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Some reflections on the International Role of the Euro in the official sphere

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1. An analysis of the international role of the euro should start with the acknowledgment that, in spite of its youth, the euro is nowadays the second most widely used currency internationally, still behind the dollar but nevertheless well ahead of the yen. This is the case in both the private and official spheres. There are three key reasons behind this: the inheritance from the former national currencies the euro has now replaced, the significant economic and financial weight of the euro area, and the high standards of macroeconomic stability already achieved in the euro area since its creation in 1999.

2. Having said that, the main ideas I want to stress in this short presentation are the following:
 - The international role of a currency -and, in particular, of a recent currency such as the euro- is subject to long transitions and to inertia so that, in general, we should not expect major changes in the international role of a currency except over the longer term.

 - Admittedly, the overwhelmingly important role of private markets in a globalised economic and financial system means that the private use of the euro is likely to be of far greater quantitative significance than the official use. But the factors that enhance the private use of the euro are, to a large extent, also very important in enhancing its official use. Eventually, then, both the private and official roles are likely to move in the same direction, although not necessarily with the same intensity or pace.

 - In particular, in the light of the predominance of financial transactions over commercial transactions on global foreign exchange markets, financial considerations and, in particular, the size, depth and liquidity of the financial markets in the respective currencies of denomination are likely to exert a most considerable influence on both the private and official role of the euro as official reserves. Indeed, liquidity is -together with security- of paramount importance in the decisions to allocate foreign reserves among various currencies.

 - The larger the international use of the euro, the stronger the influence of financial conditions in the euro area on other countries and areas.

3. Concerning more specifically the use of the euro as a reserve currency, it should be noted that it ranks second in the world, with a share of around 13% of official reserves, compared to nearly 70% for the dollar and 5% for the yen. This ranking mirrors that in respect of the private use. Over the last few years, these shares have remained very stable and very close to what would have been the case with the euro-legacy currencies, showing no significant reallocations within official portfolios

Perhaps the key reasons behind the still-sizeable differences between the respective shares of the dollar and euro in official reserves are: the starting advantage enjoyed by the dollar as the most widely used intervention currency; and, closely linked to this, the as yet significant differences in terms of size, depth and liquidity between euro and dollar denominated financial markets.

4. While inertial factors always play a role in the demand for reserves, there is a potential enhanced international role for the euro as a reserve currency. This is so given the already very high standards of stability of the internal value of the currency achieved in the euro area, and insofar as European financial market integration may deepen further with the removal of the legal, regulatory and technical barriers currently hampering it.

5. This favorable framework could also interact positively with the potentially higher demand for official reserves in euros that could result from the growing use of the euro as an anchor and reference currency in a number of countries, as explained by President Duisenberg. Here again, the size, depth and liquidity of financial markets are crucial to ensure that the choice of reserve currency reflects that of intervention currency.