

## **Box 8**

Overview of the Communication on the international role of the euro issued by the European Commission on 5 December 2018

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On 5 December 2018 the European Commission issued a Communication outlining initiatives to strengthen the international role of the euro.<sup>79</sup> This Communication followed up on President

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<sup>78</sup> See Eichengreen, B., "The Renminbi Goes Global", *Foreign Affairs*, Vol. 96(2), 2017, pp. 157-163.

<sup>79</sup> See the Communication entitled "[Towards a stronger international role of the euro](#)".

Juncker’s State of the Union Address on 12 September 2018 and was tabled as a contribution to the Euro Summit on 14 December 2018. It makes proposals in four areas.

The first area focuses on completing Economic and Monetary Union and banking union, as well as furthering the capital markets union. The Communication mentions initiatives adopted by euro area leaders at the Euro Summit of 14 December 2018, such as the common backstop to the Single Resolution Fund or reform of the ESM Treaty, as well as other proposals, such as those for a European Deposit Insurance Scheme for euro area bank deposits, sovereign bond-backed securities or euro area external representation. It highlights the importance of respecting EU governance rules and sound policies.

The second area concerns measures to make the European financial sector more stable, deeper and more autonomous. The Communication proposes widening the use of the euro by strengthening the liquidity and resilience of European market infrastructures. For instance, it refers to the option of widening the scope of clearing obligations and further incentivising the use of central clearing, subject to the relevant legislative process. It also mentions initiatives involving the Eurosystem, such as the reform of euro area interest rate benchmarks or initiatives in market and payment infrastructures, such as instant payment systems solutions. The Commission launched a public consultation to assess whether frictions affecting euro liquidity in the foreign exchange market exist.

The third area focuses on initiatives targeting the international financial sector. One proposal is to promote the use of the euro in payments and as a reserve currency internationally, and to provide technical assistance to third countries to use euro payment systems. Another is to encourage European institutions (such as the European Stability Mechanism and the European Investment Bank) to increase their share of euro-denominated debt.

The fourth area comprises a series of targeted consultations to explore whether the international role of the euro in specific areas can be strengthened, including oil, refined products and gas, raw materials and food commodities, and transport sector manufacturers (aircraft, maritime and railways).<sup>80</sup> The Commission will report on the insights gained from these consultations by summer 2019.

## Table A

### Evidence on the link between currency swap lines and international currency status

Economic size		
Stability (economic, financial, political)	}	Price stability, sound fiscal and structural policies Deeper EMU and banking union
Sound institutions Financial openness		
Liquidity/depth of financial markets	}	Capital markets union Initiatives on market and payment infrastructures
Efficient financial market infrastructure for payments and settlements		
Geopolitical outreach Inertia and network effects		

Sources: ECB.

Like the Commission, the Eurosystem stresses that the international role of the euro is primarily supported by a deeper and more complete EMU, including advancing the capital markets union, in the context of the pursuit of sound economic policies in the euro area. Sound economic policies

<sup>80</sup> The Commission also issued a [Recommendation on the international role of the euro in the field of energy](#).

directly affect the economic and financial stability of the euro area and thus the global standing of its currency. Efforts to complete the measures on the agenda for deepening Economic and Monetary Union would enhance the euro area's resilience. Deeper and better connected euro area capital markets through further development of the capital markets union would contribute to greater euro area financial integration and deeper and more liquid euro area financial markets. The Eurosystem supports these policies and emphasises the need for further efforts to complete Economic and Monetary Union. Without prejudice to the ECB's independence, the Eurosystem is also aware of the European Commission's support for its initiatives on market infrastructure and payments, which help increase efficiency and bring greater financial market integration in the euro area. These efforts may also have the knock-on effect of strengthening the international role of the euro. **Table A** provides an overview of the most important determinants of the international role of the euro and recalls the key policy levers which exist to influence them.

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