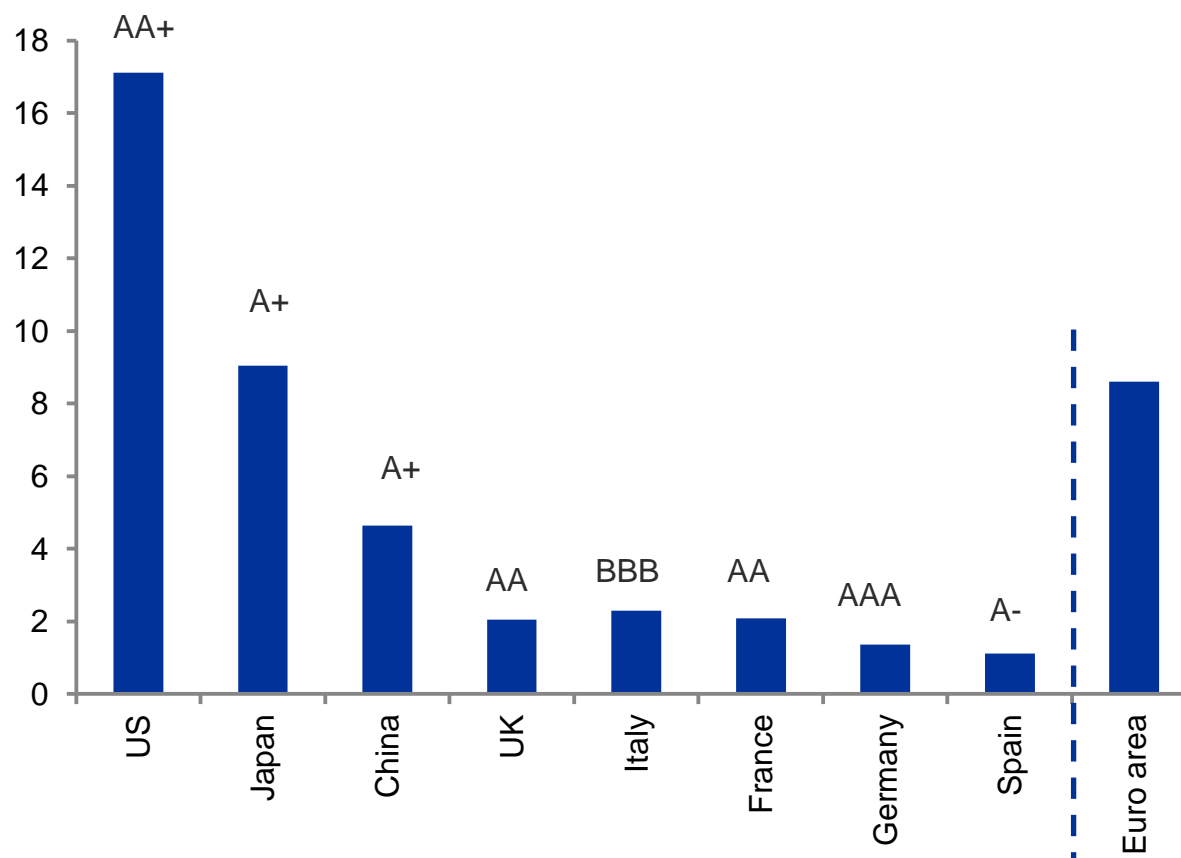


Sources: Maddison project, MF WEO and Eichengreen, Mehl and Chițu (2016).
 Note: share of the US in global GDP in PPP terms. The last observation is for 2017.

Sources: US Office of Management and Budget, Eurostat. The last observation is for 2017.

Amount outstanding of central government debt securities

(USD trillions)



Sources: OECD Government Statistics and Bloomberg

Notes: The data refer to total debt securities issued by the central government. The observations are for the second quarter of 2018 (or the first quarter of 2018 when the latter are not available). The latest Standard & Poor's long-term sovereign debt rating is reported above each blue bar.

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Determinants can be influenced by policies

Economic size

Stability (economic, financial, political)

Sound institutions

Financial openness

Liquidity/depth of financial markets

Efficient financial market infrastructures for payments and settlements

Geopolitical outreach

Inertia and network effects

Price stability
Sound fiscal & structural policies
Deeper EMU & Banking Union

Capital Markets Union
Initiatives on market and payment infrastructures

- **CMU can support the international role of the euro by both *developing* and *integrating* EU financial markets.**
- **Need to create a truly *single, deep* and *liquid* EU capital market.**
- **CMU initiatives supporting the international role of the euro:**
 - Covered bonds Regulation and Directive
 - Simple, transparent and standardized securitization (STSS)
 - Sustainable finance action plan
 - Improving and harmonizing insolvency frameworks in the EU
 - Review of European Supervisory Agencies (ESAs)
 - Adoption of a Common Consolidated Corporate Tax Base (CCCTB)
 - Creation of a Personal European Pension Product (PEPP)
 - Stable and credible financial benchmarks

- **Completing the architecture of EMU and the Banking Union will make the euro area more resilient**
- **Economic and Monetary Union – important next steps**
 - Common fiscal capacity
(eg budgetary instrument for convergence and competitiveness to provide financial support for key reforms and support public investment; euro area budget can also create common safe assets)
 - Sound fiscal policies and structural reforms in Member States
(incl. review of the 6/2 packs with the aim of making the fiscal policy framework and the economic imbalance procedure more effective)
 - ESM reform
- **Banking Union – important next steps**
 - Making further progress in risk reduction
 - Developing a framework for liquidity in resolution
 - Operationalizing the common backstop to the SRF
 - Making progress towards EDIS
 - Addressing national fragmentation

- **The Eurosystem operates infrastructure services facilitating the free flow of cash, securities and collateral across Europe**
 - TARGET2 (real time gross settlement of payments), T2S (securities settlement) and TIPS (instant payments settlement)
- **These services strengthen *efficiency* of market infrastructures and foster financial market *integration***
- **Recent Eurosystem initiatives (e.g. TIPS; TARGET2 and T2S consolidation) will bring us closer to the goal of a truly single financial market in Europe**
- **In turn, euro-denominated financial markets become more attractive to foreign market participants**

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Benefits

- Seignorage
- Lower transaction and hedging costs
- Exorbitant privilege
(lower external financing costs)
- Greater monetary policy autonomy
- Stronger international transmission of monetary policy
- Lower pass-through reduces impact of FX shocks on CPI

Costs

- Blurred monetary aggregate signals
- Capital flow volatility
- Exorbitant duty
(stronger exchange rate in global stress episodes)
- Lower effect of monetary policy on import prices

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- **The euro's global role has been declining, not least due to market doubts about the resilience of the euro area.**
- **Sound macro-economic policies and deeper Economic Monetary Union and Capital Markets Union are key factors to support the euro's international role.**