Conference on

« The internationalization of the euro and the creation of the Union of Capital Markets in the EU »

Paris, 16 June 2023

Summing up by Bernard Snoy

The conference was jointly organized by the **Robert Triffin International Association (RTI)** and the **European League for Economic Cooperation (ELEC)** , particularly its International Economic and Social Commission, chaired by **Philippe Jurgensen**, former Chairman of the French Insurance Control Authority (ACAM) and its French Committee, chaired by **Olivier Klein**, former President of the BRED-Banque Populaire, thanks to whom the conference could be organized in the amphitheater of the BRED- Banque populaire in Paris. Thanks are expressed to **Valentina Bassano,** Member of the editorial staff of RTI and of the Centro Studi sul Federalismo, as well as to Valérie Vergès of the Direction de la Communication institutionnelle de la BRED, for their very efficient support in the organization of the conference.

The theme of the conference had been suggested by **Governor François Villeroy de Galhau** of Banque de France as a necessary counterpart to RTI advocacy of an SDR-based multilateral International Monetary System (IMS), seen as "something to be kept on the horizon as a creative frontier" .

Governor Villeroy de Galhau came to deliver a keynote address at the conference.

He described the forces pushing for greater diversification in the international monetary system. He called for vigilance as these forces could lead to fragmentation rather than monetary diversification. He spoke of the euro as a complementary asset in a more multilateral system. One of the main levers for action was to increase the supply of safe euro-denominated assets. Speeding up the implementation of the Capital Markets Union was crucial to ensure a better allocation of capital within the euro area; this internal integration priority served also the euro's external role. While these first realistic steps were the only advances within our range, they should not divert our attention from the "creative frontier" that a truly multilateral financial system would represent." The ultimate goal", he said "remains to lead the IMF to become a more universal, accessible and agile lender of last resort. This should require adjusting the IMF's role and financial capacity in the global financial safety net, to better reflect the new global economic balances and prevent some under-represented countries from taking or pursuing more unilateral routes". He concluded that the emerging multipolar world needed new multilateral skills … and "who better than us Europeans to bring them to life and to nurture them?". This was indeed a very important message and encouragement for RTI.

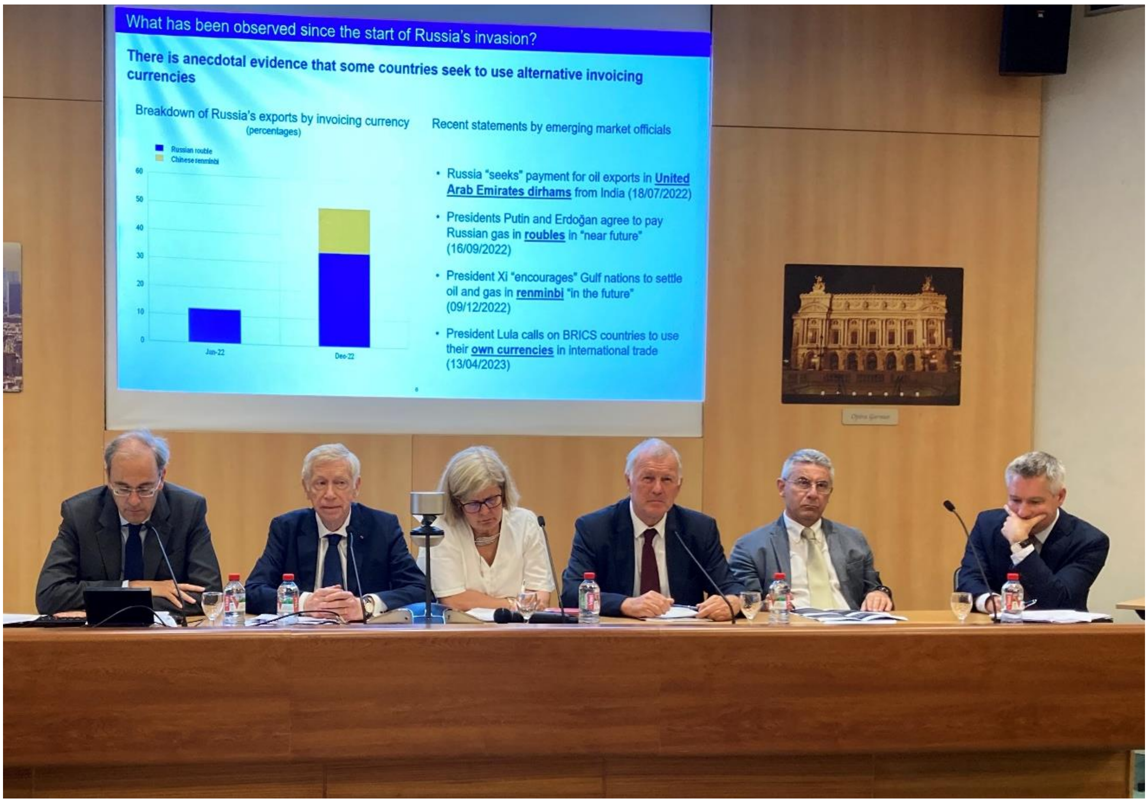
Governor Villeroy de Galhau and Bernard Snoy

The conference, for which about 40 participants had registered, was divided into four sessions:

1. **«The international role of the euro»**, moderated by **Philippe Jurgensen**

- **Boris Kisselevsky**, representative of the ECB in Brussels showed the stability of the international role of the euro at a low level in recent years; no substantial changes could be observed since Russia's invasion of Ukraine yet… but international currency status should not be taken for granted; European economic integration was pivotal in increasing resilience of the international role of the euro in a more fragmented world economy.
- **Annika Eriksgaard**, representing DG ECFIN of the European Commission, indicated that the 'geopolitical Commission' led by President von der Leyen had a more ambitious and proactive agenda for the euro than her predecessors. While the incumbent role of the dollar was to some extent based on inertia, the EU had created a framework to respond to the successive crises, in particular through the Next Generation EU Fund that had resulted in a significant increase in the supply of euro-denominated safe assets. The beginning of a central fiscal capacity at the EU level would, if maintained

beyond 2026, create further chances for the internationalization of the euro; ditto from the EUs leading role in the area of green financing.



Session 1: Boris Kisselevsky, Philippe Jurgensen, Annika Eriksgaard, Franz Nauschnigg, Fabio Masini and Gergely Hudecz

- **Gergely Hudecz** saw definite advantages of a greater global role for the euro: for the Euro area and Europe more broadly, it could provide strategic autonomy in face of geopolitical uncertainty, enable the Euro area to share the “exorbitant privilege” of global safe assets issuers, ensuring also more stable financing conditions and attracting investors. It would also be beneficial to the international financial system and global investors as it would help diversify assets and liabilities, reduce spillovers and increase resilience: diversification under the current architecture would reduce risk of fragmentation. The rationale for other countries to use the euro would include aligning financial assets and liabilities with bilateral trade exposures and reduce geopolitical dependence by diversification. Success would nevertheless depend on Europe’s doing its homework : strengthening its macro-financial stability and resilience (e.g. economic stability, rule of law, accessible capital markets, risk sharing mechanisms, joint debt issuance), development of market infrastructures (e.g. deeper and more liquid financial markets, stronger coordination of global liquidity provision), and increasing diversity – reaching beyond the euro area to attract private actors and support the euro’s role in digital transition and green finance.

- **Franz Nauschnigg**, former Director of the European and International Department of the Austrian National Bank, drew attention to the substantial euroization of the countries of South Eastern Europe and recalled the cooperation between the Austrian Central Bank and the Serbian central bank during the global financial crisis. Among the advantages of the internationalization of the euro, he emphasized the pricing of exports and imports in own currency and recalled that Mediterranean countries had often a $ oriented financial sector but an € oriented real sector of the economy, which creates tensions, if €/$ exchange rates move. He felt that the advantages of the internationalization of the euro were clearly greater than the disadvantages in terms of possible constraints on monetary policy, possible destabilizing capital flows vulnerability, associated with swap agreements that would be made with third countries. He also referred to the recent ECB study concluding that foreign use of a Central Bank Digital Currency (CBDC) would strengthen spillovers between countries and reduce the autonomy of a central bank's monetary policy when a foreign CBDC circulates in its domestic economy but also that significant first-mover advantage would accrue to the central bank whose CBCD would become the first to be widely used internationally. , which means that, if China introduced a CBCD, others would have to follow. Otherwise, the Euro system's monetary autonomy would come under pressure. In his view CBCDs would also help consumers.
- **Fabio Masini**, Professor at the University Roma Tre and Secretary General of RTI, emphasized the potential role of the euro in relaunching multilateralism through regional economic and monetary integration. The euro could provide a model for the provision of supranational public goods, such as innovation in the green transition, and multilayered governance, hence helping building an alternative safe asset to the $. A successful euro area (as well as learning from its mistakes) could provide assistance for more regional integration processes worldwide and encourage the IMF to use SDRs as a currency at the service of development, possibly through an enhanced role for MDBs.

2. «The creation of the EU Capital Markets Union», moderated by **Philippe Guillot, Deputy Secretary General of the French Financial Markets Authority (AFM)**

- The presentation of **Tatyana Panova**, Head of Unit, in DG FISMA of the European Commission, focused on the rationale for the Capital Markets Union (CMU) project at its onset as well as the main challenges that the EU faces in this area (too many small players, lack of scale and of depth, affecting global competitiveness, persistent barriers to cross-border capital flows, reducing the competitive pressure on national players). To address the problem, the 2020 CMU Action Plan focused on what could be seen as "implicit" consolidation of capital markets with a strong emphasis on data, seeking to tackle the issue of asymmetric information of cross-border investors. The EU sought to streamline the trading landscape by putting forward a consolidated tape for trading data which would allow brokers to identify the venue that offers best execution. Overall, the 2020 CMU Action Plan was structured around the three main axes:

companies' access to finance, strengthened retail investors' participation in capital markets and better market integration. Shortly, the Commission will table a key proposal on withholding tax to avoid double taxation of cross border investment.

- **Philippe Jurgensen** highlighted the implications of the "Next Generation" EU for the CMU and the internationalization of the euro. The objectives were not only to overcome the economic consequences of the COVID crisis but to address the low levels of productive investment, innovation and productivity and also to finance the ambitious EU objectives in terms of climate and biodiversity. For the first time, the EU was borrowing collectively a substantial amount of € 750 billion in the markets, involving a redistribution feature as more than half of the proceeds were to be channelled in the form of grants to the member States while repayment would take place on the basis of the EU own resources. The borrowings benefit from a AAA rating. The logical consequence of issuing Eurobonds would be the creation of a European Treasury. At the same time, agreement had been reached at the EU level on a European norm for "green bonds".

Session 2 : Philippe Jurgensen, Christakis Georgiou, Graham Bishop, Tatyana Panova and Philippe Guillot

- **Christakis Georgiou**, Research Fellow at the Centre de Compétences Dusan Sidjanski en Etudes Européennes at the University of Geneva, gave a retrospective on the private sector's attitude towards EMU, from the single currency to a supranational safe asset. He showed how the rise of pan-European corporations had provided a core constituency for both the product and the financial single market and how those corporations were interested in monetary and fiscal union in order to safeguard those single markets.

Deepening integration has led to productive polarization within the single market, underpinned by growing cross-border finance; this has resulted in an entrenched structure of macro imbalances between the surplus North and the deficit South; the macro imbalances have, in turn, generated financial risks, destabilizing and fragmenting the single (financial) market. Before the euro, the main financial risk was currency risk, whereas the introduction of the euro transformed that into sovereign credit risk. Private sector views are driven by how to deal with these risks and have had a decisive influence on the way in which the European institutions and the national decision makers have responded to the debt crisis in the Eurozone. In the same way that corporations wanted a single currency to eliminate currency risk, they now support a supranational safe asset in the shape of EU bonds as a way of dealing with sovereign credit risk.

- **Graham Bishop** of Member of the Board, Federal Trust UK, recalled a proposal for an "EMU Bond Fund" that had been elaborated in 2011 by an ELEC Working Group. The idea was that euro area member States, whose economic policies had been approved by the ECOFIN Council in the European Semester as both economically effective and politically sustainable, should pool their short term borrowing via a Fund that would last four years. The Fund would borrow in the markets for at most a two-year term – to match the borrowing profile of its client States. The borrowings of the Fund were to enjoy a "guarantee" involving all participating euro area States. The concepts worked out by the Working Group had still relevance today: safe asset for banks, to minimize the "doom loop", base for a euro yield curve that could compete with US Treasury Bills, asset required for non-bank credit e.g. through securitization and loan origination, etc.

3. «The internationalization of the euro and the reform of the IMS in the present geopolitical context», moderated by **Sylvie Goulard**

- **Sylvie Goulard,** former Member of the European Parliament, former Minister, working now at the Center for Analysis, Prevention and Strategy at the French Ministry of European Affairs, opened the debate by drawing attention to the changes in the geopolitical context since the signing of the Maastricht Treaty in 1992, including the weaponization of currencies and payment systems, the huge amounts of liquidities created by quantitative easing, the fact that, despite having a single currency, the 20 member States of the eurozone do not have a joint representation at the IMF, that the EU Banking Union does not have a representation at the BIS nor the Capital Markets Union at the IOSCO. In the triangle China/US/Europe, could the US continue to dominate the financial system and China trade in goods? She also referred to the implications of the technological evolutions (CBCDs and crypto assets) on monetary sovereignty and wondered if the international governance of the eurozone was up to these challenges.

- **Marc Alaurent**, former Vice President Innovation, BNP Paribas Personal Finance, stressed the important reduction in the cost of transactions made possible by digital currencies. Digital currencies made possible a complete "traceability" of transactions. The European model was between the Chinese model allowing close surveillance of citizens by the State and the American model where data gathering would be controlled by private firms. Attention had to be paid to the operational competitiveness of the euro in terms of payment systems and market infrastructure.

Session 3 : Philip Turner, Bernard Snoy, Sylvie Goulard, André Icard and Marc Alaurent

- **André Icard**, former Deputy General Manager of the BIS, noted that the internationalization of the euro was accentuating the evolution, already under way, towards a multi reserve currency IMS. Since 2015, financing in euro of non resident non banks had increased faster than financing in dollar, representing about one third of outstanding financing. Under opaque conditions, China was also providing financing to countries involved its Belt and Road Initiative and, in case of default, was organizing its own support plans outside of the Paris Club. The key question was how to organize a multipolar IMS with globalized trade, which was not imploding despite a tendency towards trade regionalization. The new version of the Triffin dilemma was that monetary conditions appropriate at the level of large economic groups could translate into significant disequilibria at the global level. At the same time, the mandate of central banks remained focused on domestic objectives. Therefore, a monitoring of global liquidity leading to concerted decisions was of strategic importance. Yet, the concept of global liquidity remained largely unexplored. It had come at the forefront during the GFC of 2008 and had led to the Palais Royal Initiative of 2010, followed by BIS work and the RTI report of 2019 on “Managing Global Liquidity as a Global Public Good”. Managing global liquidity was a shared responsibility of central banks, government Treasuries and prudential and financial markets regulatory authorities. The Financial Stability Board (FSB) should publish regular analyses and proposals to be submitted to the Committee of Ministers and Governors of the G20, complemented by comments from the BIS and the IMF. André Icard added that a useful instrument in the context of a multicurrency IMS to avoid volatility of returns and to reduce cost would be to place at the disposal of the markets a reference based on a basket of currencies. The SDR would be the appropriate instrument. He referred to RTI proposals in this connection

- **Philip Turner**, Visiting Lecturer at the University of Basel and former member of Senior Management of the BIS, contrasted the great Fed tightening from 2021, involving global $ liquidity shrinking, with the more timid ECB tightening, coming later and allowing global € liquidity to grow in 2022, wondering if a valuable currency diversification would provide a buffer for global finance which needs nurturing. He recalled the BIS definition of global liquidity, namely credit to non-resident non-banks, i.e. bank loans + debt security issuance denominated in $ to borrowers outside the US and denominated in € to borrowers outside the euro area; the respective evolutions of $ versus € denomination could be influenced by monetary policy divergences or comparative health of banks and financial market conditions and stresses. He criticized regulators for having turned a blind eye to what would happen when interest rates would rise and failing to agree on how to regulate non-banks financial investors, having created a shadow banking system. Interest rate risk was systemic and opaque. In answering the question whether “Should the ECB out tighten the Fed?”, one had to look not only at the domestic dilemma but also at international dimensions: ECB estimates suggest that the medium-term impact of Fed tightening on the euro area industrial production is as large as the impact on US output, with the full impact on domestic credit worldwide still to be felt. Nevertheless the € could dilute this dominance. The wider use of other currencies in global bond markets would in time reduce dollar dominance. Bond issuance based on a basket of currencies would be safer for many borrowers. Many investors would like more straightforward currency diversification than they have now.
- **Bernard Snoy**, Chairman of RTI, wondered whether the internationalization of the euro would bring us closer to a solution of the Triffin Dilemma (TD), using various definitions of the TD. Internationalization of the euro had the potential of reducing the US external indebtedness as the Eurozone would also incur an external debt, sharing in the “exorbitant privilege” and the “exorbitant burden” of becoming consumer and lender of last resort. The reduction of dollar dominance could reduce the adverse spillovers of the US monetary policy on Emerging and Developing Economiess (EDEs) but they

would have to cope with possible adverse spillovers from the ECB policy; in any case the asymmetry would continue to prevail. Last but not least, euro safe assets, alongside US safe assets, might help extinguish the apparently insatiable thirst for safe assets; but the system could become unstable as a result of monetary, fiscal and/or macroprudential divergences or sudden changes in currency preference. Overall, none of the systemic defects of the IMS would be solved but, if there was genuine cooperation in managing global liquidity, some crises could be prevented, postponed or solved. Bernard Snoy recalled the inherent instability of the IMS and the serious dangers of crises due to blind spots in macroprudential supervision identified in RTI papers. To address these systemic risks, we had a genuine blueprint for IMS reform in the recommendations of the Palais Royal Report as well as a sequenced agenda to implement it published in 2014 by Michel Camdessus and Anoop Singh. In his view, the only way to make multipolarity work in the long run was to have on the horizon a new IMS based on a multilateral currency, managed by a more democratic and accountable IMF, becoming a genuine global LLR.

4. «The impact of the energy and ecological transition on the international use of the euro», moderated by **Edmond Alphandéry, Former French Minister of Economy and Finance**

- **Edmond Alphandéry**, who is also Chairman of the Task Force on Carbon Pricing in Europe, expressed concern that we might be losing the war of climate change as subsidies to fossile fuels continued at an unbelievable level, with the consequences to the invasion of Ukraine worsening the situation. He quoted the French writer Paul Valéry saying already in the 1930's "Le temps du monde fini commence". He echoed the words of Governor Villeroy de Galhau saying "We Europeans need to be active and committed on what depends on us". Irrespective of what others are doing, the move towards a more resilient global system, the euro should play a more important role.
- **Alexandrina Boyanova**, Head of the Climate Office (operations) of the EIB, presented the EIB Group as the bank of the European Union, driven by EU policy priorities, and the world's largest multilateral institution and leader in green finance. The EIB had the ambition of becoming the EU Climate Bank : stopping financing of unabated fossil fuel since 2021; dedicating at least20% of its financing to green projects by 2025, 100% of EIB financing Paris aligned , i.e. compatible, with the 1.5° scenario, and € 1 trillion financing mobilized in the decade 2021-2030, strict climate and environmental safeguards and criteria, and an additional € 45 billion over the next 5 years to support the REPowerEU program. . The EIB Group was involved in both large volume- high impact direct financing and in intermediated financing for SMEs, mid-caps & smaller beneficiaries. Another important commitment was in the overall greening of the Financial System, with green capital market products and loan instruments and a significant green advisory activity. She presented also the EIB Contribution to the CMU objectives, in terms of access to finance, transparency and standards, capacity building and directing funds to the green and digital transition. EIB was the largest

supranational issuer of green bonds, having issued € 19.5 billion in 2022, representing 45% of EIB funding and reaching out to international investors, particularly in Asia.

- **René Karsenti**, former Head of Finance of EIB and Member of the G20 Group of Experts on how to optimize the capital structure of MDBs, who was present, stressed the potential role of EIB and other MDBs in "crowding in" other investors. MDBs could originate and distribute more loans for the ecological transition, in which private funds or "funds of funds" could invest.

Session 4 : Alexandrina Boyanova, Bernard Snoy, Minister Edmond Alphandéry and Fabio Masini

- **Dario Velo**, Professor at the University of Pavia, who at the last minute was unable to attend and speak in session 4, had sent a paper, emphasizing the potential of hydrogen (both hydrogen resulting from thermonuclear fusion and green hydrogen produced from renewable energy sources) as the focus for the long term energy transition. This required an industrial policy capable of accompanying the development of high added value but risky activities. This would in turn require a reinforced or structured cooperation among a limited number of willing member States, who, within the CMU, would accept massive public support for investment in hydrogen production even though the technological applications were not yet there. The project of construction of an hydrogen gas pipeline linking North Africa with the Iberian peninsula, France and Germany was a step in the right direction.

- **Fabio Masini** addressed the issue of financing the ecological transition as part of the urgent need to confront global public bads such as climate change and provide global public goods, including struggle against pandemics, universal access to primary resources. The obstacles were the collective action problem (no enforcement, loose cooperation, unanimity and compromise) in the context of an IMS with the built-in destabilizer, generating cumulative global imbalances identified under the Triffin dilemma. There was also an opportunity: confronted with the need to clean and reduce central banks balance sheet, we should avoid an austerity bias and substitute sovereign bonds with high-yield project-linked bonds or bonds from fiscal authorities not directly linked to financing current expenditures but investments. There was a potential role of the euro in driving green investments, while boosting MDBs investments in green transition appeared as a second-best solution to the provision of public goods, given their regional character, proposing a more credible conditionality.
- **Bernard Snoy** drew attention to the danger that, under the present IMS, EDEs could not generate their share of the financing of the ecological transition, as the allocation of their savings tended to be dominated by spillovers from the Fed monetary policies or absorbed by the constitution of ever higher exchange reserves given the instability of commodity prices and financial flows. Nevertheless, climate change was a global challenge and a "game changer" that could accelerate IMS reform.

Please find all the speakers' presentations and more information on this event on the RTI website at the following page:

https://www.triffininternational.eu/activities/conferences/the-internationalization-of-the-euro-and-the-creation-of-the-eu-capital-markets-union

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