

# **Advantages and disadvantages of the internationalisation of the euro**

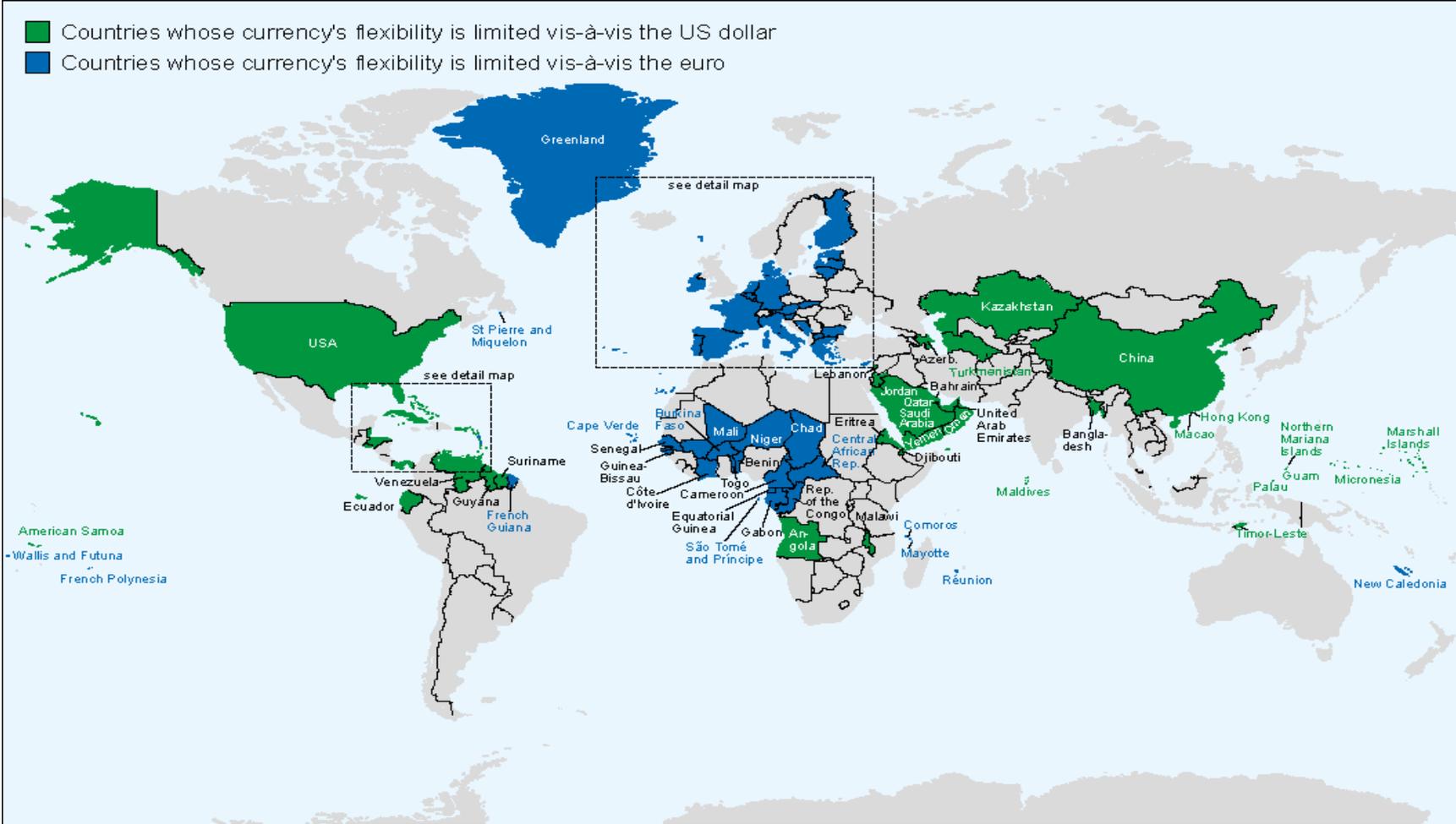
Conference - The internationalization of the euro and the creation of the Union of Capital Markets in the EU

Paris, 16 June 2023

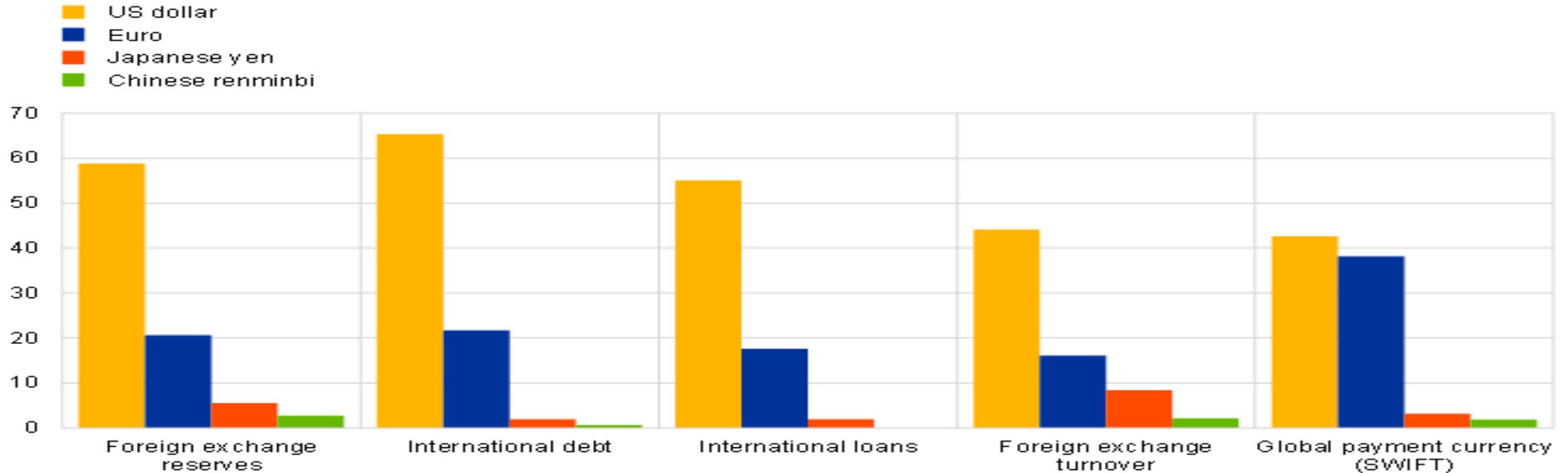
Mag. Franz Nauschnigg

Secretary General of ELEC Austria, former Head of European Affairs and Relations with International Institutions, Austrian National Bank.

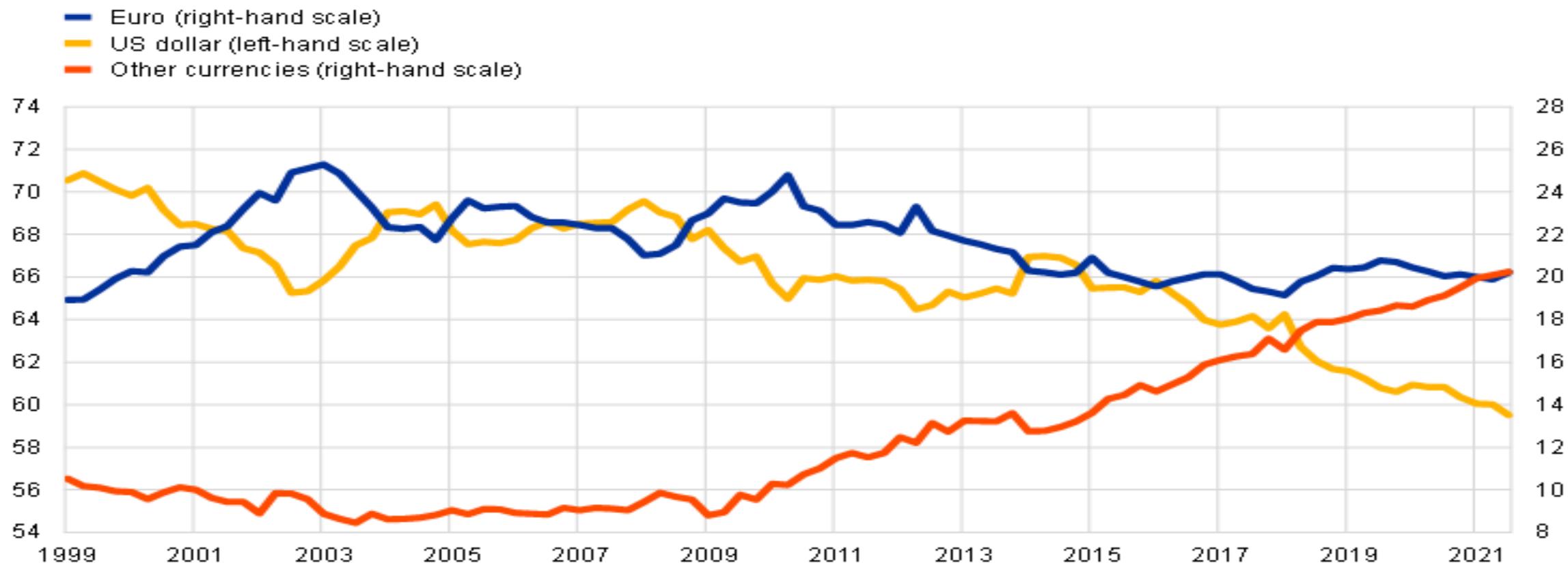
# Currency blocs



# Euro second most important currency in the international monetary system

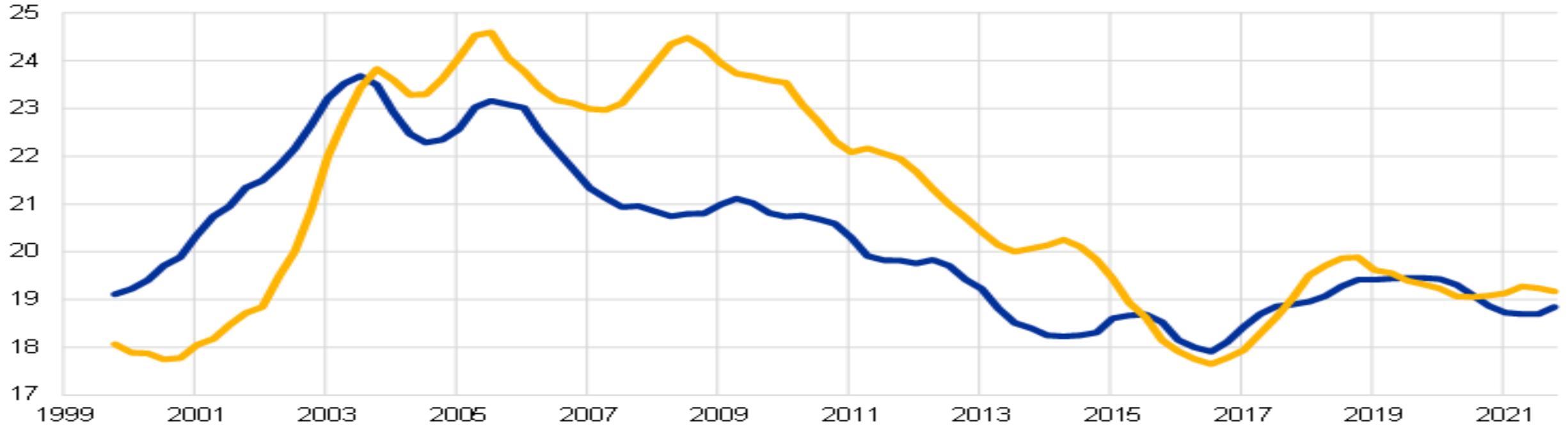


# Shares of the euro, US dollar and other currencies in global official holdings of foreign exchange reserves



# Composite index of the international role of the euro

— Constant exchange rates  
— Current exchange rates

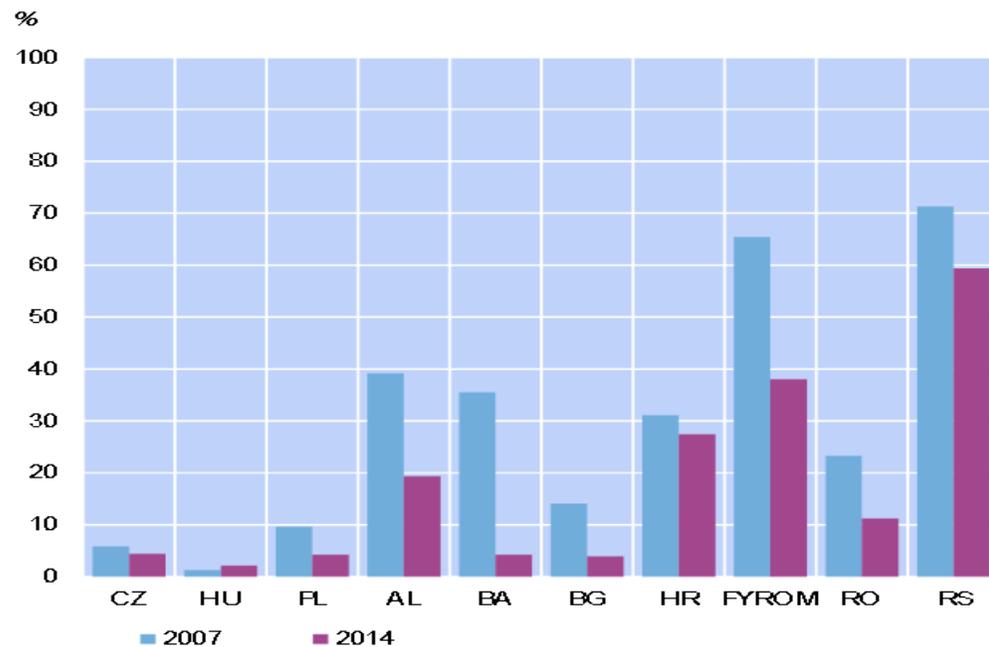


# SEE substantial Euroization

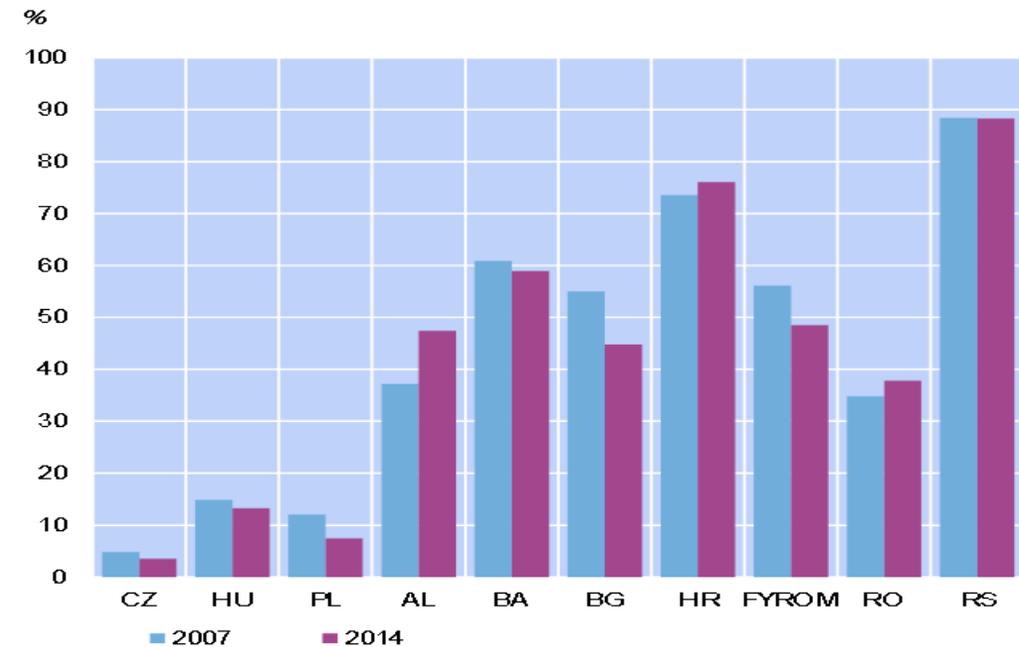
Chart 3

## Currency and deposit substitution indexes show different pictures

Currency substitution index



Deposit substitution index



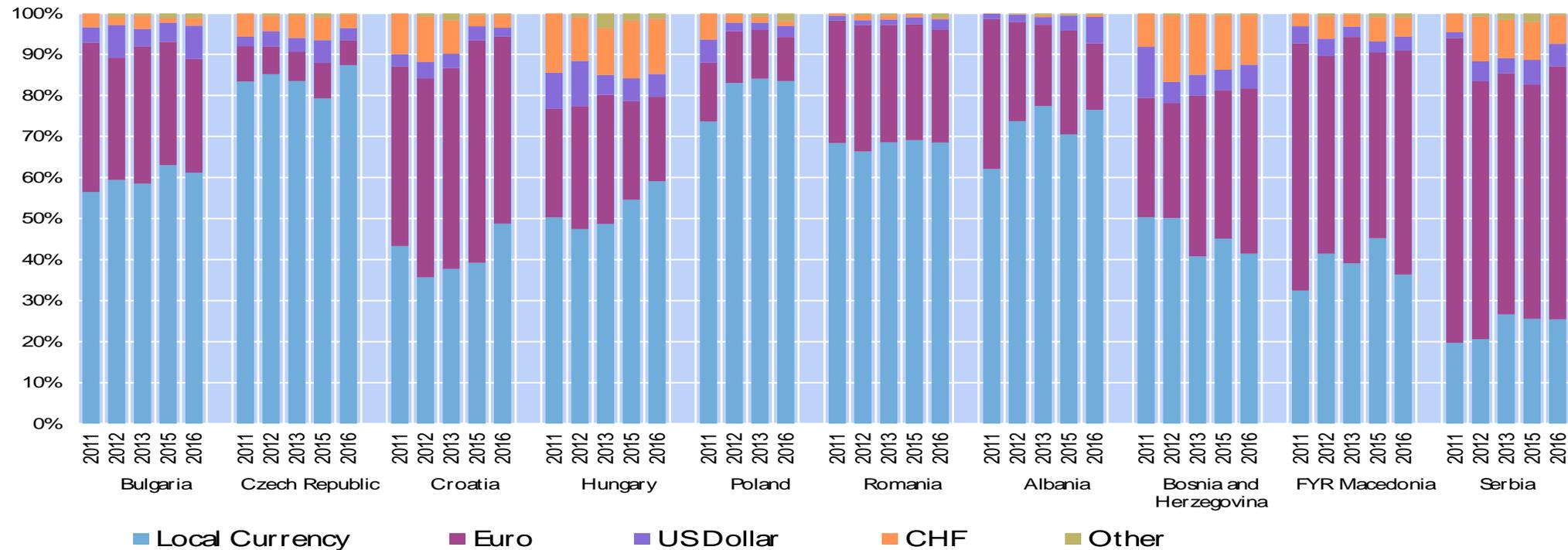
Source: OeNB Euro Survey, national central banks

Note: Currency substitution index = ratio of euro cash to euro cash plus national currency in circulation (average of October and November). Deposit substitution index = ratio of foreign currency deposits to total deposits of the household sector (annual average). For details see Scheiber and Stix (2009).

# Euroization popular especially in SEE

Chart 1

Suppose you had 2 average monthly salaries to deposit in a savings account.  
 Would you choose to deposit this amount in ...



Source: OeNB Euro Survey.

Note: Respondents answering "Don't know" or "No answer" are excluded.

# Russia's war in Ukraine - Sanctions

- Weaponisation of currency
- Sanctions led to freezing of half of Russian reserves \$ 630 bn
- Russia tried before to lower \$ reserves, switch to €, less payments in \$, and lower Dollarisation in Russia
- Mid 2021 Russian reserves - Gold 22%, Dollar 16%, Renminbi 13%, Euro highest share 32%
- China and Russia will try lower use of \$, € - will be difficult

# Cooperation OeNB – SNB during global financial crisis

- Serbia strong Euroization, Dinarisation policy not very successful, complicates monetary policy
- Banking system dominated by foreign owned banks, many Austrian
- Euro cash management through commercial banks – Vienna as a hub
- during global financial crisis trust in banking systems diminished cash withdrawals – banks run out of Euro cash
- SNB governor got over weekend over 1 bn Euro cash from OeNB – transported to Belgrade with government plane
- Serbian banks had now enough Euro cash

# Advantages internationalisation of euro

- Seignorage income – up to 0,1 % GDP, together with liquidity premium, efficiency gains up to 0,4 % of GDP
- Sanctions weaponisation of international currency
- Pricing exports, imports in own currency – no currency risk
- Countries try to peg to your currency – diminishes exchange rate risk creates currency blocs – SEE
- Mediterranean countries often financial sector \$ oriented, real sector € oriented - creates tensions
- Deeper capital markets easier financing for states and private sector, need for full Banking and Capital Markets Union
- Stable coins pegged to your currency

# Disadvantages internationalisation of euro

- Destabilising capital flows could be stronger
- Monetary policies made more difficult
- Swap agreements possible vulnerability
- Help for countries with strong Euroization needed - example Austria OeNB – Serbia SNB during global financial crisis

# Advantages greater than Disadvantages

- Euro area would benefit from stronger international role of Euro
- Deeper integration Banking and Capital Markets Union, joint EU financing necessary
- More joint EU financing necessary – EU Green transition, public goods
- Disadvantages manageable by Eurosystem
  
- Challenge for future - Digitalisation of Payments dominated by US players - Master Card, VISA, PayPal, Apple Pay
- Solution Digital Currencies – Digital Euro

# Digitale Assets – Bitcoin, Stable Coins

- Digital Assets Bitcoin, Stable Coins fast growth in recent years
- Possible danger for state currencies –
- Central banks work on introduction of digital currencies - CBDCs
- Bitcoin volatile
- Stable coins mostly pegged to \$, € share miniscule
- Digitalisation of Payment systems – dominated by foreign players

# CBDCs – International Consequences

- **ECB Study:** concludes that foreign use of a CBDC strengthens economic spill overs between countries,
- reduces the autonomy of a central bank's monetary policy when a foreign central bank digital currency circulates in its domestic economy.
- significant first-mover advantage accruing to the central bank whose central bank digital currency becomes the first to be widely used internationally.
- If China introduces CBDC others would have to follow
- If Facebooks Libra recently rebranded **Diem** pegged to Dollar is successful, there will be pressure to counter this private Data Monopoly with CBDC
- *Otherwise the Euro system's* monetary autonomy could be under pressures
- <https://www.ecb.europa.eu/pub/research/working-papers/html/index.en.html>

# CBDCs help consumers

- Fed Study: Data Monopolies will monopolise payments – brings lots of valuable data, so they can undercut other payment providers
- Fed study argues that consumer will benefit from CBDC (digital cash) and Data Monopolies would loose
- digital cash can be an effective policy tool for improving consumer welfare
- provides consumers with a “bargaining tool.”
- Importantly, consumers benefit from the existence of digital cash, regardless of whether utilization is high or low.
- Even if consumers ultimately choose not to use the digital cash as their modal form of payment, the option enhances their ability to be compensated for sharing their data, in effect, monetizing privacy
- Rod Garratt and Michael Lee, “Monetizing Privacy with Central Bank Digital Currencies,” Federal Reserve Bank of New York *Liberty Street Economics*, November 23, 2020, <https://libertystreeteconomics.newyorkfed.org/2020/11/monetizing-privacy-with-central-bank-digital-currencies.html>.