

DEEPENING EUROPE'S ECONOMIC AND MONETARY UNION

Update ahead of the Euro Summit of December 2018

#FutureofEurope



"By next year, we should also address the international role of the euro. The euro is 20 years young and has already come a long way – despite its critics. It is now the second most used currency in the world with 60 countries linking their currencies to the euro in one way or another. But we must do more to allow our single currency to play its full role on the international scene."

European Commission President Jean-Claude Juncker, State of the Union Address, 12 September 2018

Further strengthening the euro's role in the world

In the wake of the financial crisis, Europe has taken determined action to make the euro a source of economic protection and empowerment. Important work to further deepen Europe's Economic and Monetary Union has already been done and is continuing. Strengthening the international role of the euro is an important step in this process.

A strong Economic and Monetary Union provides the foundations for the euro to fulfil its potential on the international stage. The euro's international role and influence should go hand in hand with the EU's economic and trade influence in the global economic system.

BENEFITS OF AN INCREASED INTERNATIONAL USE OF THE EURO



Lower cost and lower risk of trading internationally for European businesses. Trading in euro rather than in a foreign currency will remove the exchange risk and other currency related costs especially for small and medium-sized European businesses.



Additional choice for market operators across the globe.



Lower interest rates paid by European households, businesses and Member States. A more attractive euro as a safe store of value reduces the interest rate (or return) demanded by investors.



More reliable access to finance for European businesses and governments, even in periods of external financial instability, as European financial markets would become deeper, more liquid and integrated.



Stronger autonomy of European consumers and businesses, allowing them to pay or receive payments for their international trade, and finance themselves with reduced exposure to legal actions taken by third country jurisdictions, like extraterritorial sanctions.



Improved resilience of the international financial system and economy, making them less vulnerable to exchange rate shocks.

Recent global trends are supporting a potential shift towards a more diversified and multipolar system of several global currencies. The decision to use a currency is ultimately made by market participants. The objective is not to interfere in commercial freedom or limit choice, but rather to expand the choice for market participants by ensuring that the euro represents a strong and reliable currency of choice.

While the euro is already an important strategic tool to advance and protect Europe's interests across the world, a greater international role of the euro can also result in tangible benefits at home.

THE EURO IN THE WORLD

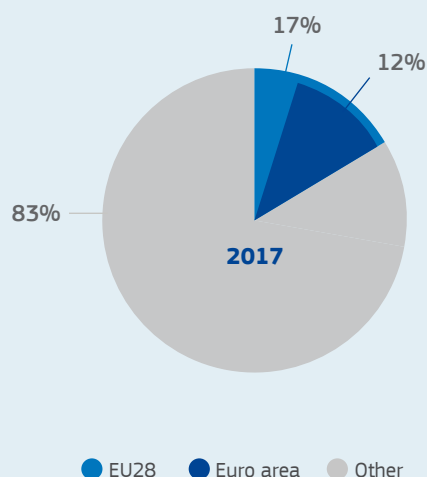
The euro already plays an important role beyond the borders of the EU and the euro area.

- The EU accounts for around 17% of global gross domestic product and the euro area's share is around 12%.
- The euro is the second most widely used currency in terms of its share of global payments. In 2017, it amounted to 36% of global payments. The US dollar, by comparison, accounts for about 40% of total payments.
- Sixty other countries and territories around the world, home to some 175 million people, have chosen to use the euro as their currency or to link their own currency to it, in one way or another.
- The share of the euro in global holdings of foreign exchange reserves currently stands at around 20%. The US dollar's share, by comparison, is over 60%. No other currency exceeds 5%.

The EU maintains its position as a leader in international trade, development and humanitarian assistance.

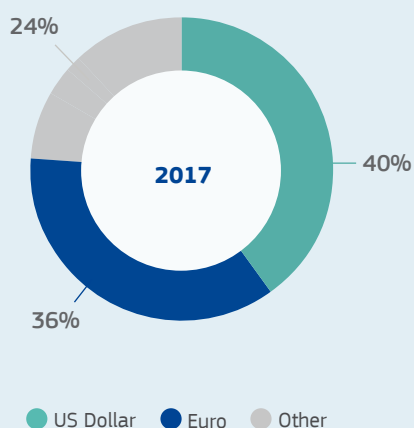
- The EU is the world's largest trading bloc and the top trading partner of 80 countries across the world. The recently agreed EU-Japan Economic Partnership Agreement is the biggest trade agreement ever negotiated by the EU.
- The EU, together with its Member States, remains the biggest donor of development and humanitarian assistance globally. In 2017 the overall amount of Official Development Assistance was €75.7 billion. The EU contributed 57% of global Official Development Assistance in 2017.

Share of EU and euro area in total World GDP
% share of total world economic output



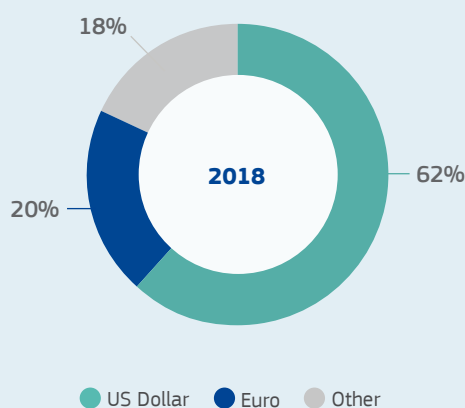
Source: European Commission based on the International Monetary Fund.

The euro as an international payment currency
% share of the euro in global payments



Source: European Central Bank based on data from SWIFT.

The euro as an international reserve currency
% share in holdings of foreign exchange reserves



Source: European Commission based on the International Monetary Fund.

INITIATIVES TO STRENGTHEN THE INTERNATIONAL ROLE OF THE EURO

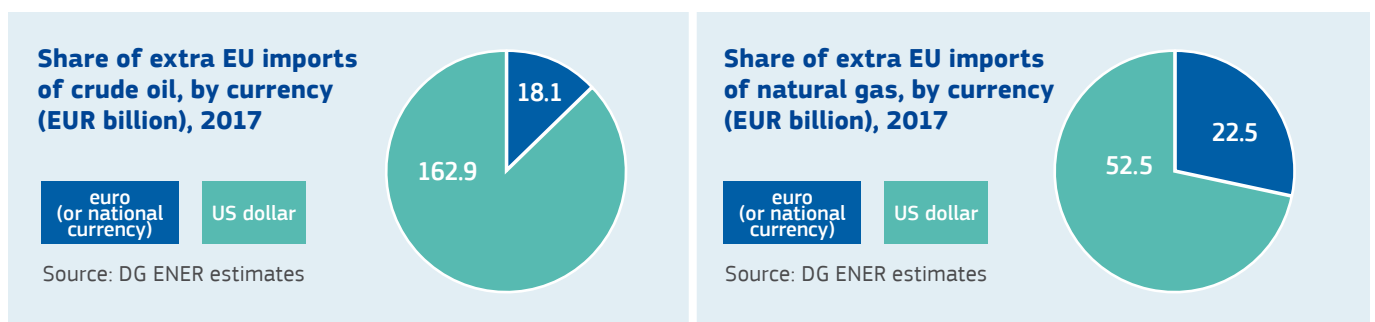
Initiatives to strengthen the international role of the euro include:

1	Completing the Economic and Monetary Union, Banking Union, Capital Markets Union	
2	Measures to foster a deep European financial sector	• Strengthening the liquidity and resilience of European market infrastructure • Ensuring a reliable framework for a trustworthy interest rate benchmark • Supporting a fully integrated instant payment system in the EU • Consultation about euro liquidity in foreign exchange markets
3	Initiatives linked to the international financial sector	• Supporting Central Banks' collaboration to safeguard global financial stability • Increasing the share of euro denominated debt by European bodies • Fostering economic diplomacy to promote the use of the euro in payments and as a reserve currency • Technical support to improve access of developing countries to the euro payment system
4	Promoting the use of the euro in key strategic sectors	• Energy: • Recommendation to promote a wider use of the euro in international energy agreements and transactions • Consultation on expanding use of euro-denominated transactions in oil, refined products and gas • Consultation on increasing use of the euro in raw materials and food commodity trading • Consultation on expanding use of the euro by transport sector manufacturers (aircraft, maritime and railways)

THE USE OF THE EURO IN ENERGY AND OTHER KEY SECTORS

As part of this endeavour, the Commission has adopted a Recommendation calling on economic actors, public authorities and Member States to promote the wider use of the euro in the energy sector. In spite of their position as large buyers as well as major producers, European businesses still trade in US dollar in key strategic markets, such as energy, often even between themselves. This exposes businesses to currency risks and political risks, such as unilateral decisions that directly affect dollar denominated transactions.

Energy commodities, in particular crude oil, are the most traded raw materials in the EU and worldwide. The EU is the world's largest energy importer. It imports around 90% of its oil needs and 70% of its gas needs and its annual energy import bill averaged €300 billion over the past five years. The vast majority of contracts for EU energy imports, however, are in US dollar.



THE EURO IS ALREADY A SUCCESS

In 2019 the euro will commemorate its 20-year anniversary. Since 1999, eight new Member States have joined the euro area. Euro banknotes and coins now serve as a tangible symbol of the benefits of European integration to the 340 million European citizens who use them every day across the euro area's 19 Member States.

The euro's success is reflected in the robust performance of the euro area economy. Growth reached a 10-year high in 2017. 12 million jobs have been created since the Juncker Commission took office in late 2014. Unemployment is steadily declining and youth unemployment, while still too high, is at its lowest level in 20 years. Banks are more resilient, investment has picked up and public finances are in increasingly good shape.

International currencies must be backed by large, stable and efficiently functioning economies and financial systems that are attractive to international users and investors. Strengthening the euro's role in the world depends on maintaining its position as a stable and credible currency.

