

Section # 5. Global prospects for increasing the EU's competitiveness

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INTERNATIONALISATION OF THE EURO AS A MEANS OF EU'S COMPETITIVENESS ENHANCING

The strengthening of the international role of the euro is viewed as a means for Europe to reinforce its economic sovereignty and to play a more important global role, while contributing to international financial stability.

Today, among the tools the EU has to protect is fostering the euro's role as an international currency. Interestingly, at the current juncture, it is not only the EU that needs the euro to support its strategic autonomy. So does the rest of the world, particularly China and any country that fears US weaponisation of the dollar [1].

Therefore, the notably goal of European Commission is to establish the EU-27 as a competitive and prospering economic area supported by financial markets built on principles of stability, transparency and fairness [5].

One of the options to enhance the EU's competitiveness is to accelerate the internationalisation of the euro, including by raising its share of usage by other countries as a global reserve currency, and fostering more extensive use of the currency [2, p. 130].

Let consider the international role of the euro as a reserve currency. Figure 1 shows the share of the euro and the US dollar of reserve holdings.

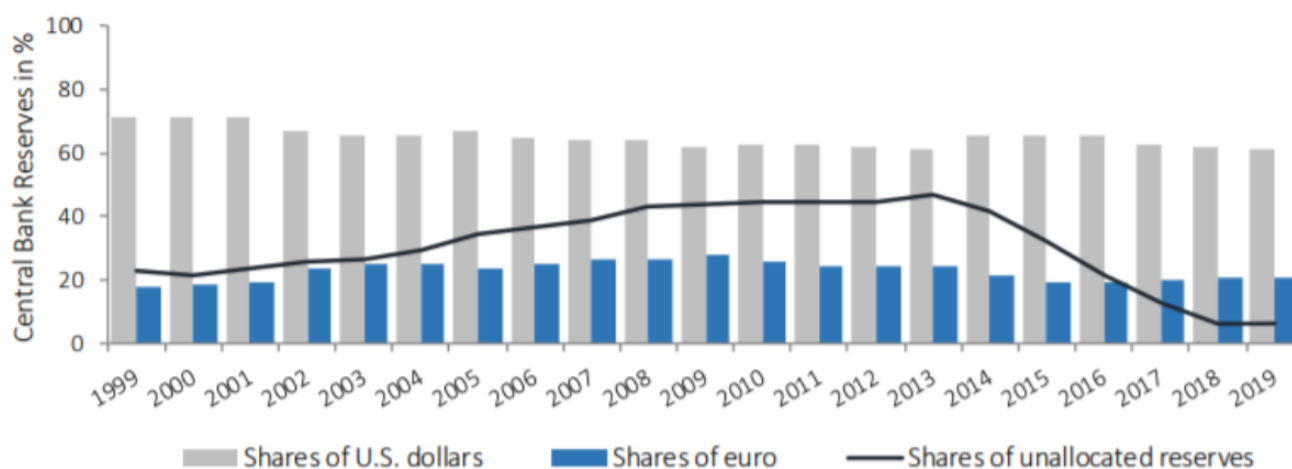


Figure 1. Currency reserves since 1999

Source: [6, p. 9].

The US dollar has been the main global reserve currency since it replaced the British pound after World War I. More recently, the euro share in total reserves increased from 13% to 19% from 2015 to 2019. However, the euro's share in 2019 was only slightly higher than at its inception in 1999.

The euro is being a relative new currency, but it has already a significant international role as a reserve currency. However, euro lags a long way behind the US dollar. But it has become the second most important currency in the world 20 years following the launch of the single currency. Moreover, the euro is also considered the only global currency that market participants could use as an alternative to the US dollar.

Therefore, bolster the euro as a leading reserve currency would greatly enhance the EU economic standing and its influence in the world economy.

If the euro will be a strong reserve currency, there will be benefits, both economic and political. For Europe, as an economy, the benefits will be manifested in bolstering internal monetary sovereignty and lowering borrowing costs. Increased international leverage of the EU via the euro creates increased 'sharp power' for Europe to pursue its long- term interests. From the increasing role for the euro as a reserve currency would also benefit investors across the world, including in the US. Although the euro will remain the second international currency, it has a reasonable prospect of slowly eroding dollar dominance, but it will still lag behind by 2030 [2, p. 130].

According to Claeys, G. and G.B. Wolff the only way for the euro to play a major international role is to improve the institutional setup of the monetary union. The supply of euro-denominated safe assets from the monetary union should be increased. To avoid a COVID-19 depression, euro-area countries have increased massively the supply of their debt securities. With its new purchase programme, the European Central Bank has ensured that euro-area sovereign bonds retain their safe asset status. The European Commission's proposal to issue up to €750 billion in EU debt to finance its recovery plan is a step in the right direction. Increasing the supply of safe assets denominated in euro will help to strengthen the resilience and the sovereignty of the Eurozone and the international role of the joint currency [3].

On Christoph M. Abels opinion, a currency needs to be underpinned by an effective central bank, able and willing to undertake the day- to- day management of flows of money, to be credible in an international role. But while the ECB has manifestly enlarged its role since the years of crisis, it has to respect both the treaty and member state political constraints. In addition, the EU would have to overcome perceptions among financial actors of three sorts of barriers identified by the ECB: an inability to provide stability both domestically and internationally; the limited depth and liquidity of euro area financial markets; and Europe not speaking with one voice on international matters. Lack of coherence is not confined to financial matters, manifesting itself also in security and foreign policy [2, p. 130].

The European Commission has outlined a set of initiatives to increase the trust and attractiveness of the euro, including the following aspects:

1. Completion of the Europe's Economic and Monetary Union, Banking Union and Capital Markets Union;
2. Measures to foster a deep European financial sector;
3. Initiatives linked to the international financial sector;
4. Promoting the use of the euro in key strategic sectors;
5. Leading by example by promoting the use of the euro by EU bodies and institutions where EU interests are strongly represented i.e. EIB, EBRD, as well as by Member States [5, 4].

A robust and resilient Economic and Monetary Union and a complete banking union are key pillars sustaining the internationalisation of the euro. Moreover, deeper and more liquid euro-denominated capital markets are also necessary for the euro to play a more important global role. The Capital Markets Union will provide more diversified and liquid financial markets [4].

In 2019, the Commission led a string of public consultations about the use of the euro in five important sectors: financial markets, commodities (energy, raw materials and agriculture) and transport (aircrafts, maritime and rail). The consultations asked market participants to identify the factors behind their choice of a currency for their international economic transactions as well as potential measures that could increase the attractiveness of the euro in their eyes.

Industry professionals pointed to a number of hindrances to the use of the euro in their international operations. One of these obstacles is "tradition and inertia". Several sectors such as commodities have long-established habits and structures tailored for the US dollar and other currencies, usually ones from producing countries. For instance, energy products and contracts are dominated by the US dollar, not only in their benchmarking but also in their payment. Other currencies such as the British pound or the Malaysian Ringgit are references for agricultural products, such as cocoa and palm oil [4].

Therefore, one of the goal is to strengthen the international use of the euro in key strategic sectors.

EU bodies and institutions where the EU has a substantial influence, as well as Member States also have a role to play to support the international use of the euro. By leading by example and encouraging the use of the euro in their operations i.e. debt issuances and international payments.

In addition to expressing their support to euro area-level initiatives to strengthen the international role of the euro, Member States also have an active role to play. First, by ensuring that the necessary EU policies and legislative pieces are approved (e.g. in regards to EMU, CMU and BU). Secondly, by implementing fiscal policies that contribute to an optimal policy mix in the euro area. Member States can also contribute to strengthening the use of the euro by using it in their operations, whether debt issuance, payments or invoicing [4].

Therefore, there is a wealth of specific technical and institutional measures that would help to accelerate the internationalisation of the euro these measures means joint action on the part of the Commission and the ECB and which include the strengthening of banking and financial union, the dissemination of secure European assets and even the improvement of a payment system in euro.

References

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