



EUROPEAN CENTRAL BANK

EUROSYSTEM

The international role of the euro

Conference on the
internationalisation of
the euro

Paris, 16 June 2023

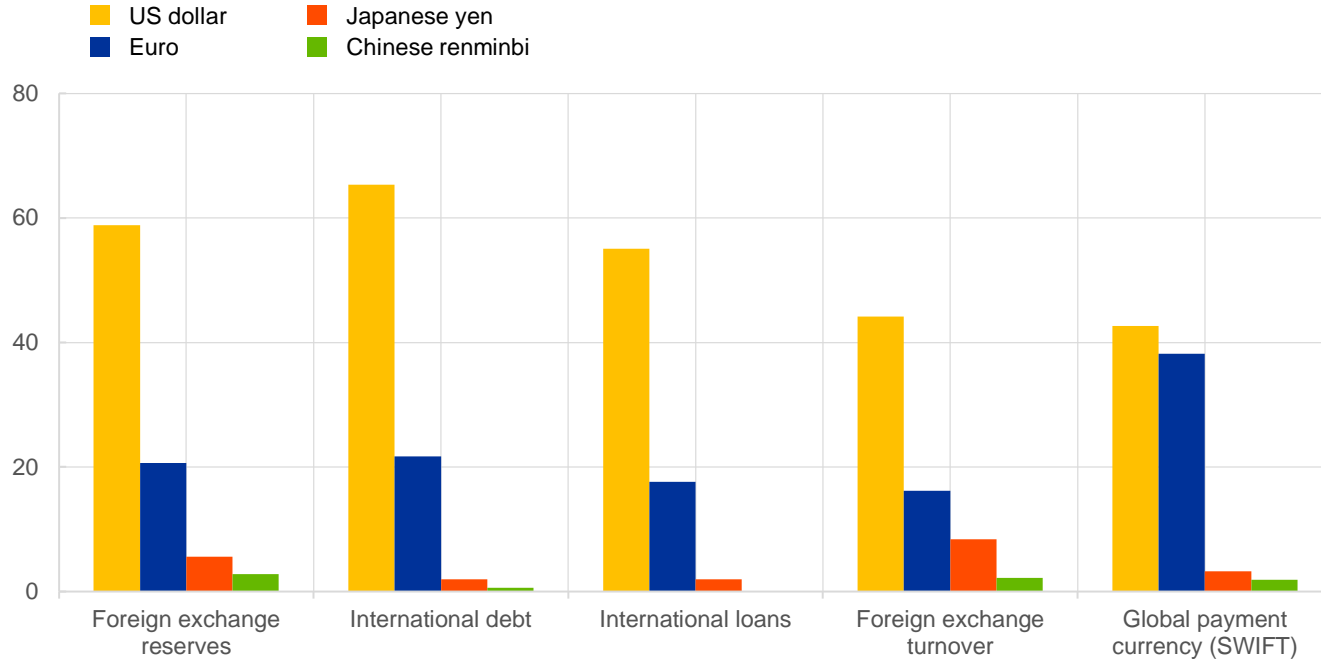


Boris Kisselevsky

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The euro is the second most important currency globally

Snapshot of the international monetary system (percentages)

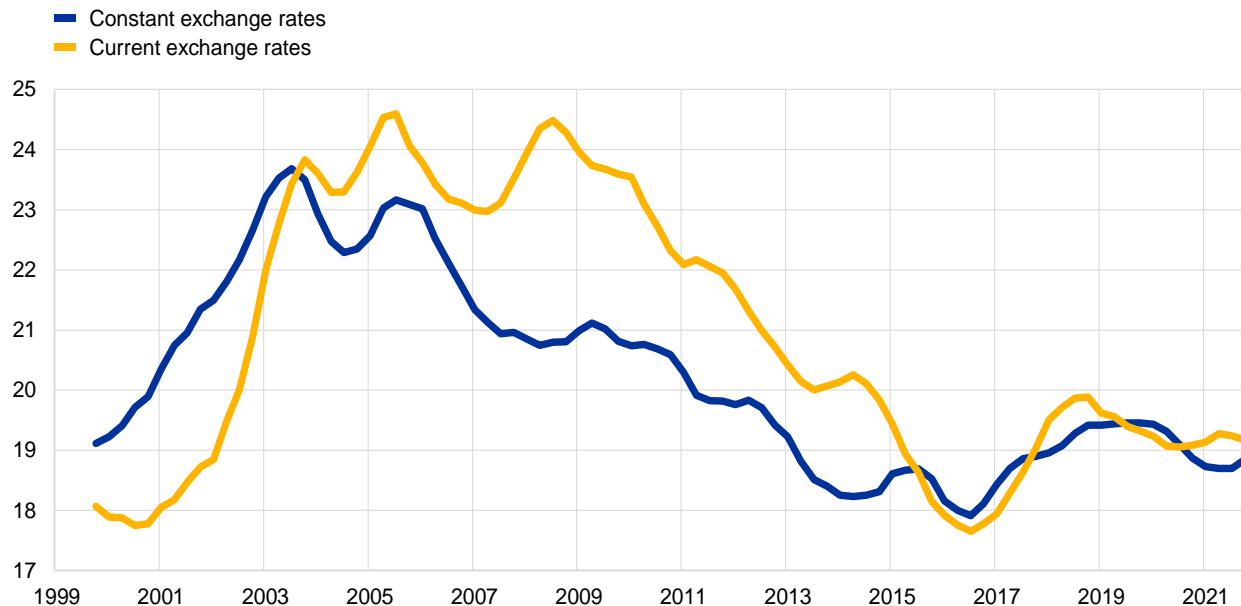


Sources: BIS, IMF, Society for Worldwide Interbank Financial Telecommunication (SWIFT) and ECB calculations.

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.

The role of the euro remained stable at a low level in recent years

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, Ilzetzki, 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 Ilzetzki, 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.

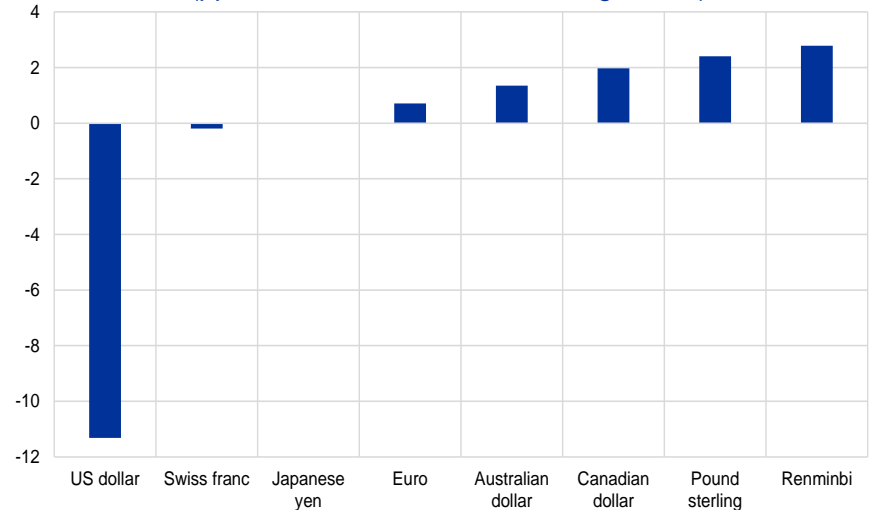
Possible implications of the invasion for the international role of the euro

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
 - See Arslanalp, Eichengreen & Simpson-Bell, 2022

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

(pp, at constant Q4 2021 exchange rates)



Sources: IMF and ECB calculations.

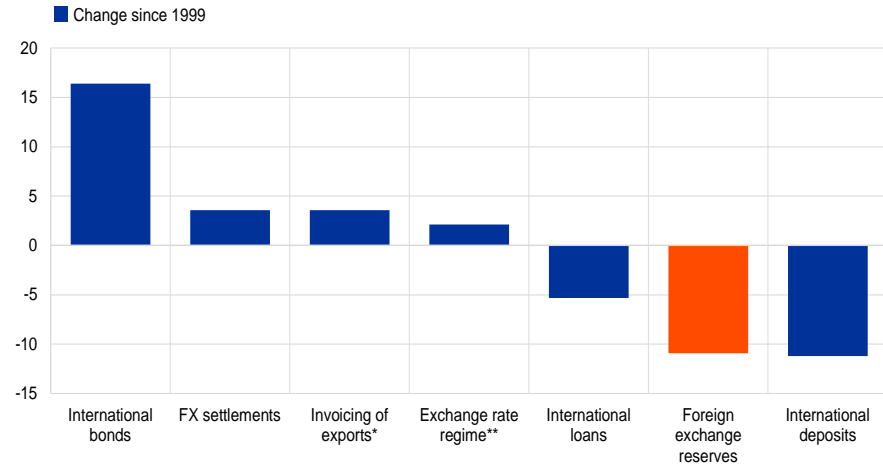
Notes: The change in the share of the renminbi is estimated using data available since 2016; the change in the shares of the Australian and Canadian dollars are estimated using data available since 2012. The latest observation is for the fourth quarter of 2021.

Possible implications of the invasion for the international role of the euro

However, the implications of the invasion on the global appeal of the major international currencies are ex ante 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
(% change constant 2021 exchange rates, unless otherwise indicated)

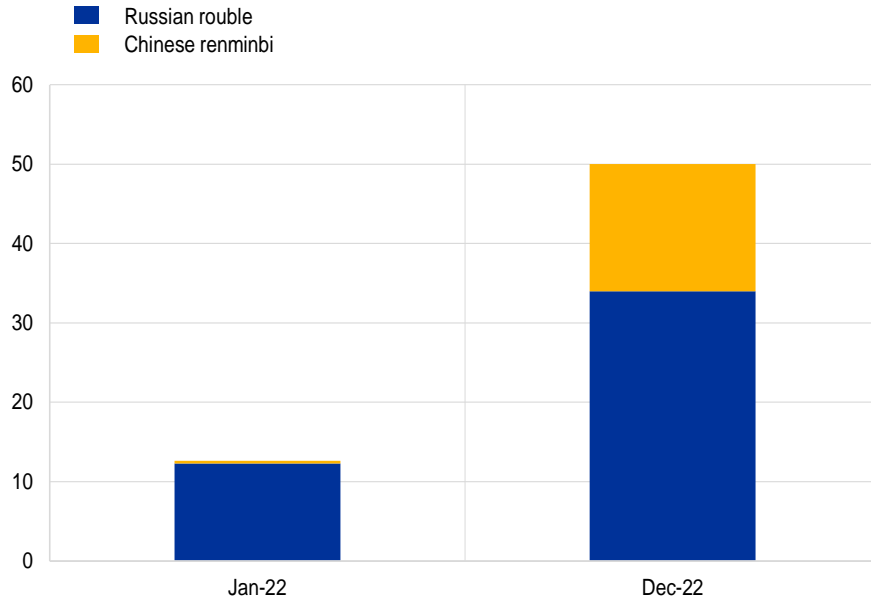


Sources: BIS, IMF, CLS Bank International, Ilzetki, Reinhart and Rogoff (2019) and ECB calculations.
Notes: The latest observations are for 2021. * Latest observation for export invoicing is for 2019, the change is at current exchange rates. ** Change in the share of the number of countries whose exchange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

What has been observed since the start of Russia's invasion?

There is anecdotal evidence that some countries seek to use alternative invoicing currencies

Breakdown of Russia's exports by invoicing currency (percentages)



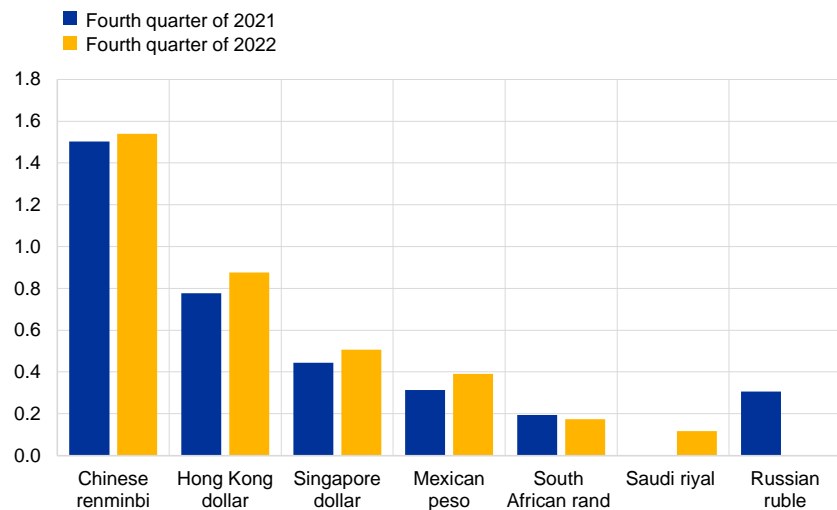
Recent statements by emerging market officials

- Russia “seeks” payment for oil exports in **United Arab Emirates dirhams** from India (18/07/2022)
- Presidents Putin and Erdoğan agree to pay Russian gas in **roubles** in “near future” (16/09/2022)
- President Xi “encourages” Gulf nations to settle oil and gas in **renminbi** “in the future” (09/12/2022)
- President Lula calls on BRICS countries to use their **own currencies** in international trade (13/04/2023)

What has been observed since the start of Russia's invasion? (2)

So far, the data does not show substantial changes in international currency use due to geopolitical factors

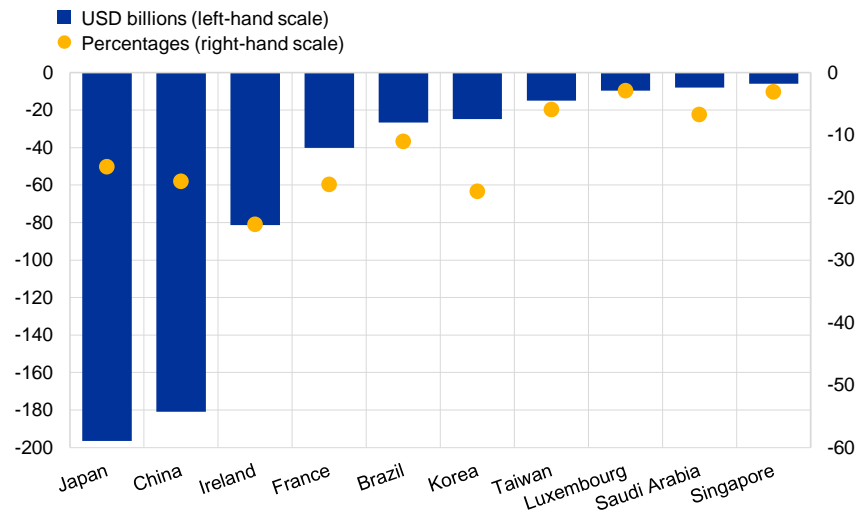
Share of global payments in SWIFT of selected currencies (percentages)



Source: SWIFT and ECB staff calculations.

Notes: The data refer to the currency shares of messages exchanged on SWIFT in the total value of selected currencies, excluding payments within the euro area. Data on the top 20 currency shares are available, meaning that if a currency does not make this cut-off point the value of the currency will be zero in the chart.

Change in the holdings of US Treasury securities between Dec-2021 and Jan-2023 (USD billions and percentages)



Source: US Treasury International Capital System and ECB staff calculations.

Note: The chart includes the countries which belonged to the largest 20 holders of US Treasury securities in December 2021 and cut their holdings of US Treasury securities over December 2021 to January 2023.

The international role of the euro is influenced by a number of policies

Economic size

Respect for rule of law

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



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

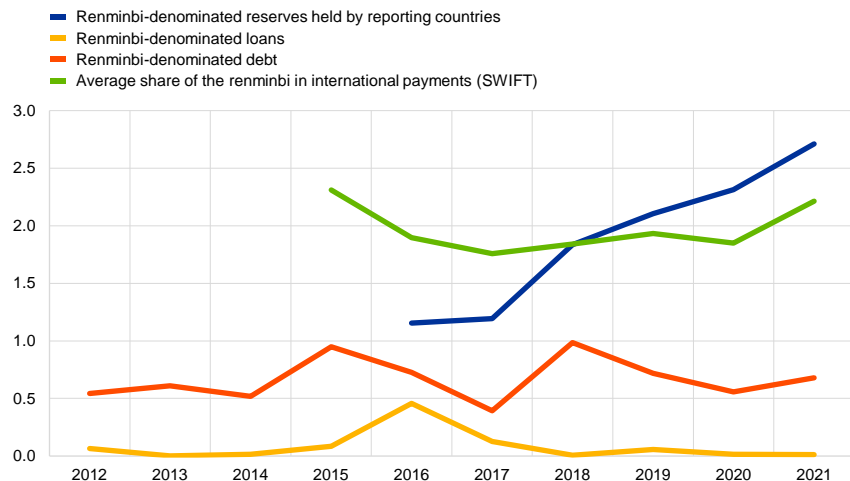


- Capital Markets Union
- Common debt issuance, safe asset
- ECB euro liquidity lines
- Initiatives on markets and payments infrastructure

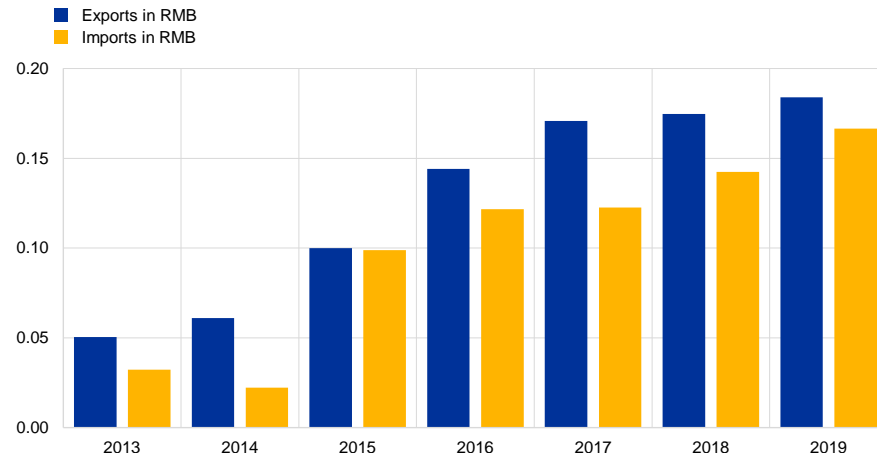
Despite recent headways, the renminbi's global role remains limited

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

Use in global finance and payments



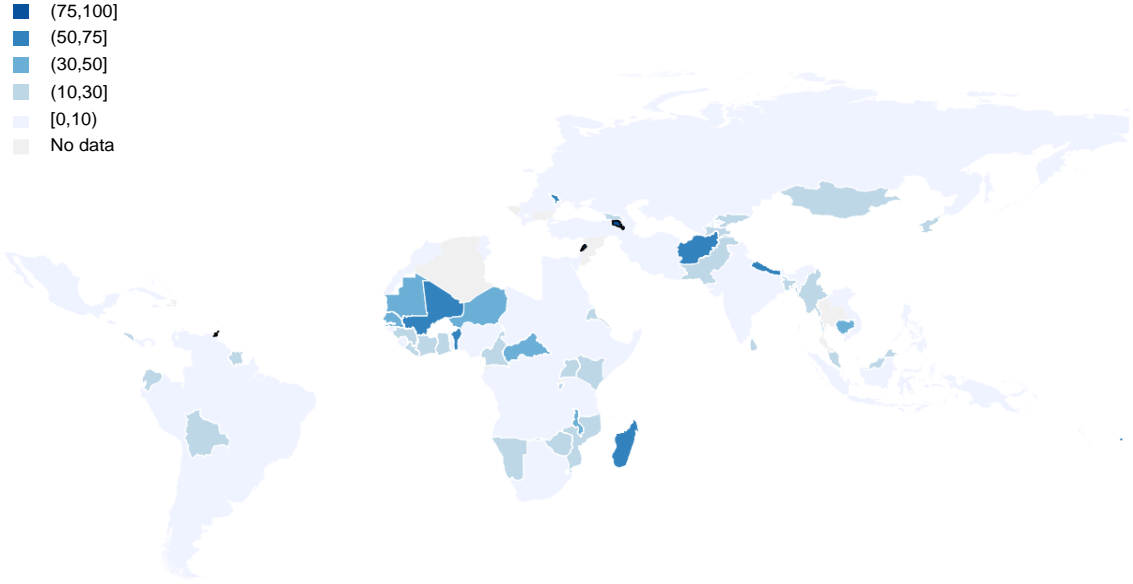
Use for global trade invoicing



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.

- Stability of the international role of the euro at a low level in recent years
- No substantial changes observed yet... but international currency status should not be taken for granted
- European economic integration pivotal in increasing resilience of the international role of the euro in a more fragmented world economy