Strengthening the international role of the euro

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The European Parliament adopted by 494 votes to 94, with 100 abstentions, a resolution on strengthening the international role of the euro.

Despite the economic weight of the euro area and its influence in world trade, the use of the euro lags considerably behind that of the US dollar as a store of value and as an invoicing currency, but is close to that of the dollar in terms of the proportion of international payments. The euro remains the second most important currency in the international monetary system but its global potential has not yet been fully realised.

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, 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, however, its global potential has not been fully reached.

Benefits and challenges of strengthening the international role of the euro

Stressing the irreversible nature of the single currency, Parliament considers that it is in the long-term strategic interest of the euro area and its Member States to reap all possible benefits from issuing the euro currency, and in particular from its enhanced international role. It recommended setting an early target date for the adoption of the euro in Bulgaria and Croatia and encouraged the Commission to assess the potential consequences of an enlargement of the euro area on the process of strengthening the international role of the euro.

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 resolution 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

For the potential benefits of a stronger euro to materialise, the EU needs to complete the infrastructure for the common currency and make further progress on its critical functions. Parliament 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. It also insisted on the need to establish 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 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 develop policy measures that would strengthen the international role of the euro, while enhancing the internal functioning and cohesion of the euro area and promoting the attainment of important climate and sustainability goals.

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 centralised clearing market is highly concentrated, particularly in the clearing of euro-denominated interest rate derivatives, which is heavily dependent on UK based CCPs. In this respect, Parliament stressed the importance of regulatory cooperation between the EU and the UK, based on a voluntary and non-binding framework outside the Trade and Cooperation Agreement, which would allow for a dialogue on all relevant regulatory issues while fully respecting each side's regulatory and supervisory autonomy.

The Commission was called upon to foster the use of the euro in prices and invoicing in trade transactions and to promote the use of the euro in EU trade agreements.

Lastly, Parliament 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.