



EUROPEAN CENTRAL BANK

EUROSYSTEM

The international role of the euro

SUERF webinar

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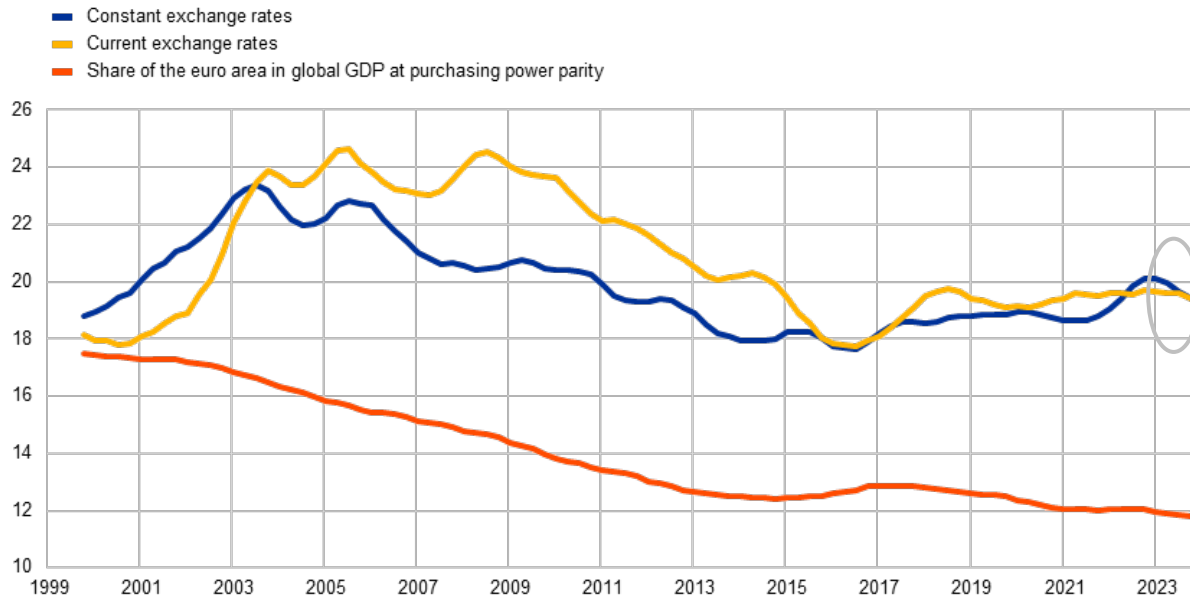


Outline

1. Key developments in the international role of the euro
2. Boxes
3. Concluding remarks

The international role of the euro remained broadly stable in 2023

Composite index of the international role of the euro (percentages; four-quarter moving averages)

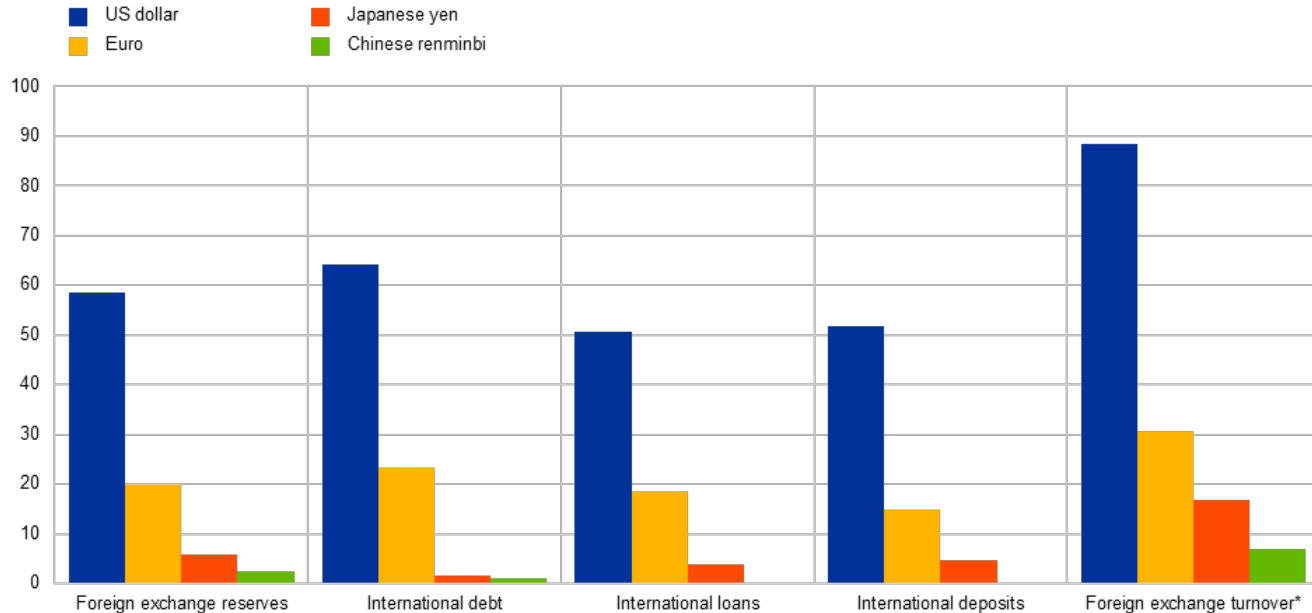


Sources: Bank for International Settlements (BIS), International Monetary Fund (IMF), CLS Bank International, Ilzetzki, Reinhart and Rogoff (2019) and ECB staff calculations.

Notes: Arithmetic average of the shares of the euro at constant and current exchange rates in stocks of international debt securities, loans by banks outside the euro area to borrowers outside the euro area, deposits with banks outside the euro area from creditors outside the euro area, daily foreign exchange trading (settled by CLS), global foreign exchange reserves and global exchange rate regimes. The estimates for the share of the euro in global exchange rate regimes are based on IMF data for the period post-2010; pre-2010 shares were estimated using data from Ilzetzki, E., Reinhart, C. and Rogoff, K. (2019), "Exchange Arrangements Entering the 21st Century: which anchor will hold?", Quarterly Journal of Economics, Vol. 134, Issue 2, May, pp. 599-646. The latest observation is for the fourth quarter of 2023.

The euro remained the second most important currency globally

Snapshot of the international monetary system (percentages)



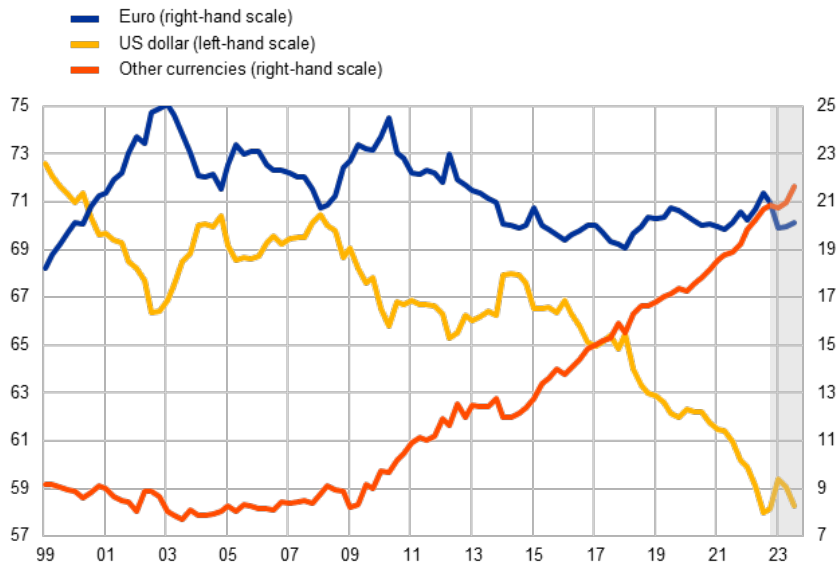
Sources: BIS, IMF, Society for Worldwide Interbank Financial Telecommunication (SWIFT) and ECB staff calculations.

Notes: The latest observation for foreign exchange reserves, international debt, international loans, and international deposits are for the fourth quarter of 2023. Foreign exchange turnover data as of April 2022 and SWIFT data as of December 2022. *Since transactions in foreign exchange markets always involve two currencies, shares add up to 200%.

Declining share of the euro in global foreign exchange reserves accompanied by net sales of euro-denominated reserve assets

Shares of selected currencies in global foreign exchange reserves

(percentages; at constant Q4 2023 exchange rates)

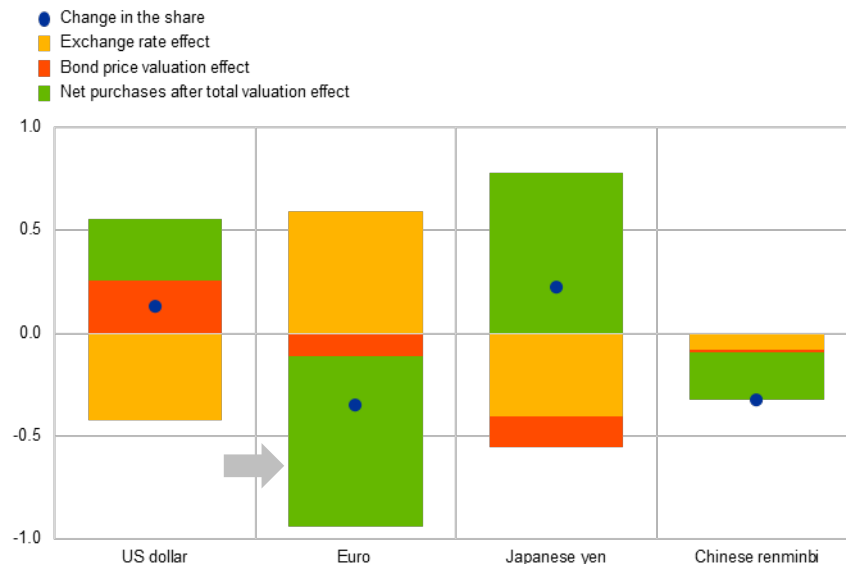


Sources: IMF and ECB staff calculations.

Note: The latest observation is for the fourth quarter of 2023. The valuation effect for currency i between period t and $t - 1$ can be expressed as: $V_t = \frac{R_{i,t-1}}{FX_{i,t}} (1 + k_{i,t-1}g_{i,t}) - \frac{R_{i,t-1}}{FX_{i,t-1}}$ where R is reserve assets held, FX is the bilateral exchange rate against the US dollar, k is the share of reserves held as securities and g is the average total return on the security portfolio between periods $t - 1$ and t . Subtracting this value from the actual change in the level of reserve assets gives the approximate net purchases in period t .

Decomposition of changes in the shares of the main reserve currencies in 2023

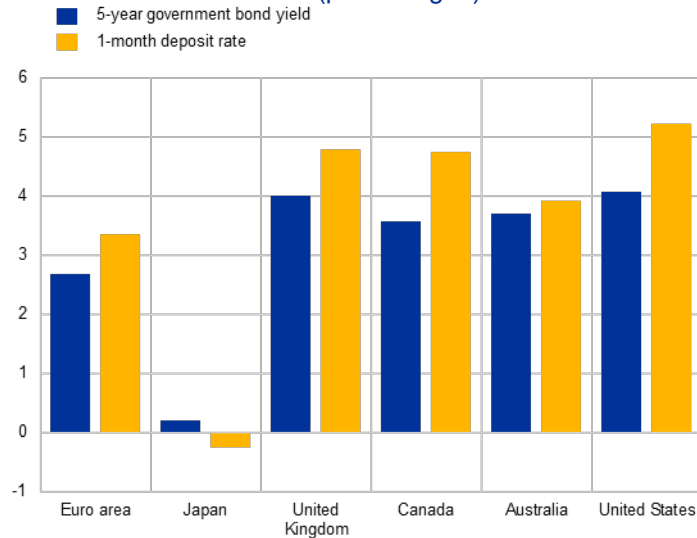
(percentage points and percentage point contributions; at current exchange rates)



Higher euro area interest rates, though still lower than on several major reserve currencies; significant influence of large holders of euro reserves

Five-year and one-month interest rates in major economies in 2023

(percentages)

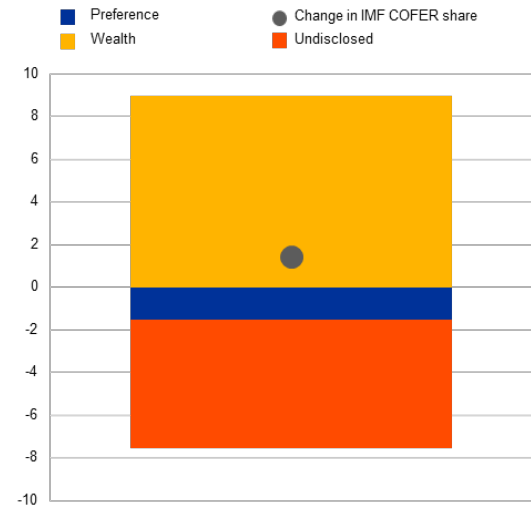


Sources: LSEG Datastream, BIS, S&P Global and ECB staff calculations.

Note: : The five-year government yield for the euro area is calculated as a debt-weighted average of five-year euro area yields of sovereigns with a Standard & Poor's (S&P) credit rating of at least AA

Decomposition of change in the share of the euro in global FX reserves between 2015 and 2021

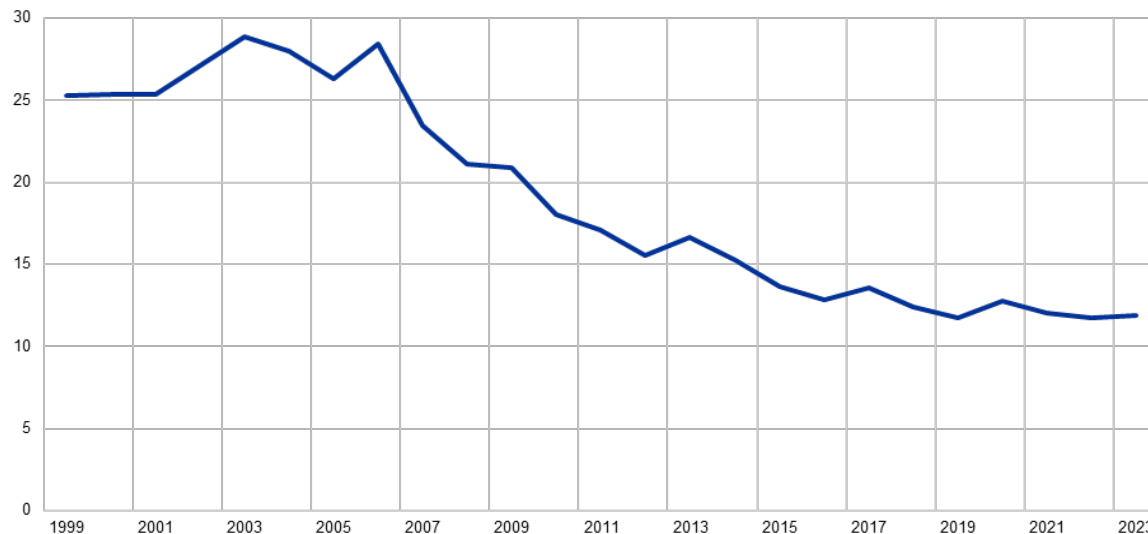
(percentage points)



Sources: IMF, Ito and McCauley (2020), Arslanalp, Eichengreen and Simpson-Bell (2022) and ECB calculations, based on methodology of Goldberg and Hannaoui (2024). Decomposition obtained with data on holdings of foreign exchange reserves and their currency composition in 2015 and 2021 for a sample of 54 countries, which accounts for about half of global official holdings of euro reserve assets. "Preference" denotes the variation attributed to shifts in preferences from changes in the share of the euro in countries disclosing the currency composition of their foreign exchange reserves; "Wealth" accounts for changes in total reserves held by official investors; "Undisclosed" is a residual term, which captures a mix of shifts in preferences and wealth effects in countries not disclosing the currency composition of their foreign exchange reserves

Lack of supply of highly-rated euro sovereign debt is a potential factor hindering investment in euro reserves

Share of highly-rated euro area government debt in outstanding highly-rated global government debt (percentage)

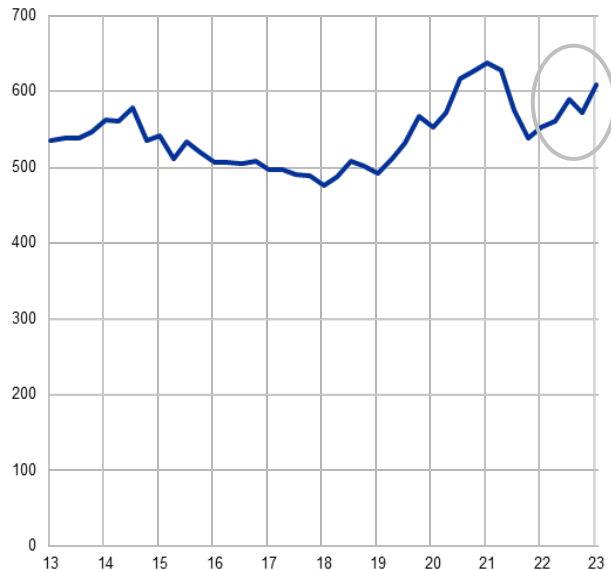


Sources: BIS, Bloomberg and ECB staff calculations.

Notes: The data refer to total debt securities issued by the general government with at least an AA rating from S&P. The latest observation is for the third quarter of 2023. Euro area sovereign issuers include Austria, Belgium, Estonia (since 2012), Finland, France, Germany, Italy (until 2006), Ireland (until 2009 and since 2020), Luxembourg, Portugal (until 2009), Slovenia (until 2012 and since 2020), Spain (until 2011). Non euro area sovereign issuers with at least an AA rating include Australia, Canada, China (since 2011 rated A+ since 2018) Denmark, Hong Kong (since 2006), Japan (rated A+ since 2016), Norway, Singapore, South Korea (since 2018), Sweden, Switzerland, United Kingdom and United States.

Global south's official investors maintain exposures to the euro, but geopolitics increasingly seen as important risk factor

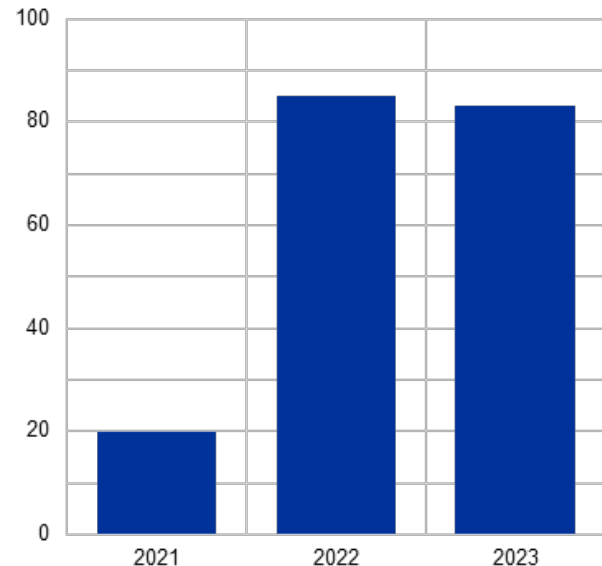
Holdings of official BRICS Plus investors (ex. Russia) of euro-denominated government debt
(EUR billions)



Sources: ECB Securities Holdings Statistics on euro area custodians.

Notes: . The latest observation in is for the end of 2023. The BRICS Plus countries, excluding Russia, include Brazil, India, China and South Africa plus other countries that joined the group in January 2024 (Iran, the United Arab Emirates, Egypt and Ethiopia).

Official reserve managers seeing geopolitics as a major factor the next 5-10 years
(percentages)

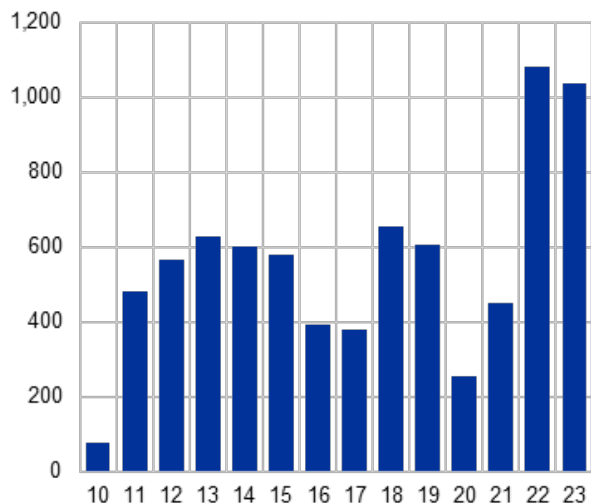


Sources: OMFIF.

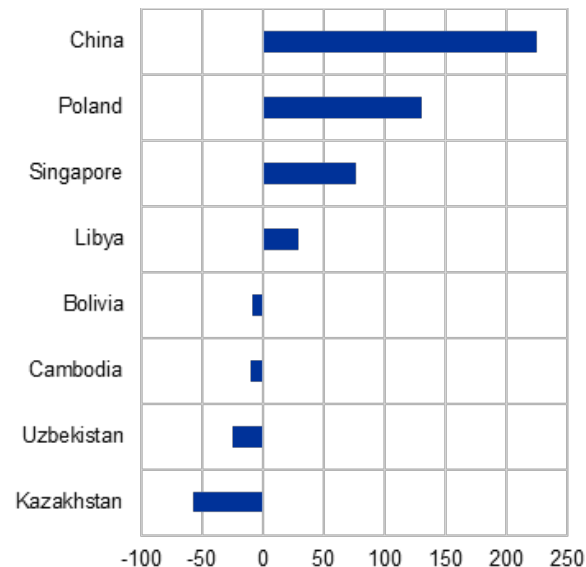
Notes: The OMFIF survey covered 75 central banks accounting for about 40% of global foreign reserves in June 2023.

Accumulation of gold by central banks continued at a record pace in 2023, driven by diversification and geopolitical risk considerations

Central bank gold purchases (tonnes)



Top gold purchasers and sellers in 2023 (tonnes)

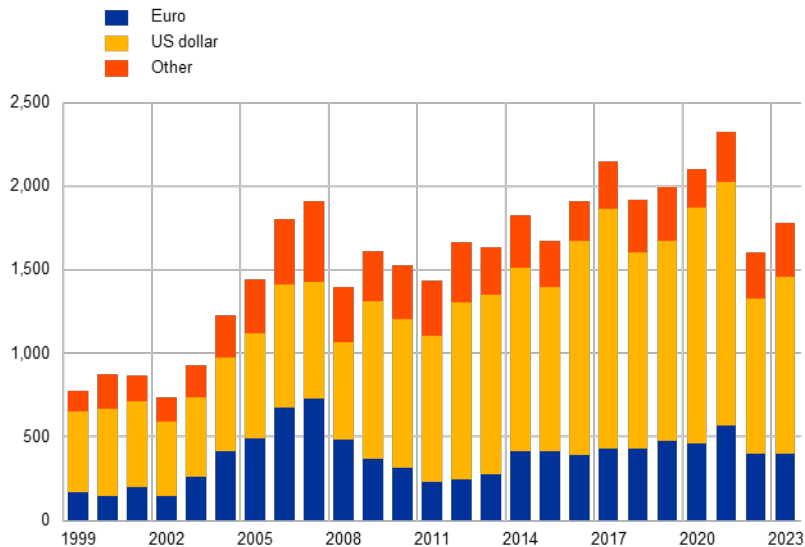


Sources: IMF, World Gold Council and ECB calculations.

The share of the euro in international issuance of foreign currency-denominated bonds declined in 2023

Currency composition of foreign-currency denominated bond issuance (volumes)

(USD billions)

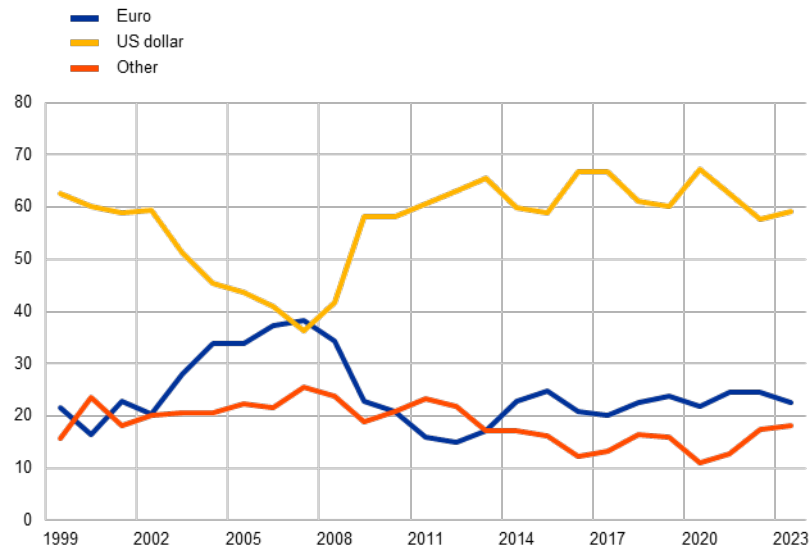


Sources: Dealogic and ECB calculations.

Note: The latest observation is for the fourth quarter of 2023.

Currency composition of foreign-currency denominated bond issuance (shares)

(percentages)



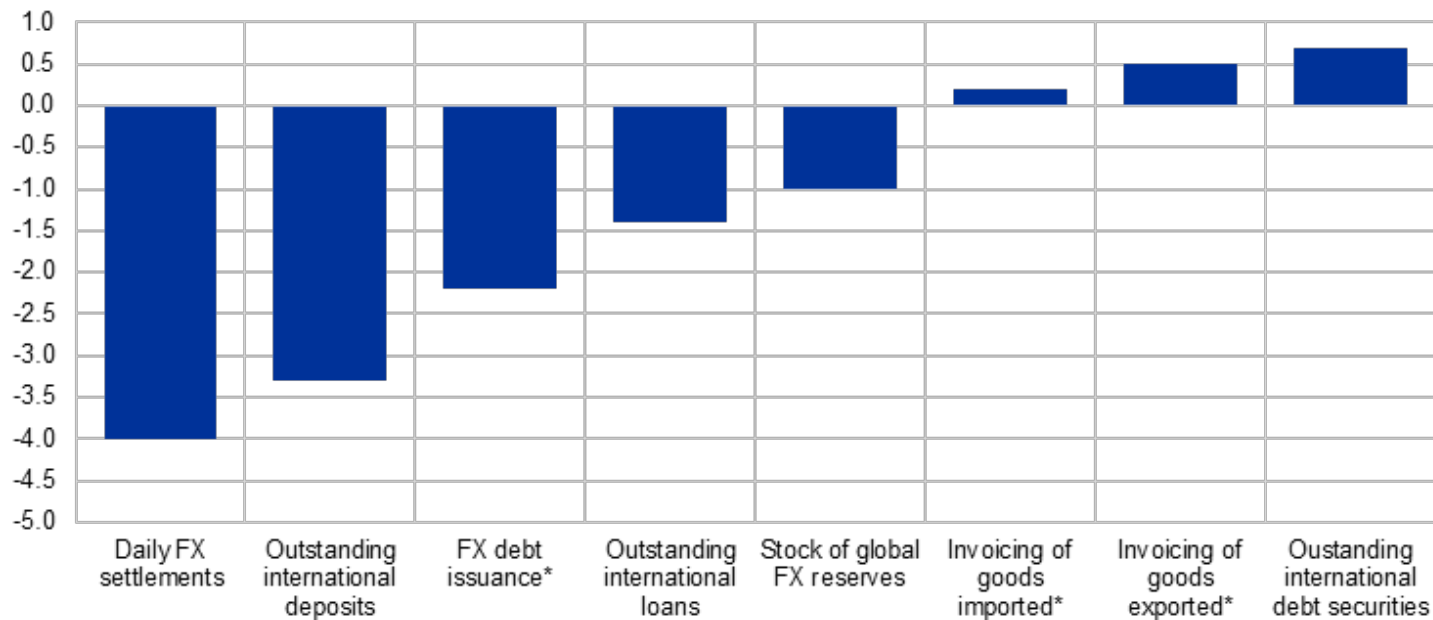
Sources: Dealogic and ECB calculations.

Notes: The latest observation is for the fourth quarter of 2023.

Evolution in the share of the euro in other market segments in 2023

Changes in the share of the euro in the review period

(percentage point changes at constant Q4 2023 exchange rates, unless otherwise indicated)



Sources: BIS, CLS Bank International, Dealogic, IMF, national sources, and ECB staff calculations.

Notes: * Indicates percentage point change at current exchange rates.

Risks of potential fragmentation of global payment systems continue to emerge

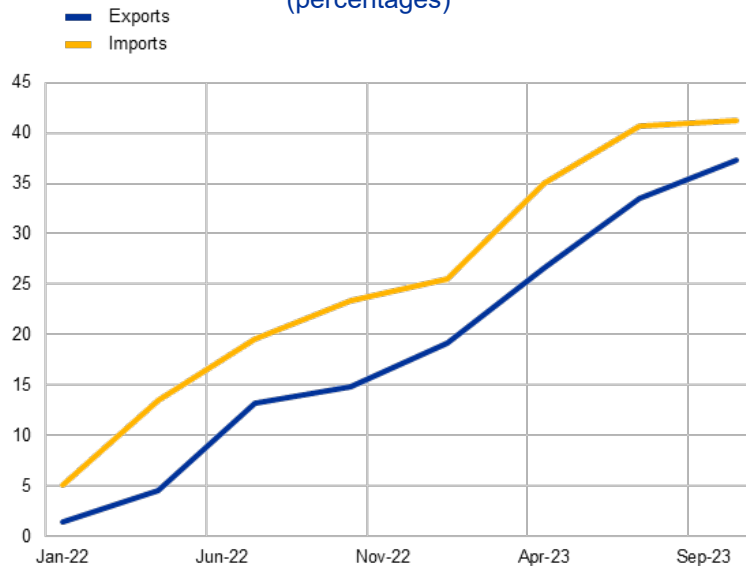
Examples of recent initiatives

- **BRICS'** members discuss BRICS bridge payment platform (February 2024)
- **Russia-Iran** agreement to trade with national currencies, use of non-Swift interbank systems (December 2023)
- **Iran** announced that the Asian clearing union (south Asia) will use its messaging system instead of Swift to clear transactions
- **Brazil's** Prime minister Lula proposes a **BRICS** common currency for trade and investment transaction (August 2023)
- **India-UAE** sign MoU to settle cross-border transactions in national currencies (July 2023)
- **Brazil and China** set up an infrastructure for renminbi clearing (March 2023)

Russia has de-dollarized/euroized since Ukraine's invasion to the benefit of the renminbi

Trade between Russia and China invoiced in non-sanctioned currencies

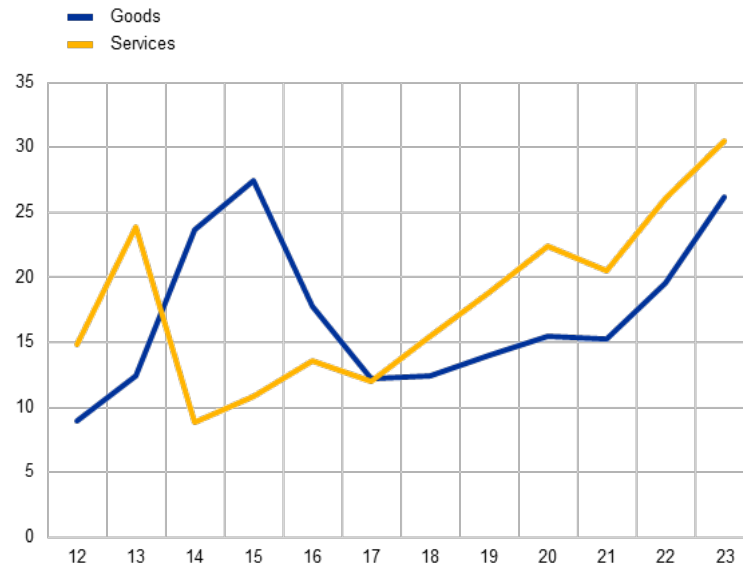
(percentages)



Sources: IMF and ECB staff calculations. Notes: The latest observation for Russian imports and exports to China is for December 2023. The list of currencies of countries sanctioning Russia includes major currencies like the euro, US dollar, pound sterling, Swiss franc, Japanese yen, Canadian dollar and Australian dollar. Trade in non-sanctioned currencies mostly captures transactions invoiced in Chinese renminbi and, to a lesser extent, the Indian rupee.

Use of the renminbi for settlement of China's external trade

(percentages)

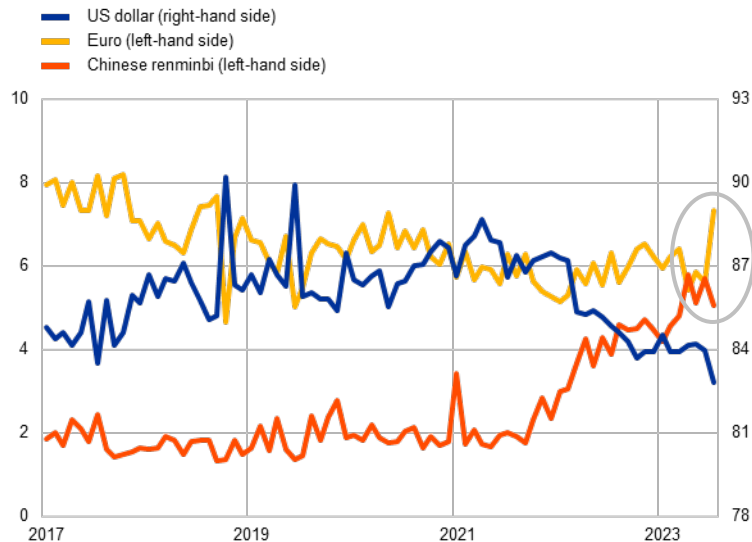


Sources: CEIC, People's Bank of China and ECB calculations.

Note: The chart is based on Amighini and Garcia-Herrero (2023).

Evidence of stronger global appeal of the renminbi beyond Russia

Top three currencies in SWIFT trade finance messages (percentages)

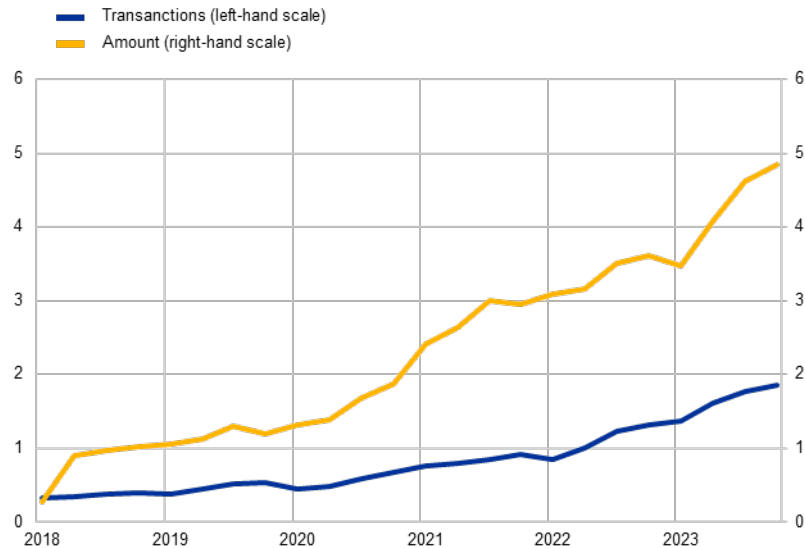


Sources: SWIFT and ECB calculations.

Note: The latest observation is for the fourth quarter of 2023.

Activity in China's Cross-Border Interbank Payment System (CIPS)

(left-hand scale: millions of transactions; right-hand scale: USD trillions)



Sources: People's Bank of China and ECB calculations.

Notes: The latest observation is for the fourth quarter of 2023.

Sovereign wealth funds (SWFs) and the euro area: preliminary evidence

- Total assets of SWFs reached USD 12 trillion at the end of 2023
- Data on a subset of transactions (gross purchases of assets, mainly equity) by 96 SWFs in 59 countries totalling USD 2.5 trillion since 2000

Main preliminary findings:

Destination Reported purchases of assets by SWFs largely (70%) located in major advanced economies

Origin Significant share (~ 50%), originates from SWFs located in EMEs

Currency US dollar is dominant (68% of total), euro second most important (9%)

US dollar often used as a vehicle currency for purchases of assets not involving US-based firms

Euro occasionally used to finance acquisitions of firms outside the euro area

Views regarding the internationalisation of central bank digital currencies and their implications for the euro area

About 30% of central banks in advanced economies and 20% of central banks in emerging markets are working on CBDCs that could be used across borders

- China** Visible efforts to explore the international use of the e-CNY
- Broaden access to the e-CNY for foreign users through selected initiatives and pilot programmes
 - Some restrictions on foreign access to e-CNY lifted
- UK** BoE/HMT proposal: non-UK residents would be able to hold and use digital pounds as UK residents
- US** Growing domestic concerns, largely related to user privacy, consumer protection and role of the Fed in the payments system
- Euro area** Primary objective of digital € is to provide European citizens with a means of payment that can be used everywhere in the euro area and for all use cases
- Take CBDC internationalisation into account in view of the digital euro's objective of supporting the euro area's open strategic autonomy

Policy measures to strengthen the euro's global position

Internally



Deeper and more complete EMU

Further economic and financial integration
Genuine European capital markets union



Sound economic policies

Medium-term price stability
Strengthen fiscal dimension of EMU



Deep, liquid and safe euro debt markets

Resilient market infrastructure
Broader pool of euro safe assets
Safe common instruments
European risk-free benchmarks

Policy measures to strengthen the euro's global position

Externally



Further developing **infrastructure** for making **cross-border payments in euro with key partners**

Interlinking the euro area's **Target Instant Payment Settlement** system with fast payment systems in other jurisdictions

- Bilateral links
- Multilateral links

Paving the way for **cross-border payments in central bank digital currencies** in the future

Concluding remarks

- So far, the data show no evidence of substantial changes in the use of international currencies.
- However, we need to remain vigilant to any cracks that start appearing.
- The international currency status of the euro should not be taken for granted.
- Deeper European economic and financial integration, together with enhancements in cross-border payment systems between the euro and other currencies, will be pivotal in increasing the resilience of the international role of the euro in a potentially more fragmented world.

The international role of the euro

Please visit:

<https://www.ecb.europa.eu/press/other-publications/ire/html/index.en.html>



The screenshot shows the ECB website's navigation structure. The breadcrumb trail is: Home > News & publications > Other publications > International Role of the Euro. The main navigation bar includes: EUROPEAN CENTRAL BANK | EUROSISTEM, About us, ECB & You, and Careers. A secondary navigation bar lists: Monetary policy & markets, Payments & financial stability, Statistics, The euro, Research, News & publications, and Banking Supervision. The main content area features the title 'The international role of the euro' with social media sharing icons (print, X, Facebook, LinkedIn, Email). Below the title is a paragraph of text: 'Once a year the ECB publishes a report presenting an overview of developments in the use of the euro by non-euro area residents. The international role of the euro is primarily supported by a deeper and more complete Economic and Monetary Union (EMU), including advancing the capital markets union, in the context of the pursuit of sound economic policies in the euro area. The Eurosystem supports these policies and emphasises the need for further efforts to complete EMU.'

Main findings of the 2024 report

The international role of the euro remained broadly stable in 2023. This was a year that saw continuing geopolitical tensions, increases in policy interest rates and inflation declining from high levels in major advanced economies.

[Read the main findings of the report](#)