



EUROPEAN CENTRAL BANK

EUROSYSTEM

PRESS RELEASE

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Indicators of international use of the euro developed unevenly in 2016

- Euro remains unchallenged as the second most used currency, but the international role of the euro slightly declined in 2016-2017, albeit not uniformly
- Use of the euro as a funding currency declined
- Share in foreign exchange reserves rebounded somewhat

The use of the euro as a funding currency in international debt markets declined in 2016 and early 2017 compared to the same period last year, while the share of the euro in foreign exchange reserves rebounded slightly. 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 2016 and early 2017 and was published today by the European Central Bank (ECB).

“The euro stays unchallenged as the second most used international currency in an environment where the share of non-traditional reserve currencies is gradually increasing”, said Benoit Coeuré, member of the Executive Board of the ECB. Heightened non-economic risks stemming in particular from geopolitical developments and economic policy uncertainty as well as the continued impact of the ECB’s asset purchases on financial markets were among the main developments affecting the international role of the euro. The international use of the euro declined slightly in 2016-2017, albeit not uniformly. One exception is the share of the euro in official holdings of foreign exchange reserves, which rebounded slightly in 2016 from 19.4 to 19.7% compared with the previous review period at constant exchange rates.¹ The stabilisation of the share of the euro in global foreign exchange reserves offers tentative evidence that its

¹ Updated data at current exchange rates up to the first quarter of 2017, as released by the International Monetary Fund after the cut-off date of the report (30 April 2017), are available at <http://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4>.

role as an official store of value remained resilient to the various shocks buffeting global financial markets in the review period. The share of the euro in international payments also increased.

Other indicators tracked in this report showed the share of the euro as an international currency as having declined over the review period. This was particularly the case for outstanding amounts of international loans, foreign exchange turnover and shipments of euro banknotes to destinations outside the euro area. Likewise, the share of the euro in outstanding international debt securities declined in 2016 and remains well below levels prevailing prior to the onset of the global financial crisis.

The report contains three special feature articles. The first considers the euro and the geography of the foreign exchange market amid discussions generated by Brexit on whether some financial transactions in euro conducted in the UK, notably in the City of London, would be conducted in the euro area or elsewhere in future. The second special feature examines violations in covered interest parity, which is important for the role of the euro as an international funding currency. The third special feature turns to unofficial “euroisation” of loans and deposits, referring to the phenomenon in which the euro is used to replace the local legal tender in some of the main functions of money, which is a salient feature of many EU candidate and potential candidate countries in the Western Balkans.

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

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