



*European Economic and Social Committee*

**ECO/489**  
**Towards a stronger international role of the euro**

## **OPINION**

European Economic and Social Committee

**Communication from the Commission to the European Parliament, the European Council (Euro Summit), the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions. Towards a stronger international role of the euro**  
[COM(2018) 796 final]

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## 1. **Conclusions and recommendations**

- 1.1 The EESC notes that the international role of the euro has not yet recovered to the pre-financial crisis level. Whereas the European Commission's proposed measures, as contained in the Communication, are welcome and deemed necessary by the EESC, they may not go far enough given the extent of the euro area's social and economic challenges. Social cohesion, economic upward convergence and the promotion of competitiveness and innovation, in particular for small and medium-sized enterprises (SMEs), should be the basis on which the euro area's economy gathers pace and supports a stronger international role for the euro.
- 1.2 The EESC urges the EU to redouble its efforts towards greater social cohesion and economic convergence across the EU. Major differences between Member States as well as within Member States still exist and these differences act as a hindrance to taking advantage of economic opportunities that could benefit the EU as a whole.
- 1.3 The EESC cautions that ongoing technological breakthroughs such as fintech and digitalisation, and the emergence of other international currencies in the longer-term may potentially foster a multipolar system based on more than one key currency.
- 1.4 The EESC believes that the euro has the capacity to increase its international status. At the same time, however, the EESC suggests that the overriding priority for the euro area will, first and foremost, be to put its house in order and achieve integrity and prosperity by improving its growth outlook and restoring the sustainability of public finances. This process, which requires *inter alia* the completion of the Economic and Monetary Union and of the banking union, ought to be the priority in achieving a stronger international role for the euro.
- 1.5 The credibility of the EU's single currency, which is a prerequisite to enhancing the international role of the euro, requires further action towards sound national fiscal and growth-enhancing policies as well as further efforts towards a healthier financial sector. In this connection, the EESC reiterates the relevance of supporting SMEs and further increasing productivity as a means to enhance the euro area's competitiveness in international markets.
- 1.6 The EESC is of the opinion that the benefits of market integration should not be eroded by financial instability, and calls for sustained action to reduce non-performing loans in a socially sustainable way, especially following the political agreement reached on capital requirements for banks' bad loans in late 2018.
- 1.7 The EESC believes that in order for the euro to increase its role as an international currency, the fragmentation of the euro area's sovereign bond market, which makes the sovereign debt markets significantly less deep and liquid, should be addressed. The EESC urges the Commission to investigate options for creating more liquid and safer euro assets.
- 1.8 The path towards a stronger international role of the euro may be somewhat facilitated by the ECB, first and foremost, through the fulfilling of its mandate of maintaining price stability in the euro area. Moreover, support from the ECB towards macro-economic policies and deeper

Economic Monetary Union and Capital Markets Union provides further impetus towards strengthening the international role of the euro.

- 1.9 The EESC is also of the opinion that additional measures are required to deepen the European financial sector, including a stronger European financial market infrastructure and solid interest rate benchmarks. Moreover, the promotion of a wider use of the euro in strategic sectors is also considered crucial in contributing towards an increased international role of the euro.
- 1.10 Finally, the EESC urges Member States to take a more unified approach in international diplomacy, something which could in turn result in enhanced trade opportunities. This unified approach could also be boosted by taking a more pro-active stance that seeks to promote the EU's interests first and foremost, especially by anticipating strategic and diplomatic initiatives taken by China and the US.

## 2. Background

- 2.1 The Communication "Towards a stronger international role of the euro"<sup>1</sup>, published in December 2018, argues that there is scope for the euro to further develop its global role, so that it is more commensurate to the euro area's political, economic and financial weight. The achievement of this objective requires the further strengthening of the structures of Economic and Monetary Union, including through the adoption of all pending proposals for completion of the banking union and decisive progress on the capital markets union.
- 2.2 This working document is in line with calls made in previous EESC opinions<sup>2 3</sup> which highlight the fact that the completion of the banking union, in particular a stronger and more uniform deposit insurance cover, and capital markets union is of paramount importance to ensuring a competitive European business environment for both large and smaller-sized enterprises, and to creating a genuine single European currency.
- 2.3 In the 2017 Rome Declaration, the leaders of the 27 Member States and the European Council, the European Parliament and the European Commission, stated their commitment to making the European Union a stronger global actor by extending existing partnerships and developing new ones, promoting stability and prosperity at the regional and global level, shaping global events, and undertaking international responsibilities<sup>4</sup>.
- 2.4 For his part, the president of the European Commission, in his State of the Union address of September 2018, emphasised the importance of the euro in the international monetary system and called for more action to ensure that it plays its full role on the global stage<sup>5</sup>.

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1 [COM\(2018\) 796 final.](#)

2 [OJ C 262, 25.7.2018, p. 28.](#)

3 [OJ C 197, 8.6.2018, p. 1.](#)

4 [https://www.consilium.europa.eu/en/press/press-releases/2017/03/25/rome-declaration/.](https://www.consilium.europa.eu/en/press/press-releases/2017/03/25/rome-declaration/)

5 [https://ec.europa.eu/commission/sites/beta-political/files/soteu2018-speech\\_en\\_0.pdf.](https://ec.europa.eu/commission/sites/beta-political/files/soteu2018-speech_en_0.pdf)

- 2.5 Within this context, the Commission has set out a roadmap for deepening the Economic and Monetary Union<sup>6</sup> which calls for an integrated and well-functioning financial system including the completion of the banking union and capital markets union (CMU).
- 2.6 The Communication on Capital Markets Union<sup>7</sup> points out that the European Union needs well developed and integrated capital markets to strengthen the international role of the euro. A successful capital markets union will contribute towards a stable financial system, better access to finance for businesses, and thus more investment opportunities.
- 2.7 In a similar vein, the 2016 JRC Science for Policy Report<sup>8</sup> shows that sound macroeconomic policies, the deepening of the EU's Economic and Monetary Union, and the development of the capital markets union, will all contribute to further strengthening the role of the euro on the global trade and finance markets.
- 2.8 The European Commission recommends<sup>9</sup> the wider use of the euro in energy-related projects and financial transactions as a means of achieving the EU's energy policy objectives, reducing the risk of disruption to energy supplies and thereby promoting stronger autonomy on the part of European businesses.

### 3. **General comments**

- 3.1 The euro has come a long way in its 20-year history. It very soon evolved into the second most important international currency in the world (behind the US dollar)<sup>10</sup>. Specifically, around 60 countries in the world are either using, will use or link their currency to the euro. At the same time, the euro represents around 20% of international reserves of foreign central banks, thereby indicating its importance as a safe store of value, and constitutes one fifth of international debt issued by businesses and foreign governments. Last but not least, the euro is widely used for international payments: around one third of the value of international transactions were either invoiced or settled in euros in 2017 (compared to about two fifths for the US dollar).
- 3.2 The international use of the euro is beneficial as it: (i) lowers exchange rate risk and associated costs for European businesses; (ii) increases price transparency, which allows firms to source cheaper raw material and consumers to buy cheaper goods; (iii) imposes greater inflationary discipline, which in principle leads to lower interest rates paid by households and businesses; (iv) enhances financial autonomy and provides access to finance on more favourable borrowing conditions for European businesses (including SMEs) and governments as European financial markets become more integrated, deeper and more liquid; and (v) fosters further intra-EU and international trade.

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6 [https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-emu\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-emu_en.pdf).

7 [COM\(2018\) 767 final](#).

8 <http://publications.jrc.ec.europa.eu/repository/bitstream/JRC96913/lbna27754enn.pdf>.

9 [C\(2018\) 8111 final](#).

10 [COM\(2018\) 767 final](#).

- 3.3 At the same time, the strengthening of the euro's international role would provide market participants around the world with an additional choice, thereby rendering the international economy more insulated from shocks related to the strong reliance of many sectors (e.g. energy, commodities and aircraft manufacturing) on the US dollar.
- 3.4 The ranking between the dollar and the euro has not changed in the last two decades. Although the gap between the two currencies had gradually narrowed since the launch of the euro, it widened again after the start of the eurozone crisis. This situation is likely to persist in the foreseeable future despite the fact that the euro is issued by the world's largest trading bloc. Thus, it seems that the strengthening of the euro's international role is not just a matter of economic size and openness, but relates primarily to its limited ability to provide stability in times of global financial distress.
- 3.5 There are still other factors holding back a stronger international use of the euro, including:
- i. the historically dominant role of the dollar as the global international reserve currency,
  - ii. the lower costs associated with the use of the dollar and its higher liquidity particularly in money market operations, and
  - iii. the currently incomplete integration of European financial markets which underpin the single currency.
  - iv. Moreover, the fact that most of the international financial systems make use of platforms for trading, clearing and payment settlement located outside the euro area or operated by non-European companies does not bode well for a stronger international role of the euro.
- 3.6 A stronger international role of the euro also requires an even more stable and resilient economic environment and a smoother functioning of the financial system. To this end, a number of initiatives have been proposed to promote the performance of the euro area economies<sup>11</sup> and to better absorb large asymmetric shocks in the euro area<sup>12</sup>. The emphasis, however, should not only be put on absorbing asymmetric shocks, but also on improving the euro area's divergent behaviour stemming from the very different economic, social, and political structures of its member countries. These divergences, especially in fiscal policy, wage evolution, productivity and governance, threaten the future prospects of the euro. Without some degree of fiscal union, the architecture of the common currency remains incomplete and leaves the euro area vulnerable to future financial and economic crises.
- 3.7 The further internationalisation of the euro could entail greater risk potentially resulting in undesired temporary currency appreciation, especially during times of global turmoil. This, in turn, would reduce the competitiveness of domestic producers and hurt the euro area's exports performance. Increased international use of the euro might also result in some costs but these would be outweighed by other benefits such as greater monetary policy autonomy and stronger international transmission of monetary policy.

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<sup>11</sup> [https://ec.europa.eu/commission/sites/beta-political/files/communication\\_-\\_long-term\\_budget\\_for\\_europes\\_priorities.pdf](https://ec.europa.eu/commission/sites/beta-political/files/communication_-_long-term_budget_for_europes_priorities.pdf).

<sup>12</sup> [COM\(2018\) 387 final](#).

- 3.8 The international role of the euro has, to some extent, been driven by the euro area itself, with euro area investors being significant purchasers of euro-denominated bonds issued by non-euro area residents. However, the euro's international role is characterised by a strong regional focus, being most prominent in countries located in the immediate vicinity of the euro area. In particular, there is ample evidence showing that the City of London plays a key role in the market for euro-denominated bonds issued by non-euro area residents, be it on the supply side, the demand side or as an intermediary. In this context, Brexit could have some effect on this market.
- 3.9 From a broader perspective, the international role of the euro would be enhanced if the EU were to pursue a more unified foreign policy and insist on a continued multilateral approach to trade. The EU's currency can only achieve a high level of international standing when the EU acts in a unified way, and when these actions are backed by its collective diplomatic and economic force. This should apply in sectors such as energy, transport, industry and other sectors where the interests of the EU and euro area as a whole ought to come first. It is also vital for the EU to speak with one voice on geopolitical developments such as the increasing influence in international trade of China via its One Belt, One Road initiative, an economic and diplomatic programme that could transform and dominate trade in Asia and beyond. The implications of this economic and diplomatic programme need to be assessed in depth by the EU since this would enhance China's global economic presence. The EU and the euro area in particular cannot afford to stay idle as this programme unfolds.

#### 4. **Specific comments**

- 4.1 Given the benefits associated with the euro as referred to in 3.2, it may appear surprising that not all Member States have actually joined the euro area. The reasons for not joining may vary and may include the state of preparedness of the Member States in question and their compliance with the economic criteria necessary to join the euro, as well as, in some cases, remaining legal obstacles to fulfilling such criteria. Overall, non-participation reflects the disparities persisting within the EU in terms of social cohesion and economic convergence. These disparities need to be addressed if enlargement of the euro area is to lead to further economic stability in the euro area, and make it more resilient to external economic shocks. This, in turn, would reinforce the EU's status as a global power, and further strengthen the euro's international role.
- 4.2 The interaction between fiscal and monetary policy across the euro area is crucial for the future of the euro and its international role. Stable macroeconomic conditions, however, depend on both the fiscal and monetary stance shifting to offset sovereign debt sustainability concerns and enhance growth prospects. Again, the situation varies within the euro area due to the sub-optimal fiscal-structural-monetary policy mix in the aftermath of the global financial crisis, which led to the adjustment burden being unequally shared among the euro area Member States. This is a reflection of the existing institutional framework on which the euro was built, which acts as a constraint on individual Member States and lacks instruments to secure an effective coordinated economic and fiscal policy stance across the euro area.

- 4.3 This explains in part why within the euro area imbalances and inequalities prevail and why it is deemed so necessary to speed up upward convergence. This would help improve economic performance and support social and political stability, all of which are essential for a stronger international role of the euro. As things stand, the challenges of monetary policy in an economic area where the economic and social conditions of Member States are so diverse are formidable.
- 4.4 Steps must also be taken to address the problem of non-performing loans (NPLs). NPLs represent a considerable burden for the financing of the EU economy since they distort the allocation of credit, reduce market confidence and ultimately slow down economic growth. One must recognise that there are still significant risks in the national banking sectors of the euro area hampering the development of a common deposit insurance system. Clearly, reducing NPLs and recapitalising banks carries a cost for governments and the private sector alike. In accordance with its previous opinion<sup>13</sup>, the EESC calls for responsible lending by credit institutions and highlights the need for national authorities and European institutions to join forces and make further progress in building a comprehensive and reliable EU framework for dealing with NPLs.
- 4.5 The completion of the banking union as well as further integration of the capital markets union is also deemed crucial for macroeconomic stability. The banking union is key to reaping the benefits of cross-border banking activities in the monetary union. Though significant progress has been achieved, the banking union is not yet complete. The euro area also needs to continue making progress with other important initiatives to work towards a more complete financial union. The capital markets union will help foster cross-border financial integration, and banks and capital markets can complement each other in financing the euro area economy.
- 4.6 Acting together, the banking union and the capital markets union can take the Single Market for financial services to the next level for two main reasons: (i) the presence of healthier, deeper and more integrated financial markets would allow businesses to gain access to credit on more favourable terms, enabling them to undertake profitable investment; and (ii) financial market integration would improve the financing environment especially for SMEs, which are often described as the backbone of Europe's economy in terms of job creation, innovation and economic growth. In an integrated financial market, banks could exploit economies of scale more easily by offering similar or even the same products and services in several Member States. Furthermore, they would probably increase their cross-border holdings of assets and be able to build larger and more diversified collateral pools for securitised products and covered bonds.
- 4.7 A well-functioning and integrated capital market is deemed very important for a functioning monetary area, so overcoming existing weaknesses in European capital markets should be a priority, especially in the case of a no-deal Brexit. However, we should bear in mind that the CMU project contains a very diverse set of approaches, some of which may not have brought about the desired outcome as originally conceived. Examples include pan-European personal pensions and the initiative concerning the securitisation market, though in regard to pensions, the EESC recognises the role state pensions play for people who cannot afford private pensions.

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<sup>13</sup> [OJ C 367, 10.10.2018, p. 43.](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32018C0367)

Indeed, the success of the CMU has been rather mixed so far. Nevertheless, slowly but surely, these initiatives will eventually contribute towards a strengthened international role of the euro.

- 4.8 Also, in the aftermath of the financial crisis, it is important to understand that the further strengthening of the international role of the euro depends on the financial stability of the euro area. The issuing of common euro area bills, notes and bonds as safe assets, similar to the ones issued by the US Treasury Department, accompanied by an appropriate governance structure (including a robust and reliable fiscal policy framework), would foster greater stability by supplying safe and liquid debt instruments suitable for financing unexpected increases in public expenditure.
- 4.9 The issuing of common euro area bonds in particular should also go hand in hand with an improved supervisory framework. It is necessary to consider the risk element of such products, possibly through a pooling of the risks and guarantees, especially in the context of a highly integrated CMU.
- 4.10 Increasing the international role of the euro, especially to compete with the US dollar as a reserve currency, should not be considered a one-way street for gaining competitive advantage. It can also bring global pressure to bear on the domestic economy of the euro area relative to economic developments in competitor nations. However, reacting effectively and with one voice could bring about greater social cohesion and economic convergence across the euro area. European initiatives to foster cooperation on defence and international affairs are also likely to enhance the EU's geopolitical role and promote the euro's global outreach.
- 4.11 The challenging path towards a stronger international role of the euro may be somewhat facilitated by the ECB, first and foremost, through the fulfilling of its mandate of maintaining price stability in the euro area. Moreover, support from the ECB towards macro-economic policies and a deeper EMU and CMU provides further impetus towards strengthening the international role of the euro.

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