Some Remarks on the Euro’s International Role

Barry Eichengreen
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“The euro’s international role remained broadly stable…”

- Is this a positive assessment?
- Or code for lack of progress?
“The euro’s international role remained broadly stable…”

- Is this a positive assessment?
- Or code for lack of progress?
- It is both, of course.
- Europe has once again put existential doubts to rest. (The euro isn’t going anywhere.)
- But neither is the euro catching up with the $.
  - (Another meaning of “isn’t going anywhere.”)
I’m sympathetic to the broad analytical framework.

When I talk about the “secret sauce” that makes for an international currency, I emphasize four ingredients:

- Size
- Stability
- Liquidity
- Security
## Comparison of determinants of international currency status: USD, EUR, RMB

<table>
<thead>
<tr>
<th></th>
<th>Size</th>
<th>Stability</th>
<th>Openness</th>
<th>Market depth/liquidity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GDP / world GDP</td>
<td>Public debt / GDP</td>
<td>Trade / GDP</td>
<td>Stock of government bonds</td>
</tr>
<tr>
<td><strong>US</strong></td>
<td>15%</td>
<td>106%</td>
<td>10%</td>
<td>$ 20 trn</td>
</tr>
<tr>
<td><strong>Euro area</strong></td>
<td>11%</td>
<td>84%</td>
<td>19%</td>
<td>$ 9 trn</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td>19%</td>
<td>56%</td>
<td>18%</td>
<td>$ 6 trn</td>
</tr>
</tbody>
</table>

Sources: Haver Analytics, BIS debt securities statistics and ECB staff calculations.
Notes: Size corresponds to GDP as a % of world GDP in PPP. Stability is measured as the general government debt as a % of domestic GDP. Openness corresponds to the share of trade in goods as a % of domestic, excluding intra-euro area trade. Market liquidity is measured as the total outstanding amount of general government debt securities.
Latest observation: 2019
Countries that rely on the US for their security umbrella hold a larger share of their reserves in dollars than their trade and investment in the US would lead one to predict.

Does the EU need a foreign policy?

Or does the fraying of US security alliances threaten the dollar’s exorbitant privilege?

- June 15, 2020, Reuters: “Donald Trump confirmed plan to withdraw 9500 US troops from Germany.”
Do things look different post COVID?

In the short run:

- Dollar benefitted from the generalized flight to safety.
  - Liquidity is more valuable than ever in a crisis.
- Dollar is a safe haven (appreciates in bad times).
  - An attractive feature in a volatile environment.
- Fed’s swaps, repos, sweetened terms all helped to solidify its position.
- (ECB did the same for… … Romania, Bulgaria, Croatia, Denmark – but not more widely. Cause or symptom of the euro’s still limited international role?)
Do things look different post COVID?

- We already see some signs of central banks hedging their bets.
- Crazy statements coming out of US Congress.
- Loss of the dollar’s “competence premium.”
- Role of checks and balances (erosion of US democracy).
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- Crazy statements coming out of US Congress.
- Loss of the dollar’s “competence premium.”
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And then there’s this:

- Exceptional (one-time) initiative in response to an exceptional (unique) event?
- Or an important precedent.
- In my view, whether there is a dedicated source of financing (akin to U.S. Customs Service) will tell the tale.
Thank you.