Zur Zukunft des Euros im globalen Währungssystem

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Ausgehend von den Erfahrungen der ersten sieben Jahre, reflektiert der Gouverneur der Zentralbank Luxemburgs mögliche Rollen der europäischen Einheitswährung im Ganzen des globalen Währungssystems. Weil sich der Autor als Fachmann an Fachleute richtet, verzichten wir im Sinne einer bewusst gewählten Ausnahme auf die Übertragung ins Deutsche.

(8) Zur Zukunft des Euros im globalen Währungssystem

Yves Mersch

The present world monetary system is hybrid. One of its essential features consists of, by and large, free floating between the three major convertible currencies, the US dollar, the euro and the Japanese yen. At the same time, many countries seek elements of exchange rate stability, or at least predictability, by linking their own national currency in a variety of ways to the major currencies, or to a basket of currencies. Whether or not the euro, or any other currency for that matter, is used outside its domestic area for financing, investment or invoicing purposes can, to a large extent, be considered as a market-driven process.

In this context it may be useful to point out that, whereas the Treaty on European Union clearly states that the primary objective of the Eurosystem is to deliver price stability, the Eurosystem has no mandate to promote the international use of the euro. Nevertheless, the resulting stance of the Eurosystem, to neither support nor hinder the international use of the euro, is not tantamount to a policy of indifference. The euro, like any currency, has to fulfil the three elementary functions of money, i.e. being a means of exchange, a unit of account, and a store of value. Therefore the Eurosystem can contribute to the euro's internationalisation in indirect ways, such as maintaining price stability in the euro area, or fostering financial market integration that will result in deeper, more liquid and efficient markets for the euro. The European Central Bank (ECB) is delivering on its mandate to maintain price stability in the medium term – defined as price increases close to or below 2% year-on-year – and has succeeded in anchoring inflationary expectations in the euro area in line with this quantitative definition, as can, among other things, be inferred from the yield on index-linked bonds. Moreover, the ECB closely monitors the international role of the euro and publishes its findings in a detailed annual review («Review of the International Role of the Euro»). Some of the findings of the fifth annual review regarding the international role of the euro will be utilised, although for the purpose of this paper it seems more appropriate to focus on the trends which emerge over the 1999–2005 period rather than on year-to-year changes.

As, in this case at least, the past is likely to be a good guide to the future, the first section of this text (I.) will analyse developments concerning the international role of the euro during its first seven years. In a second section (II.), the prospects for the future international role of the euro will be discussed. Apart from the enlargement of the euro area, drastic changes are not expected.

I.

Since its launching in 1999, the international role of the euro has grown steadily, both on the global markets and in third countries. Nevertheless, a strong regional and institutional bias may be observed.

Measured at constant exchange rates, and using the «narrow» concept of bond issues, the share of the euro in the stock of international debt securities increased gradually to 31.5% in mid-2005, up from approximately 20% for the legacy currencies at end-1998.[1] During the mid-2004 through mid-2005 period, more than half of non-euro area issuers of notes and bonds were from the private sector; jointly they generated 84% of issuance value. Issuers from the UK and the US accounted for 44% and 15%, respectively, of the value of bonds and notes issued in euro during this period. It may plausibly be assumed that this development reflects the intention of UK and US based corporate issuers to diversify their investor base. During the same period, major sovereign bonds were issued by Poland (5.75 billion euro), Turkey (2.25 billion euro) and Hungary (2 billion euro).

From July 2004 until June 2005 the euro remained the second most widely settled currency by the Continuous Linked Settlement (CLS) System, after the US dollar and before the Japanese yen. The share of the US dollar remained unchanged at 90% while the share of the euro

[1] The «narrow» measure of international issuance is defined as issuance in a currency other than the currency of the country in which the borrower resides. The «broad» definition also includes the issuance of debt securities denominated in the home currency of the borrower, provided that this issuance is targeted at the inter-national financial market.

declined marginally from 44% to 43% and the share of the Japanese yen from 22% to 20%. (The value of settled transactions amounts to double the value of trades because every trade involves 2 settlement legs, one in each currency.) While these figures confirm the role of the US dollar as a vehicle currency, the declines of the euro and the yen have to be seen in the light of an increased number of currencies settled in CLS.

The role of the euro in international trade in goods and services, in eight euro area countries for which such statistics are available[2], increased rapidly over the 2001–2003 period, but the outcome was more mixed in 2004. The share of the euro as a settlement/invoicing currency in extra-euro area exports of goods and services of these eight euro area countries increased by up to 20 percentage points between 2001 and 2004. For the exports of goods, the 2004 figures range from a low of approximately 44% for Greece to a high of 63% for Luxembourg. Figures for imports of goods and services for the same eight countries also show an increased use of the euro as an invoicing currency during the 2001–2004 period.

The euro is used as a vehicle currency mainly in countries geographically close or with institutional links to he EU.

In 2004 Belgium, Italy and Portugal settled approximately 70% of their imports of services in euro, but generally the extent to which the euro is utilised on the import side tends to be lower than on the export side.

Available data for selected non-euro area countries also show that the share of the euro in exports and imports increased for both (i) non-euro area EU countries and (ii) EU acceding and accession countries, during the 2001–2004 period. These findings are confirmed by a thorough research project by the ECB, which suggests that the euro is used as a vehicle currency (defined as the use of the euro among non-euro area trading partners) mainly in countries geographically close or with institutional links to he EU.[3]

According to the IMF, some 150 countries have exchange rate regimes involving a reference currency or a basket of reference currencies. In 40 of these countries, the euro serves as anchor of exchange rate policies, either as the sole reference currency, or as part of a currency basket. Euro-related exchange rate policies range from currency boards under which the issue of domestic money is fully backed by an equivalent amount of euros (Bosnia and Herzegovina, Bulgaria, Estonia, and Lithuania), to hard pegs (like the countries of the CFA franc zone in Africa), managed floating, and currency baskets which include the euro. Under systems of regular intervention on the foreign exchange market, the functions of anchor and reserve currency tend to overlap.

As was the case for the use of the euro in international trade, the use of the euro in third countries' exchange rate regimes has a strong geographical and institutional basis. It is observed mainly in EU-neighbouring regions and in countries that have established special institutional arrangements with the EU or its Member States. Most of these countries are from Eastern and South Eastern Europe, the Mediterranean, the Middle East or sub-Saharan Africa. The reference basket used by Russia included the euro for several years, and in July 2005 the PRC announced that it would implement a managed floating policy on the basis of a currency basket including the euro. However, with the exception of the countries participating in the Exchange Rate Mechanism II (ERM II, see below), the decision of using the euro as an anchor currency is a unilateral one and does not involve any commitment on the part of the Eurosystem.

Information relating to the composition of international reserves has to be interpreted with the greatest caution. Such information is incomplete as, e.g., some of the countries experiencing the strongest increase in international reserves, notably in Asia, are not covered. Moreover, the utilised methodology is subject to change, making comparisons difficult. Bearing in mind these caveats, IMF data indicate that the share of the euro in global international reserves increased from 18% in 1999 to 25% in 2004, mostly due to methodological changes. During the same period, the share of the US dollar dropped from 71% to 66%. One may also note that as a result of the latest quinquennial IMF review regarding the method of valuation of the SDR, the share of the euro in the IMF's Special Drawing Rights (SDR) was raised from 29% to 34%, effective 1 January 2006.

Residents of emerging or transition economies often hold a substantial part of their financial assets in the form of foreign cash or foreign-currency denominated bank deposits. In certain EU neighbour countries, the euro is used as a parallel currency, notably as a store of value and even as a means of payment.

[2] Belgium, France, Germany (goods only), Greece, Italy, Luxembourg (from 2002 onwards), Portugal and Spain.

[3] In « Review of the International Role of the Euro», December 2005, op. cit. «Special focus: determinants of the currency of in-voicing in inter-national trade», pp. 33-48.

Between mid-2004 and mid-2005, net shipments of euro banknotes outside the euro area amounted to 8.7 billion (compared to 9.4 billion 12 months earlier). The net cumulative stock of euro banknotes dispatched by euro area monetary financial institutions outside the euro area amounted to 55 billion at the end of June 2005.

II.

Experience with the euro over the past seven years has shown that changes tend to be gradual and incremental rather than abrupt and substantial, and there is no reason to expect this to change in the near future. A certain inertia can even be observed, and economic theory explains the incumbency advantages of the US dollar by concepts such as «dynamic economies of scale» and self-reinforcing «network externalities», which favour the status quo in terms of international currencies. Departures from the prevailing patterns would, according to these theories, require a major exogenous shock.

With regard to the global monetary system, one is to hope that, in line with G7 statements, future international monitoring and, where appropriate, international cooperation will result in exchange rates that better reflect economic fundamentals. Excessive volatile and disorderly movements should be avoided, as these harm economic growth. Moreover, more flexibility in exchange rate management may be called for in respect of countries or economic areas that lack such flexibility.

New Member States join as Member States with a derogation and are committed to striving towards eventual adoption of the euro, as Economic and Monetary Union (EMU) is part of the *acquis communautaire*.

As a first step, the new member states join, at some stage, the Exchange Rate Mechanism II (ERM II). ERM II is a multilateral arrangement of fixed, but adjustable, exchange rates, with a central rate and a standard fluctuation band of 15% against the euro. The central rate will be decided by mutual agreement between the various parties to ERM II, i.e. the Member State concerned, the euro area Member States, the ECB, and the other Member States participating in the mechanism. In order to fulfil its obligations, the Member State joining ERM II must observe the normal fluctuation margins for at least two years.

From the 10 new Member States that joined the EU on May 1, 2004, seven have by now joined ERM II. Estonia, Lithuania and Slovenia joined ERM II on 28 June 2004, while Cyprus, Malta and Latvia entered the mechanism effective 2 May 2005, and Slovakia on 28 November 2005.

In addition, the new Member States will have to meet the Maastricht criteria concerning nominal convergence, as formulated in terms of relative price performance, public debt sustainability, and relative interest rates. While an individualised case-by-case approach will be followed, the principle of equal treatment requires that there be neither new criteria, nor a relaxation of the existing Treaty criteria.

The euro area is thus bound to expand over the next years by 10 countries counting some 75 million citizens, and possibly also by Bulgaria and Romania. (If, as expected, Bulgaria and Romania will join the EU in 2007, they will follow the same procedures as the 10 new Member States that joined on 1 May 2004.) For these new Member States this should complete the transition of the euro from a foreign to a domestic currency.

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The euro area is the second largest economic area in the world, and the euro is the second most widely used currency after the US dollar. Abrupt changes are unlikely in the near future as «dynamic economies of scale» and «network externalities» favour the status quo in terms of international currencies.

The ECB's policy is neither to hinder nor to promote the international role of the euro. Nevertheless, the ECB can make indirect contributions, first and foremost by reaching its primary objective of maintaining price stability, and second by encouraging the creation of deeper and more liquid markets for the euro.

The euro area is bound to expand in the coming years when the new Member States will adopt the euro as their domestic currency. This will, if initially to a modest extent, widen the scope of the euro in international trade and finance, thereby further enhancing the attractiveness of the euro as an international currency.

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