



EUROPEAN CENTRAL BANK

EUROSYSTEM

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

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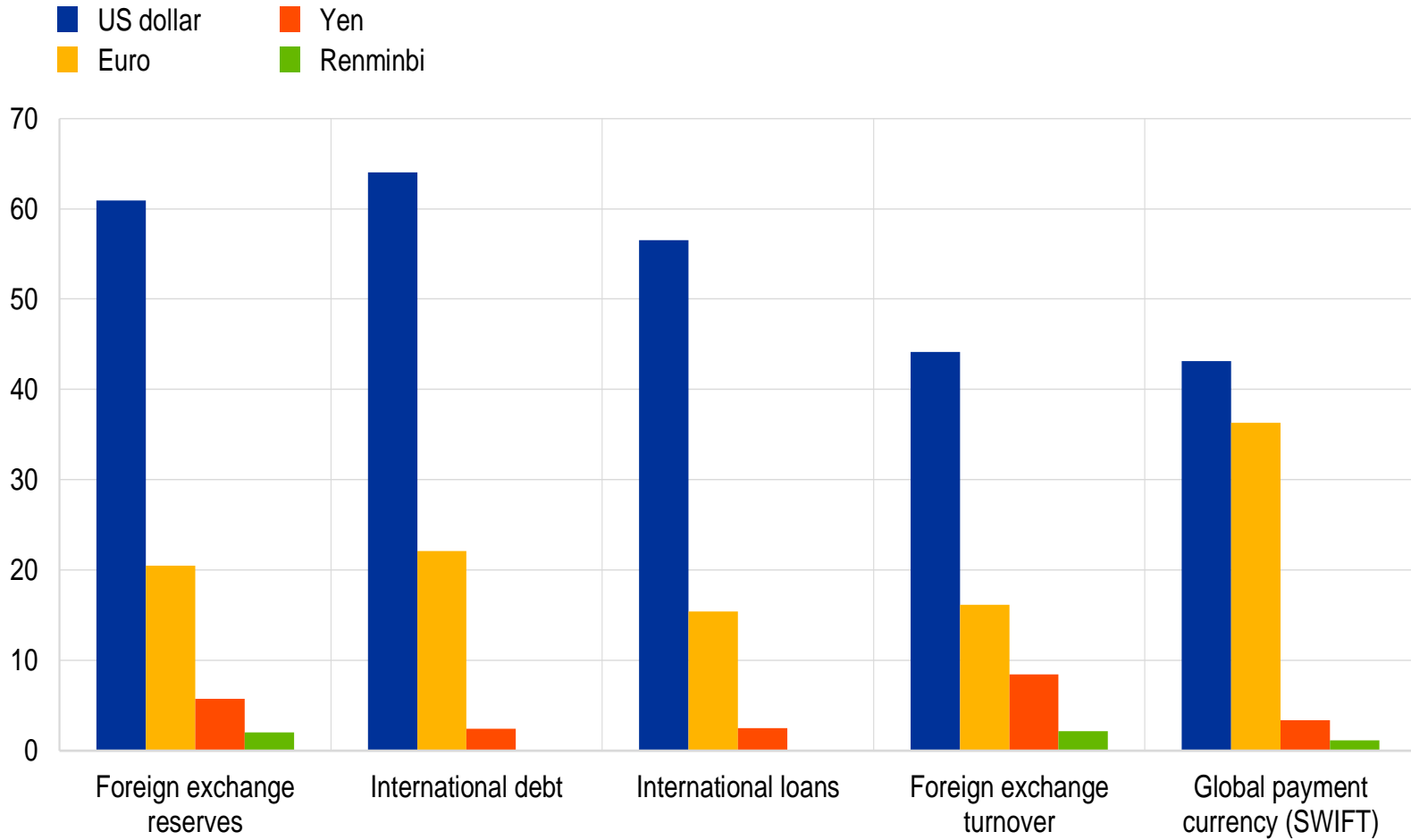
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SUERF Webinar

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- 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

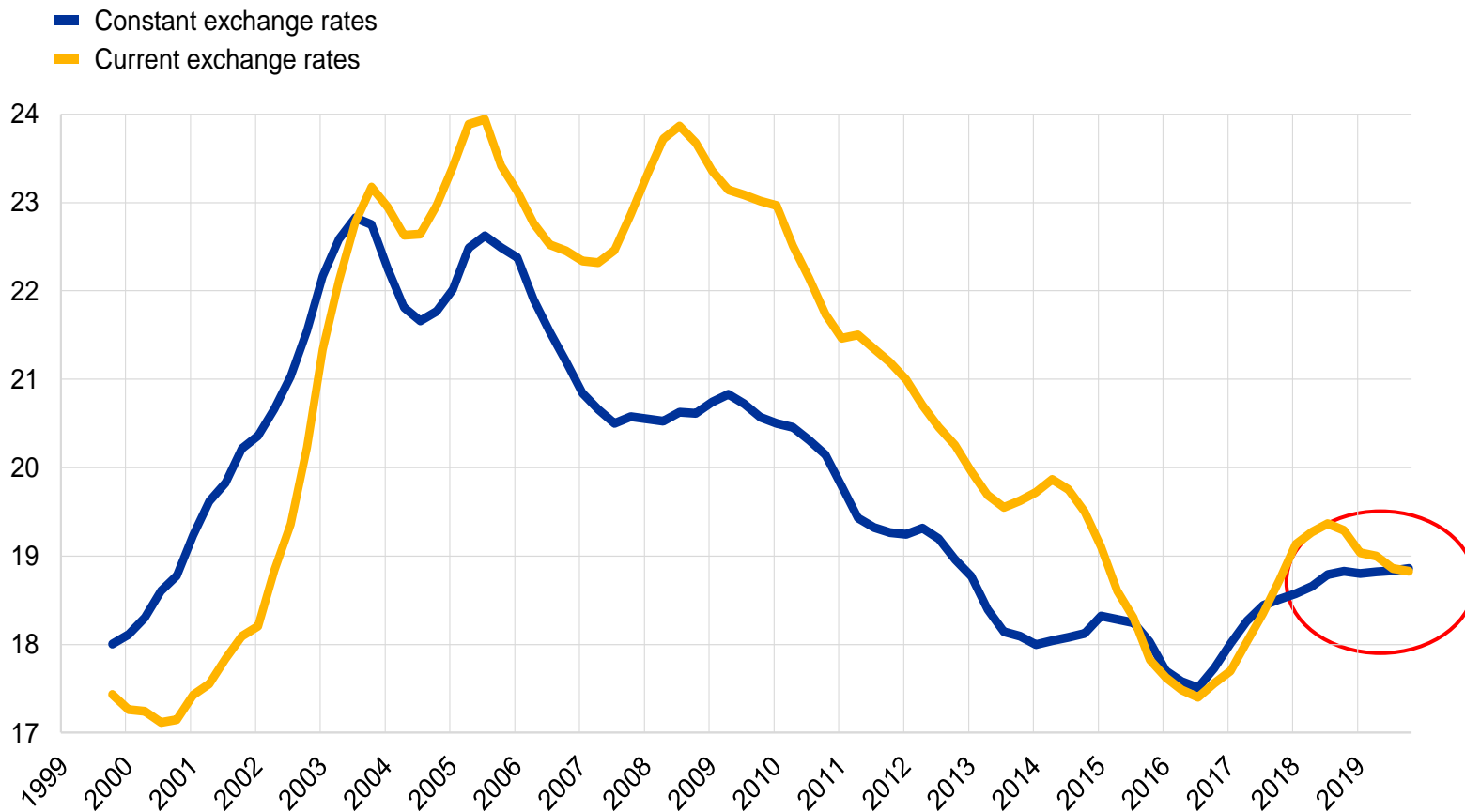
Snapshot of the international monetary system (percentages)



Sources: BIS, CLS, IMF, SWIFT and ECB calculations.
Note: The latest data are for the fourth quarter of 2019.

Composite index of the international role of the euro

(percentages; at current and Q4 2019 exchange rates; four-quarter moving averages)



Sources: BIS, IMF, Ilizetki, Reinhart and Rogoff (2019) and ECB calculations.

Notes: Arithmetic average of the shares of the euro at constant (current) exchange rates in stocks of international bonds, loans by banks outside the euro area to borrowers outside the euro area, deposits with banks outside the euro area from creditors outside the euro area, global foreign exchange turnover, global foreign exchange reserves and in global exchange rate regimes. Data at constant exchange rates are not available for global foreign exchange turnover. The estimates for the share of the euro in global exchange rate regimes between 2016 and 2019 were obtained by ECB staff using the same methodology as Ilizetki, Ethan, Carmen Reinhart and Kenneth Rogoff (2019), "Exchange Arrangements Entering the 21st Century: Which Anchor Will Hold?" Quarterly Journal of Economics 134 (2), pp. 599-646. The latest observations are for the fourth quarter of 2019.

General

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

Investment currency

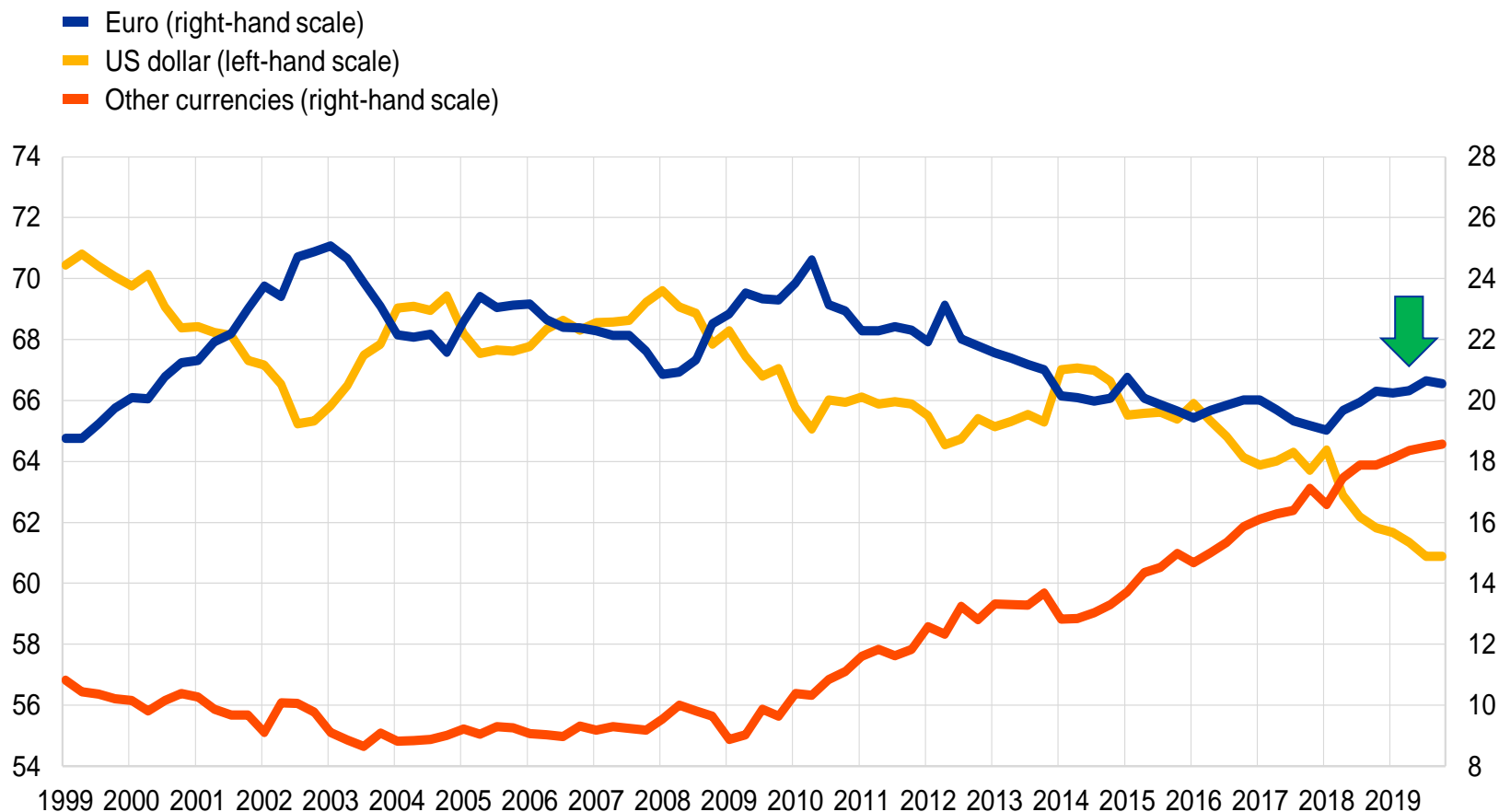
- Increased diversification of official portfolios towards other currencies (AUD, CAD, RMB)
- Relatively low interest rates lowered the attractiveness of investments in euro-denominated securities

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

Developments in the shares of the euro, US dollar and other currencies in global official holdings of foreign exchange reserves

(percentages; at constant Q4 2019 exchange rates)



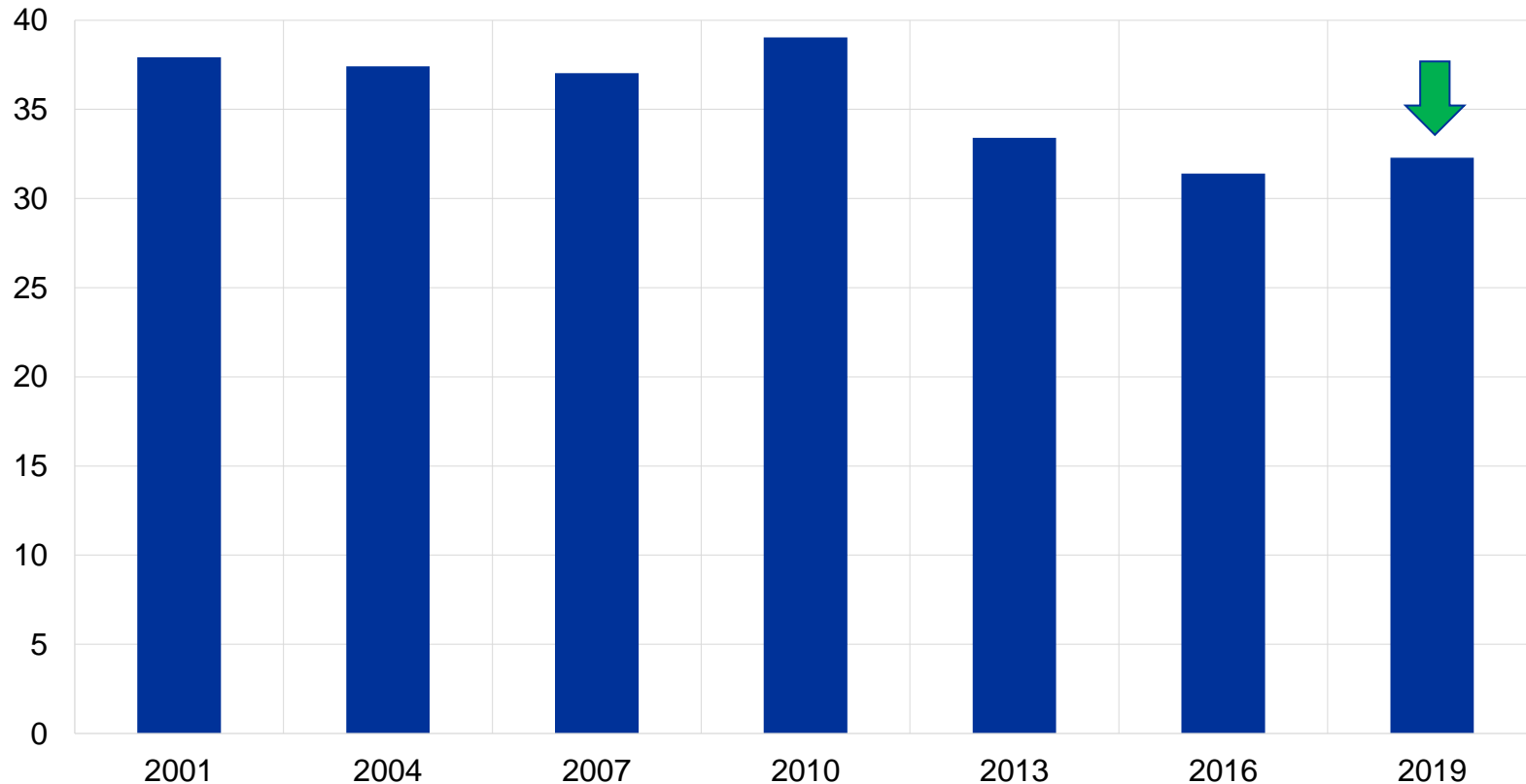
Sources: IMF and ECB calculations.

Note: The latest observation is for the fourth quarter of 2019.

The euro's share in global FX turnover increased slightly in 2019

Euro share of global over-the-counter FX transactions, on a net-net basis

(percentages, in April of the year shown on the x-axis)

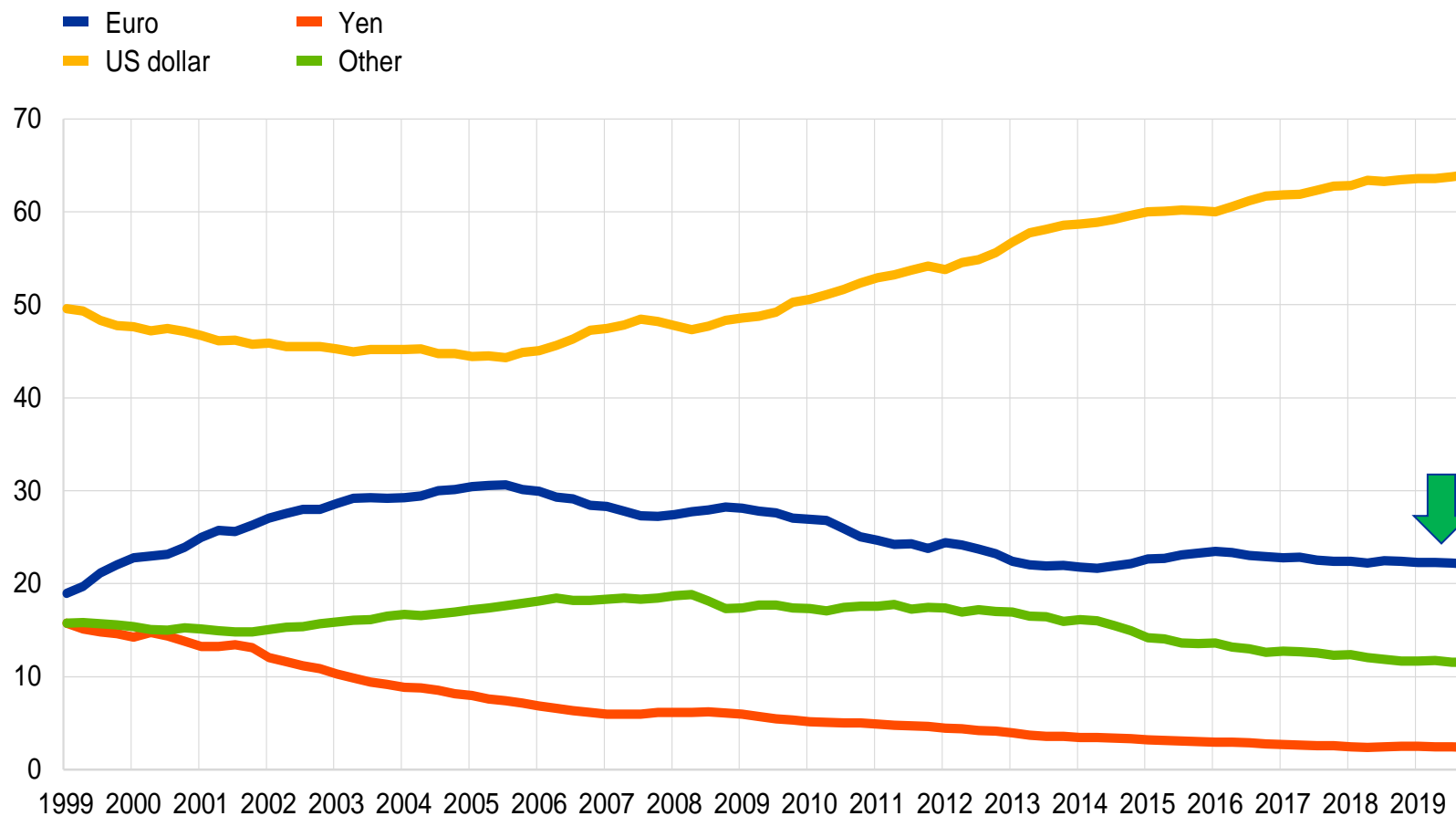


Sources: BIS and ECB calculations.

Notes: Because two currencies are involved in each transaction, the sum of the percentage shares of individual currencies totals 200% instead of 100%. Adjusted for local and cross-border inter-dealer double-counting (i.e. "net-net" basis).

Currency composition of outstanding international debt securities

(percentages; at Q4 2019 exchange rates)

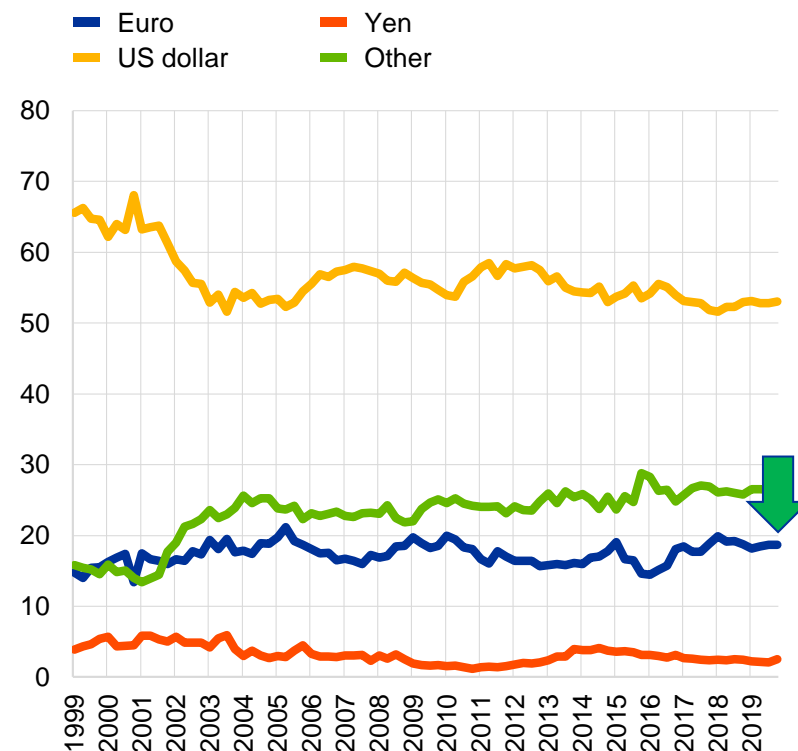
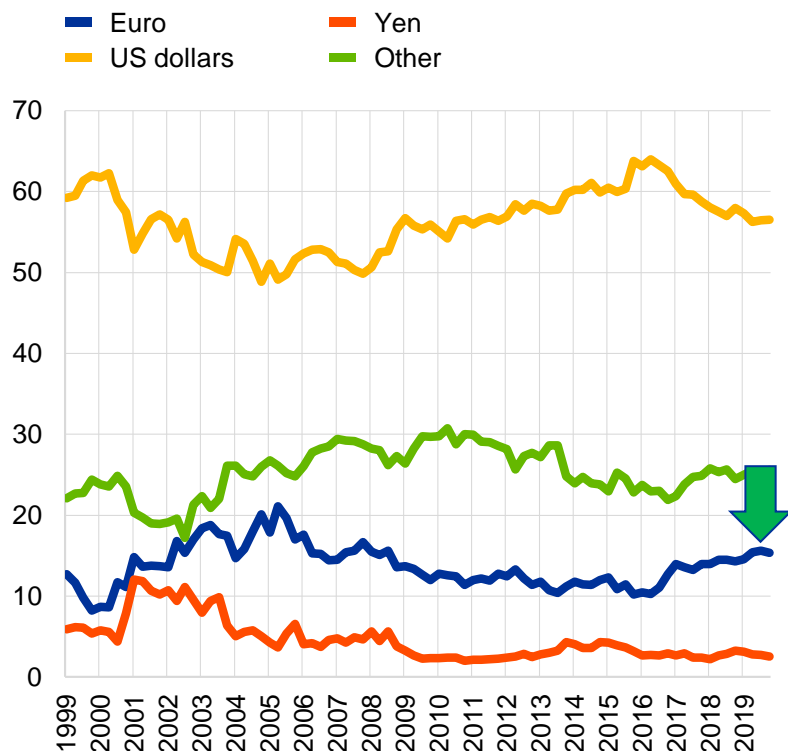


Sources: BIS and ECB calculations.

Notes: Narrow measure. The latest data are for the fourth quarter of 2019.

Currency composition of outstanding amounts of international loans (left panel) and international deposits (right panel)

(percentages; at Q4 2019 exchange rates)



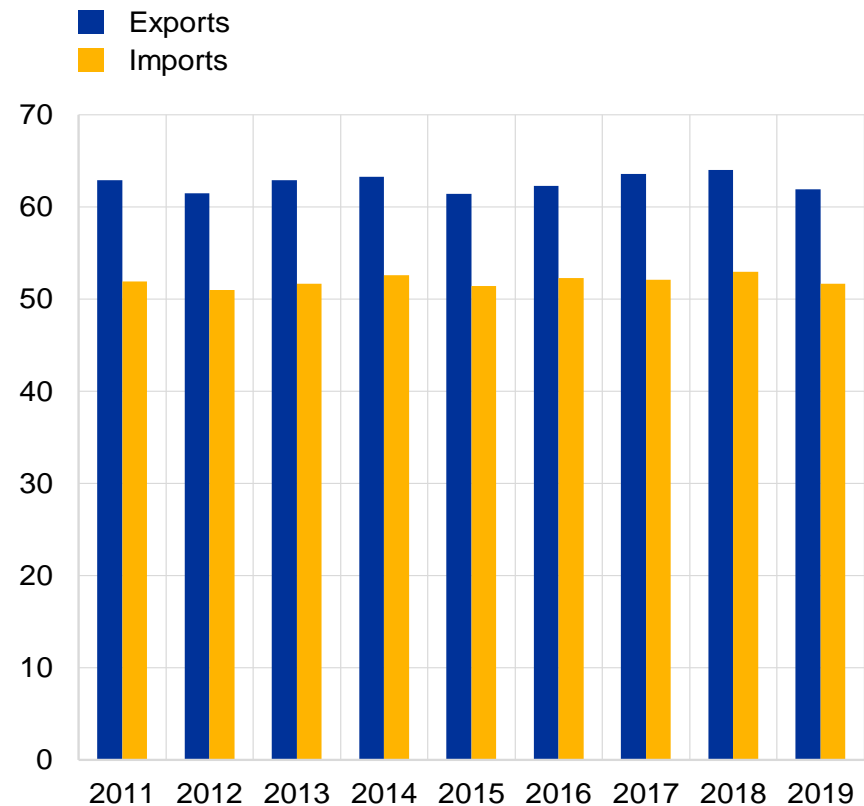
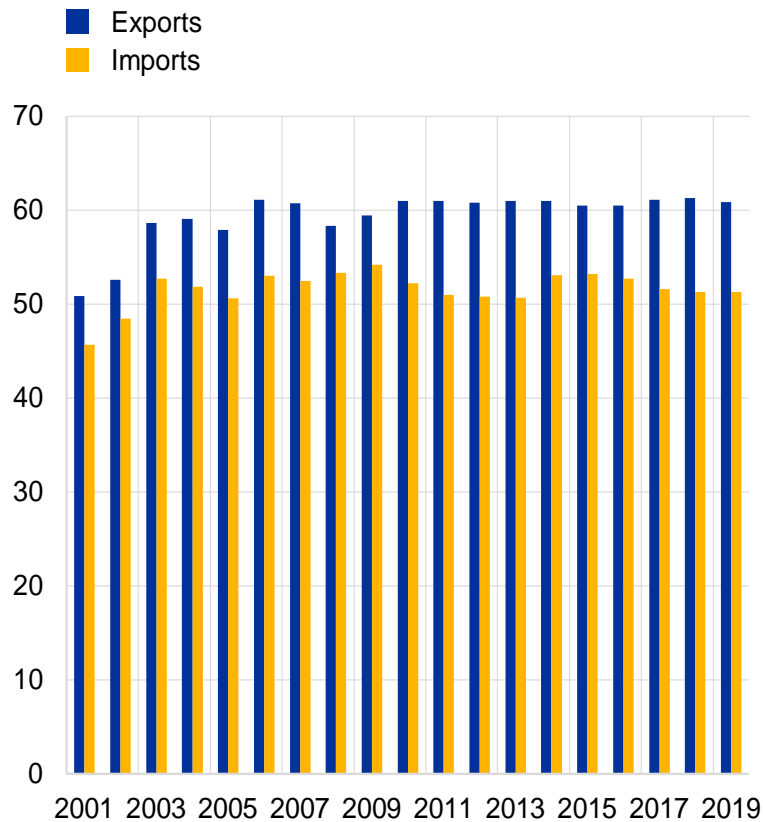
Sources: BIS and ECB calculations.

Note: The latest data are for the fourth quarter of 2019.

The euro's share in invoicing of extra-euro area trade was broadly stable in 2019

Euro share in invoicing of extra-euro area trade in goods (left panel) and services (right panel)

(percentages)

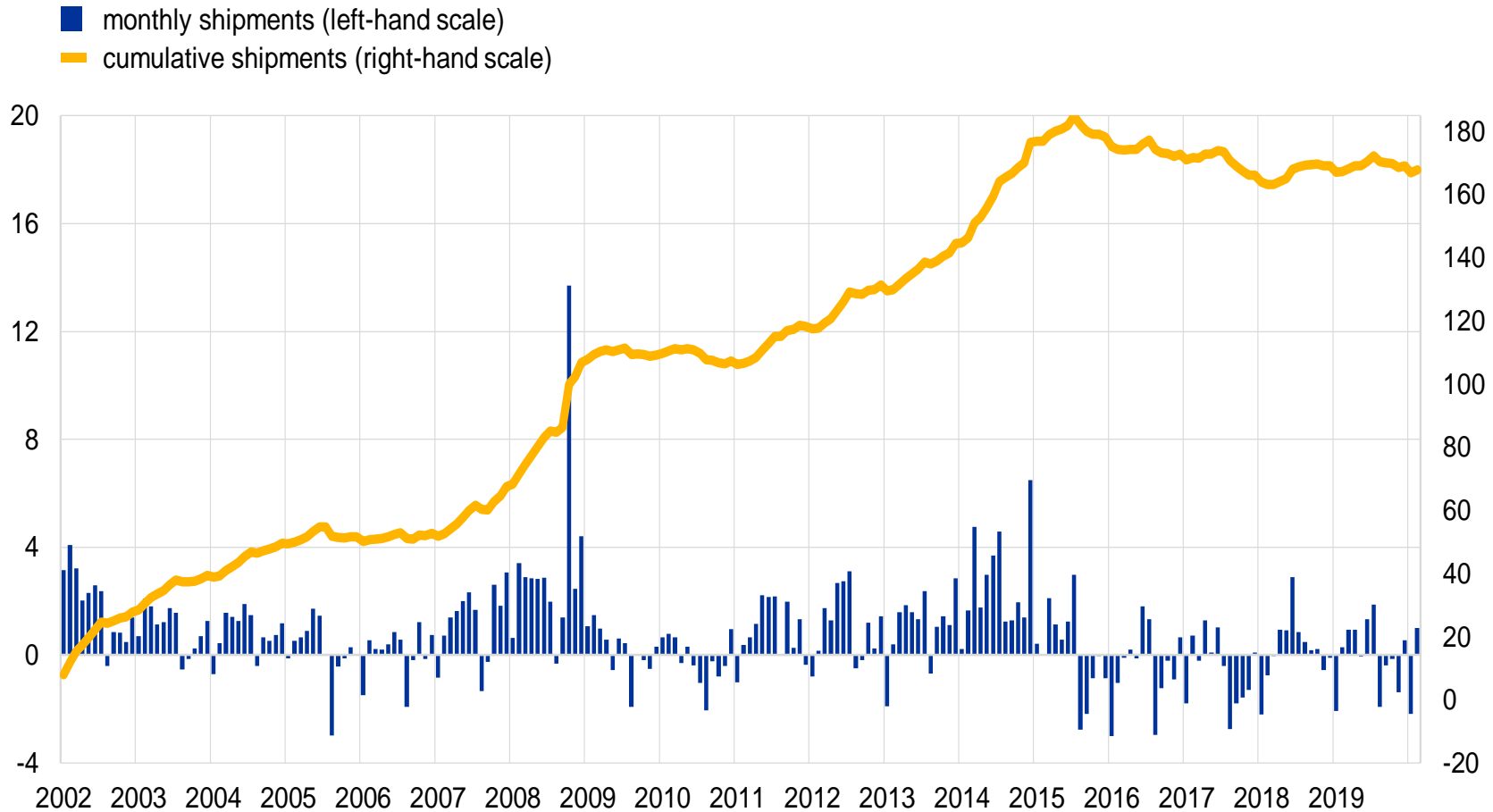


Sources: ECB, IMF DOTS and ECB calculations.

Note: The latest data are for 2019.

Net monthly shipments of euro banknotes to destinations outside the euro area

(EUR billions; adjusted for seasonal effects)

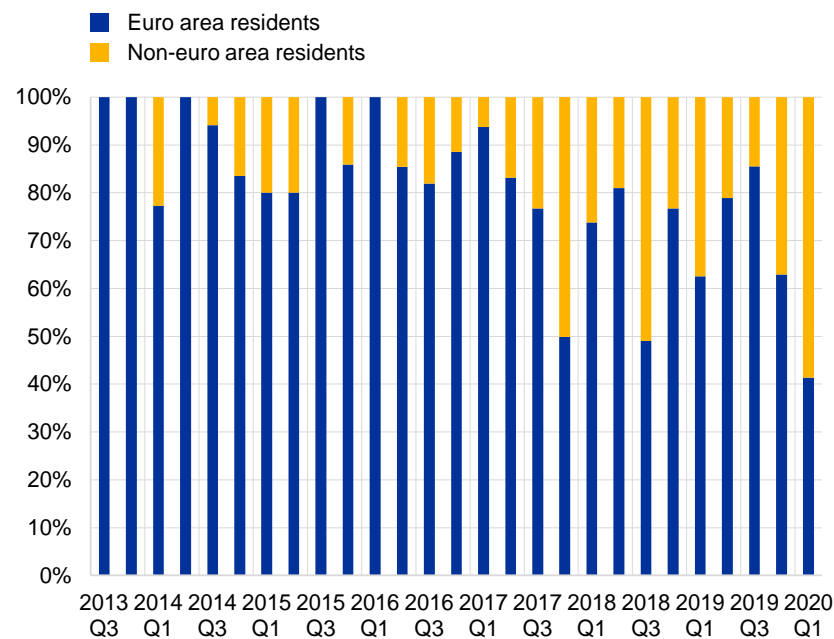
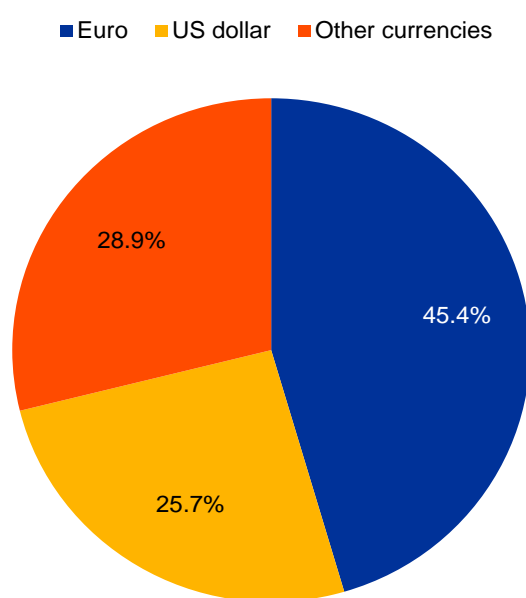


Source: Eurosystem.

Notes: Net shipments are euro banknotes sent to destinations outside the euro area minus euro banknotes received from outside the euro area. The latest observation is for February 2020.

Currency breakdown of green bond issuance in 2019 (left panel) and evolution of the share of euro area and non-euro area issuers of green bonds in euro (right panel)

(percentages)



Sources: Dealogic and ECB calculations.

Note: Last observation 31 January 2020.

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Economic size

Stability (economic, financial, political)

Sound institutions

Financial openness

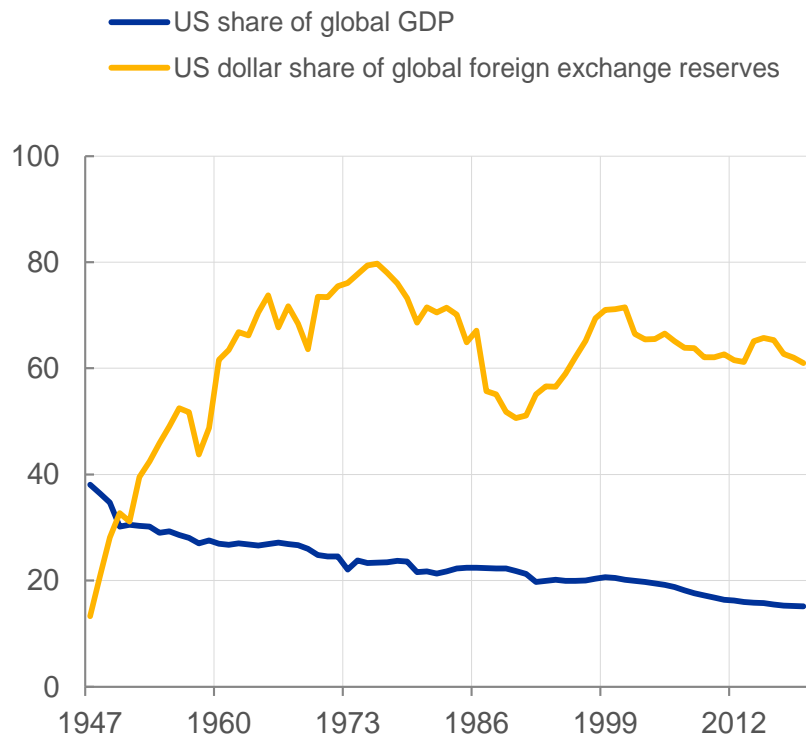
Liquidity/depth of financial markets

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)

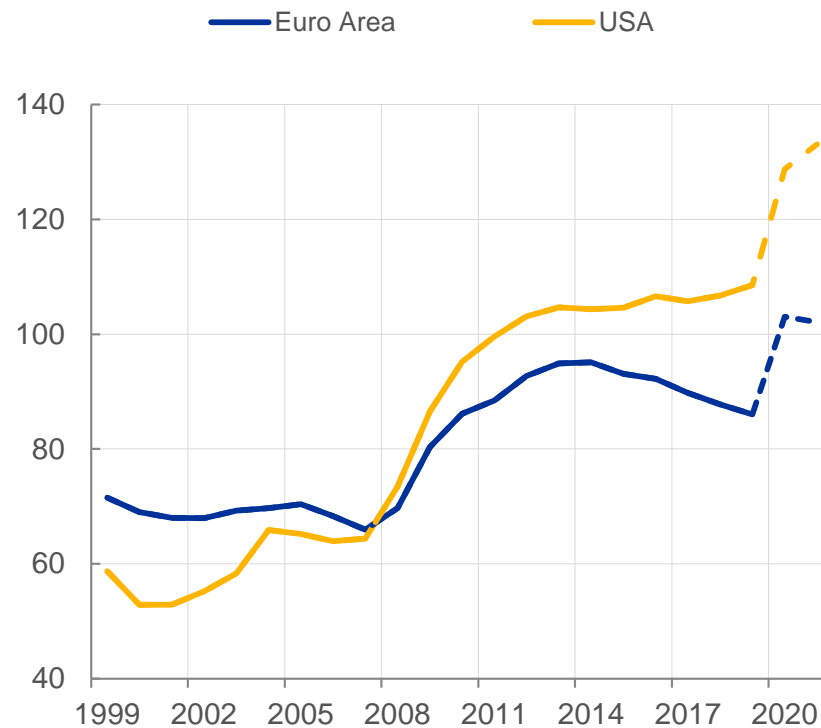


Sources: Maddison project, Haver analytics and Eichengreen, Mehl and Chițu (2016).

Note: share of the US in global GDP is in PPP terms.

Latest observation: 2019.

Gross government debt (percentage of GDP)



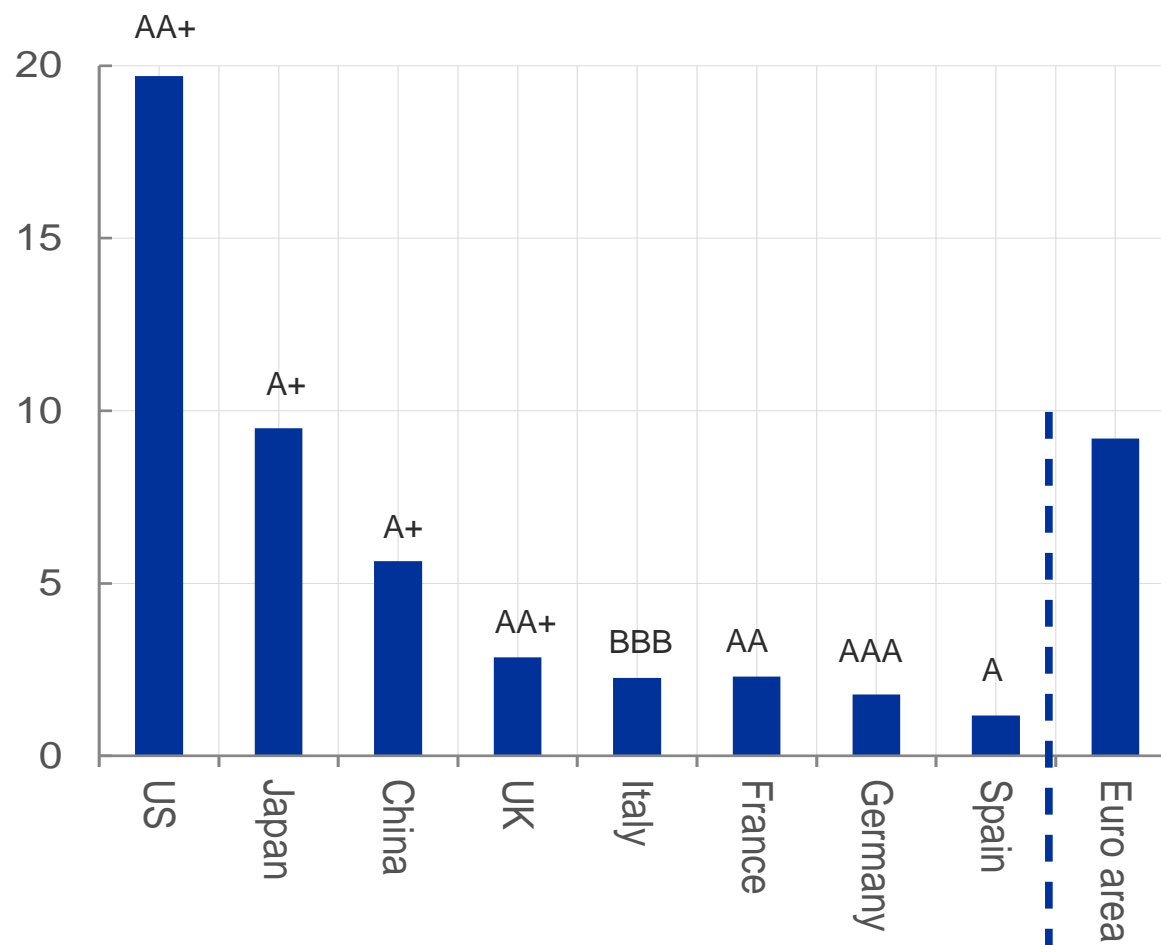
Sources: OECD, Economic Outlook.

Notes: Dashed lines are forecast values. Forecast for the single-hit scenario.

Latest observation: 2019, forecast values for 2020 and 2021.

Amount outstanding of central government debt securities

(USD trillions)



Sources: BIS and Bloomberg

Notes: The data refer to total debt securities issued by the central government. The latest Standard & Poor's long-term sovereign debt rating is reported above each blue bar.

Latest observation: Dec-2019

Comparison of determinants of international currency status: USD, EUR, RMB

	Size	Stability	Openness	Market depth/liquidity
	GDP / world GDP	Public debt / GDP	Trade / GDP	Stock of government bonds
US	15%	106%	10%	\$ 20 trn
Euro area	11%	84%	19%	\$ 9 trn
China	19%	56%	18%	\$ 6 trn

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

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Inertia and network effects

- Price stability, Financial stability
- Sound fiscal & structural policies
- Deeper EMU & Banking Union

- Capital Markets Union
- Common debt issuance
- ECB euro liquidity lines
- Initiatives on markets and payments infrastructure

- **Need to reduce vulnerabilities of euro area economies**
- **“Next Generation EU” (notably the Recovery Fund) and common European short-term safety nets related to the Covid-19 crisis (ESM, EIB, SURE) should help strengthening the euro area resilience and the euro's international role**
- **Completing the architecture of EMU and the Banking Union will make the euro area more resilient**
 - **Banking union – important next steps:**
 - Remove impediments to further integration, such as
 - *Requirements to hold capital/liquidity in subsidiaries rather than at group level*
 - *National options and discretion*
 - *Differences in bank insolvency laws*
 - Establish framework for liquidity to banks in resolution
 - Overcome structural weaknesses in the banking sector
 - Further improve the crisis management framework
 - Finalise the European Deposit Insurance Scheme
 - **Economic and Monetary Union – important next steps:**
 - Make the Stability and Growth Pact and the economic policy instruments (CSRs/MIP) more effective
 - Establish a permanent common fiscal capacity
 - Conclude ESM reform

- **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:**
 - Harmonisation of framework conditions (e.g. taxation, insolvency regimes)
 - Harmonisation of products (e.g. green bonds)
 - Harmonisation of market supervision and regulation
 - Harmonisation of market infrastructures

- **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)

TARGET2 and T2S consolidation will bring us closer to the goal of a truly single financial market in Europe

As part of the European payments strategy, the Eurosystem supports initiatives towards a pan-European retail payment solution

- **These services strengthen *efficiency* of market infrastructures and foster financial market *integration*; in turn, euro-denominated financial markets become more attractive to foreign market participants**
- **Looking ahead, the introduction of global stablecoins and/or of Central Bank Digital Currencies (CBDC) can affect the international role of currencies**

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1999 assessment in blue

2020 assessment in red

Benefits

Seigniorage

Lower transaction and hedging costs

Exorbitant privilege

(lower external financing costs)

Greater monetary policy autonomy

Stronger international transmission of monetary policy with positive spillbacks

Lower pass-through reduces impact of FX shocks on CPI

Reduced exposure to unilateral decisions from third countries

Costs

Blurred monetary aggregate signals (?)

Capital flow volatility (?)

Exorbitant duty

(stronger exchange rate and risk of asset fire sales in global stress episodes; need for provision of liquidity backstop)

Lower effects of monetary policy on import prices

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- **The euro's global role has been hampered by 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**
- **Covid-19 crisis underscores the urgency of these policies and reform efforts**
- **“Next Generation EU” (notably the Recovery Fund) and common European short-term safety nets related to the Covid-19 crisis (ESM, EIB, SURE) should help strengthening the euro area resilience and the euro's international role**
- **The ECB has taken immediate and exceptional measures in response to the pandemic outbreak to address possible market dysfunction and euro liquidity needs in the euro area and internationally, and mitigate risks to the smooth transmission of its monetary policy and to financial stability, in line with its mandate to preserve price stability**