

# Ecb calculations



They were very upset about the fact here rains up.

Note: The shares at constant exchange rates are reported at Q4 2009 exchange rates. The same can also be said in relation to the international loan markets. Here too the dollar is strongly favored. As of 2009 only 20.3% of cross-border loans from banks to non-financial firms and households were denominated in euro. In the case of the dollar, the share was close to 54%.

International Asset Management: in this section De la Dehesa (2009) provides very interesting 2006 data on the currency composition of managed investment funds worldwide.

Here the share of the euro accounts for only 0.7% of total assets owned by investment funds allocated in the US and Canada and for 27.8% for those in Western European non-EZ countries (the UK, Denmark, Sweden, Switzerland, Norway, Monaco and Lichtenstein). In contrast, the dollar's share totals 97.1% in the former and 14.4% in the latter. The euro has achieved some gains since 1999 (the numbers were 0.2% and 26.8%, respectively), but these are still minor. Average euro shares in investment portfolios in Central and Eastern Europe are around 50%.

However, in other parts of the world, the dollar is clearly dominant. In Japan, the dollar's portfolio share is 44% compared with 20% for the euro, while in the rest of Asia, Latin America and Russia the dollar accounts for 80%, 95% and 92%, respectively, with only 4% for the euro. Nonetheless, De la Dehesa suggests that diversification into the euro is rapidly increasing in these emerging markets. In cross-border deposit markets, the euro is also well behind the dollar.

In 2009 the euro share was 22%, while that of dollars was almost at the 60% mark (ECB, 2010, p. 21-22). As an example, De la Dehesa (2009) indicates that in 2008 the euro's share of deposits held by OPEC countries (Organization of Petroleum Exporting Countries) was 18%, compared with the dollar's 77% share.

Foreign Exchange Markets: in the foreign exchange markets, where the euro and the dollar compete for international vehicle currency in the function of a medium of exchange, the euro's share has not gained much ground either.

The latest Triennial BIS (Bank of International Settlements) Survey on foreign exchange turnover released in December 2010 shows how in 2004 the shares were 88% for the dollar and 37.4% for the euro, while now they are 84.9% and 39.1% out of 200%, respectively (BIS, 2010, see Figure 3).

Where the euro beats the dollar is in over-the-counter (OTC) interest rate derivatives. Here the share of the euro is 39% out of 100%, while the dollar accounts for only 34%, in 2009.

Where the European currency has made more inroads into its competition with the dollar is in the invoicing and settlement of international trade, a predictable evolution considering the trade might of the EZ. In its latest report, the ECB writes that 'since the launch of the single currency in 1999, the prominence of trade conducted in euro has increased steadily'. On this same issue, De la Dehesa (2009) states that the euro's average invoice share for global merchandise trade has increased from 18.2% in 2001 to 28.9% in 2007.

EZ companies seem increasingly able 'to impose their domestic currency both on their trading partners in the EU and on non-EU countries, pointing towards non-negligible producer currency pricing power'. Yet the ECB report also acknowledges that this power diminishes as the geographical distance from the EZ increases. ECB figures released in 2008 by the European Commission (2008) show that only 5.3% of EZ trade with Asian countries such as Indonesia, Japan and South Korea is invoiced in euro, versus 80.1% in dollars. Nevertheless, it is important to highlight that these figures are mostly estimates.

It is useful to finish this section with the Russian central bank's move to diversify out of dollars and into euro because it clearly shows what this quantitative overview can and cannot tell about the euro's challenge to the dollar. Where the amount of data is representative, the challenge is easily measurable. The figures show that while the euro has increased its share in debt-issuance, investment management and foreign exchange (FX) activity to around 30% on average, the dollar is still clearly dominant in roughly two-thirds of activity.

Because of the lack of reliable data, the evidence is not as clear cut in the invoice of international trade.

## **The Euro Versus Dollar Debate in International Political Economy**

The Economics literature agrees broadly on four main facilitating factors to achieve international currency status: large economic size, broad and deep financial markets, confidence in the currency's value and network

externalities. Taking an IPE approach that engages with this same framework, Helleiner (2008) reduces these economic factors to three: confidence, liquidity and transactional networks.