



The international role of the euro

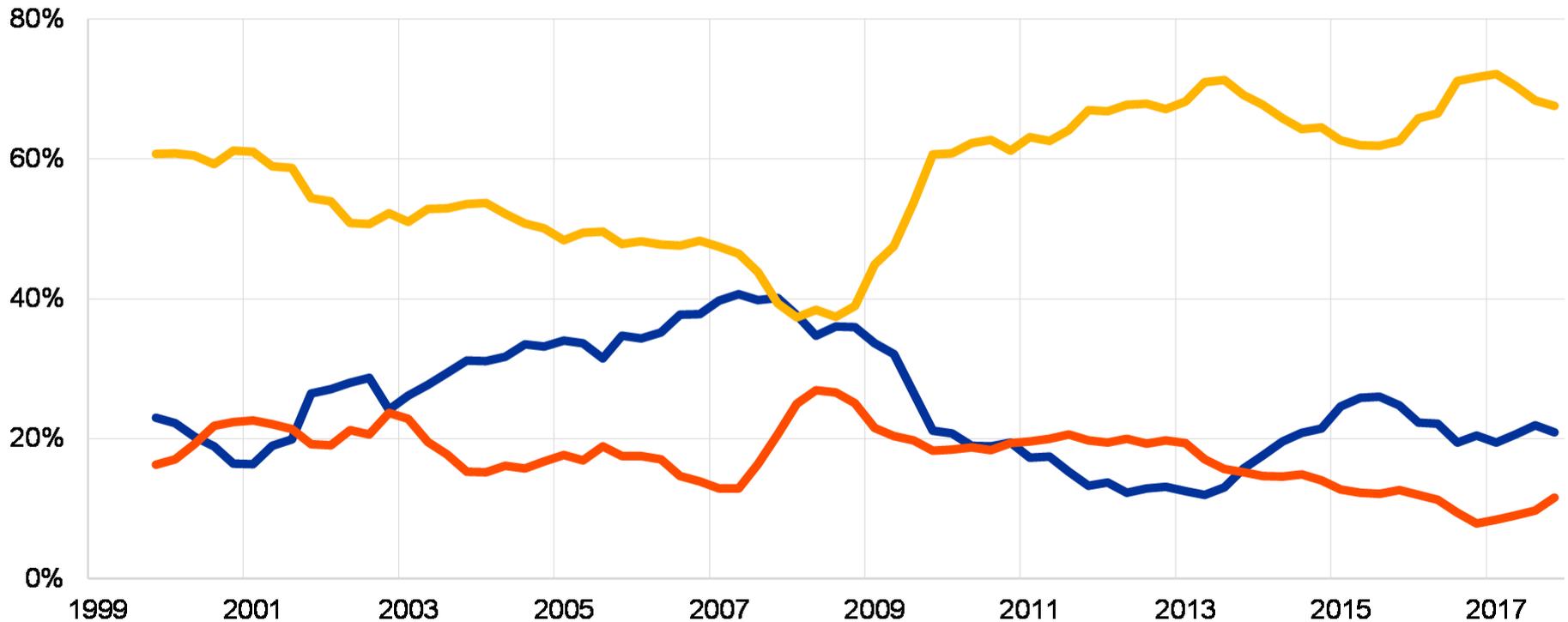
Peter Grasmann
European Commission
4 April 2019

Starting point: the euro is an established global currency

- Around **20% of international official reserves** are held in EUR-denominated assets.
- The euro is widely accepted and used in **international payments, almost at par with the USD and increasing.**
- More than **20% of global debt issuance** is denominated in EUR.
- Around **60 countries** are using or linking their currency to the euro.

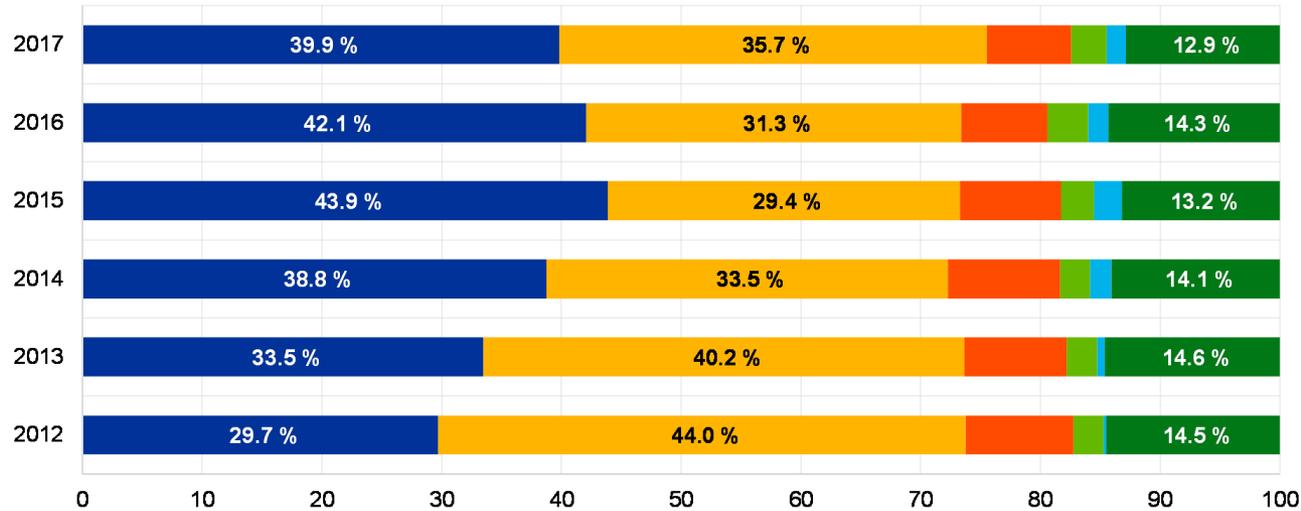
... but it is overshadowed by the established role of the USD and hampered by the legacy of the crisis

EUR USD Other
Currency composition of foreign currency-denominated debt issuance

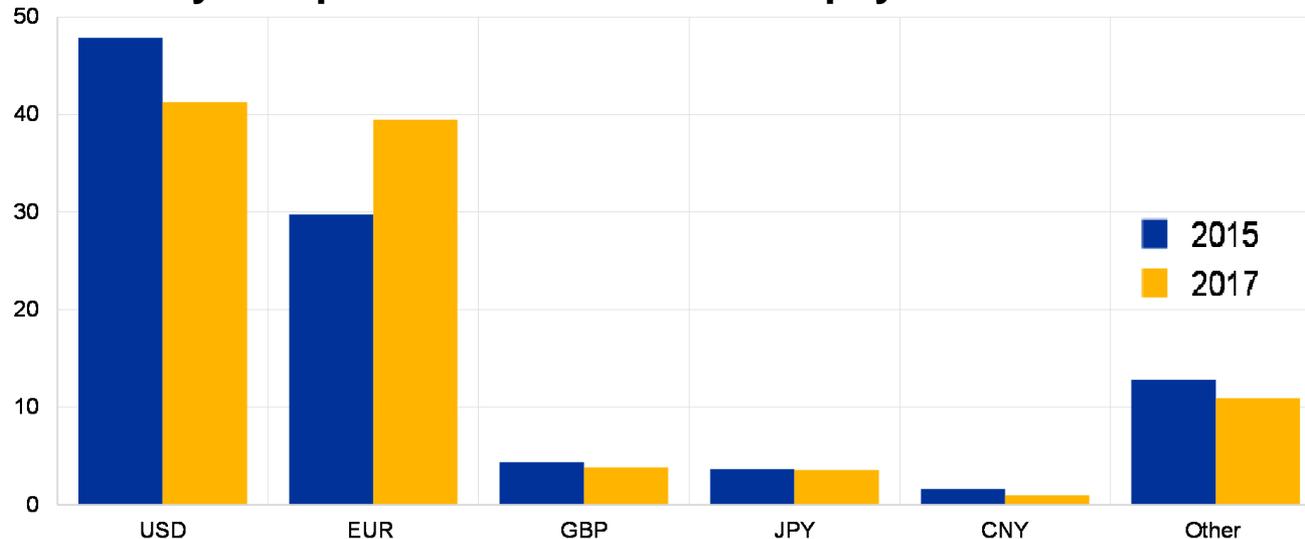


Currency composition of global payments

Currency composition of global payments

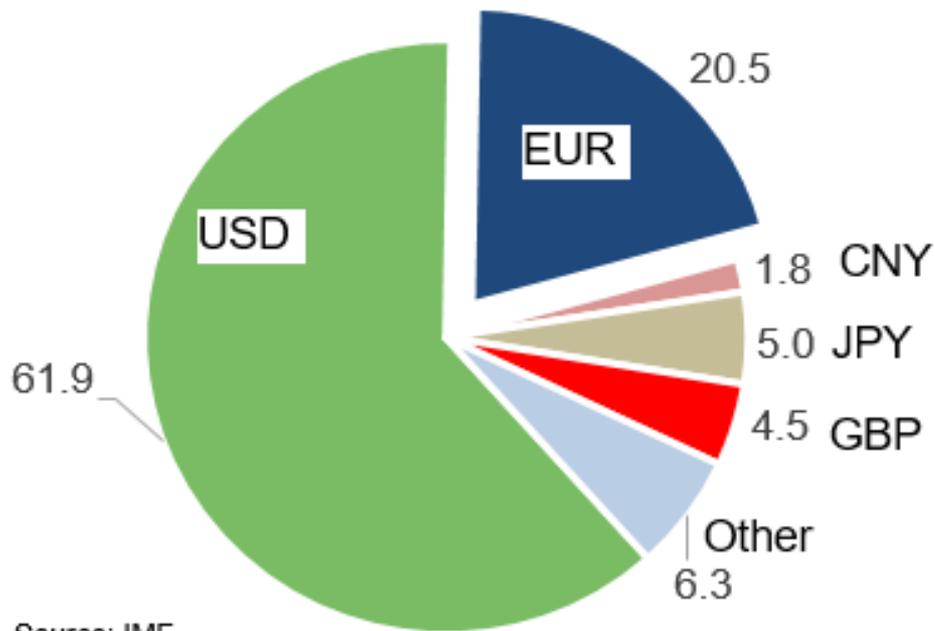


Currency composition of cross-border payments



Currency composition of official foreign exchange reserves

World currency composition of official foreign exchange reserves (2018 Q3; %)



Currency composition of international debt issuance (Sep 2018)

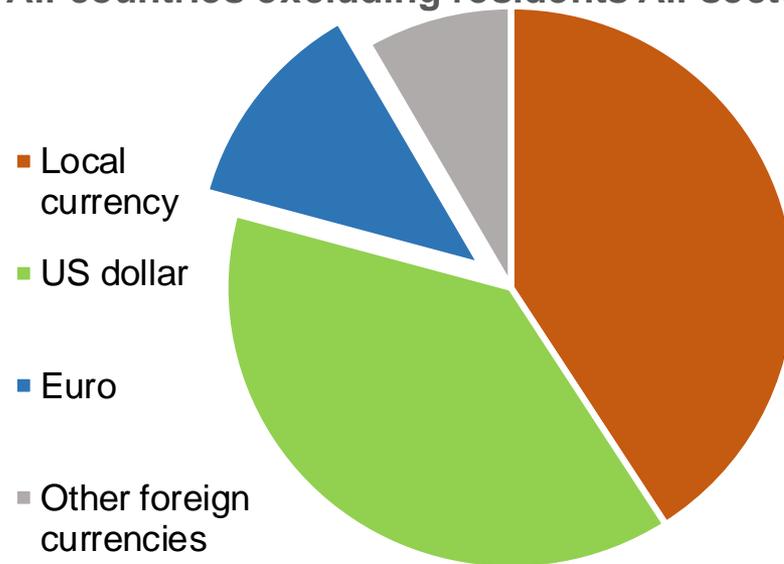
Debt securities: amounts outstanding

All countries excluding residents

	Total volume (USD billion)	Share (% of total)			
		Local currency	US dollar	Euro	Other foreign currencies
Banks	7077	25.8	43.0	15.6	15.6
Other financial corporations	9990	35.5	46.3	6.3	11.9
Non-financial corporations	3760	46.7	29.9	17.6	5.7
General government	1918	27.2	60.8	7.5	4.5
Total	22745	40.9	38.3	12.5	8.3

Source: BIS

Debt securities: amounts outstanding All countries excluding residents All sectors



Commission initiative 2018

- **State of the Union speech, President Juncker** (12 Sep. 2018):

“.... we must do more to allow our single currency to play its full role on the international scene.

Recent events have brought into sharp focus the need to deepen our Economic and Monetary Union and build deep and liquid capital markets. The Commission has made a series of proposals to do just that – most of which now await adoption by Parliament and Council.

But we can and must go further. It is absurd that Europe pays for 80% of its energy import bill – worth 300 billion euro a year – in US dollar when only roughly 2% of our energy imports come from the United States. It is absurd that European companies buy European planes in dollars instead of euro. ”

Commission initiative 2018 - Communication

- **Letter of intent:**

“Further initiatives to give perspective for the future of the Union: Communication on strengthening the international role of the euro”

→ **Commission Communication** of 5 Dec. 2018 on
“Towards a stronger international role of the euro”

(see also: https://ec.europa.eu/info/business-economy-euro/euro-area/international-role-euro_en)

Why the initiative?

Or: Potential benefits from a larger international role of the euro

- **Lower cost and risk** of trading internationally for European businesses
- **Lower interest rates** paid by European households, businesses and Member States
- More **reliable access to finance** for European businesses and governments
- **Stronger autonomy** of European businesses and consumers
- **Higher resilience** of the international financial system and global economy

Challenging the position of the USD or the US? (1)

- **This initiative is not targeted at the US.**
The US is a key global player by its political and economic power.
This US position and strength supports the international role of the US dollar.
- **The Communication is not a reaction to specific actions** by any country.
- It does **not attempt to “overtake the USD”**.
- The **standing of a currency depends also on factors beyond the economic and financial situation** of its home country

Challenging the position of the USD or the US? (2)

- **Rather, a changing geopolitical reality and new technologies trigger a shift** from one reserve currency towards a multipolar system.
- **Such shifts do not occur rapidly.**
- **Market participants ultimately decide which currency to use.**
- **Targeted measures can support this process:** reinforcing the euro area economic fundamentals which would also make the euro more attractive globally.

Some existing proposals or work strands are crucial for progress

- Completing the **Banking Union**
 - Backstop to the Single Resolution Fund
 - European Deposit Insurance Scheme
- Completing the **Capital Markets Union**
- Other measures of **deepening EMU**
- New **Multiannual Financial Framework**
 - Reform Support Programme and Investment Stabilisation Function
- Setting up a **European Monetary Fund**
- Strengthening **External representation** of the euro area

→ **These initiatives are crucial to deliver a better integrated, larger and more shock-resilient “home market”**

Additional targeted measures for the European financial sector

Measures and initiatives	State of play
Strengthen the liquidity and resilience of European market infrastructure by expanding the scope of derivative contracts to be centrally cleared	The European Securities and Markets Authority (ESMA) has to go through a two-step procedure to decide on the expansion of derivatives, after an ongoing review of the EMIR (European Market Infrastructure Regulation).
Ensure a reliable framework for a trustworthy interest rate benchmark	<ul style="list-style-type: none">- The Commission issued an EU Benchmark Regulation in June 2016, which still needs to be fully implemented by 2020.- An ECB stakeholder working group is active to ensure its full implementation.
Support a fully integrated instant payment system in the EU via Euro Retail Payment Board (ERPB), under auspices of the ECB, to ensure interoperability of the existing payment systems	The ERPB working group produced a draft mandate to analyse the requirement for the development of instant payments in two steps: (1) take stock of existing and planned end-user solutions for instant payments; (2) analyse barriers and determine the solutions, focusing on harmonisation, standardisation and interoperability.
Consultation about euro liquidity in foreign exchange markets	Commission launched a targeted consultation on 25 January until 31 March.

Initiatives towards the global financial sector

- Support **central banks' cooperation** to safeguard global financial stability
 - Helping EU companies' international trading
- Encourage **European bodies to increase their share of euro-denominated debt**
- Further develop **EU's economic diplomacy**
 - Specific events and actions to engage with global partners
 - High-level commercial missions focusing on increasing foreign debt issuance in euro
- **Technical assistance for companies trading with Europe**
 - External Investment Plan (2017)

New measures in key strategic sectors (1)

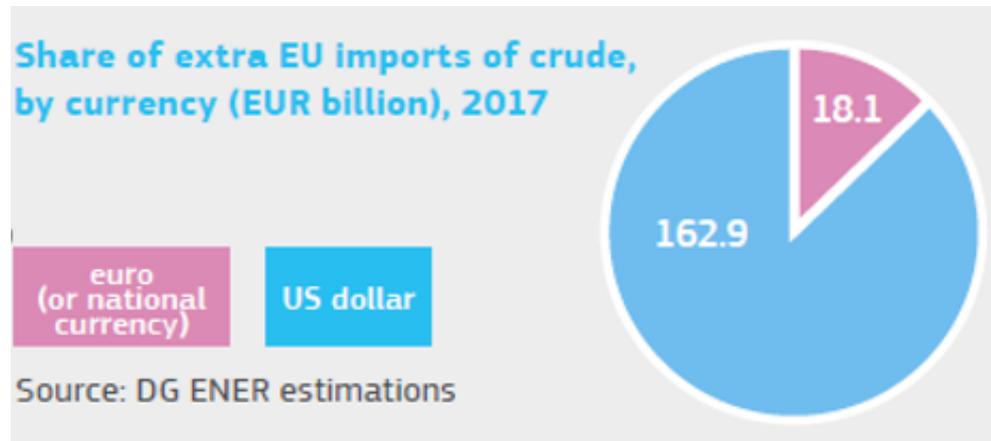
- **Raw materials and food commodities**
 - **Broad consultation: ways to increase trading in euro**
 - ✓ Raw materials (metals and minerals); agriculture and food commodities: broad consultation with stakeholders in order to identify ways to increase trading in euro, especially in the context of transactions at exchanges located in Europe and direct transactions between European companies. Launched to targeted stakeholders on 23 January until 22 March.
 - **Continuing with market-oriented Common Agricultural Policy**
- **Transport manufacturing sector**
 - **Consultation: promote the use of the euro by aircraft, maritime and railways manufacturers**
 - ✓ The consultation will explore in more detail the reasons why the euro is not used for many of the most relevant international transactions and will help identifying conditions that would enable the promotion of the euro in transactions with European businesses. Launched on 23 January until 22 March

New measures in key strategic sectors (2)

- **Energy sector**
 - **Consultation: market potential for euro-denominated transactions in oil, refined products and gas**
 - ✓ Consultation with stakeholders to express their views on the market potential for a broader use of euro-denominated transactions in the areas of oil, refined products and gas. In particular, the consultation will gather feedback on the need to set-up euro-denominated crude oil reference contracts and reinforce the refined product ones.
 - **Recommendation on the international role of the euro in the field of energy**

Recommendation in the field of energy: background

- The **EU is a significant energy importer**:
annual import: ~ €300 billion
- **Large part of EU energy imports denominated in USD**
 - close to 100% in oil;
about 70% in gas
 - (Yet) US share in EU energy imports is only 2%.



Recommendation in the field of energy: content

- Wider use of the euro in **international agreements**
- Wider use of the euro in **energy-related transactions of European market participants**
 - Central stockholding entities and obligated economic operators
 - Market participants – transactions, gas hubs
 - Price reporting agencies – euro-denominated benchmark for crude oil
 - Commodity exchanges – euro-denominated derivatives
- Wider use of the euro in **energy-related projects and transactions by companies providing financial services**

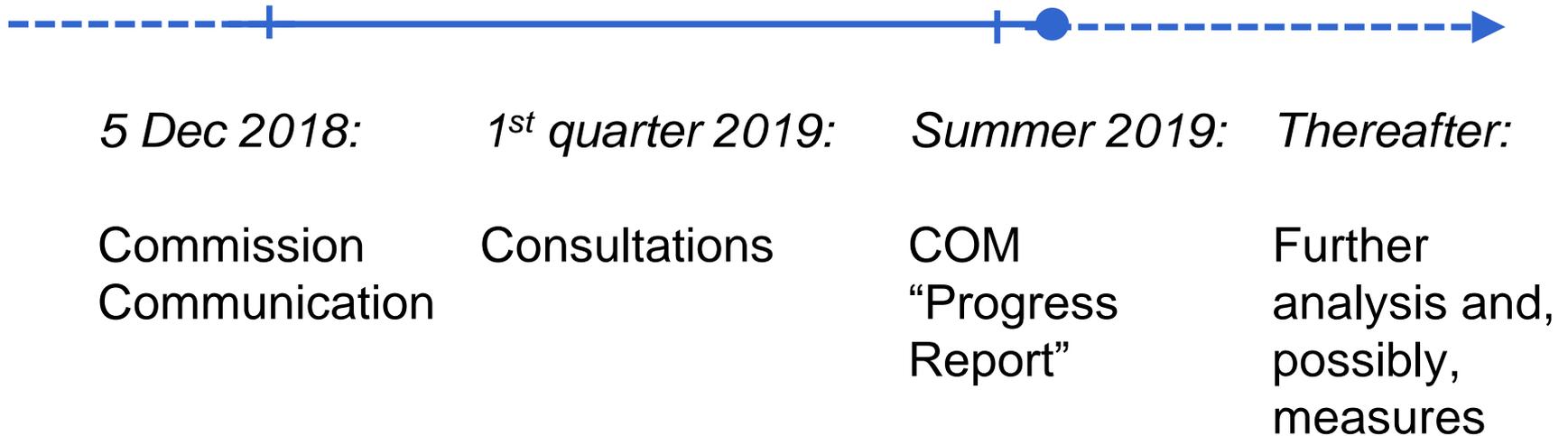
Drawbacks or costs?

- **A wider use of a currency globally might entail**
 - **Stronger inflows of capital**
 - a trend **appreciation** of the currency, and
 - a **shrinking current account balance** of its jurisdiction

Is that a problem?

- Evidence is not clear, and effects might be small;
 - This might just be the reflection of increased welfare of the euro area due to the increased role of its currency.
- **Conduct of monetary policy?**

Timeline of work



Further info

- **European Commission Communication on the International Role of the Euro (December 2018)**

https://ec.europa.eu/info/files/communication-towards-stronger-international-role-euro_en

- **European Commission Recommendation in the area of energy (December 2018)**

https://ec.europa.eu/info/publications/recommendation-international-role-euro-field-energy_en

- **Targeted consultation on the euro and market liquidity in foreign exchange markets**

https://ec.europa.eu/info/consultations/finance-2019-euro-foreign-exchange_en

- **Consultation on the role of the euro in non-energy non-agricultural raw materials (metals and minerals)**

https://ec.europa.eu/growth/content/consultation-role-euro-non-energy-non-agricultural-raw-materials-metals-and-minerals_mt

- **European Central Bank: The international role of the euro (June 2018)**

<https://www.ecb.europa.eu/pub/pdf/ire/ecb.ire201806.en.pdf>