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Stronger global role of the euro calls for the right structural conditions

While the euro's international use has been declining following the onset of the global financial crisis, the latest ECB data shows signs of a turnaround. It remains to be seen whether this recent uptick is a one-off development or a new trend. For now, it appears to be mainly driven by processes outside the euro area, including international trade tensions and unilateral sanctions.

Recent developments have reaffirmed that there is potential to increase the global role of the euro. Today, being the second most widely used currency, the euro has all the necessary attributes to become a credible alternative to the US dollar. The results of the recent consultations of the European Commission suggest that market participants share this view as well – there is broad support for an elevated standing of the euro.

Ultimately, it is market participants, both private and public, who decide to use a certain currency. As policymakers, we can do our part by putting the right structural conditions in place and establishing a similar environment where the world's No1 currency exists. This includes rendering the European economic and financial architecture more resilient, as well as providing the markets with common Pan-EU infrastructure solutions – for example, in the payments area.

If we want to truly boost the global role of the euro, we must first “do our homework” in terms of deepening the Economic and Monetary Union (EMU). Without a breakthrough in this area, no other measures will be effective.

First of all, to increase confidence in our financial sector and the single currency, we have to complete the Banking Union (BU). A fully mutualised European Deposit Insurance Scheme is critical in this regard. Once in place, it could help to mitigate the sovereign bank loop, reduce risk, facilitate the expansion of pan-EU banking and reinforce the financial stability of the euro area as a whole.

Second, a deep and liquid Capital Markets Union (CMU) is of the utmost importance in fostering the euro's global use. It would enhance private risk sharing, provide alternative financing sources for the real

economy and allow the EMU to withstand shocks more easily. To develop the CMU, we must address fundamental issues, such as fragmented insolvency regimes. This underscores the importance of a cross-country and inter-institutional dialogue, as well as discourse with policymakers in domains outside the economic and financial remit.

Given the complexity of the issue, leveraging local initiatives seems to be a possible way forward in advancing the Pan-EU CMU agenda. The Baltic states' capital markets harmonisation initiative stands out as an early positive example in this regard.

Going forward, we should not shy away from the debate on creating an adequate supply of safe assets on the EU level. The lack of such assets, which would in practice be comparable to the US Treasury bonds, may be considered as one of the main obstacles for deeper European capital markets and a stronger global role of the euro.

All in all, in order to increase prominence of the euro internationally, we must first make substantial progress in deepening the EMU and I hope that efforts to complete the BU and CMU will feature as a top priority on the European agenda in the new legislative term. ●