Strengthening the international role of the euro

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The Committee on Economic and Monetary Affairs adopted an own-initiative report by Danuta Maria HÜBNER (EPP, PL) on strengthening the international role of the euro.

Despite the euro area’s economic size and influence in global trade, the euro lags behind the US dollar by a wide margin in terms of its use as an international reserve currency and invoicing currency, and in its share of international exchange transactions and debt securities but ranks almost equally compared to the dollar in terms of proportion of international payments; the euro remains the second most important currency in the international monetary system.

Benefits and challenges of strengthening the international role of the euro

Stressing the irreversible nature of the single currency, Members welcomed the entry of Bulgaria and Croatia into the European Exchange Rate Mechanism II in July 2020 and recommended setting a swift target date for the adoption of the euro in both countries. In this respect, they encouraged the European Commission to assess the potential consequences of an enlargement of the euro area on the process of strengthening the international role of the euro.

Members considered that it is in the long-term strategic interest of the euro area and its Member States to reap all possible benefits from the issuance of the euro currency, and in particular from its enhanced international role.

Although not all the effects of the internationalisation of the euro can be easily quantified, Members stressed that the strengthening of the international role of the euro could bring benefits in the short and long term, although it also entails risks and responsibilities that need to be taken into consideration in the process of complementing market forces with policy measures.

In particular, the report pointed out that the euro's status as an international currency could:

- increase the use of the euro as a reserve currency, reduce external financing and transaction costs for currency exchanges and reduce the costs and risks borne by European businesses and households

- gradually creating deeper, more liquid and integrated European financial markets by making them less vulnerable to exchange rate shocks

- increase the autonomy of EU monetary policy, strengthen its global transmission, render EU monetary policy less dependent on exogenous economic and financial spill overs and improve market efficiency and the resilience of the euro area to financial shocks.

A stronger international role for the euro could enhance the resilience of the international financial system, providing greater choice to market participants around the world and making the international economy less vulnerable to shocks related to the heavy dependence of many sectors on a single currency.

Key challenges

The report stressed that for the potential benefits of a stronger euro to materialise, the Union needs to complete the infrastructure for the common currency and make further progress on its critical functions. It reiterated the need to deepen and complete Economic and Monetary Union (EMU), Banking Union and

Capital Markets Union (CMU), with a view to enhancing the international competitiveness of European markets, the stability and attractiveness of the euro and, ultimately, the EU's strategic autonomy.

The establishment of a well-designed system to guarantee and protect EU bank deposits and the completion of the mechanism dealing with failing banks, will strengthen the international role of euro.

Members also stressed the need for fair and sound structural policies on the economy, public finances, productivity and growth, both at EU and Member State level, underpinned by a commitment to credible fiscal rules, to maintain the stability and integrity of the euro. They called for further reflection on the current stability and growth pact in light of the challenging circumstances and the legacy issues resulting

from the response to the economic crisis caused by the COVID-19 pandemic, which will remain for decades to come. An appropriate timeline for the withdrawal of certain support measures will be necessary to avoid undermining recovery and growth.

Policies strengthening the international role of the euro

Members recommended actions to both design and implement policy measures that foster the international role of the euro and support market-driven shifts in this direction, while also consolidating the functioning and the cohesion of the euro area internally and promoting the attainment of important climate and sustainability goals, taking into account specificities of peripheral regions.

In addition to deepening and completing the EMU, Members considered that policies critical for and conducive to strengthening the international role of the euro could target, inter alia, financial services and capital markets, labour market, payments systems, international trade, energy, digital transformation, the fight against climate change, and foreign and security policies.

The Commission is called on to foster the use of the euro in pricing and invoicing in trade transactions, and to make use of the high potential offered by financial instruments denominated in euro, by actively engaging with private stakeholders and trade partners, and by promoting the use of euro in EU trade agreements. A higher share of energy contracts being traded in euro could enhance the international role of the single currency.

The report stressed the role the ECB plays in maintaining trust in the euro and safeguarding monetary autonomy in the global context, as well as price stability. It also highlighted the importance of the stability of financial markets in the euro area as a precondition for international currency status and welcomed the ECB's quick and substantial monetary policy responses to the COVID-19 crisis taken in an emergency context.