

The International Role of the Euro

*July 2012**

Brussels
3 September 2012

Outline

- **Recent developments**
- **The impact of the crisis on the foreigners' appetite for EA securities**
- **The changing landscape of global currencies and the international monetary system**

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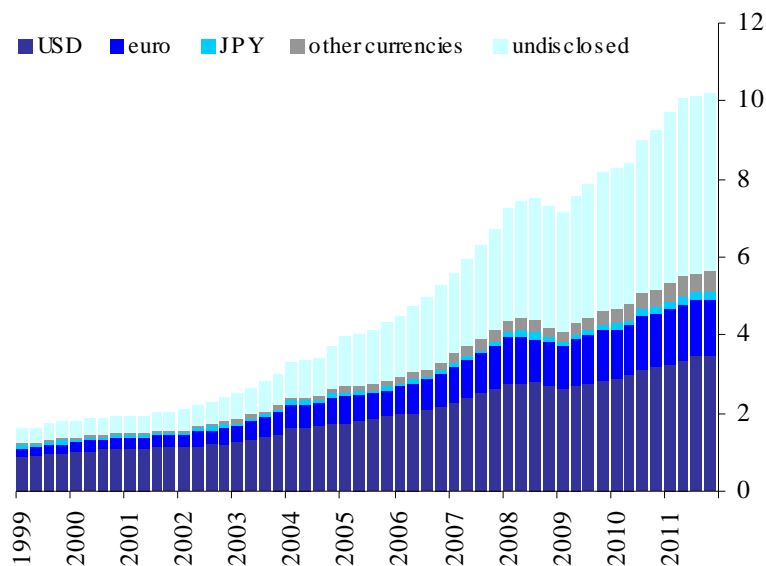
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FX reserves: Stable share of the euro in 2011

Currency composition of global foreign exchange reserves

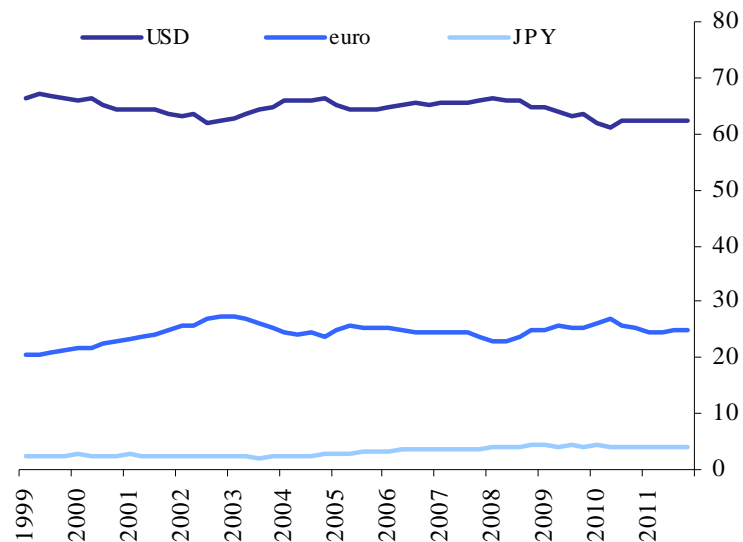
Panel A Amounts

(USD trillions, at current exchange rates)



Panel B Shares

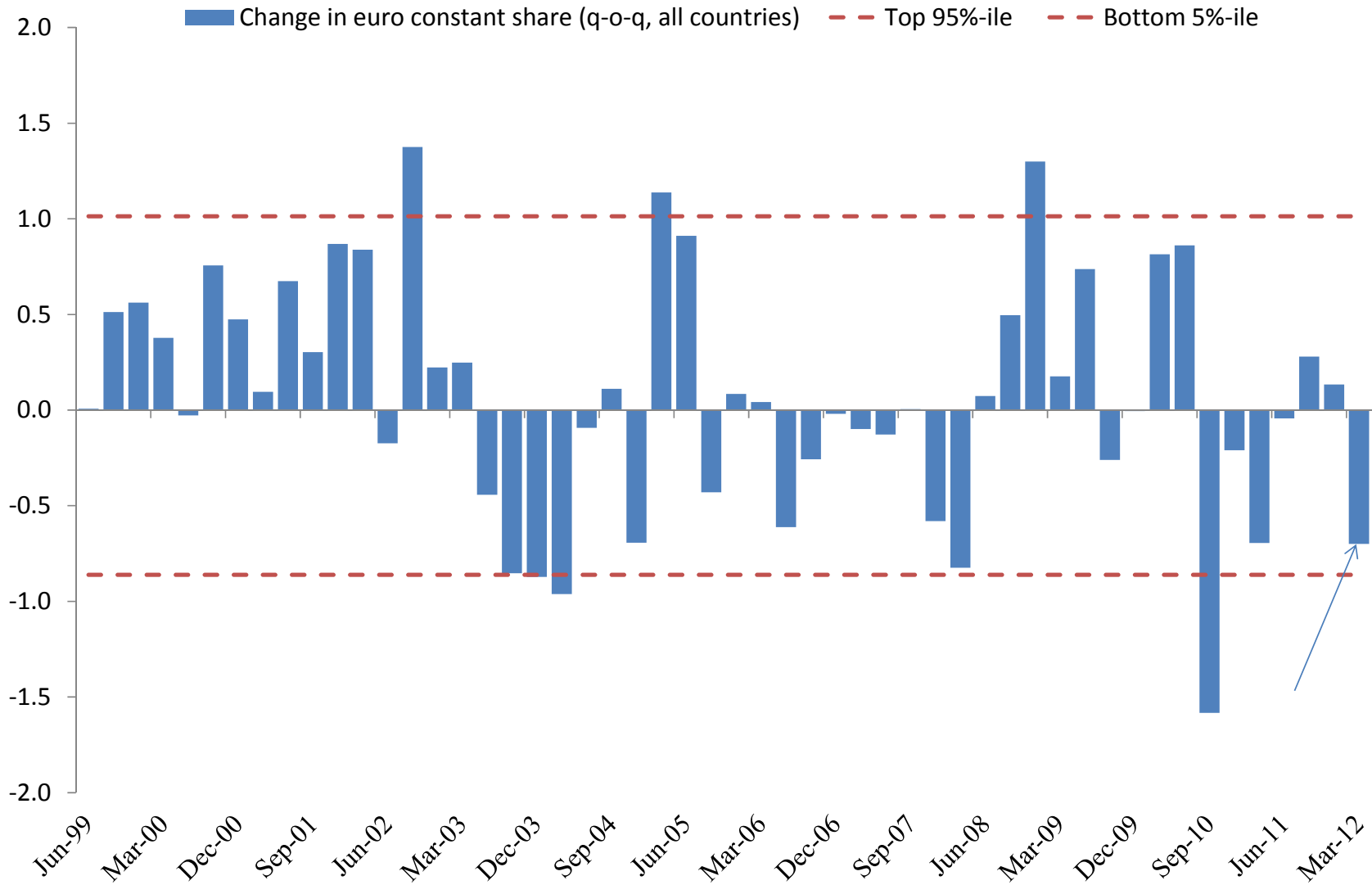
(percentages, at constant end-2011 exchange rates)



Sources: IMF and ECB calculations.

Survey evidence among reserve managers points to portfolio shifts within the euro-denominated market segment

FX reserves: Drop in Q1 2012 in line with past volatility

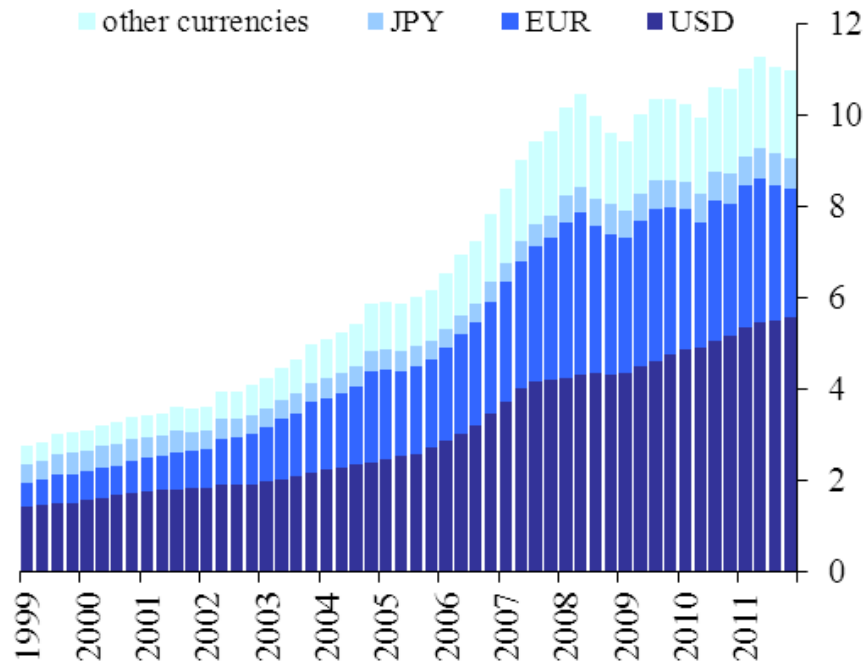


International debt securities (narrow measure): Decline since the start of the crisis continues....

Stock of international debt securities (narrow measure): outstanding amounts and currency shares

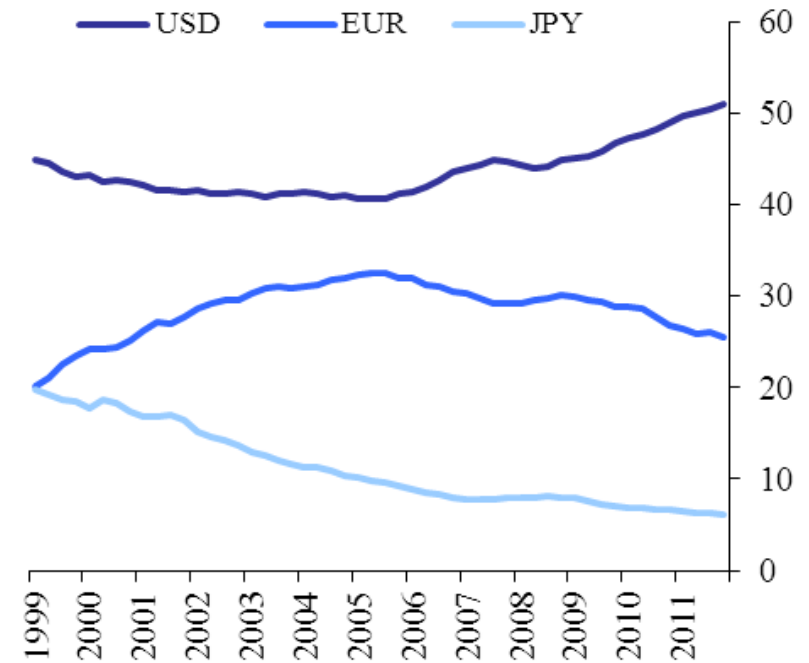
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Panel B Shares

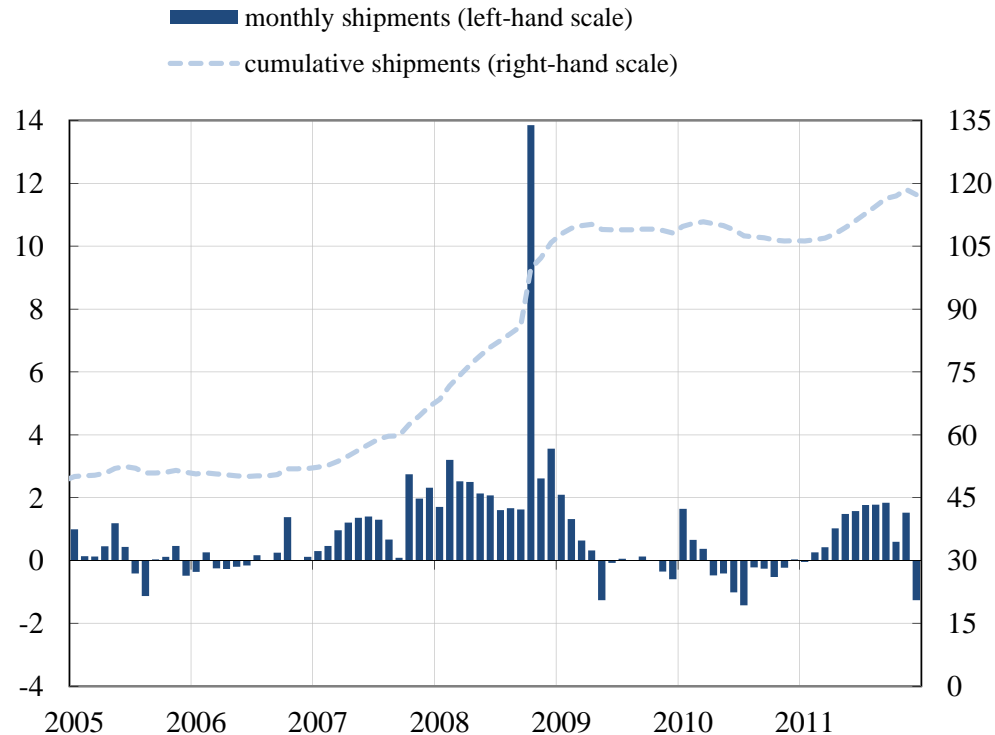
(percentages, at constant exchange rates)



Sources: BIS and ECB calculations.

Net shipments of euro banknotes: increase in foreign demand in the course of 2011

Net shipments of euro banknotes to destinations outside the euro area (EUR billions; adjusted for seasonal effects)



Source: Eurosystem. *Notes:* Net shipments are the sum of euro banknotes sent abroad minus euro banknotes received. The latest observation refers to December 2011.

Limited impact of euro area sovereign debt crisis on the international use of the euro

Indicator		Share of the euro (%)			Reference period	
		Latest	Comparison period	Diff. in % points	Latest data as of	Comparison period
At constant end-2011 exchange rates	Stock of global FX reserves (with known currency composition)	25.0	25.4	-0.4 ↓	2011 Q4	2010 Q4
	International debt (global measure)	25.7	25.7	0.0 ↓	2011 Q4	2010 Q4
	International debt (narrow measure)	25.5	26.8	-1.3 ↓	2011 Q4	2010 Q4
At current exchange rates	Daily FX trading (settled by CLS)	20.7	19.2	1.5 ↑	2011	2010
	FX deposits in CESEE countries	83.3	84.9	-1.6 ↓	2011	2010
	Invoicing of goods exports of the euro area	66.7	63.5	3.2 ↑	2011	2010
	Invoicing of goods imports of the euro area	50.2	49.6	0.6 ↑	2011	2010
	Foreign holdings of euro area debt (in % of total euro-denominated debt)	17	18	-1.0 ↓	H1 2011	H1 2010
	Cumulative net shipments of euro banknotes to destinations outside the euro area (EUR billion)	118	107	10.3 ↑	Dec. 2011	Dec. 2010

The international role of the euro 2012

Main messages:

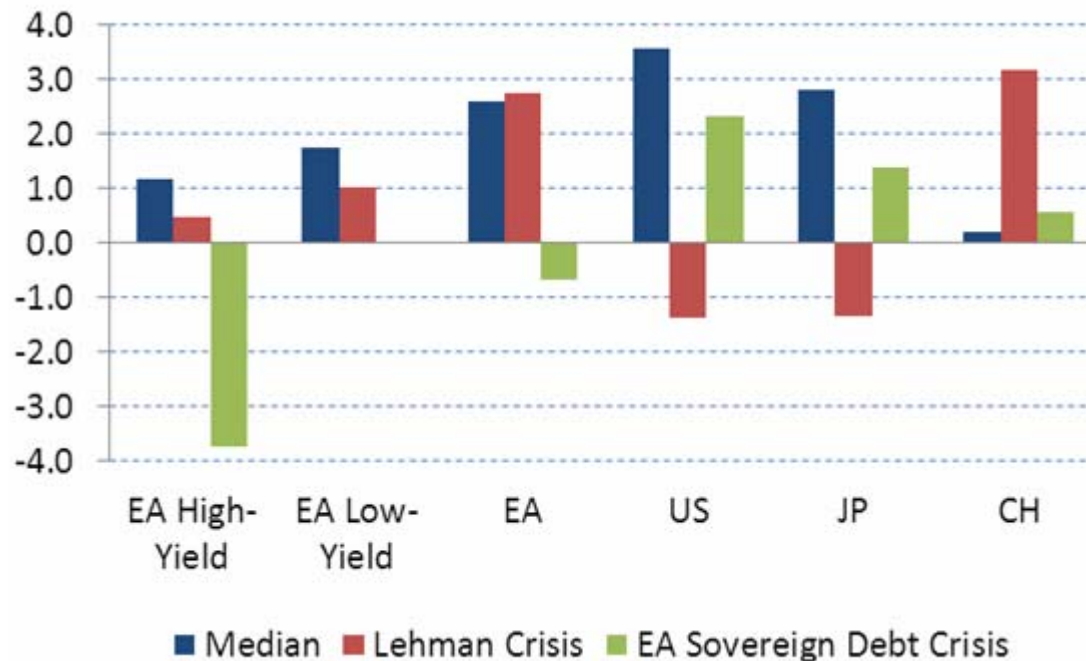
- In 2011, despite setbacks in financial integration in the euro area, the “international” role of the euro was relatively resilient
- Tensions in some market segments led to a moderate decline in the share of the euro (narrow measure of international debt, FX deposits in CESEE countries)
- Composition effects within the segment of euro-denominated assets (e.g. survey evidence of CB reserve managers)

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The appetite of foreigners for euro area securities (govt. bonds & notes) (Habib and Stracca, 2012)

External liabilities: government bonds & notes (Q1 2001-Q4 2011 and crisis periods)
(flows as a percentage of outstanding stocks in the previous year)



Recent EA sovereign debt crisis different from Lehman. Negative impact on foreigners' appetite for EA securities, not confined to high-yield sovereign issuers

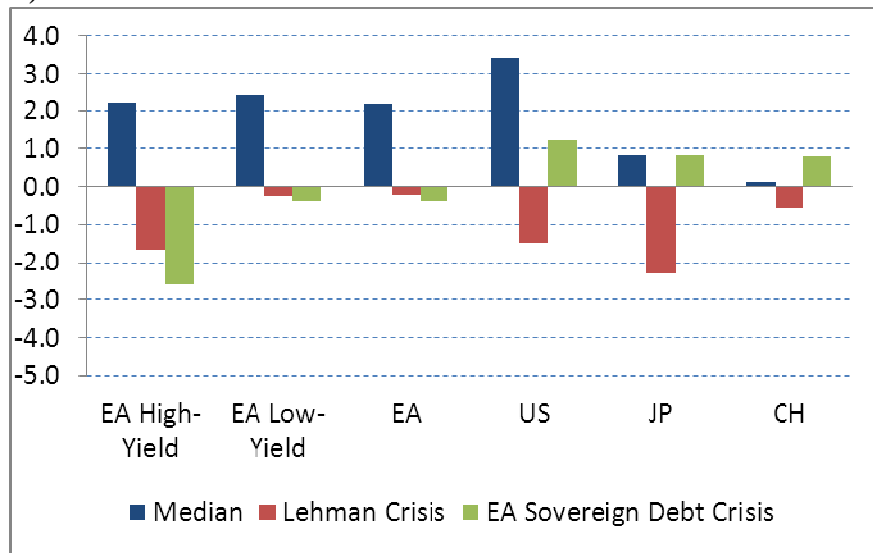
Source: IMF Balance of Payments and ECB staff calculations. Notes: Euro Area (EA) is available from 2006Q1. Euro Area (EA) high-yield includes Greece, Ireland, Italy, Portugal and Spain. Euro Area (EA) low-yield includes France, Germany, Netherlands, Finland, Austria and Belgium. Aggregates for EA high-yield and EA low-yield do not net out intra-euro area transactions. Lehman crisis refers to the average flow in the last two quarters of 2008. EA sovereign debt crisis refers to the average flow in the last two quarters of 2011, except for Japan that includes only 2011Q3.

The appetite of foreigners for euro area securities (all sectors: bonds & notes - equity)

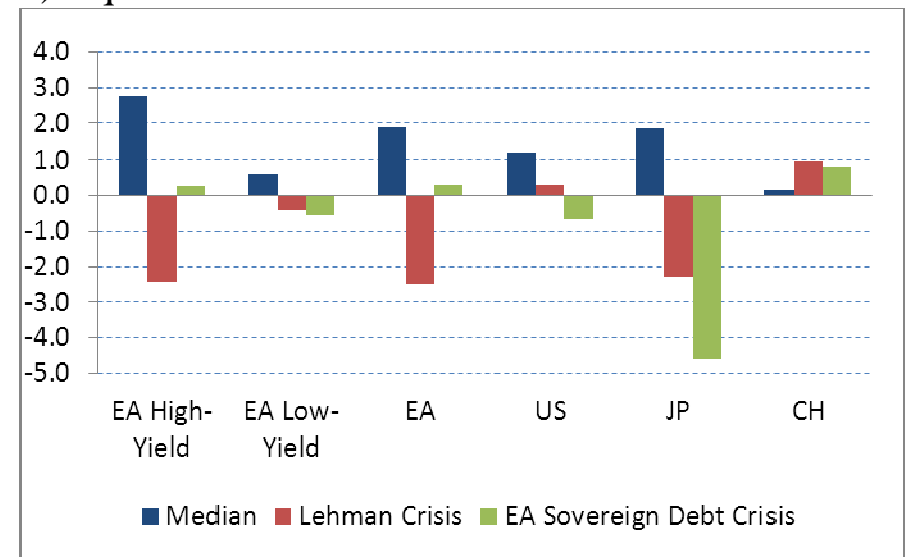
External portfolio liabilities (Q1 2001-Q4 2011 and crisis periods)

(flows as a percentage of outstanding stocks in the previous year)

a) Bonds and notes



b) Equities



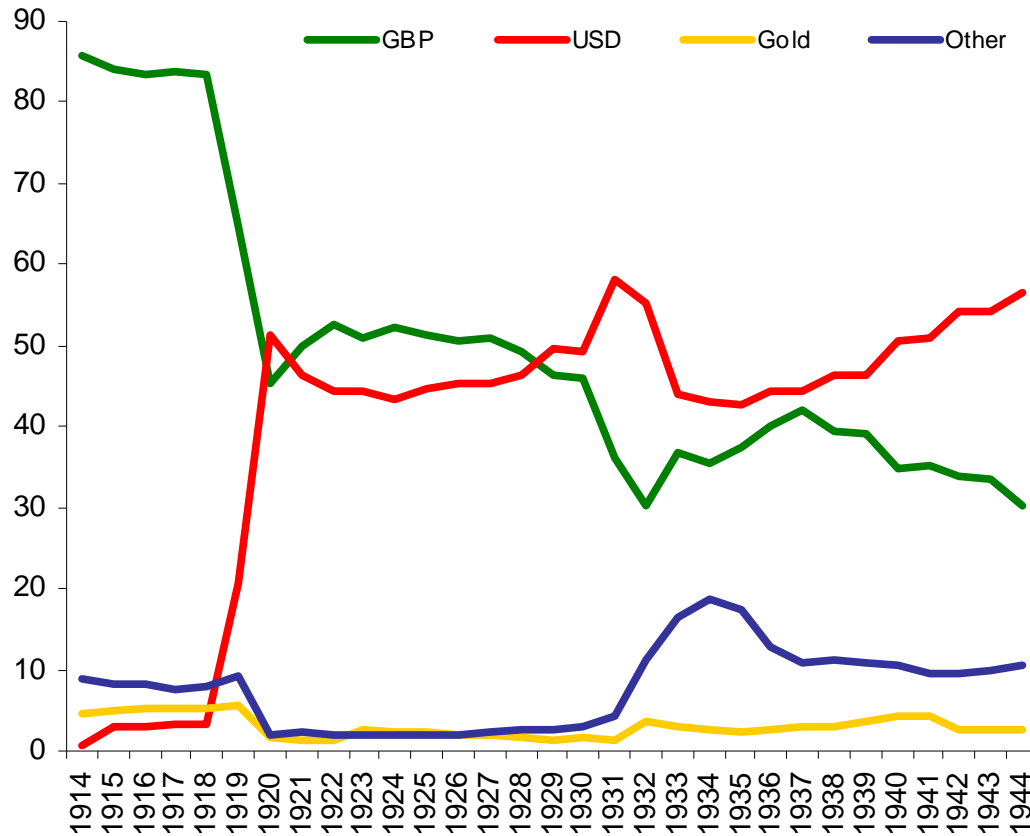
Unsurprisingly, in the crisis periods, with a few exceptions, foreigners retrenched from riskier assets, such as bonds and notes, and equities issued by another country

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When did the US dollar overtake sterling as leading international currency? (Chitu, Eichengreen & Mehl)

Global foreign public debt - Selected currency shares (%)



The chart shows the evolution during the interwar period of the shares of sterling, US dollar, gold and other currencies in the global stock of foreign public debt (in % and at current exchange rates) based on a sample of 28 countries, excluding Commonwealth countries (India, Australia, Canada, New Zealand and South Africa).

China's "dominance hypothesis" and international monetary system tri-polarity (Fratzscher and Mehl)

China's influence on today's FX policies in emerging Asia akin to that of Germany in Europe in the 1980s-1990s (German "dominance hypothesis")

- **Significant regional factor** in emerging Asia's exchange rate dynamics (stronger than anywhere else)
- Regional factor **driven by RMB**, over and beyond USD movements
- **Emerging Asian currencies react** to news about China's reserve or exchange rate policy **in tandem with RMB**: authorities aim to stabilise external competitiveness within the 'Asian production chain'

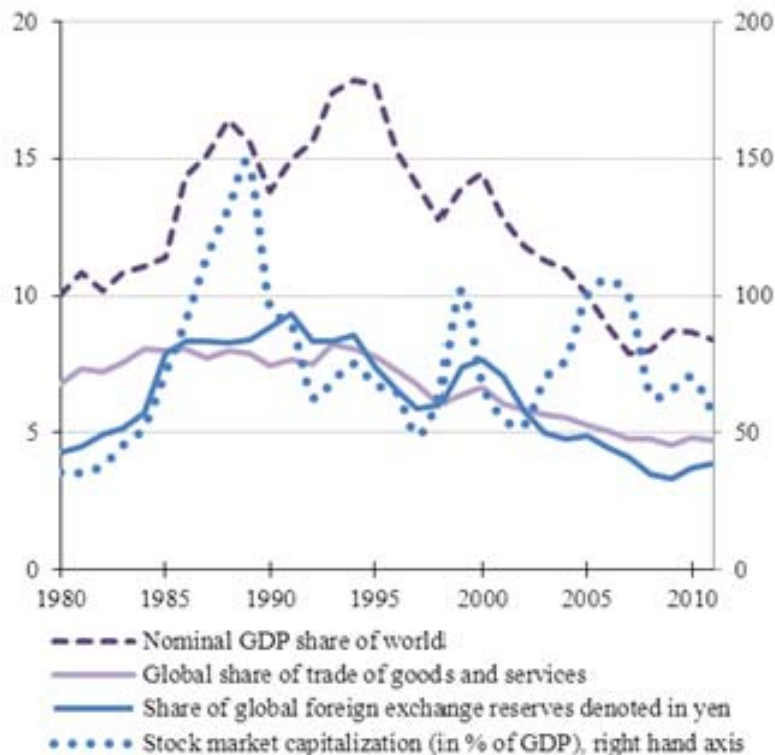
Tri-polar currency system, albeit only for exchange rate anchoring, not other dimensions of international currency use given China's closed capital account

Policy lessons from the attempts to internationalise the Japanese yen

Selected indicators for Japan

a) Selected macroeconomic indicators, 1980-2011

(percentages)

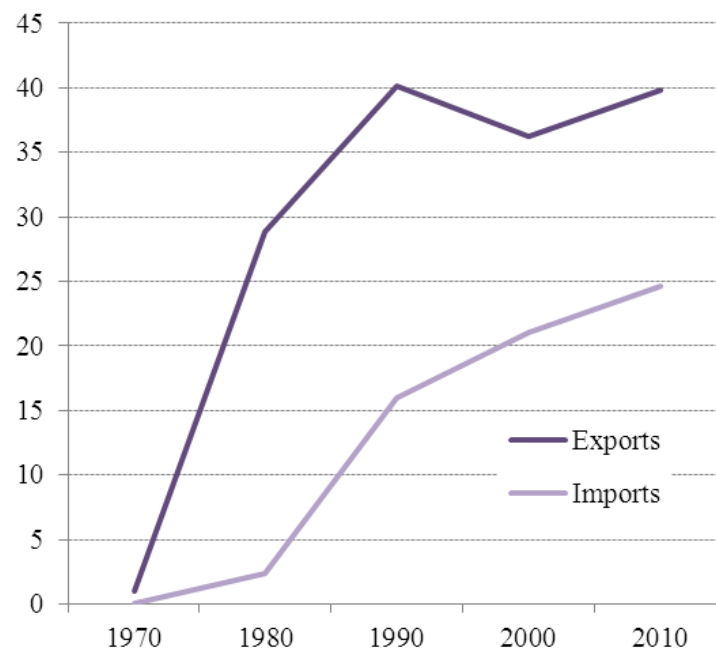


Sources: IMF, Global Financial Data and ECB calculations.

Note: The yen's share in foreign exchange reserves is calculated on the basis of total reserves with a disclosed currency composition at constant exchange rates.

b) Japanese trade invoiced in yen, 1970-2010

(percentages)



Sources: Japanese Ministry of Finance and Ministry of International Trade and Industry (in Ito et al., 2011).