



EUROPEAN CENTRAL BANK

EUROSYSTEM

PRESS RELEASE

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Diverging monetary policy cycles impact international use of the euro

- Euro increasingly used as funding currency in 2014 and early 2015
- Share of euro in foreign exchange reserves remains stable in real terms
- Euro broadly stable as invoicing currency

The euro was increasingly used as a funding currency by international borrowers in 2014 and early 2015, compared with the previous review period, while the share of the euro in foreign exchange reserves remained broadly stable. These are among the main findings of the report on “The international role of the euro”, which examines developments in the use of the euro by non-euro area residents in 2014 and early 2015 and was published today by the European Central Bank (ECB).

One salient development was the fact that the euro’s nominal effective exchange rate depreciated by 10% in the 12 months to May 2015, which affected various indicators of the euro’s international use. At constant exchange rates, most indicators used to assess the euro’s international use either recovered further from their dip in the wake of the euro area sovereign debt crisis or remained broadly stable over the review period. This was true of the euro’s use as a reserve, financing and invoicing currency.

One of the most visible effects of the euro’s depreciation over the review period was the decline in the nominal share of the euro in globally disclosed foreign exchange reserve holdings by 2.2 percentage points to 22.2% in 2014. Adjusting for exchange rate changes, however, the share of the euro remained broadly stable (declining by 0.2 percentage point), which suggests that valuation changes were the overarching determinant of the decline. “Despite the impact of globally diverging monetary policy cycles, foreign exchange managers on average were not actively shifting portfolios away from the euro area” said Benoît Cœuré, Member of the ECB’s Executive Board.

In an environment characterised by low and declining interest rates in the euro area, the euro was increasingly used as a funding currency by international borrowers. The share of the euro in international

European Central Bank Directorate General Communications
Global Media Relations Division, Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, e-mail: media@ecb.europa.eu, website: www.ecb.europa.eu

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debt issuance increased by 9 percentage points to almost 30% in the first quarter of 2015, compared with the same quarter of 2014.

The report contains two articles. The first analyses the impact of currency denomination in international transactions on the transmission of exchange rate movements to import prices. It analyses differences in country-specific degrees of long-run exchange rate pass-through (i.e. the transmission of changes in the exchange rate to import prices) in relation to the use of the euro as an invoicing currency in the respective countries. The article finds a causal – and economically large – link between invoicing currency choice and exchange rate pass-through: an increase in the share of the euro as an invoicing currency for extra-euro area imports of 10 percentage points lowers the degree of exchange rate pass-through to import prices by 7 percentage points.

The second article analyses how the roles of different national currencies as international reserves were affected by the shift from fixed to flexible exchange rates in the wake of the collapse of the Bretton Woods system.

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

For media queries, please contact Peter Ehrlich, tel.: +49 69 1344 8320.