



EUROPEAN CENTRAL BANK

EUROSYSTEM

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Analysis

The international role of the euro

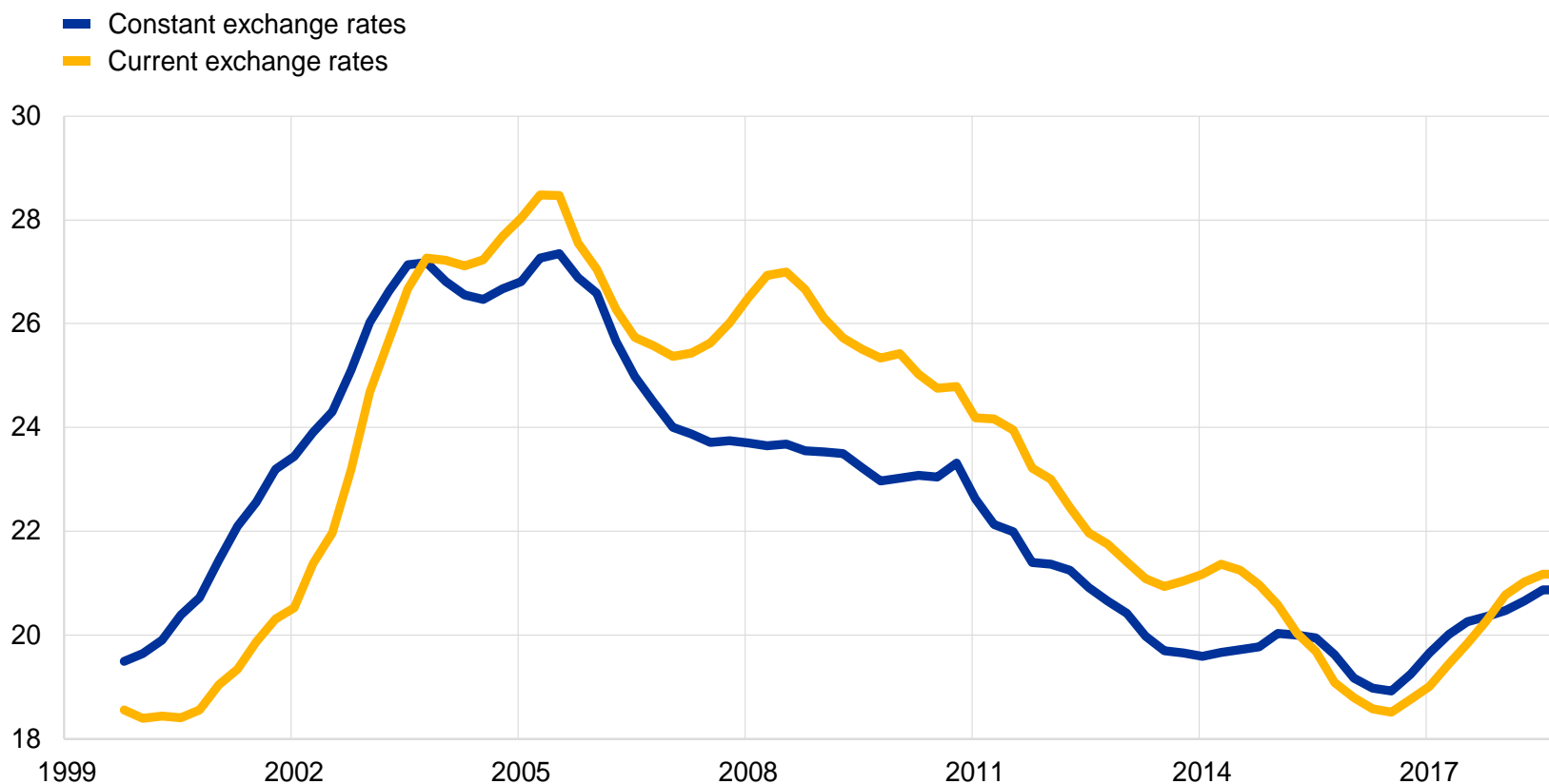
13th ECB Central Banking Seminar
1 July 2019

Disclaimer: the views expressed here are those of the presenter and do not necessarily reflect those of the ECB or the Eurosystem

- In 2018 and early 2019, there were tentative signs of a recovery in the international use of the euro, albeit from historic lows.
- Both external and domestic factors lent support to the international role of the euro in the review period:
 - Financial turbulence in some emerging market economies, growing concerns about the impact of international trade tensions and challenges to multilateralism, including the imposition of unilateral sanctions
 - Progress towards completing banking union and deepening EMU more generally
- The euro remained unchallenged as the second most important currency in the international monetary system

Composite index of the international role of the euro

(percentages; at current and Q4 2018 exchange rates; four-quarter moving averages)



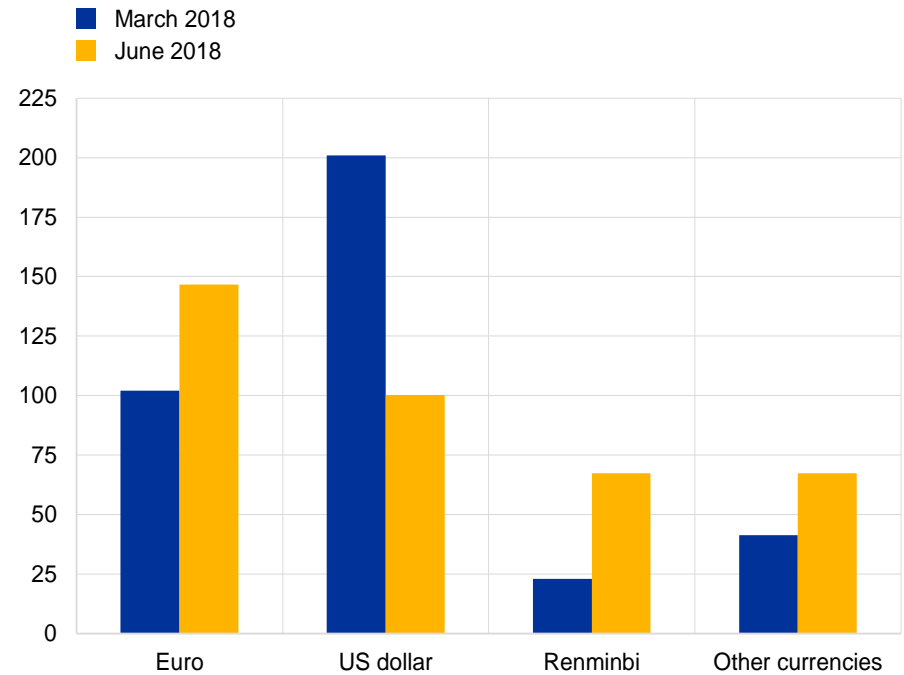
Sources: BIS, IMF, CLS, Ilzetzki, Reinhart and Rogoff (2017) and ECB calculations.

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, foreign exchange settlements, global foreign exchange reserves and share of the euro in exchange rate regimes globally. Data at constant exchange rates were not available for foreign exchange settlements. Data for 2016 are used for 2017 and 2018 observations for the share of the euro in exchange rate regimes globally. The latest observations are for the fourth quarter of 2018.

Change in the foreign exchange reserve holdings of selected emerging market economies
(amounts in USD billions)



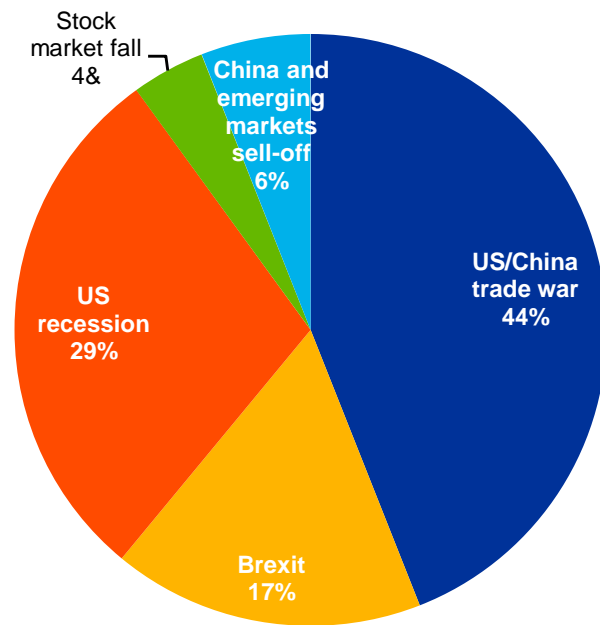
Currency composition of the foreign exchange reserves of the Central Bank of Russia
(in USD billions)



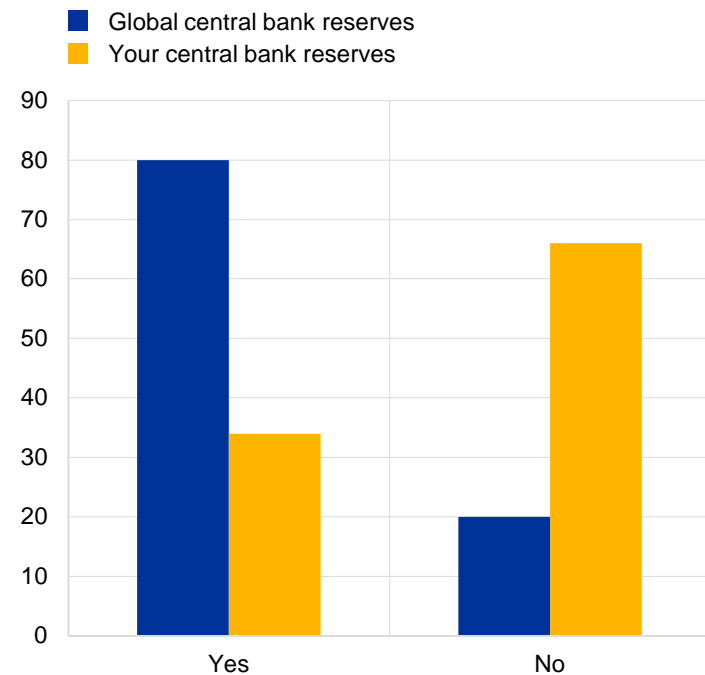
Sources: Haver analytics, Central Bank of the Russian Federation and ECB calculations.

Notes: The latest observation is for February 2019 (left panel) and June 2018 (right panel). The emerging market economies referred to in the left panel chart include Argentina, China, Hong Kong, India, Indonesia, Thailand and Turkey.

Which are the most significant risks facing official reserve managers in 2019?



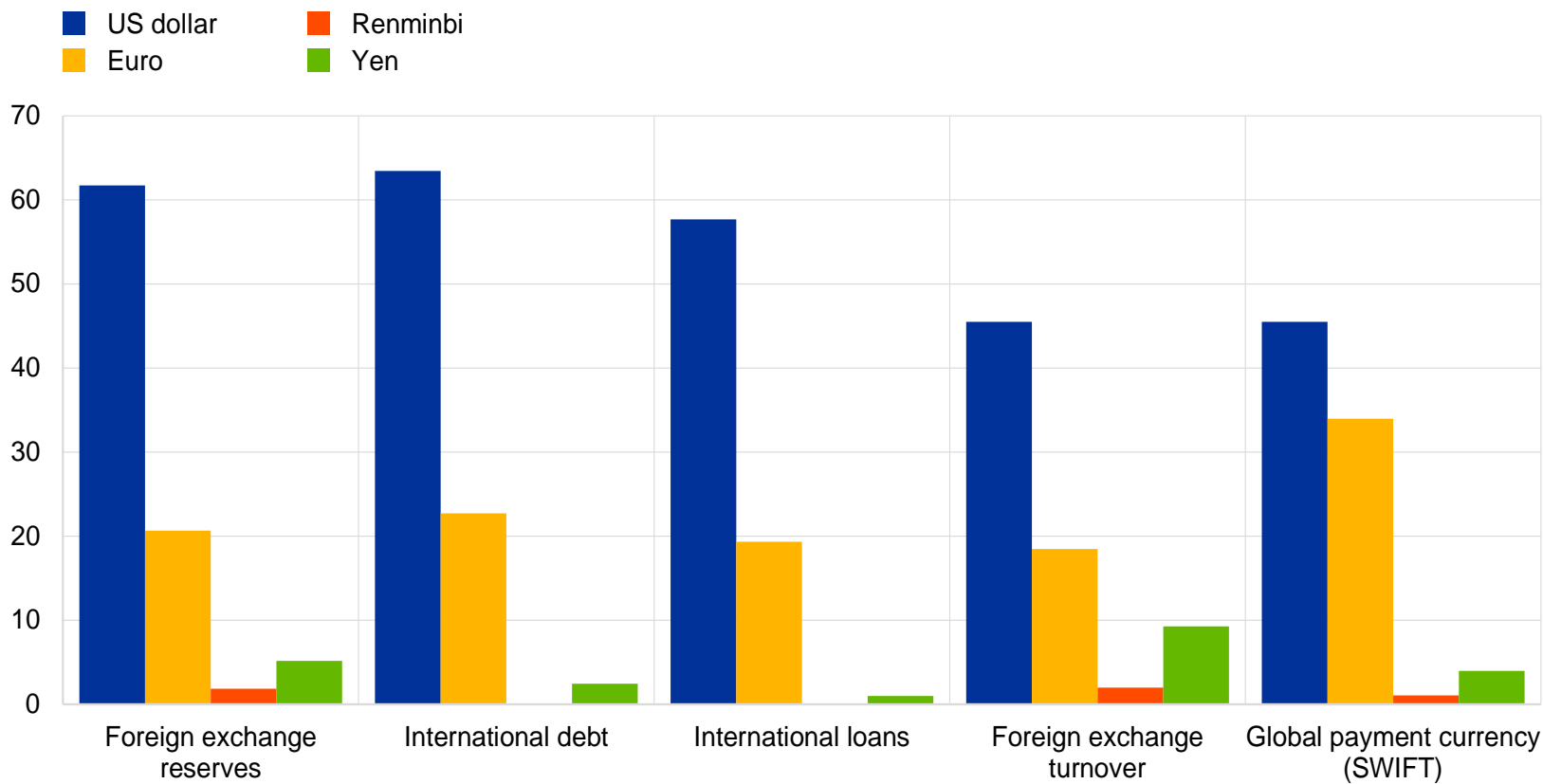
Do you see geopolitical factors impact currency allocation in the following categories? (percentages)



Sources: HSBC Reserve Management Trends 2019, Central Banking Publications, 29 April 2019.

Note: Results of a survey of 80 central bank reserve managers responsible for about USD 6.9 trillion in international reserves, which was carried out between February and March 2019.

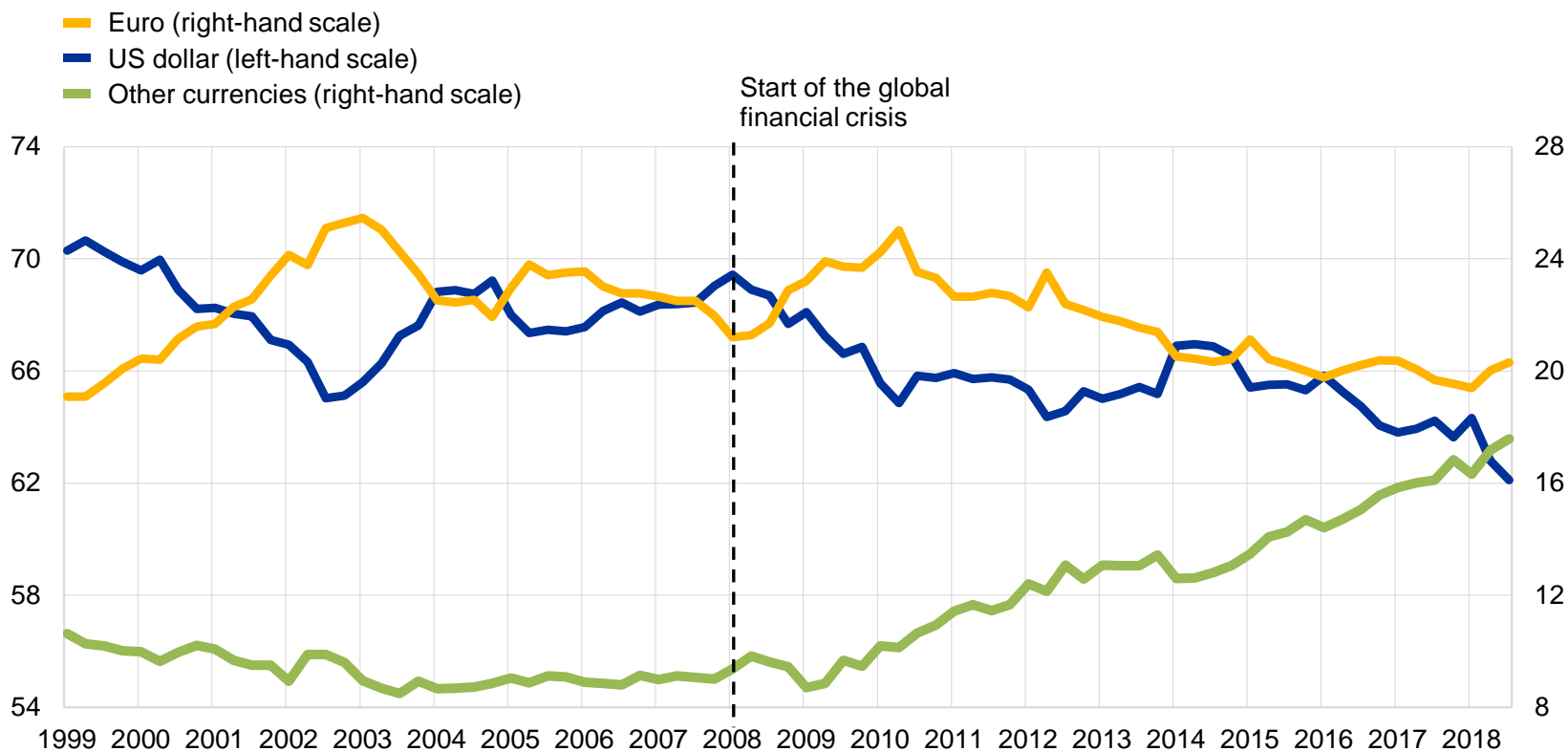
Snapshot of the international monetary system (percentages)



Sources: BIS, CLS, IMF, SWIFT and ECB calculations.

Note: The latest data are for the fourth quarter of 2018 or the latest available.

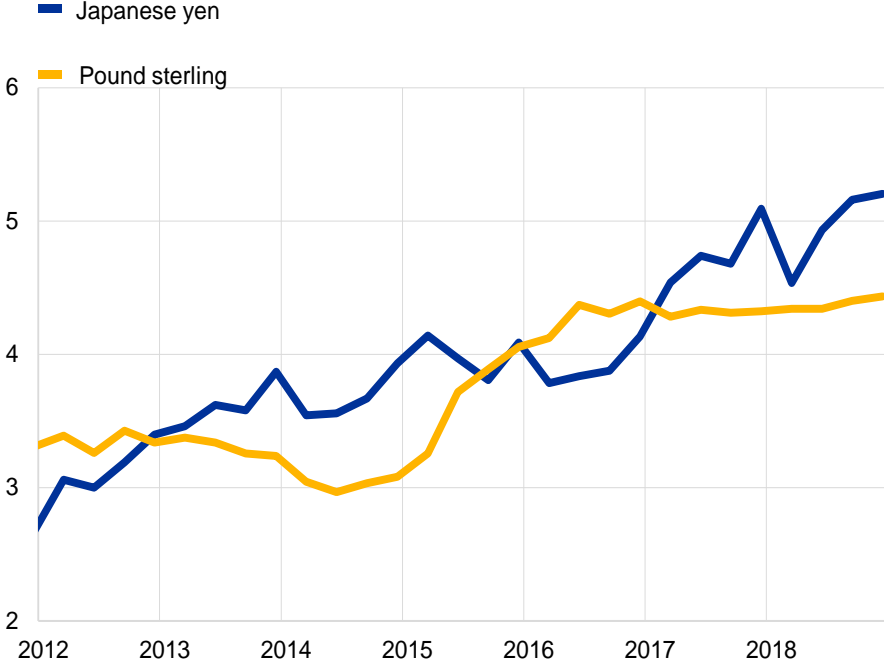
Developments in the shares of the euro, US dollar and other currencies in global official holdings of foreign exchange reserves (percentages; at constant Q4 2018 exchange rates)



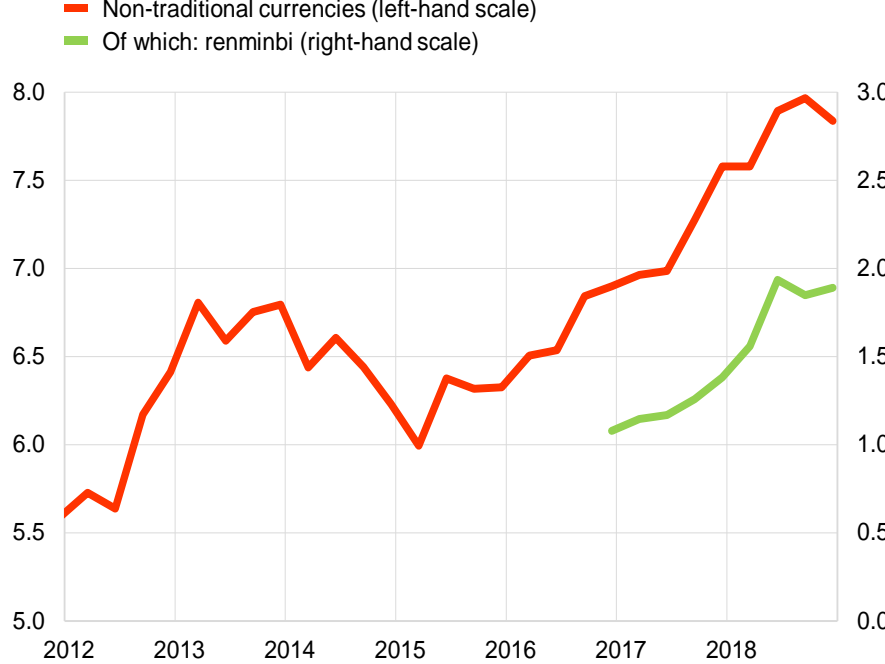
Sources: IMF and ECB calculations.

Note: The latest observation is for the fourth quarter of 2018.

Shares of the yen and of the pound sterling in global foreign exchange reserves
(percentages; at constant Q4 2018 exchange rates)



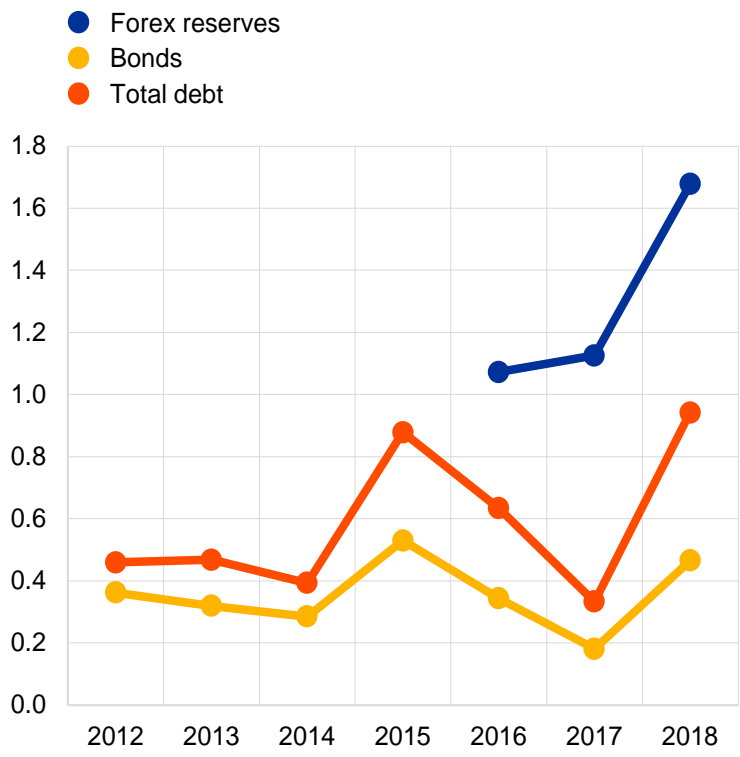
Share of non-traditional currencies, including the Chinese renminbi
(percentages; at constant Q4 2018 exchange rates)



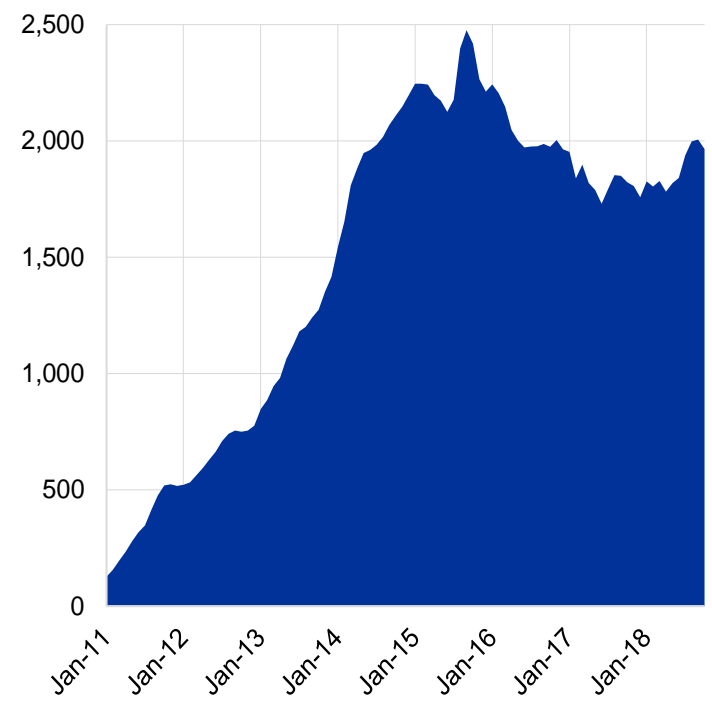
Sources: IMF and ECB calculations.
 Note: The latest observation is for the fourth quarter of 2018. Non-traditional currencies include the Australian dollar, the Canadian dollar, the Chinese renminbi and other currencies not included in the special drawing rights basket.

But internationalisation of the renminbi remains overall low

Share of the renminbi in total international debt, bonds and foreign exchange reserves (percentages)



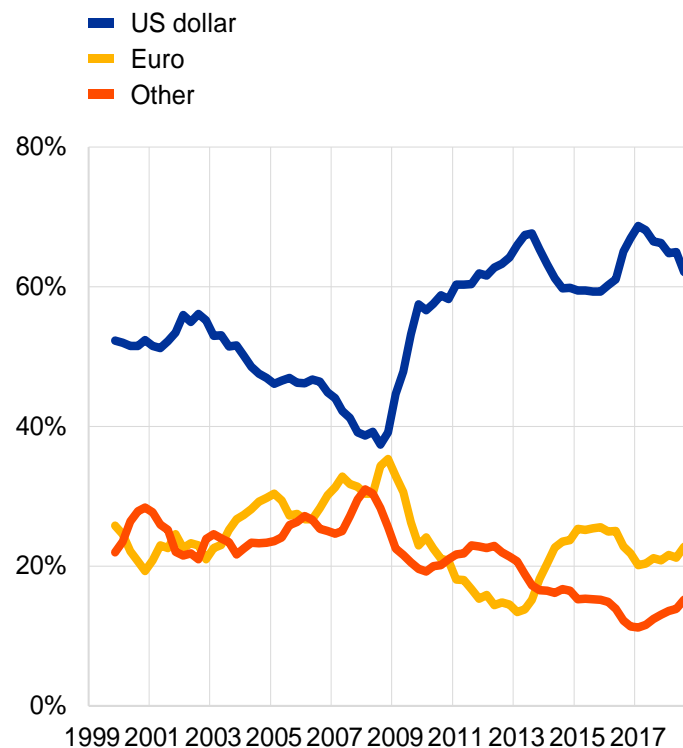
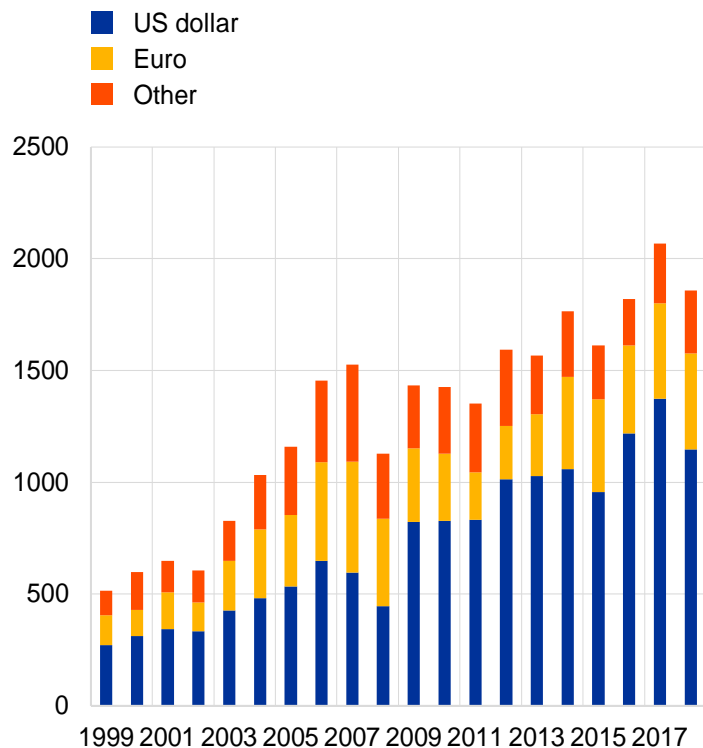
Composite indicator of internationalisation of the renminbi (Index)



Source: Dealogic, Haver Analytics, IMF, People's Bank of China and ECB calculations.

Notes: The Renminbi Globalisation Index (RGI) tracks four components with weights inversely proportional to their variance, namely deposits, trade settlement and other international payments, dim sum bonds and certificates of deposit issued, and foreign exchange turnover (all from an offshore perspective and denominated in renminbi) in several countries (Hong Kong, Singapore, Taiwan, the United States, the United Kingdom, Korea, France)

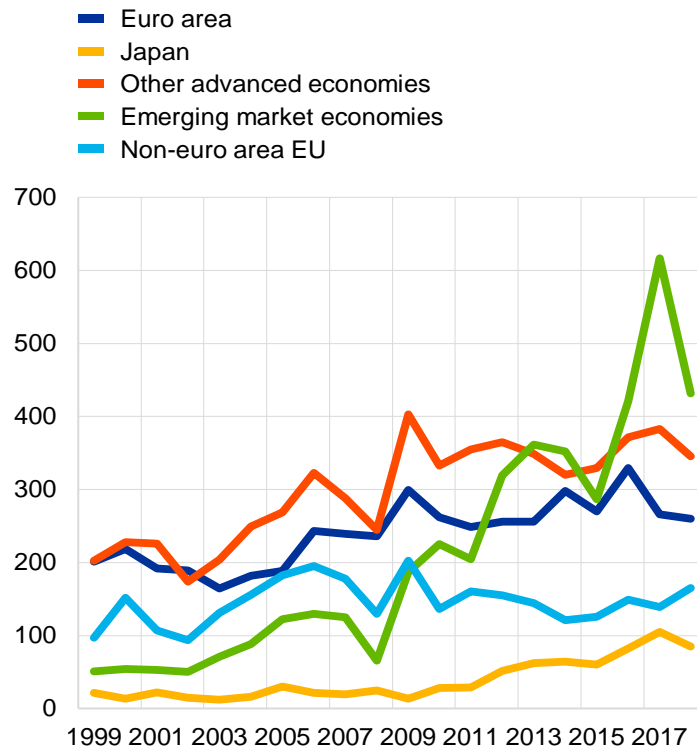
Currency composition of foreign currency-denominated debt issuance (USD billions) (percentages)



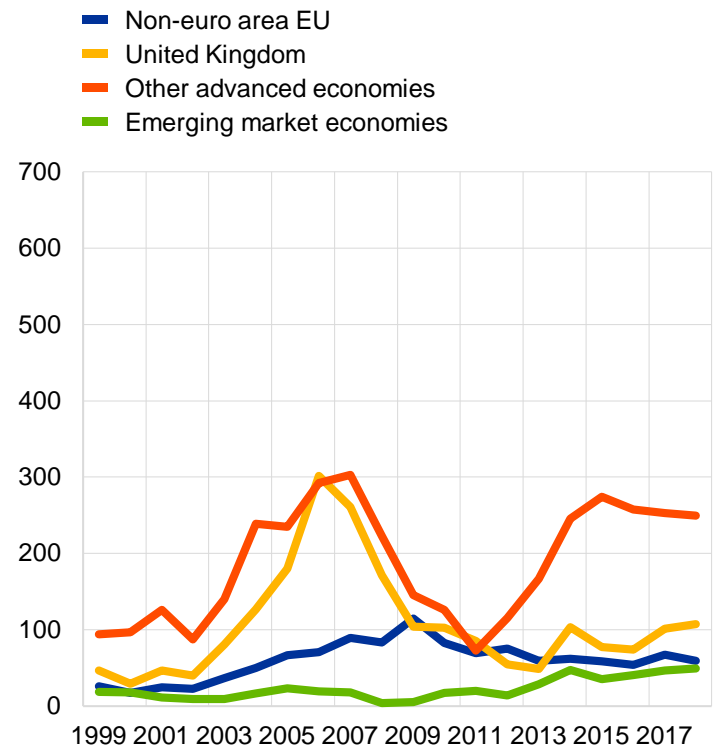
Sources: Dealogic and ECB calculations.

Note: The latest data are for the fourth quarter of 2018.

Regional breakdown of US dollar-denominated international debt issuance (USD billions)



Regional breakdown of euro-denominated international debt issuance (USD billions)

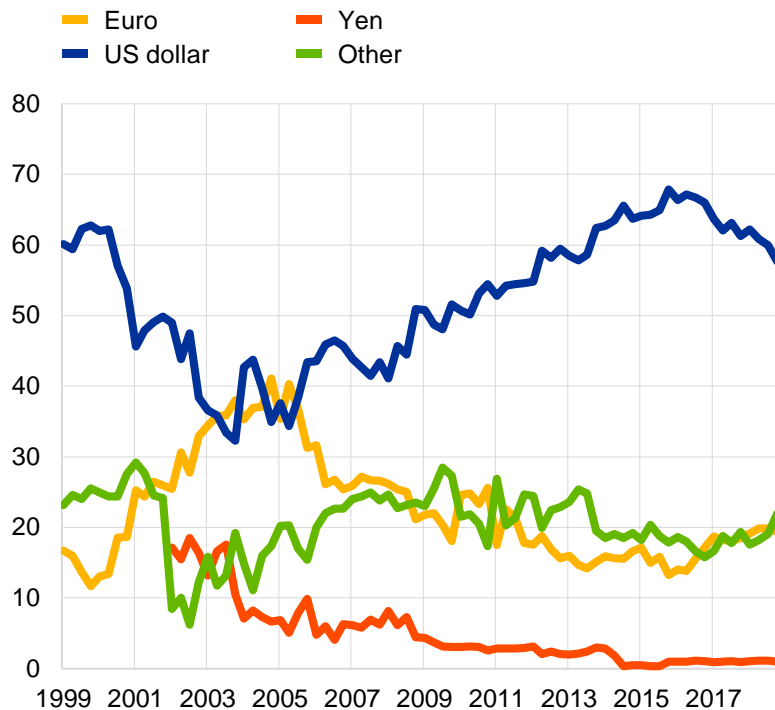


Source: Dealogic and ECB calculations.

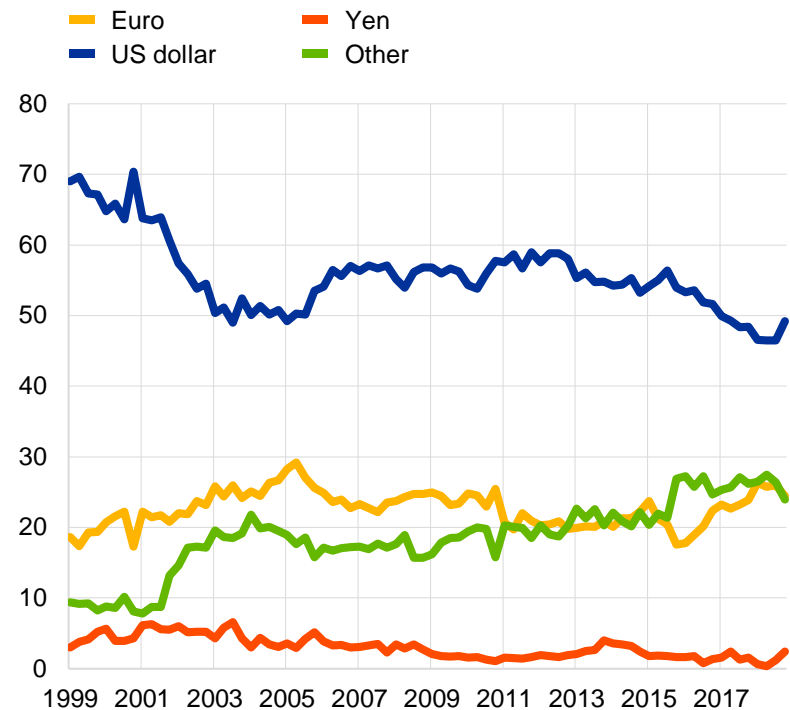
Note: The latest data are for the final quarter of 2018.

The shares of the euro in international loans and deposits rose further

Currency composition of outstanding amounts of international loans (percentages; at Q4 2018 exchange rates)



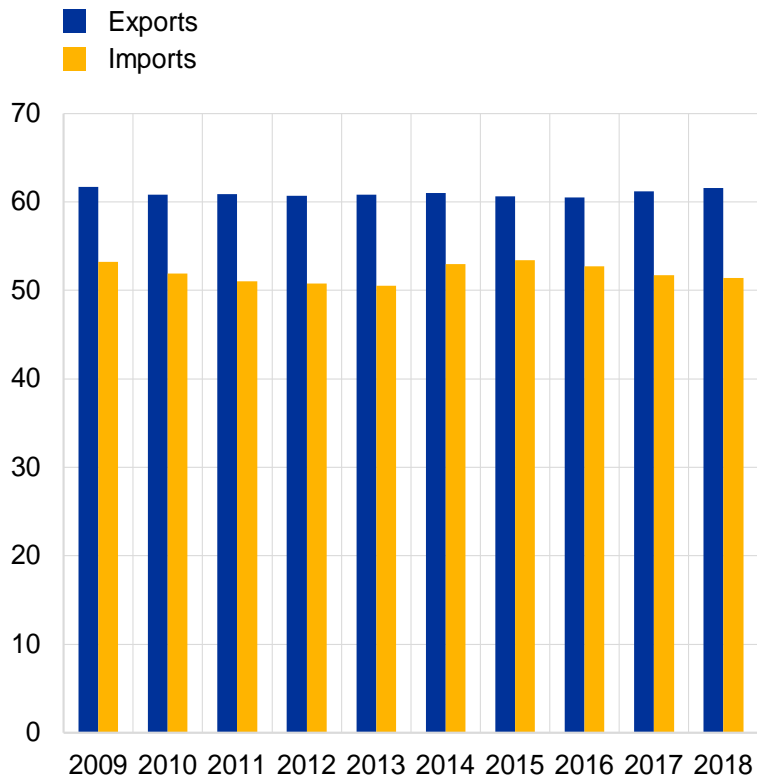
Currency composition of outstanding amounts of international deposits (percentages; at Q4 2018 exchange rates)



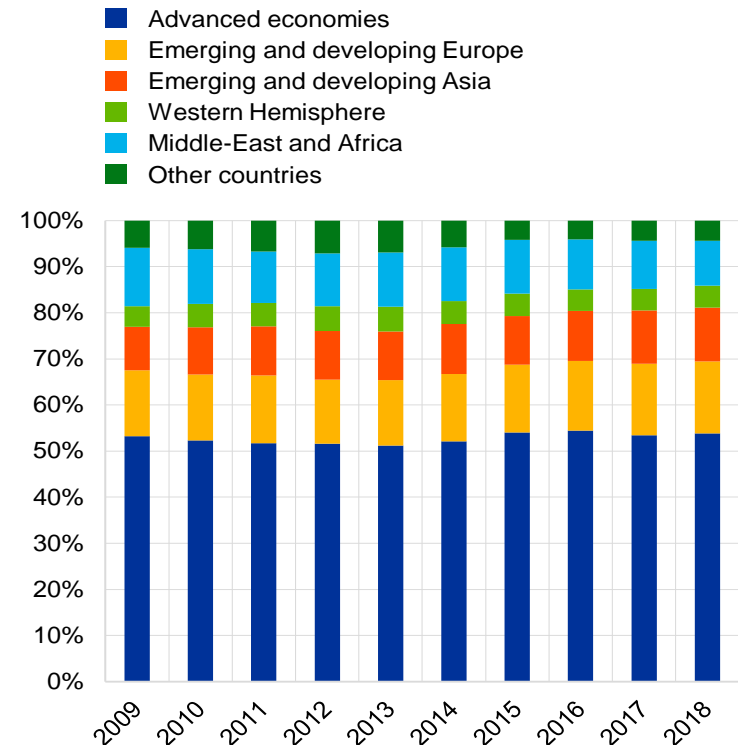
Source: BIS and ECB calculations.

Notes: The latest data are for the fourth quarter of 2018.

Share of the euro in the invoicing of extra-euro area trade in goods (percentages)

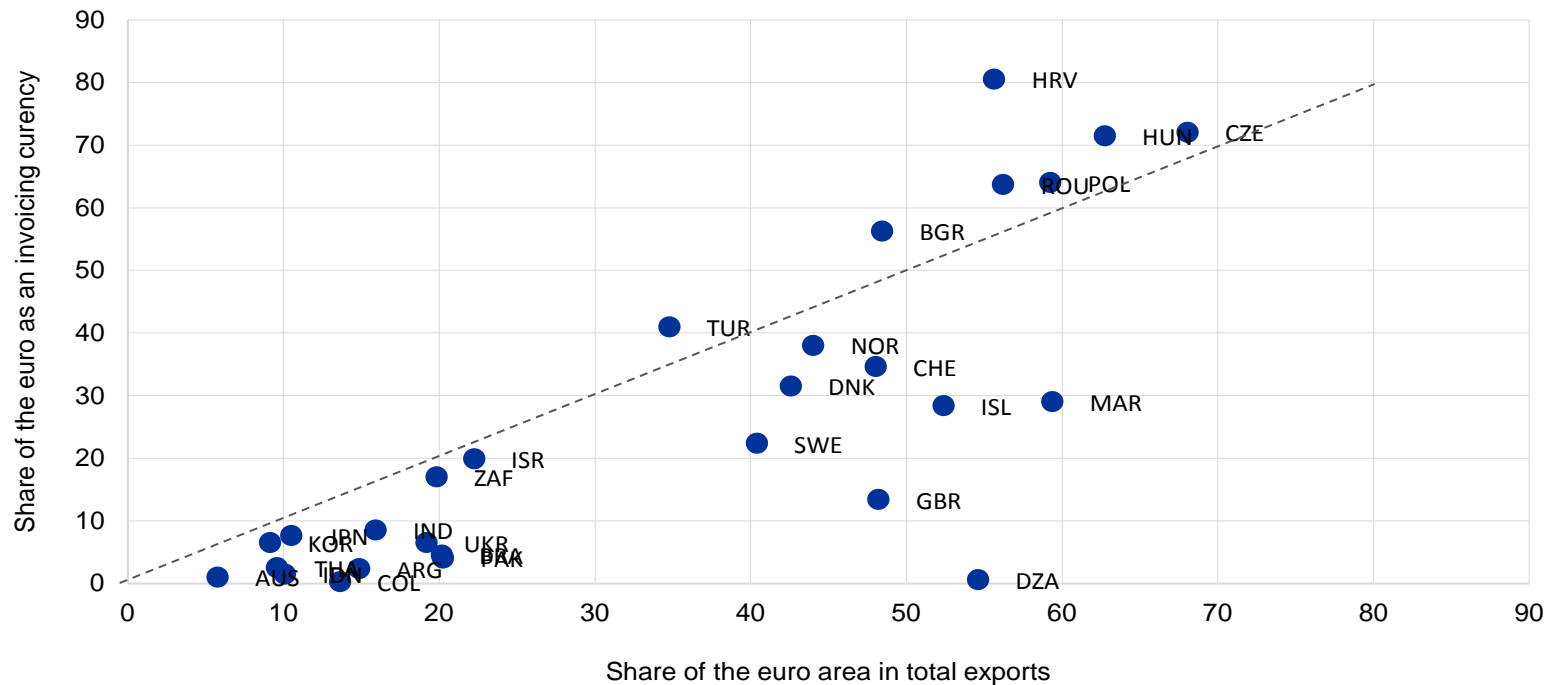


Composition of the euro area's trading partners in extra-euro area trade (percentages)



Source: ECB, IMF DOTS and ECB calculations.
Notes: The latest data are for 2018.

Share of the euro as an invoicing currency versus exports to the euro area relative to total trade (percentages)



Sources: ECB, Gopinath (2015), IMF DOTS and ECB calculations.

1. The benefits and costs of the international role of the euro at 20
2. Quantifying the “exorbitant privilege” – potential benefits from a stronger international role of the euro
3. Implications of dominant currency pricing for the global transmission of US and euro area shocks
4. Euro-US dollar exposures in cross-border banking

The balance of benefits and costs of international currency use is changing

1999 assessment in blue

2019 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

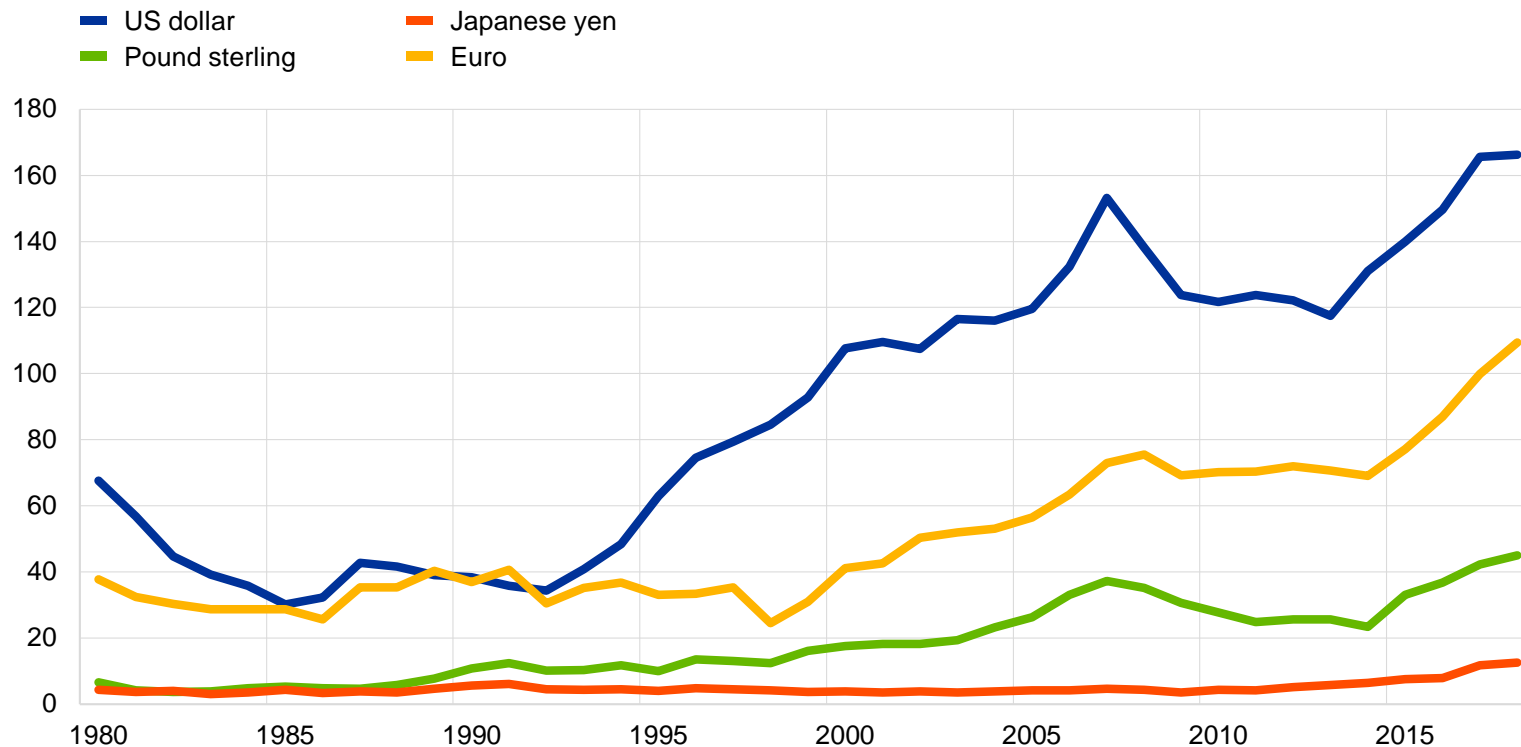
(stronger exchange rate in global stress episode)

Lower effects of monetary policy on import prices

Sources: ECB and Cœuré, B., “The euro’s global role in a changing world: a monetary policy perspective”, speech at the Council on Foreign Relations, New York City, 15 February 2019.

The “exorbitant privilege” varies across countries

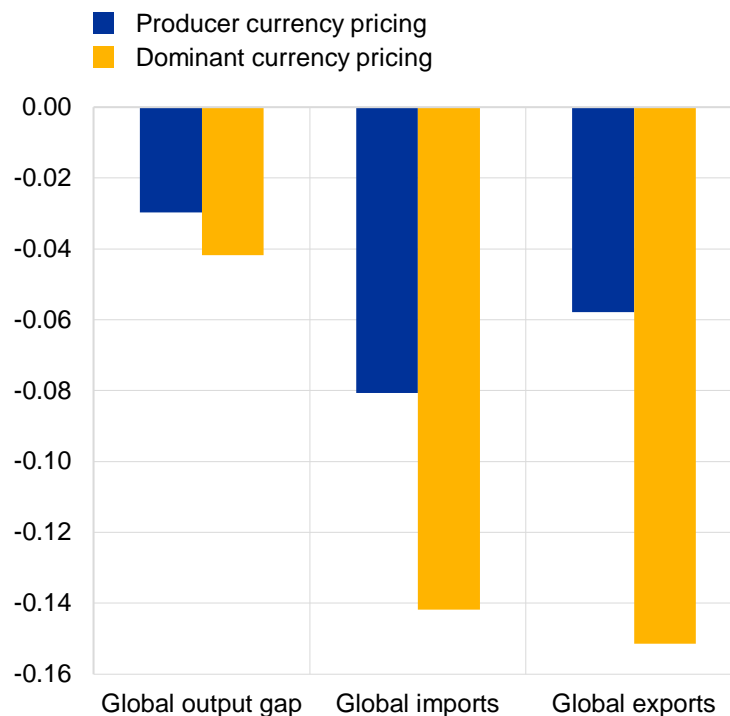
“Exorbitant privilege” estimated by ECB staff (compression in term premia, basis points)



Sources: IMF, COFER and ECB staff calculations.

Notes: The “exorbitant privilege” is calculated by multiplying the country-specific estimate of the effect in the long-run on term premia of changes in foreign central bank holdings relative to the stock of government debt by the share in question.

Estimated effects of a contractionary US monetary policy shock (deviation from baseline in percentages)



Source: ECB calculations.

Note: The chart shows the estimated global effects of a contractionary US monetary policy shock (25 b.p.) simulated in a calibrated semi-structural model (ECB-Global) under two pricing paradigms, i.e. producer currency pricing and dominant currency pricing.

- Like the Commission, the Eurosystem stresses that 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 the pursuit of sound economic policies in the euro area.
- The Eurosystem supports these policies and emphasises the need for further efforts to complete EMU.
- Strengthening the credit quality of outstanding debt, notably by pursuing sound and sustainable fiscal policies, would contribute to increasing the supply of safe euro area debt and raising the euro's global appeal.