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PRESS RELEASE

REVIEW OF THE INTERNATIONAL ROLE OF THE EURO

The European Central Bank (ECB) is today publishing its report on “The international role of the euro”, which examines developments in the use of the euro by non-euro area residents in 2012.

The report finds that in 2012 the financial crisis continued to weigh on the international use of the euro, which declined moderately in some market segments. The persistent fragmentation of the euro area financial system is one of the main underlying causes of these developments, as it affects the depth and liquidity of euro area capital markets.

Nevertheless, survey indicators point to some strengthening with regard to the international role of the euro during the second half of 2012. This development was supported by several policy measures taken at the EU level, demonstrating the strength of cohesion within Europe. Furthermore, policies at the national level helped to restore market confidence towards the end of the period covered by the review, i.e. essentially 2012. However, further efforts are needed at both the euro area and the national level to tackle the fundamental causes of the financial fragmentation in the euro area, and a strengthening of the institutional framework of Economic and Monetary Union will also make a positive contribution to this end.

The share of the euro in globally disclosed foreign exchange reserves declined in 2012 by around 1 percentage point, from 25.1% to 23.9% (adjusted for valuation effects). Survey evidence suggests that concerns among foreign reserve managers related to the euro area sovereign debt crisis had been alleviated by early 2013, however. Among emerging and developing economies, some portfolio rebalancing occurred, which resulted in the weight of the euro in emerging market reserves being aligned more closely with that in total global reserves for which the currency composition is known.

In international debt markets, the share of the euro declined by 0.7 percentage point in 2012, from 26.2% to 25.5%, as tensions in the euro area sovereign debt market possibly dented the appetite for new international debt issuance denominated in euro. Funding cost considerations continued to favour issuance of debt securities denominated in US dollars, rather than those denominated in euro.

Regarding currency substitution in 2012, statistics on net shipments of euro banknotes to destinations outside the euro area suggest that foreign demand for euro banknotes increased further in 2012. This implies that the intensification of the euro area sovereign debt crisis did not have a major impact on the use of euro banknotes outside the euro area.

With respect to the use of the euro as a parallel currency in central, eastern and south-eastern European (CESEE) countries, the euro's share in total foreign deposits declined marginally in 2012, by 0.3 percentage point. Evidence from household surveys in the region provided by the Oesterreichische Nationalbank suggests that trust in the euro in CESEE countries, which decreased in spring 2012, recovered in the autumn of that year.

The report's first special feature article analyses the growing importance of non-traditional reserve currencies, such as the Australian dollar and the Canadian dollar. It shows that the issuers of such currencies have a track record of rapid and resilient growth, price stability and sound public finances. Higher risk aversion in foreign exchange markets and perceptions of heightened credit risk for some advanced economy sovereigns are shown to be two possible determinants of the recent rise in the role of non-traditional currencies. However, a lack of large, deep and liquid financial markets limits the potential of such currencies to become truly major reserve units.

The second special feature takes stock of recent developments in the international use of the Chinese renminbi. It shows that China's growing weight in global trade has led to an increasing use of the Chinese currency in international trade and, to a lesser extent, international financial markets. However, the lack of sufficiently deep and liquid domestic financial markets, tight financial restrictions, remaining capital controls and insufficient exchange rate flexibility hamper the development of the international use of the renminbi, notably as a reserve currency.

The third special feature sheds light on one manifestation of inertia in the international financial system and on its potential sources using unique data on the foreign bond holdings of US investors in the early 1940s. It documents a "history effect" whereby the pattern of holdings seven decades ago continues to influence holdings today.

The report is available on the ECB's website (<http://www.ecb.europa.eu>).

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