

Fabio Panetta: Unleashing the euro's untapped potential at global level



SPEECH

Introductory remarks by Fabio Panetta, Member of the Executive Board of the ECB, Meeting with Members of the European Parliament

Frankfurt am Main (by video conference), 7 July 2020

The introduction of the euro has undoubtedly been one of the most profound changes in the international monetary system since the collapse of the Bretton Woods system. Right from the start, the ECB has monitored developments in the international role of the euro, not only in order to measure our currency's global appeal, but also because a stronger global role for the euro may have tangible consequences for the conduct of monetary policy.

Today, I would like to briefly present the main findings of our recent report on the international role of the euro. Next, I will discuss monetary policy considerations associated with a stronger use of the euro internationally, before moving on to the policies that could unleash the euro's untapped potential at global level. I will stress the alignment between policies that will strengthen the euro's role internationally and policies that will make the euro area more robust and fit for the future.

The role of the euro in global markets

The euro remains the world's second most important currency. This is one of the main findings of the [19th annual review of the international role of the euro](#), which we published on 9 June 2020. At around 19%, the euro's share in international currency is lower than the approximately 50% share of the US dollar, but well ahead of any other currency.

Developments since the outbreak of the coronavirus (COVID-19) pandemic have not changed the picture: investors rushed to the safety and liquidity of the US dollar in March 2020, confirming its pre-eminent role in the global monetary and financial system.

In some areas, however, such as the global green bond market, the euro has had a head start relative to the US dollar. In 2019, for instance, almost half of global green bond issuance was denominated in euro.^[1] The euro's leading role not only reflects the prevalence of green bond issuers based in the euro area; issuance of euro-denominated green bonds is also strong among non-euro area residents, which accounted for almost 30% of total euro-denominated green bond issuance in 2019. In the future, the swift implementation of an EU taxonomy of sustainable economic activities would provide a credible and standardised framework, ensure greater investor confidence and also contribute to strengthening the international role of the euro.

The effects of international currency status on the ECB's monetary policy

Since the launch of Economic and Monetary Union, the Eurosystem has advocated a policy of neutrality towards the international role of the euro.^[2] This position reflected two differing views – one that emphasised the economic benefits of international currency status, and another that emphasised the costs. Two decades on, the balance between these benefits and costs has shifted.

The [18th annual review of the international role of the euro](#), published last year, looked in detail at how the balance of benefits and costs has changed since 1999. With rapid financial globalisation, rising challenges to multilateralism and the adoption of new monetary policy frameworks by major central banks, the relevance of some of the traditional effects of international currency status has declined, while other effects have become more apparent.

For instance, international currency status strengthens the transmission of monetary policy, notably if stronger use of a currency as an international funding unit amplifies the cross-border effects of monetary policy impulses. Through spillback effects, the resulting impact on demand across the world may give monetary policy a wider, and possibly larger, domestic impact. This could be particularly true for an economy such as the euro area, which is more open to trade than other major economies.

Moreover, international currency status lowers exchange rate pass-through, which helps shield inflation from foreign shocks. It lowers external financing costs – the traditional “exorbitant privilege”. And finally, it can be argued that the traditional argument against a stronger international role for a given currency – that it increases the volatility of monetary aggregates – has declined in prominence.

All in all, changes in the global role of the euro may have consequences for the conduct of monetary policy, all of which must be understood and taken into account when designing the ECB’s actions.

Unleashing the euro’s untapped global potential

The euro’s global potential has not been fully realised, however. But the right policies could unleash it.

The ECB has repeatedly stressed that the international role of the euro is primarily supported by a deeper and more complete Economic and Monetary Union, including advancing the capital markets union, in the context of the pursuit of sound economic policies in the euro area. The COVID-19 pandemic underlines the urgency of these policies and the ECB supports the necessary reform efforts.

Moreover, as I have also stressed recently, the euro’s international role will grow only if we can better share its benefits, or “privilege”.^[3]

It is for Europe to provide common instruments that generate safe assets for all Member States in times of crisis, thereby ensuring that necessary fiscal reactions do not cause further instability and fragmentation. The €750 billion recovery fund proposed by the European Commission is an excellent example. It will provide a forceful European fiscal response to the COVID-19 crisis and the foundation for a deep, common capital market backed by safe euro assets. Unfortunately, however, the recovery fund is both temporary in nature and relatively small in relation to the size of the European sovereign bond market.

The ECB also plays its part. A global currency requires a central bank that acts as a credible backstop to safeguard liquidity conditions in the financial system. Over the past few months, the ECB has deployed forceful monetary policy measures to avoid fragmentation, dispel tail risks in financial markets and stabilise the euro area economy.

Yet the pandemic crisis has also made clear that, in times of stress, managing a global currency also requires the ECB to play a prominent role at the international level.

Shortly after the outbreak of the pandemic crisis, the ECB reactivated a number of swap and repo lines with major foreign central banks. On 25 June we went further still and established a new precautionary backstop facility to address pandemic-related euro liquidity needs outside the euro area. The Eurosystem repo facility for central banks (EUREP)^[4] reflects the importance of the euro in global financial markets and will support the smooth

transmission of our monetary policy. In particular, it will reduce risks related to sell-off episodes of euro-denominated assets and spillovers of market dysfunctions from other economies to the euro area, including through global confidence effects.

Looking beyond the immediate aftermath of the pandemic crisis, the acceleration of the digitalisation of money may have implications for the euro's global role.

Thanks to the recent launch of the European Payments Initiative, Europe has stepped up its efforts in meeting the challenge to create a true European and modern payment solution that meets the needs of both people and businesses.^[5] This is essential to ensure the autonomy of the European payments market, in the face of increasing dominance by foreign players.

The ECB will continue to monitor how new technologies change payment behaviours. Regardless of the choice of technology, the stability of money and payment systems should continue to rest on the firm foundations central banks provide. Maintaining the unit of account, guaranteeing the finality of payments, providing liquidity and conducting oversight remain essential public goods that are provided by central banks. They are paramount to maintaining trust in a currency and safeguarding monetary sovereignty.

This is why the ECB intends to remain at the forefront of discussions concerning the nature of money in a digital world, including the exploration of the desirability and feasibility of establishing a central bank digital currency (CBDC).

A CBDC would have domestic implications for the euro area in areas such as monetary policy, financial stability and payment systems, which would need to be thoroughly assessed.

But, if the CBDC is allowed to be used outside the euro area, it is likely to have implications for the global monetary and financial system too. For instance, the euro's international role could be strengthened if the CBDC represented an attractive payment vehicle or store of value for non-euro area residents. It could have implications for capital flows and the exchange rate of the euro, with potential knock-on effects on euro area and global economic developments. It could amplify the real and financial cross-border spillovers of domestic monetary policy shocks by creating a new channel for their propagation. The magnitude of such effects would depend on the design of the CBDC.

Conclusions

Allow me to conclude.

The euro became an international currency at birth.

How and whether this international status will evolve in the future remains in the hands of European policymakers. The European Parliament has a key role to play in delivering reforms that will further strengthen people's

confidence in the European project and in the euro.

[Press release – EP group leaders deeply worried over the situation in Hong Kong](#)



“On 30 June, the Standing Committee of China’s National People’s Congress adopted the National Security Law in Hong Kong, which came into effect that day, the 23rd anniversary of the city’s handover to China from British rule. Under the law approved by mainland China’s legislature in May, Beijing will have sweeping new powers to impose sentences, including life imprisonment. This represents a direct assault on the city’s high degree of autonomy and runs contrary to the freedoms that were guaranteed under the “one country, two systems” principle, and is, furthermore, in violation of the Sino-British Joint Declaration and the International Covenant on Civil and Political Rights.

The Conference of Presidents of the European Parliament reiterates the serious concerns set out in [Parliament’s resolution dated 19 June](#) and reiterates the European Parliament’s call for adequate consequences to be drawn if the law is not withdrawn. In particular, the Conference of Presidents is deeply worried about the erosion of fundamental human rights as enshrined in Hong Kong’s Basic Law, including the freedom of speech, of the press and publication, and of association, assembly, procession and demonstration.

The European Parliament stands in solidarity with the people of Hong Kong who have taken to the streets to protest peacefully, and it calls for the

immediate release and dropping of all charges against those detained for the peaceful exercise of their freedom of expression since democratic protests started in 2019. This includes the immediate release of Swedish bookseller Gui Minhai who has been arbitrarily detained.

We urge China to withdraw this law, which violates the promises made to Hong Kong citizens under the Hong Kong Basic Law and violates China's binding international obligations. It clearly damages China's standing in the international community. The EU is always open for dialogue with the Hong Kong government and China on this matter. But the imposition of this law is unacceptable and of utmost concern and, in the absence of any progress, the EU will consider taking appropriate measures in this regard."

[Press release – Just transition in EU regions: support to people, economy and environment](#)



On Monday 6 July, the Regional Development Committee approved the establishment of the Just Transition Fund (JTF) with 27 votes in favour, 7 against and 8 abstentions.

Allocation of financial resources

MEPs request a significant increase in the budget allocated from the 2021-2027 financial framework (from EUR 11 270 459 000 in current prices to EUR 25 358 532 750 in 2018 prices, also referred to as the "principle amount"). This amount would be supplemented with an additional EUR 32 803 000 000 in current prices, as proposed under the EU Recovery Instrument.

The agreed text includes the creation of a “Green Rewarding Mechanism”, allowing 18% of the total JTF resources to be allocated depending on the speed with which member states reduce their greenhouse gas emissions, divided by their latest average GNI. Additionally, 1% of the total amounts would be specifically allocated for islands, and 1% for the outermost regions.

With the JTF designed to support the most vulnerable communities in each region, MEPs call for a co-financing rate of up to 85% of costs for eligible projects.

Relation to existing EU cohesion policy instruments

The establishment of the JTF should not lead to cuts to, or compulsory transfers from, the other cohesion funds, underlines the agreed text. JTF resources may be complemented by resources transferred on a voluntary basis from the European Regional Development Fund (ERDF) and the European Social Fund (ESF+), while maintaining their original objectives.

Broadening the scope of support

MEPs agree that the scope of the JTF should be broader, focusing specifically on social cohesion and leading to job creation. The activities supported by the fund would also include: microenterprises, sustainable tourism, social infrastructure, universities and public research institutions, energy storage technologies, low-emission district heating, smart and sustainable mobility, digital innovation, including digital and precision farming, projects fighting energy poverty, as well as culture, education and community building.

For regions heavily reliant on the extraction and combustion of coal, lignite, oil shale or peat, MEPs propose a derogation for investments in activities related to natural gas. In this sense, the Commission may approve Territorial Just Transition Plans that include such activities, if they qualify as “environmentally sustainable” in accordance with the [Taxonomy Regulation](#) and comply with six additional cumulative conditions.

Quote

Rapporteur Manolis Kefalogiannis (EPP, GR) said: “The Just Transition Fund is the first important step in the European Commission’s emblematic initiative for a Green Europe. Today, the Regional Development Committee confirmed that the EP will continue to lead the way in the implementation of the Paris Agreement, pursuing a socially fair and green transition in our regions. With an increased budget, we will be able to effectively support the regions that need it the most, but, above all, strongly support our citizens. We are moving into a new green era without leaving anyone behind.”

Next steps

The European Parliament plenary is expected to vote on the draft report and give the mandate for inter-institutional negotiations during its September sitting.

Background

The Parliament had already called for a comprehensive fund to be established to support a just transition in the energy sector as early as March 2018, with the [resolution](#) setting out the Parliament's position on the post-2020 MFF. On 14 January 2020, the Commission [published](#) a legislative proposal on the Just Transition Fund (JTF), aimed at helping the most affected regions alleviate the socio-economic impact of the transition, a first legislative proposal implementing the priorities set out in the European Green Deal. At the end of May 2020, the Commission proposed a substantial increase of the Fund's resources in an [amended proposal](#) (a total of EUR 44 billion in current prices).

[Bulgaria: Investment Plan for Europe – EIAH to provide support for the development of a new specialised children's hospital](#)



©Thecitymedia

- The advisory support will consist of a comprehensive feasibility study

with functional planning and preliminary designs for the hospital.

- The new hospital will be a zero-emission building linked with the existing Burgas University hospital.

The European Investment Bank (EIB), funded by the European Investment Advisory Hub (EIAH), will provide support to the Municipality of Burgas, Bulgaria, to facilitate project preparation for the construction of the first children's hospital in the country.

The construction of the new hospital is an integral part of the Burgas Municipality's Investment Programme for the period 2020-2023 and is also considered as an important component of the country's healthcare strategy by the Ministry of Health. The new hospital will address the healthcare needs of children and adolescents in the city of Burgas, one of the fastest growing cities in Bulgaria.

EIB Vice-President Lilyana Pavlova, who oversees EIB Advisory Services, said: *"Advisory support from the EU bank will be key to unlocking investments in the healthcare sector in Bulgaria. This support also comes at a crucial time, in the aftermath of the COVID-19 crisis, and I am very glad we will be able to support one of Bulgaria's largest cities in delivering state-of-the-art healthcare infrastructure to its people. The EIAH support is a good example of how the EIB can bring together internal and local consultancy expertise to tackle a long-term challenge within a Member State and help bring forward an investable project."*

European Commissioner for the Economy, Paolo Gentiloni, said: *"The European Investment Advisory Hub is a fundamental component of the Investment Plan for Europe. Financing a project is the main objective, and sometimes to help unlock that financing, project promoters need technical assistance to get their plans ready. With support provided by the Advisory Hub, soon the Municipality of Burgas will boast the first children's hospital in Bulgaria, which is something to celebrate."*

Mayor of Burgas Dimitar Nikolov, stated: *"A major goal of the administration of the City of Burgas is to constantly improve the quality of life of our citizens. The current partnership between the Municipality of Burgas and the EIB is yet another opportunity for us to do so, as it will allow us to invest in a sector of great importance for our city – child healthcare. Building a new hospital that specialises in providing medical care to children is not only important for Burgas, but for the south-eastern region of Bulgaria as a whole. It will enable medical professionals to provide efficient treatment to child patients with serious medical conditions and will eliminate the unnecessary risks involved in transporting them to major hospitals in Sofia. Moreover, the newly established medical institutions will be closely linked with the Medical Faculty of our University, which is another significant step forward in the accomplishment of our long-standing goal to make Burgas a centre of outstanding medical education. With its support, the EIB has once again proven to be a powerful ally, determined to endorse the progress of our society. We are now safe in the knowledge that the future of our community is bright, as we are 'standing on the shoulders of giants'!"*

The advisory support from the EIB and international consultancy experts will provide the municipality with a comprehensive feasibility study that will include functional planning and preliminary designs for the hospital, in line with best international practices and standards. The advisory support will also be key to unlocking access to finance for this ambitious project, including potentially from the European Structural and Investment Funds and the EIB (under the European Fund for Strategic Investments).

The new facility will be of particular importance for the region due to its concentration of established healthcare facilities and educational programmes. The project, due to be completed by 2024, will also support economic growth and facilitate specialist employment, attracting more investment to a key sector of the Bulgarian economy.

Background information

The [European Investment Advisory Hub](#) (EIAH) is a partnership between the European Investment Bank Group and the European Commission under the Investment Plan for Europe. The EIAH is designed to act as a single access point to various types of advisory and technical assistance services. It supports the identification, preparation and development of investment projects across the EU. Its advisers work directly with project promoters to prepare a tailor-made advisory package to support investment projects.

The EIAH is [helping project promoters active in the healthcare](#) sector identify, prepare and implement more investments to increase the resilience of European societies.

**[Press release – Pre-session briefing
on Tuesday 7 July at 17.00](#)**



Main topics on Parliament's agenda include:

- Debate with Chancellor Angela Merkel on priorities of the German Presidency
- Summits/MFF/EU recovery plan: debate with European Council President Charles Michel and Commission Vice-President Maroš Šefčovič
- Reform of road transport sector
- Public health strategy
- Money laundering
- Energy network guidelines
- Energy Storage

Find all information on EP plenary in our [newsletter](#).

Journalists may attend the press conference in person, respecting the precautionary measures in force (see below), or participate remotely.

Parliament will be using an interactive virtual press environment (with interpretation) based on Skype TX, in conjunction with the traditional [EbS](#) and [web-streaming services](#).

If you are unable to attend and wish to ask a question:

You will need a SKYPE account.

Connect to VOXBOXEP and write your name and media organisation in the chat box

Please use headphones and a microphone for better sound quality.

The system will be managed by Parliament's media services and you will be placed in a queue (virtual waiting room) before being invited to ask your question(s).

If you have any trouble connecting, you can contact: +32 22834220 or use

Skype chat box.

After asking a question / listening to the reply (and any follow-up), you should then disconnect from Skype so that the next journalist in line can be connected to the press briefing room.

You only need to connect through Skype if you wish to ask a question.

You can follow the briefing LIVE on [EP MMC](#) or [EbS](#).

REMINDER: working conditions in Parliament for journalists in light of Coronavirus

It is mandatory as of 13 May to wear a community mask that covers the mouth and nose at all times while in Parliament's buildings. This is to continue to ensure Parliament's operational capacity, while at the same time avoiding health risks for Members, staff and other persons working in and visiting the European Parliament. In addition, as of Monday 15 June, temperature controls will be carried out on all persons entering Parliament's premises.

The wearing of a mask for journalists is compulsory and necessary at all times. However, journalists could exceptionally and for the limited duration of a recording (stand-ups, interviews, studio recordings) remove their mask, if the social distancing measures are respected. This exception also applies to taking the floor in press conferences. Please note that masks should be put on again immediately after the recording.

To allow for this exception, journalists are required to keep a distance of 2 meters preventively. This also applies to the use of the work stations in Parliament's press room.

Please refrain from coming to EP premises if you present any symptoms of a respiratory infection, if you have knowingly been in contact with an infected person in the last 14 days or if you have been to regions with very high transmission rates.