



EUROPEAN CENTRAL BANK

EUROSYSTEM

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The 2013 report on the International Role of the Euro*

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23 January 2014

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Dimensions of international currency usage

<i>Theorist's matrix</i>	Private use	Official use
Medium of Exchange	Vehicle currency	Intervention currency
Unit of account	Quotation currency	Anchor currency
Store of value	Investment & financing currency	Reserve currency

<i>Practitioner's matrix</i>	Use in global markets	Use in third countries
Prior:	Foreign exchange markets	Exchange rate anchor
Strong inertia	Global trade invoicing	Foreign exchange reserves
Lower inertia ?	International debt markets	Asset and liability substitution

Source: ECB staff assessment.

Key characteristics of international currencies

	International use		
	Currency anchor	Foreign exchange reserves	Trade invoicing
Foreign country characteristics			
Direction of trade	X	5	X ³
Output co-movement	X	5	
Denomination of external debt	X	5	X ³
Institutional links	X		
Geographic proximity	X		X ⁴
International currency characteristics			
Inertia	X	5	X ²
Price stability	X		X ²
Liquid capital markets			X ²
Large open economy			X ² ⁷
Returns			X ³
Diversification / hedging			X ¹
Low transactions costs			X ⁷
Other determinants			
Network externalities	X	5	X ^{6,7}

Source: ECB staff assessment.

Notes:

¹ Beck and Rahbari (2008)

³ ECB (2009).

⁵ Meissner and Oomes (2008).

⁷ Goldberg and Tille (2008).

² Chinn and Frankel (2008).

⁴ Kamps (2007).

⁶ Mileva and Siegfried (2005)

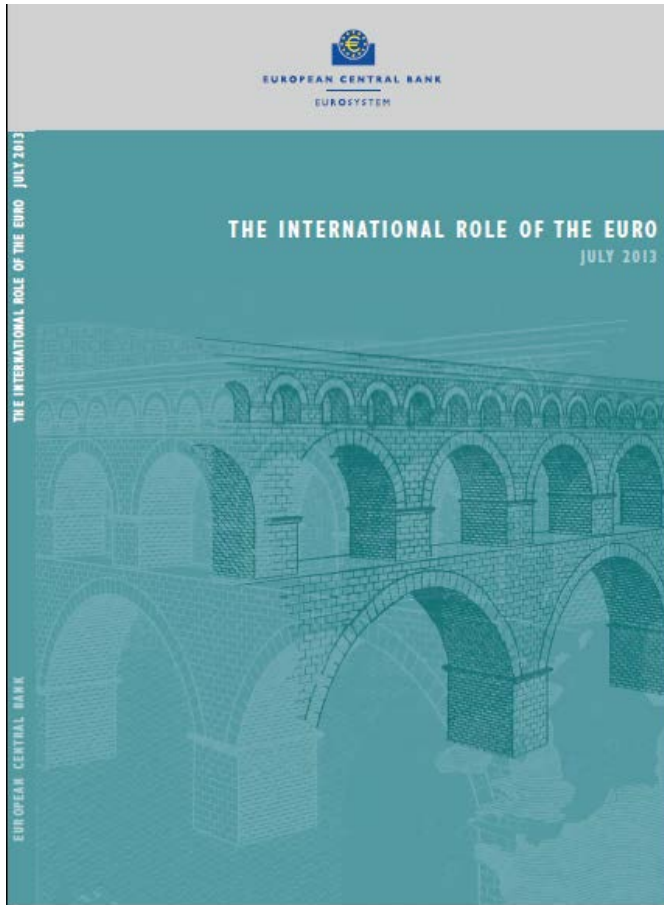
The ECB's policy position on the international role of the euro

- Neither promote nor hinder the international use of the euro
- Process driven by market participants and other institutions outside the euro area
- Preconditions for the international use of the euro area in place
 - ✓ 1) Price stability
 - ✓ 2) Large and liquid capital markets, fragmentation is receding
 - ✓ 3) Large and open economy

The international role of the euro - overview

- Since its inception in 1999 the euro became the second-most important international currency.
- The international use of the euro, in particular as a parallel currency, is concentrated in Central and Eastern Europe.
 - ✓ Currency anchor in countries with EU/EMU accession perspective
 - ✓ Parallel currency in countries with limited confidence in the local currency
- In global markets, the euro acts as second-most important currency after the US dollar
 - ✓ Second-most important reserve currency
 - ✓ Limited role as global vehicle currency in international trade
 - ✓ Somewhat declining share in international bond markets

Annual Report on the International Role of the Euro



<http://www.ecb.europa.eu/press/pr/date/2013/html/pr130702.en.html>

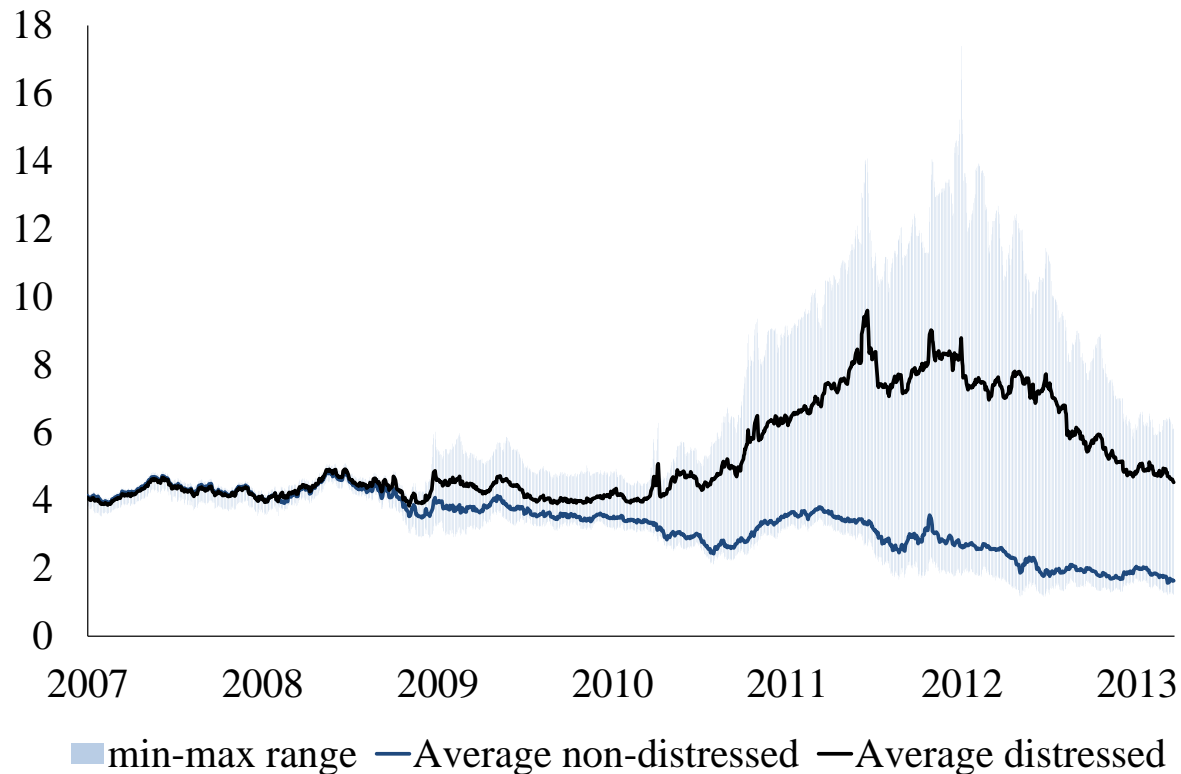
Moderate decline in the international use of the euro in most market segments in 2012

Indicator		Share of the euro (%)			Reference period	
		Latest	Comparison period	Diff. in % points	Latest data as of	Comparison period
At constant end-2012 exchange rates	Stock of global FX reserves (with known currency composition)	23.9	25.1	-1.2 ↓	(Q4 2012)	(Q4 2011)
	International debt (broad measure)	37.7	39.6	-1.9 ↓	(Q4 2012)	(Q4 2011)
	International debt (narrow measure)	25.5	26.2	-0.7 ↓	(Q4 2012)	(Q4 2011)
At current exchange rates	Daily FX trading (settled by CLS)	19.6	19.6	0.0 →	2012	2011
	FX deposits in CESEE countries	80.9	81.1	-0.3 ↓	2012	2011
	Invoicing of goods exports of the euro area	62.5	64.9	-2.4 ↓	2012	2011
	Invoicing of goods imports of the euro area	49.0	49.8	-0.8 ↓	2012	2011
	Foreign holdings of euro area debt (in % of total euro-denominated debt)	17.3	17.6	-0.3 ↓	H1 2012	H1 2011
	Cumulative net shipments of euro banknotes to destinations outside the euro area (EUR billion)	131	118	11.0 ↑	Dec. 2012	Dec. 2011

Source: ECB.

Fragmentation of euro area financial markets peaked in the summer of 2012

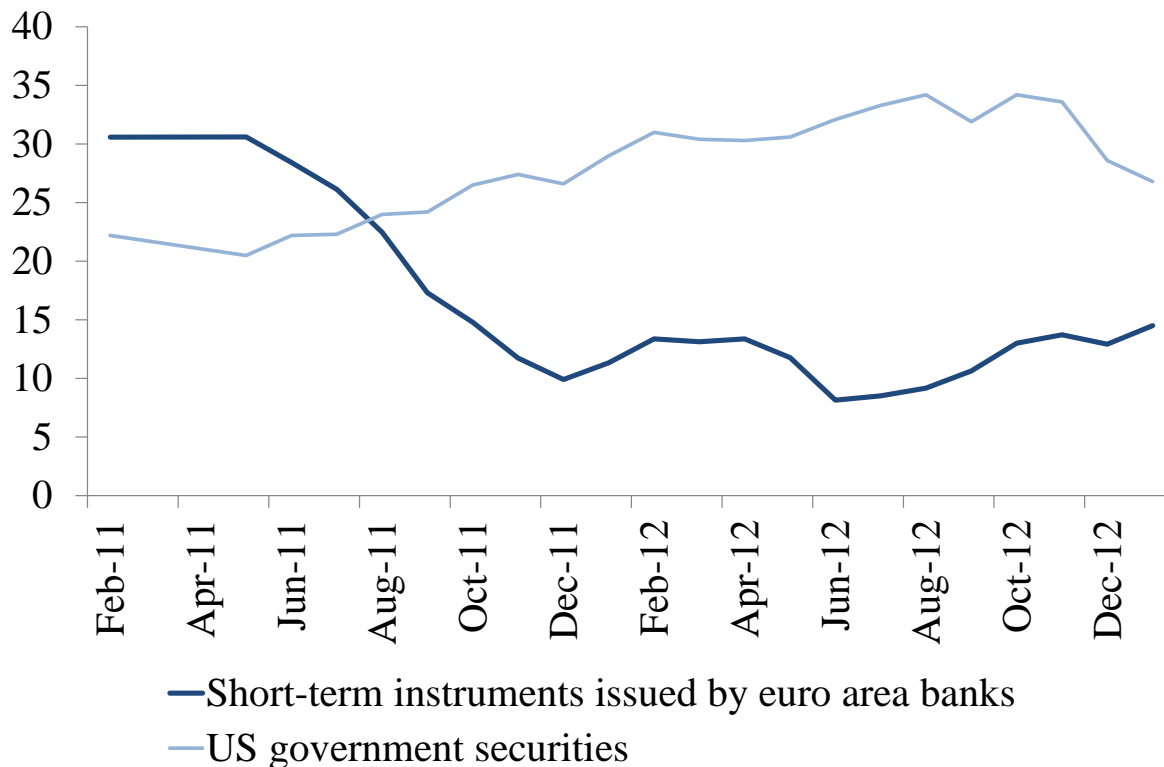
Sovereign yields for euro area countries
(In percent)



Source: ECB.

Survey data point to a gradual return of confidence in H2 2012 (1)

Asset allocation of prime US money market funds (Fitch survey)
(In percent of total assets under management)

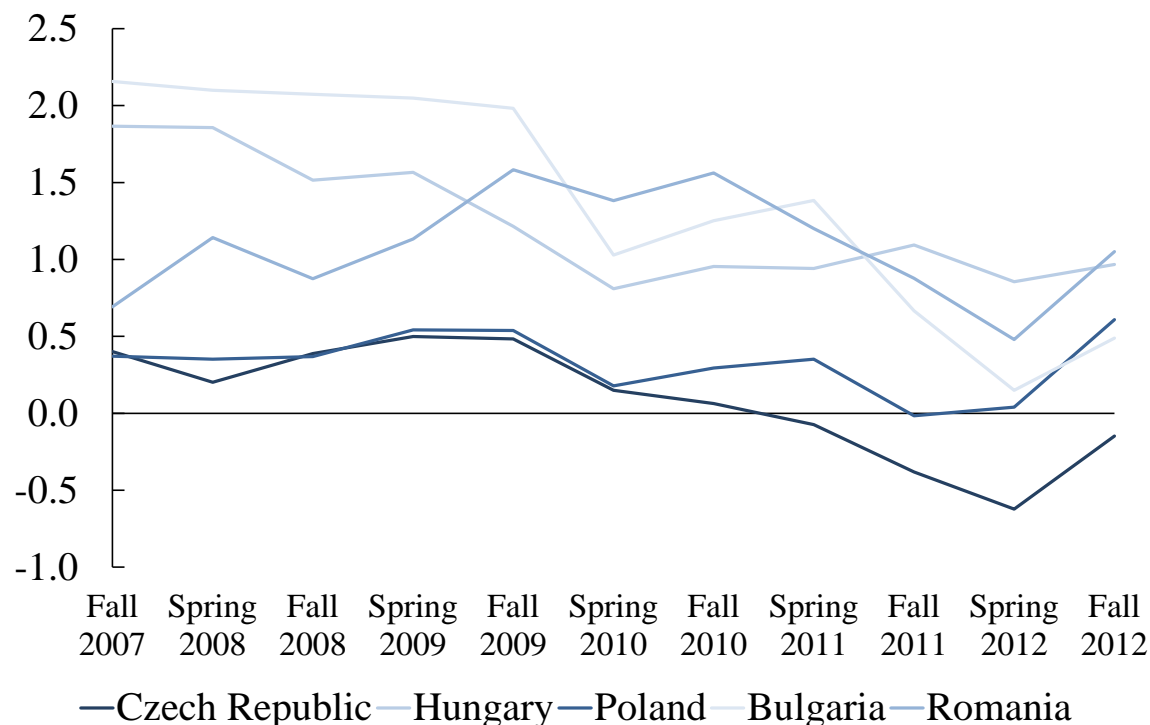


Source: Fitch Ratings.

Survey data point to a gradual return of confidence in H2 2012 (2)

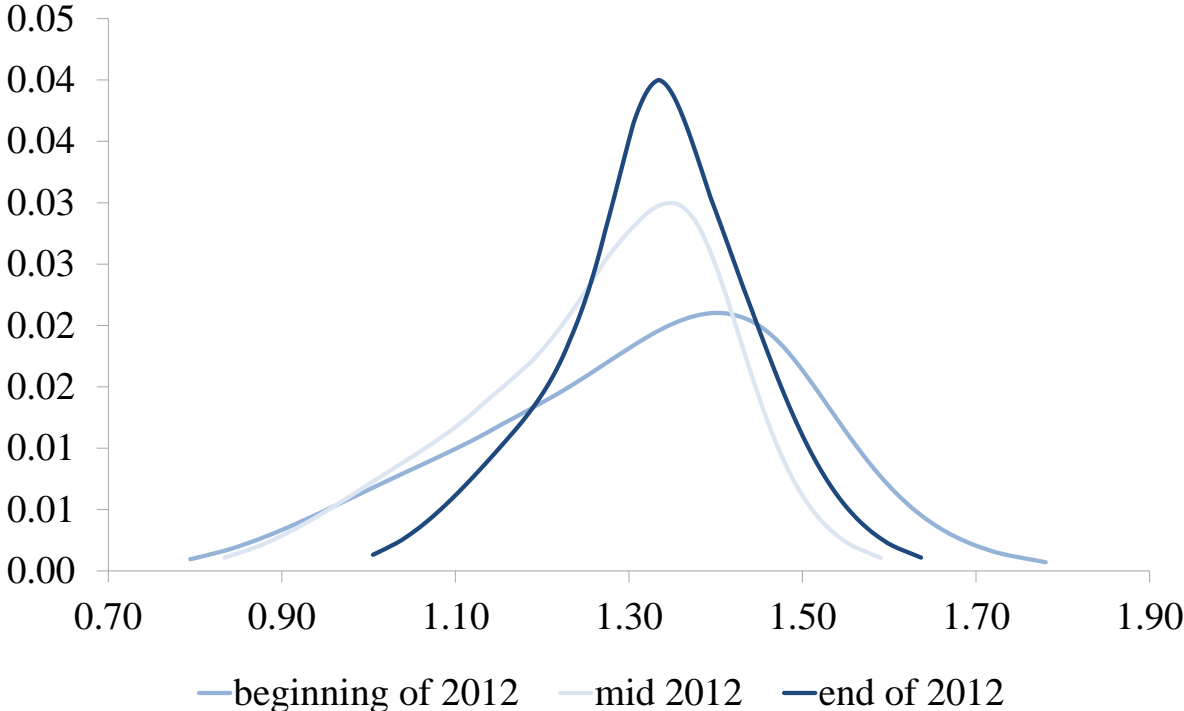
Relative trust in the euro versus domestic currencies in the OeNB survey

(difference in normalised sample means per country)



Decline in EUR tail risks priced by the market confirm return of confidence in H2 2012

Option-implied densities for the EURUSD exchange rate over the 12-month horizon



Source: ECB.

Non-traditional reserve currencies based on solid fundamentals but lack size and liquidity

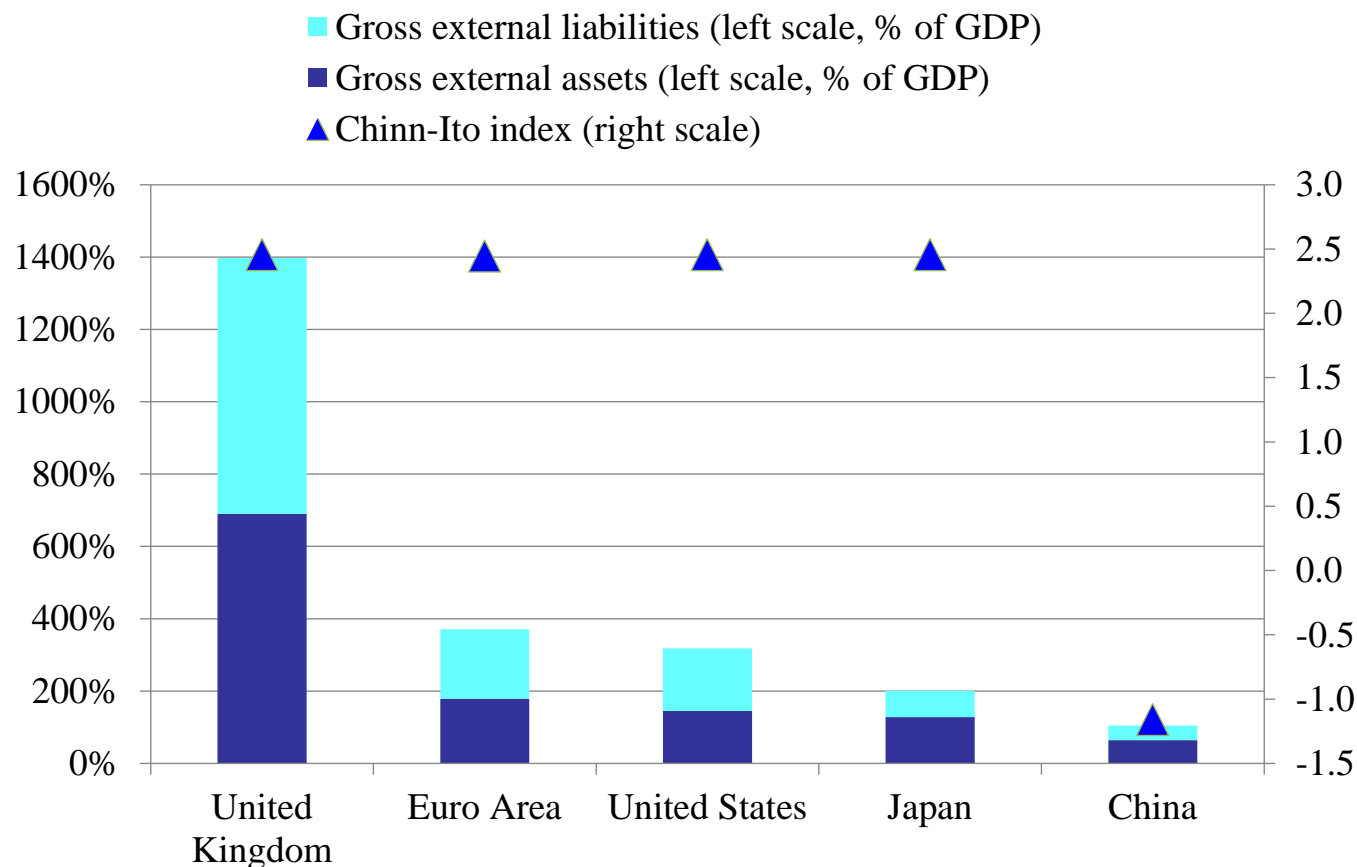
Indicator	Unit	Traditional reserve currency issuers	Non-traditional reserve currency issuers
Size of the economy	GDP, USD bn (2011)	37,104	4,132
Size of the trade sector	Exports plus imports, USD bn (2011)	19,859	2,603
Size of bond market	USD bn (2012 Q2)	72,507,331	5,153,637
Size of international bond market	USD bn (2012 Q4)	15,162	2,046
Inflation	CPI, average (Jan. 1999 - September 2012)	1.4	2.1
GDP growth	Average (1999-2011)	1.6	2.5
Sovereign rating	Long-term foreign currency rating by S&P	AA+	AAA
Gen. government gross debt	(% of GDP)	114.6	50.3

Source: ECB.

Notes: Traditional reserve currency issuers include the United States, the euro area, Japan, Switzerland and the United Kingdom. Non-traditional reserve currency issuers include Australia, Canada, Norway, and Sweden.

Limited CA convertibility hampers China's financial integration

Measures of international financial integration of selected economies



Summary and conclusions

- In 2012 the euro area sovereign debt crisis weighted on the international use of the euro, which declined moderately in some market segments
- The persistent fragmentation of the euro area's financial system is among the main underlying causes of these developments
- Nevertheless, survey indicators point to an improvement in several measures of the international role of the euro during the second half of 2012
- These improvements have been supported by several policy measures taken at the European and the national level
- However, further efforts are needed both at the euro area and at the national level to decisively reduce financial fragmentation