



EUROPEAN CENTRAL BANK

EUROSYSTEM

The international role of the euro

SUERF webinar

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The views expressed here are those of the authors and do not necessarily represent those of the ECB or the Eurosystem

Outline

1. Key developments in the international role of the euro in 2021

2. Analytical boxes

The Russian invasion of Ukraine and international currencies

The internationalization of the renminbi: regaining strength?

New insights from sectoral developments in international loans

Invoicing currency and the exchange rate elasticity of trade

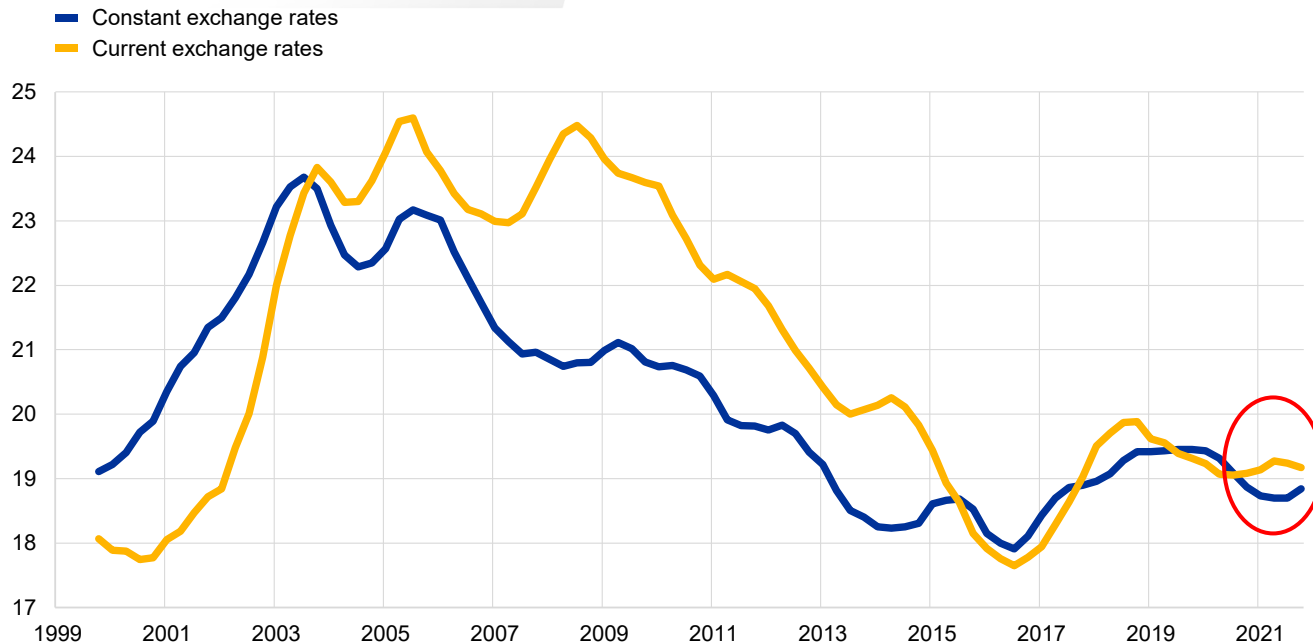
Euro-based stablecoins

3. Conclusions

The international role of the euro remained stable in 2021

Composite index of the international role of the euro

(percentages; at current and constant Q4 2021 exchange rates; four-quarter moving averages)



Sources: Bank for International Settlements (BIS), International Monetary Fund (IMF), CLS Bank International, Ilzetki, 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 settlements, global foreign exchange reserves and global exchange rate regimes.

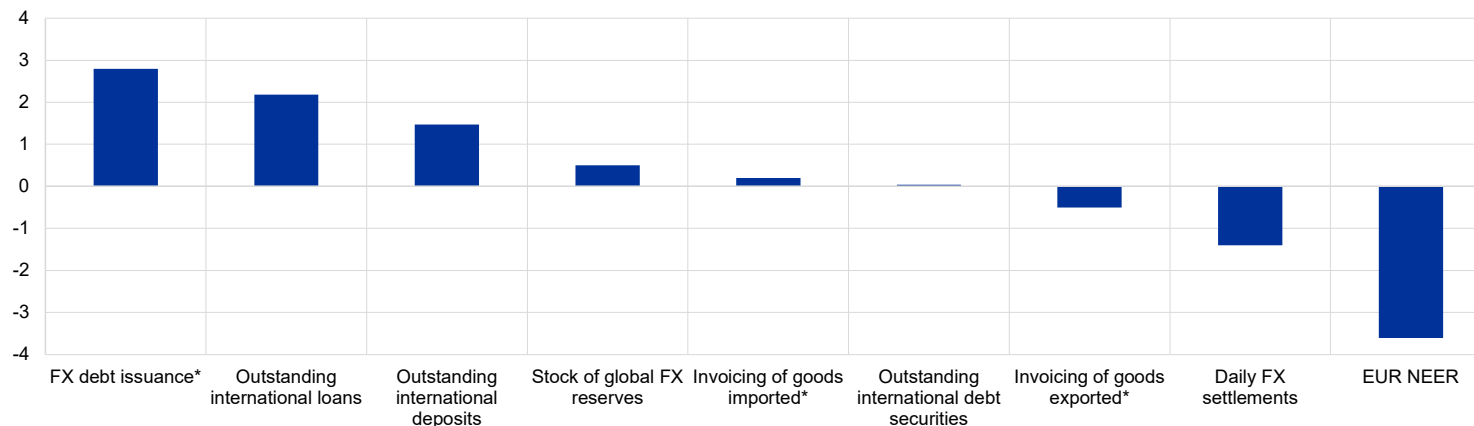
The estimates for the share of the euro in global exchange rate regimes are based on IMF data for the period post-2010; pre-2010 shares were estimated using data from Ilzetki, E., Reinhart, C. and Rogoff, K. (2019), "Exchange Arrangements Entering the 21st Century: which anchor will hold?", *Quarterly Journal of Economics*, Vol. 134, Issue 2, May, pp. 599-646.

The latest observations are for the fourth quarter of 2021.

Increases in the shares of the euro as a financing currency, offset by a decline in FX settlements

Evolution of selected indicators of the international role of the euro in 2021

(percentage changes, at constant Q4 2021 exchange rates, unless otherwise indicated)

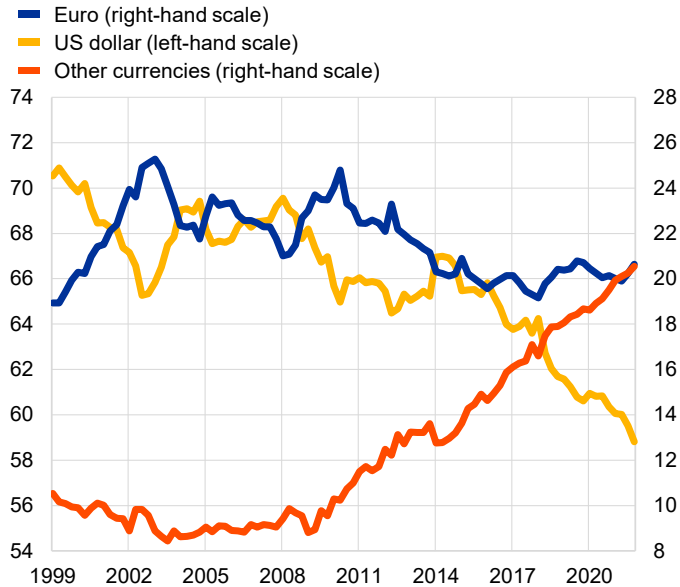


Sources: BIS, IMF, national sources and ECB calculations.

* indicates percentage change at current exchange rates

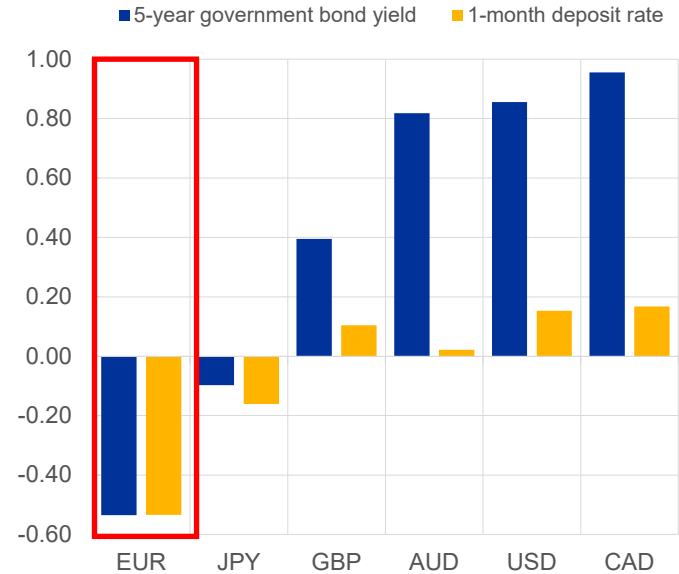
The share of the euro in global FX reserves increased slightly in 2021

Shares of the euro, US dollar and other currencies in global official holdings of FX reserves (percentages; at constant Q4 2021 exchange rates)



Sources: IMF and ECB calculations.
Note: The latest observation is for the fourth quarter of 2021.

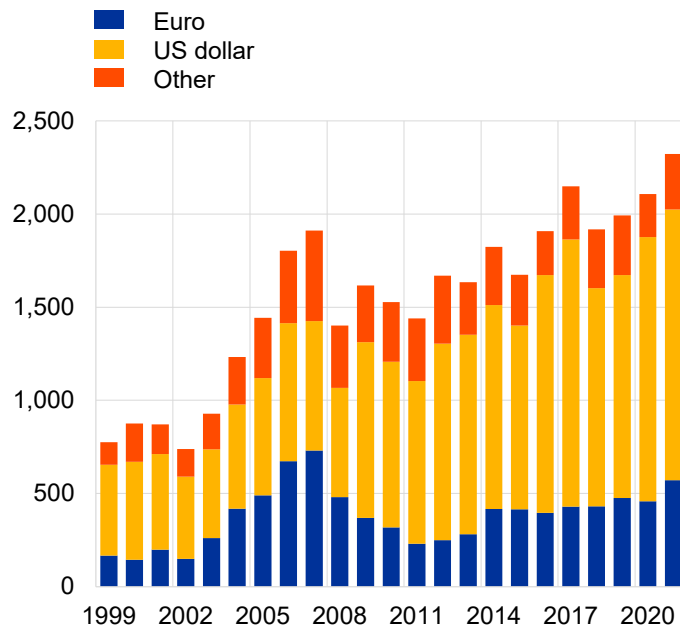
Five-year and one-month interest rate in the major economies in 2021 (percentages)



Sources: Refinitiv Datastream, BIS and ECB calculations.
Note: The five-year government yield for the euro area is calculated as a debt-weighted average of five-year euro area yields of sovereigns with a Standard and Poor's credit rating of at least AA.

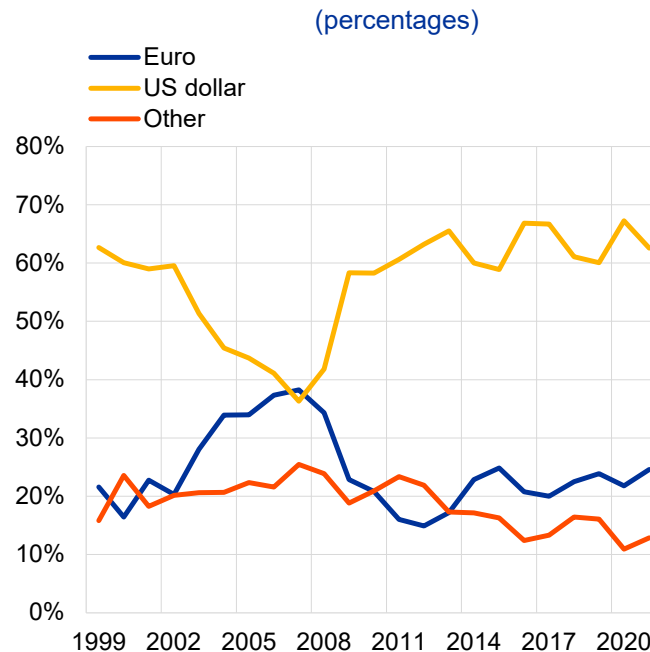
The share of the euro in international issuance of foreign currency-denominated bonds increased in 2021

Issuance of foreign currency-denominated bonds (USD billions)



Sources: Dealogic and ECB calculations.
Note: The latest observation is for end-2021.

International issuance of foreign currency-denominated bonds (percentages)

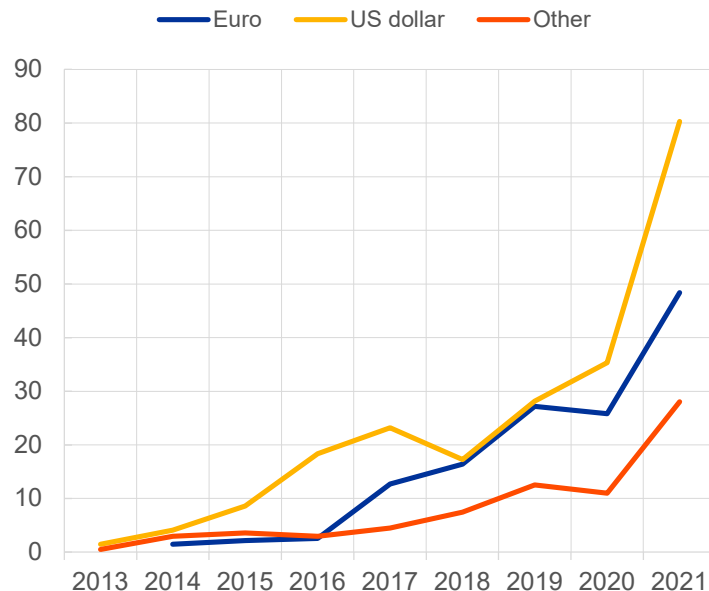


Sources: Dealogic and ECB calculations.
Note: The latest observation is for end-2021.

Euro-denominated international green bond issuance almost doubled in volume in 2021, though the share of the euro in total issuance declined

Amount of international green bonds issued in major currencies

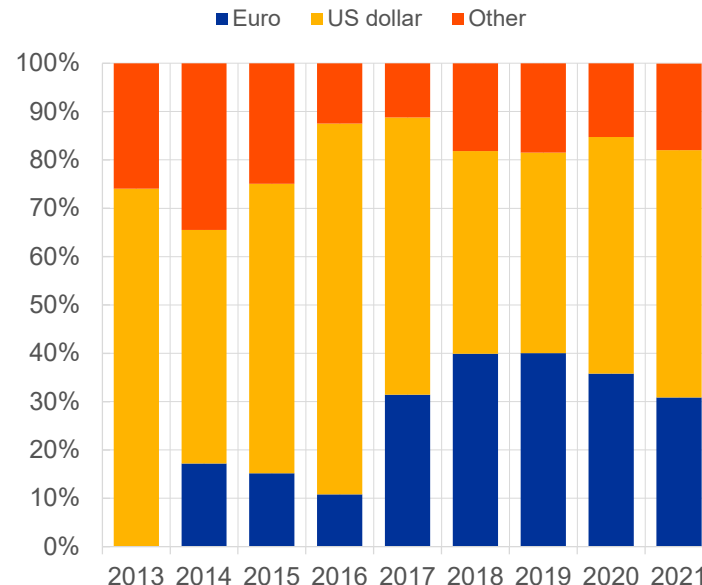
(USD billions)



Sources: Dealogic and ECB calculations.

Notes: Annual totals based on the aggregation of individual deals. The latest observations are for end-2021.

Currency composition of international green bonds (percentages)

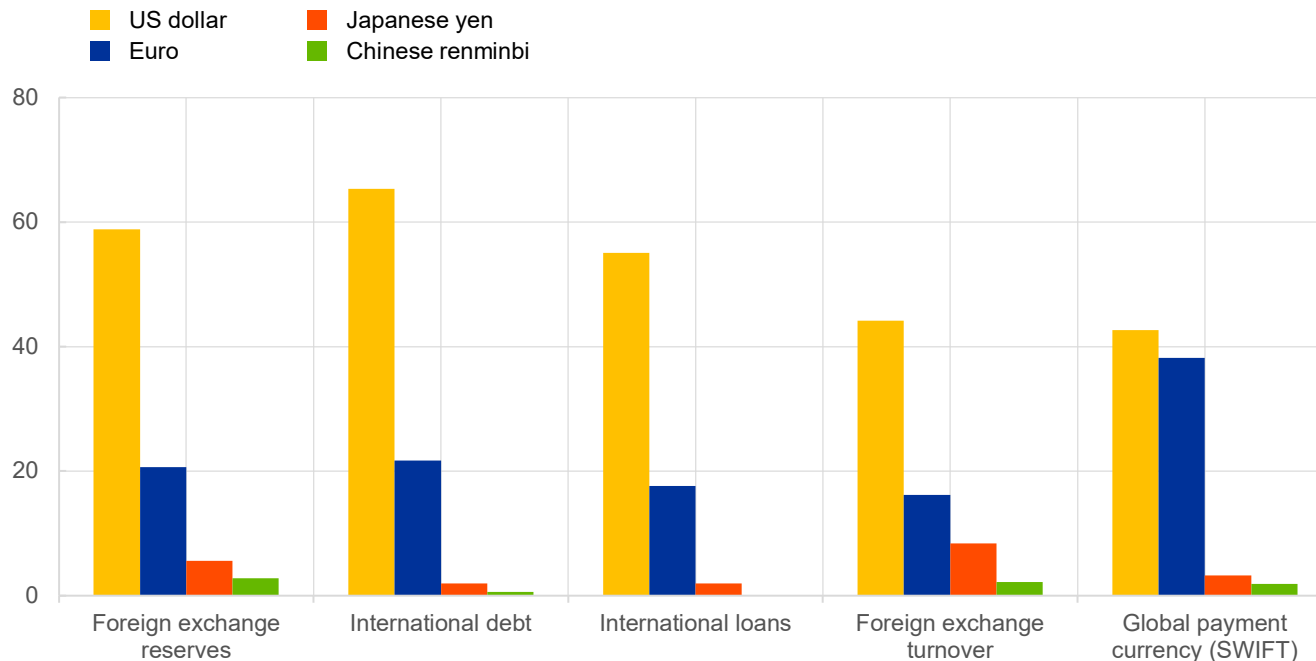


Sources: Dealogic and ECB calculations.

Notes: Annual totals based on the aggregation of individual deals. The latest observations are for end-2021.

The euro remains the second most important currency globally

Snapshot of the international monetary system (percentages)



Sources: BIS, IMF, Society for Worldwide Interbank Financial Telecommunication (SWIFT) and ECB calculations.

Notes: The latest data for foreign exchange reserves, international debt and international loans are for the fourth quarter of 2021. Foreign exchange turnover data as of April 2019. SWIFT data as of December 2021.

Analytical boxes

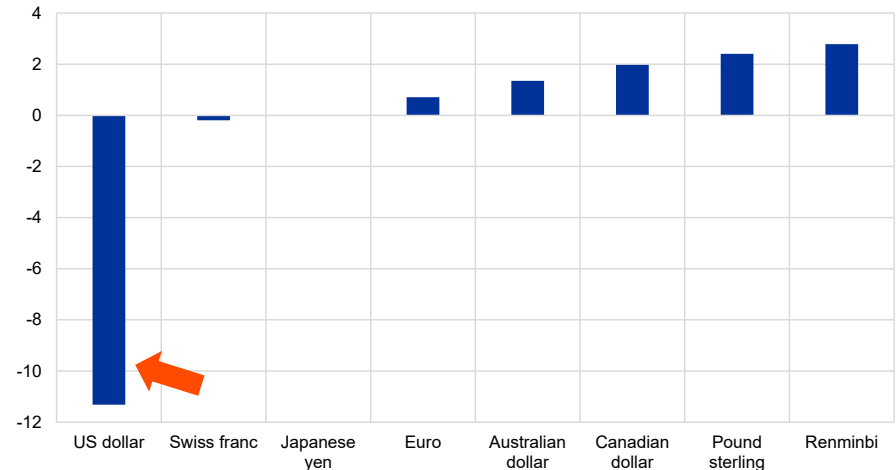
1. The Russian invasion of Ukraine and international currencies
2. The internationalisation of the renminbi: regaining strength?
3. Euro-based stablecoins
4. Invoicing currency and the exchange rate elasticity of trade
5. New insights from sectoral developments in international loans

Russia's invasion of Ukraine raised discussions as to whether some countries could seek to bypass the US dollar and the euro globally

- Russia and other countries may diversify their portfolios further away from the US dollar and the euro after sanctions
 - Renminbi, gold, crypto-assets, etc.
- Segmentation of international payments
 - Russia's demand to be paid in roubles for gas
 - Bilateral discussions on payments in renminbi, rouble or rupee for international trade
 - China's Cross-Border Interbank Payments System
- US dollar's stealth erosion in global foreign exchange reserves
 - (Arslanalp, Eichengreen & Simpson-Bell, 2022)

Change in the share of selected currencies in global foreign exchange reserves since 1999

(percentage points, at constant Q4 2021 exchange rates)



Sources: IMF and ECB calculations.

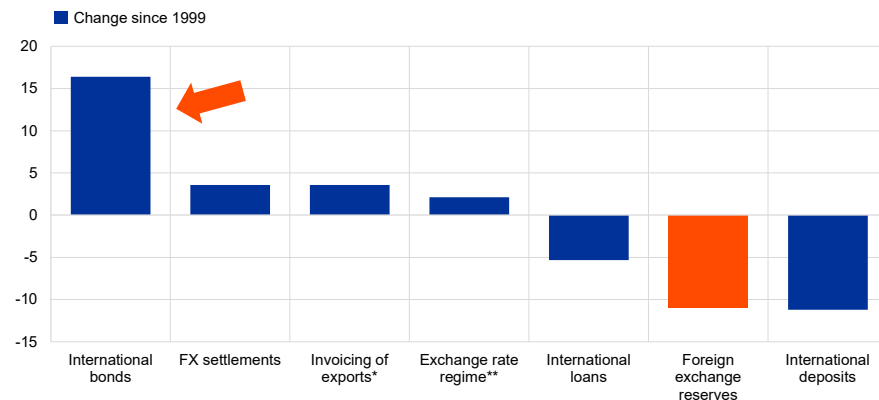
Notes: The change in the share of the renminbi is estimated using data available since 2016; the change in the shares of the Australian and Canadian dollars are estimated using data available since 2012. The latest observation is for the fourth quarter of 2021.

However, the implications of the invasion on the global appeal of the major international currencies remain unclear

- Shifts in global reserves do not necessarily herald broader changes
- Stability or increase in US dollar's global role in various measures
- Alternatives lack depth, liquidity and other attributes to appeal to global investors
- Sound institutions and international alliances important determinants
 - Military alliances boost share of a currency in partner's FX reserves by 30 percentage points (Eichengreen, Mehl and Chitu, 2019)

Change in the share of the US dollar since 1999

(percentage changes at constant 2021 exchange rates, unless otherwise indicated)

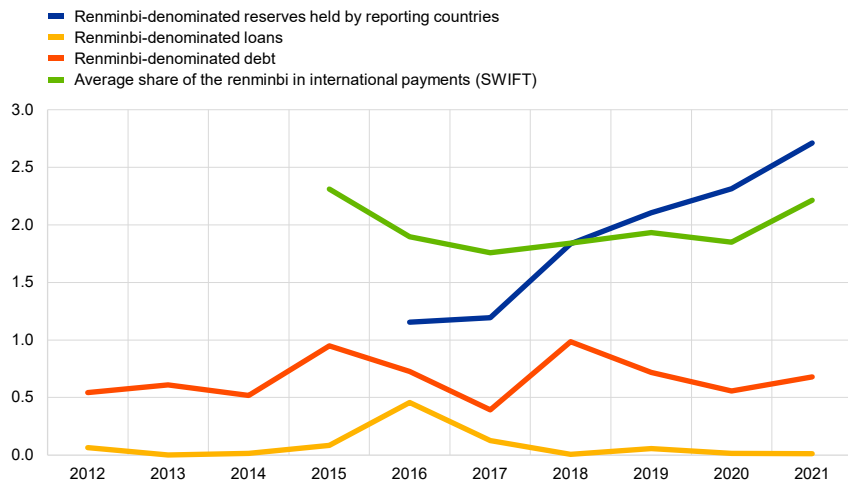


Sources: BIS, IMF, CLS Bank International, Ilzetzki, Reinhart and Rogoff (2019) and ECB calculations.
Notes: The latest observations are for 2021. * Latest observation for export invoicing is for 2019, the change is at current exchange rates. ** Change in the share of the number of countries whose exchange rate is linked to the US dollar.

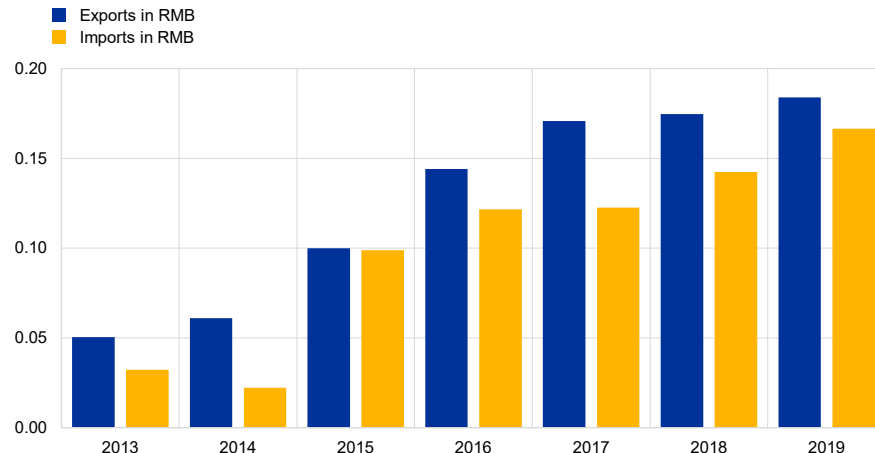
Despite recent headways, the renminbi's global role remains limited

Share of the renminbi in selected measures of international currency use (percentages)

Use in global finance and payments



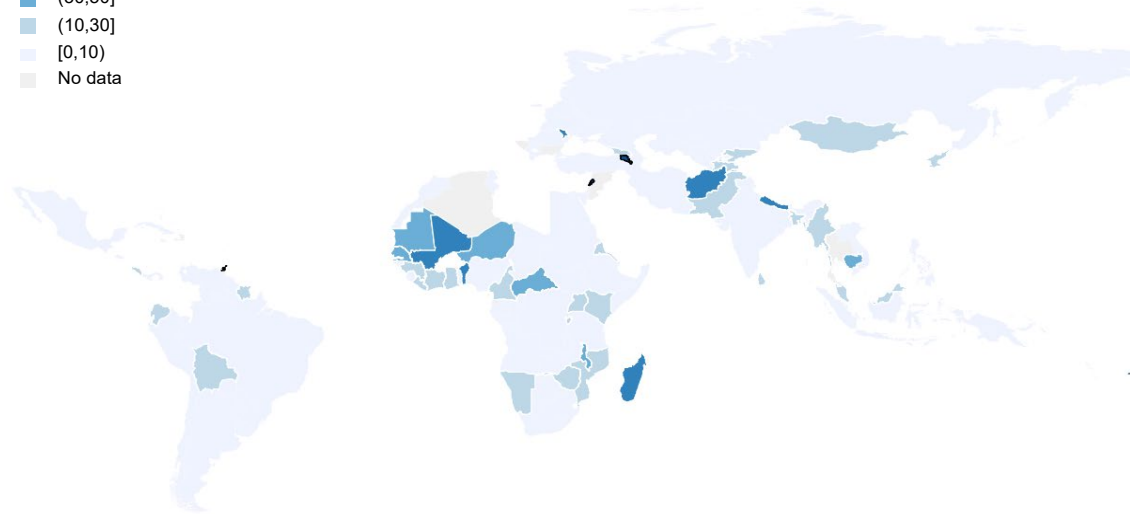
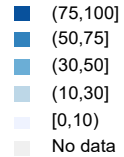
Use for global trade invoicing



Sources: Dealogic, Haver Analytics, IMF, People's Bank of China, SWIFT, Boz et al., op. cit. and ECB calculations.
Note: Exports and imports in renminbi are constructed as the weighted average of global trade invoiced in renminbi.
The latest observations are for 2021 (left panel) and 2019 (right panel).

China's official lending in renminbi is more significant in some parts of Asia and Africa

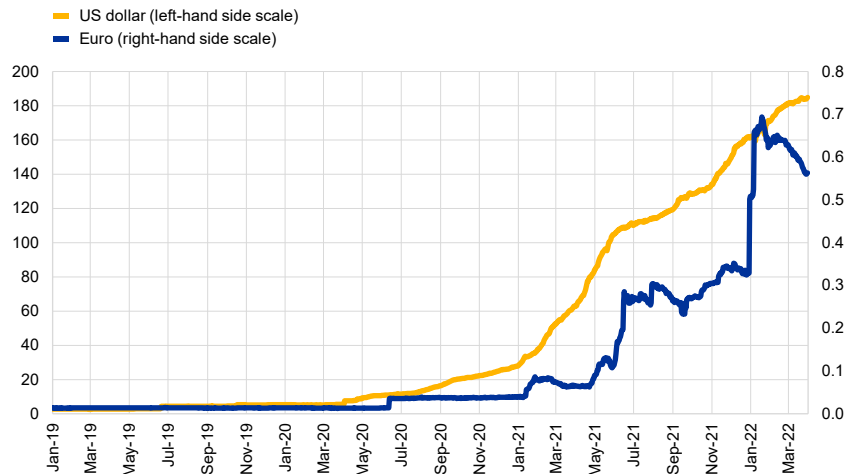
Share of the renminbi in China's official lending between 2000 and 2017 (percentages)



Sources: AidData and ECB calculations.

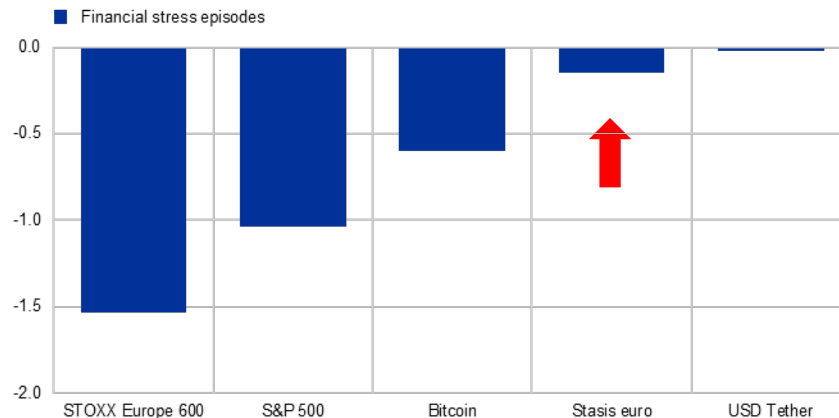
Global stablecoin markets dominated by the US dollar, while euro stablecoins remain small, volatile, illiquid and risky

Market capitalisation: US dollar vs. euro stablecoins (USD billions)



Sources: CryptoCompare and ECB calculations.
 Notes: The latest data are for end-March 2022.

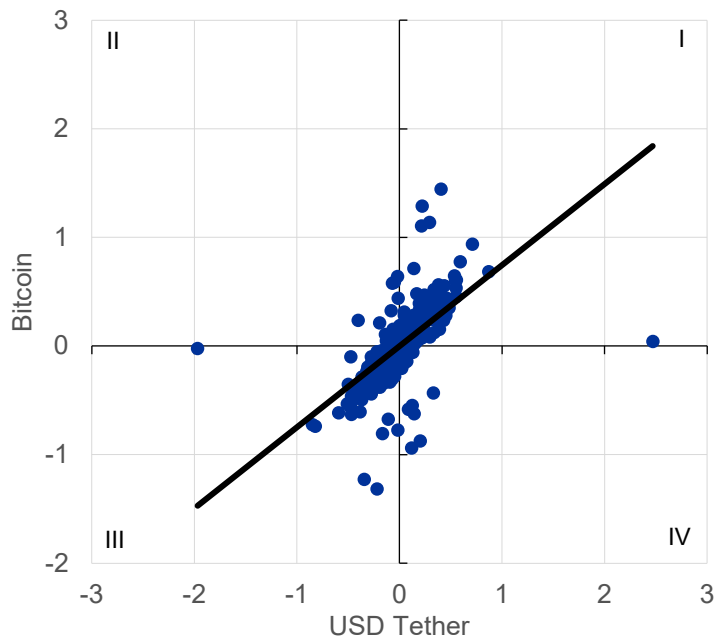
Average returns during periods of financial market stress since 2020 (percentages)



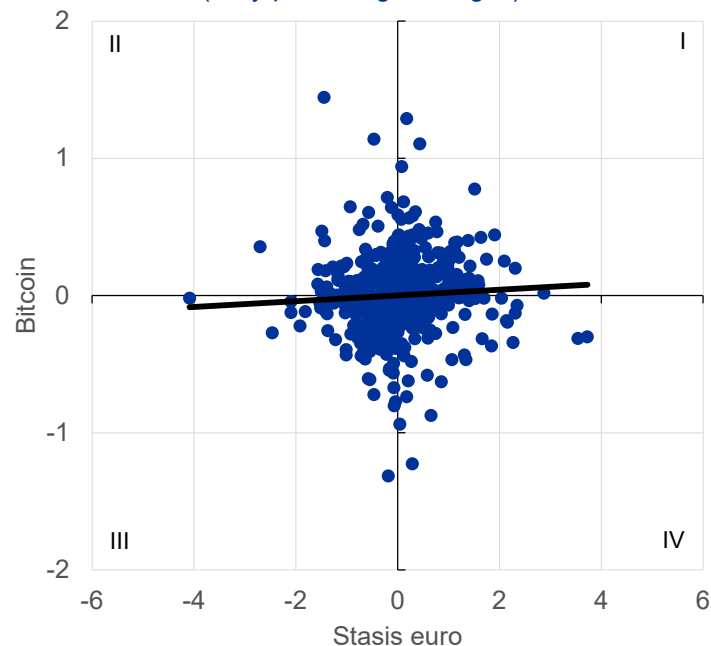
Sources: CoinGeko, Haver Analytics and ECB staff calculations.
 Notes: averages of the returns in these variables in periods when changes in the VIX index lie within the top 5th percentile of the distribution of weekly changes.
 Notes: the latest data are for end-March 2022.

Transactions in stablecoins correlate with transactions in crypto-assets

Changes in traded volumes: bitcoin vs USD Tether (daily percentage changes)



Changes in traded volumes in bitcoin vs Stasis euro (daily percentage changes)

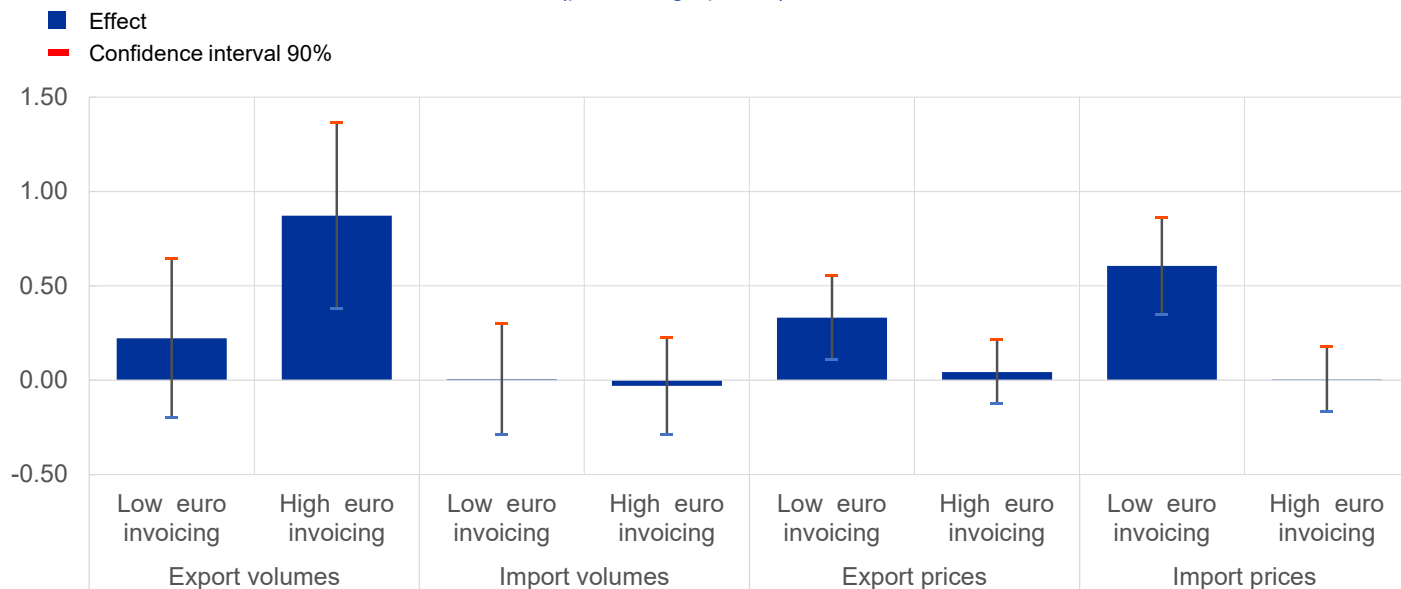


Sources: CryptoCompare, Refinitiv and ECB staff calculations.
Notes: The latest observation is for 31 March 2022.

Invoicing currency and the exchange rate elasticity of trade: short-term

Effect of a 1 percentage point euro depreciation – short term

(percentage points)



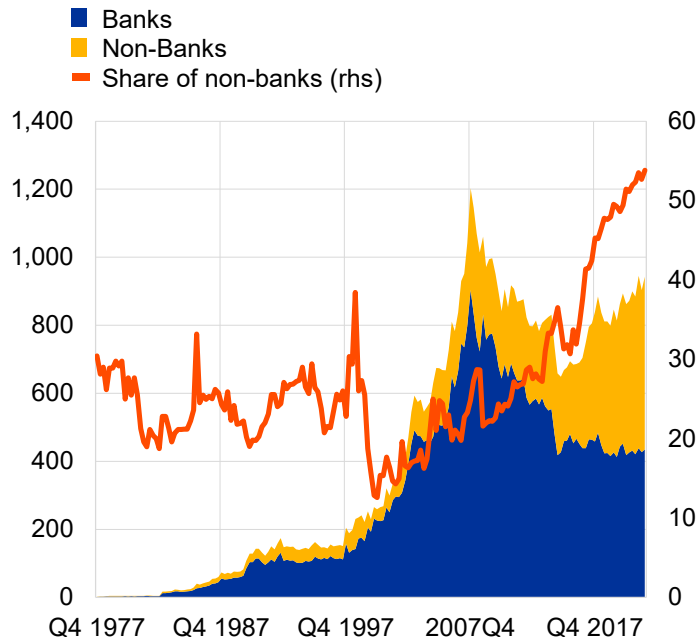
Sources: ECB, Eurostat, de Soyres et al., op. cit., Boz et al., op. cit., CPB, Bloomberg and ECB calculations.

Notes: The reported effects consider sample mean values of GVC indices. Import and export prices are unit values expressed in euro (trade values divided by trade volumes). The bars are the cumulative impulse response functions and the whiskers are 90 percent confidence intervals. Short term refers to the first quarter (3rd month) after the change. Medium term refers to two years after the change. Low and high euro invoicing correspond to the 25th and 75th percentile of the euro invoicing share distribution in the sample, namely to 5.8% and 55.9% for imports and 2.4% and 54.2% for exports.

Growth in euro-denominated international bank loans driven by loans to NBFIs

Amounts outstanding of euro-denominated international loans

(USD billions on the left-hand scale; percentages on the right-hand scale)

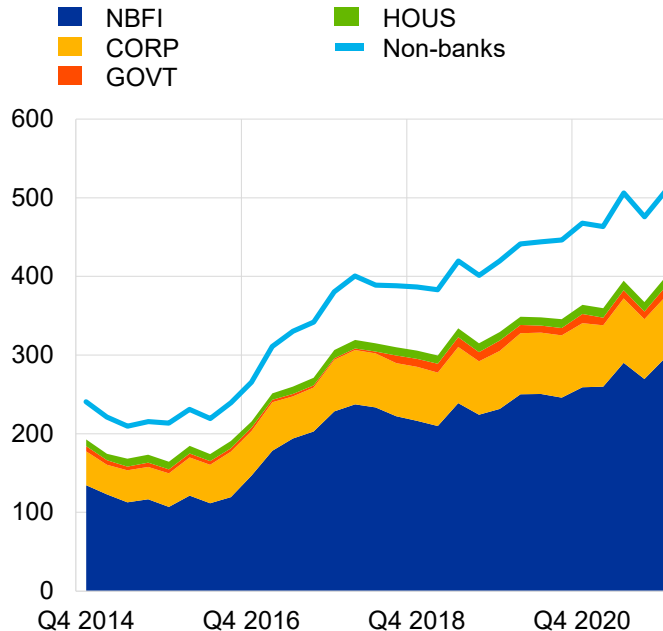


Sources: BIS LBSs; BIS and ECB calculations.

Notes: Pre-1999 data based on euro legacy currencies. The number of reporting countries varies across quarters. In the right panel, the gap between the height of the area and the blue line represents the value of non-bank loans that are unallocated by sub-sector. The latest observation is for the fourth quarter of 2021. NBF1 stands for non-bank financial institutions, CORP for non-financial corporates, GOVT for governments, HOUS for households and NBKS for non-banks.

Amounts outstanding of euro-denominated loans to non-bank sub-sectors

(USD billions)



Conclusions

- Stability of the international role of the euro at a low level in 2021
- EU Council of 5 April 2022 stressed that a stronger international role of the euro is one of the key pillars of the EU's strategy to achieve economic and financial strategic autonomy in an open economy
- The Union's economic and financial resilience to the current geopolitical challenges can also support the international role of the euro
- The policy implications stressed in the past by the Eurosystem remain valid:

“The international role of the euro is primarily supported by a deeper and more complete EMU, including advancing the capital markets union, in the context of pursuing sound economic policies in the euro area. The Eurosystem supports these policies and emphasises the need for further efforts to complete EMU.”