



European Economic and Social Committee

Public Hearing on Strengthening the international role of the euro: European and international perspectives

Thursday, 4 April 2019

The International Role of the Euro

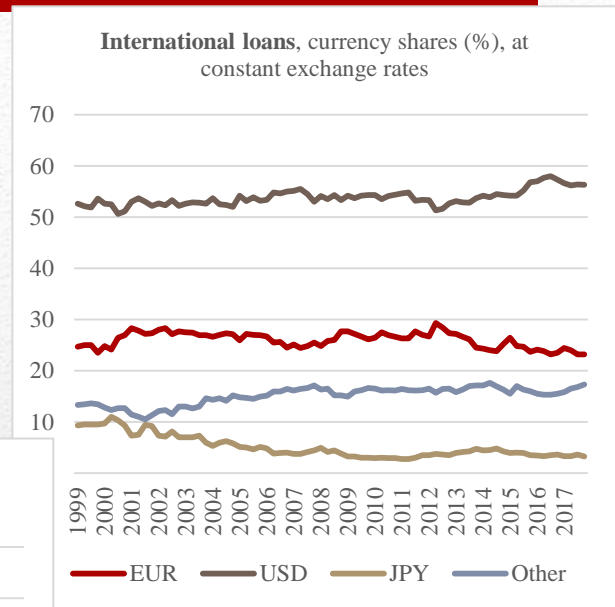
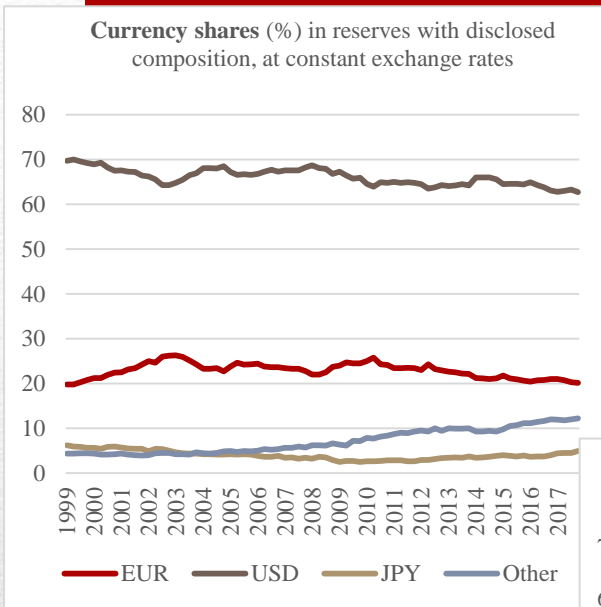
Intervention of Francesco Papadia

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*Material drawn from a joint paper with Konstantinos Efstathiou

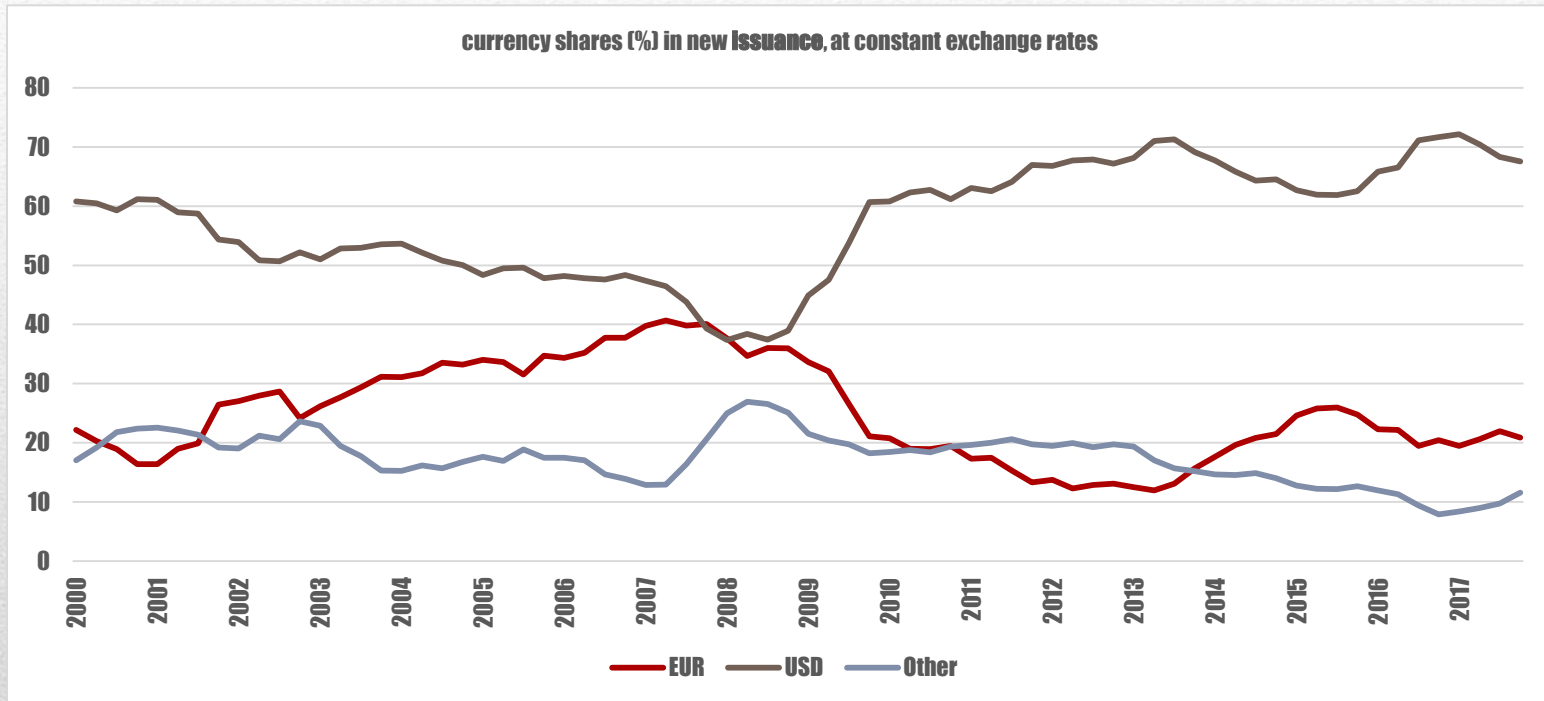
- Currently the \$ and the € are the only credible competitors for a significant international role
- The importance of inertia in determining how currencies share the international role is exaggerated
- The \$ is unlikely to lose its first rank as international currency
- President Trump is doing more than the Commission could ever do to foster the international role of the €
- The Commission initiative may help the € recover the ground lost during the crisis
- More substantial progress would require the €-area advancing on the very issues on which it is finding it difficult to advance.

I hope you will disagree on some points



In all possible uses the € is the second most important international currency after the \$

Foreign currency debt issuance by currency

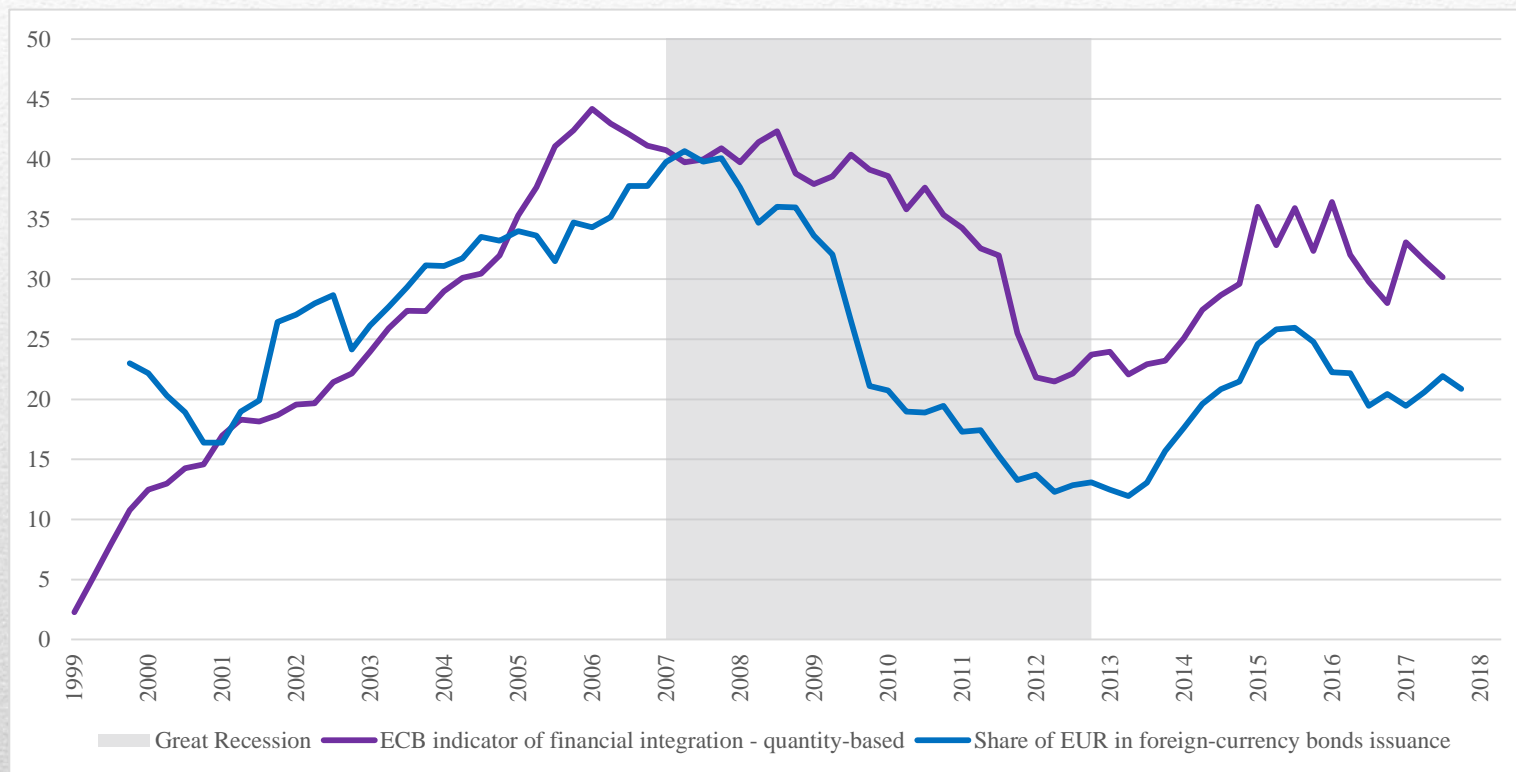


The importance of inertia in determining how currencies share the international role is exaggerated

- The US advantages
 - Economic size
 - Capital market development
 - Treasuries
 - Investment banking
 - Federal state
 - Political hegemony (so far!)
 - Military dominance

The \$ is unlikely to lose its first rank as international currency

€ share of foreign-currency bond issuance and the ECB financial integration index



The Commission initiative may help the € recover the ground lost during the crisis I

- A nice portfolio of measures but
 - Not all equally easy to implement (private sector involvement is needed)
 - None is a game changer
 - Are the ones relating to energy the most promising?

**The Commission initiative may help the €
recover the ground lost during the crisis II**

- The relative strengths of the US are the relative weaknesses of the EU (except for economic size)
 - Incomplete Banking Union
 - Little progress on Capital Market Union (Brexit doesn't help!)
 - Weak investment banks
 - Incomplete, yet very complex, fiscal framework
 - No federal treasury paper and limited top credit-rating national government paper
 - Fledgling, at best, foreign policy
 - Relative dwarf in defense matters

More substantial progress would require the €-area advancing on the very issues on which it is finding difficult to advance
