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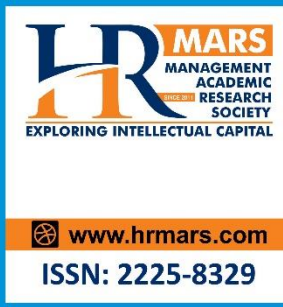
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## Place of the Euro and the European Monetary System on the International Scene

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### Abstract

All national authorities always world economic powers battled for holding world supremacy in the markets. Main tool which focuses all their attention is the currency, whether national or regional basis. It wants such as this to be one international currency given the advantages arising from this Statute. In this battle at present two major actors are involved, namely the US dollar and euro. The present work is intended as a brief overview of this struggle to highlight the role of the euro on the international scene.

**Keywords:** International Currency, Euro, International Role, American Dollar

### Introduction

Since the advent of the first coins as central element for the conversion of their trade flows, issuers have struggled to make its own currency to hold supremacy. In current times this supremacy is owned by the American currency, dollar, and the second international currency, the euro is accepted in recent times, despite the turmoil by passing, seems to gain ground in front of it. However, the big challenge is to reach first place as the international currency, but to remain there.

In order to highlight the place and the role that owns the single currency and by implication the European Monetary System on the international scene in my view is that we should start with a brief overview of what involves the status of international currency.

### Role of Euro as International Currency

I began by choosing a definition of what it is the concept of international currency, which to me seemed very convincing in this regard, namely the date by Hartmann and Issing in their opera since 2002 (*Hartman and Issing, 2002*). By that definition it is said that an international currency is a currency which is used both by residents of the issuing country or region, but also by non-residents. It also noted that international role depends on the weight of a coin with which it is used by non-resident States to weights of the other currencies used by them. Moreover, the increasing trends of

exchange rates and interest rates expressed in the currency being analyzed to determine trends of increasing the same indicators expressed in other currencies.

In order for a currency to fulfill this role by international currency it must meet three important functions to find its usefulness both in public sector activities and those of the private sector, of course taking into account specific to each of the sectors characteristics, so these functions we have played briefly in the figure 1.

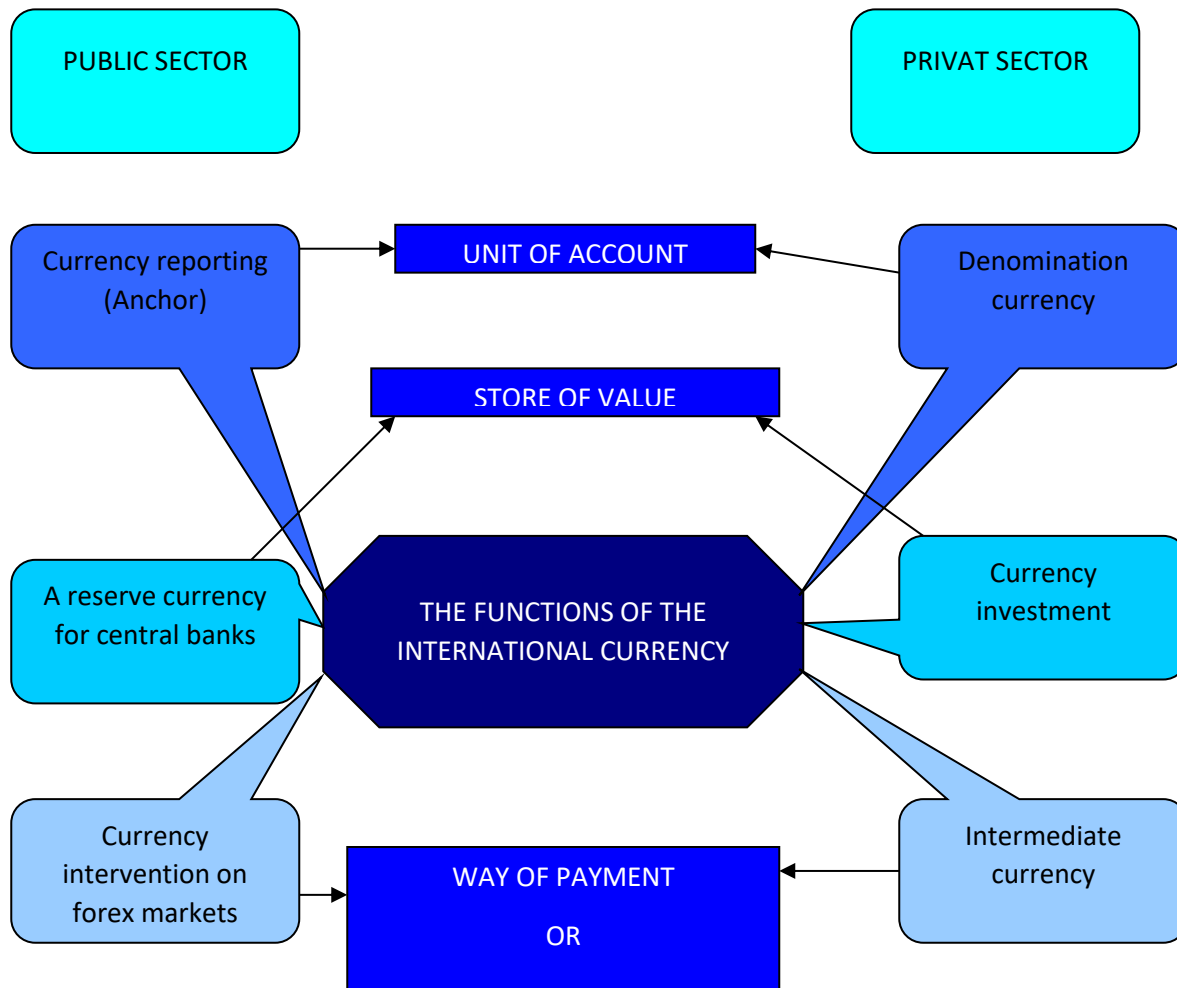


Figure 1. The functions of the international currency

As shown in the figure above, as the unit of account in the official (governmental) and the euro is used as a reference currency (anchor), while in the private environment is used as the denomination currency. As the unit of account, international currency is used in the pricing of goods, but also to the issuance of bonds or the definition of a bank loan. What makes it different from the means of payment is that the prices could be established in a particular currency while payments are set in a different currency. National authorities shall use the international currency as the currency reporting when he lashed it its own currency.

As store of value, the international currency is used both by the public sector and private sector to maintain the value of savings. The motivation of the private sector to private investors desiring starts to find that zero-sum game between the diversity of costs and risks. On the other hand,

the motivation of the public sector to use international currency as the store of value, namely a reserve currency, will vary based on the exchange-rate regime. May resemble private holders' optimization, or may be committed to the exchange rate management.

The third function of a coin, one for international payments, highlights that it can be used by residents in trade and capital flows. Private residents use this currency as an intermediate value in transactions between two small coins. But the monetary authorities and using international currency as a way of payment where necessary intervene on the foreign exchange market.

But all six functions of an international currencies are not entirely separate, but there are certain synergies between them shown in the figure below, and then debated the channels by which they have held these synergies (figure 2).

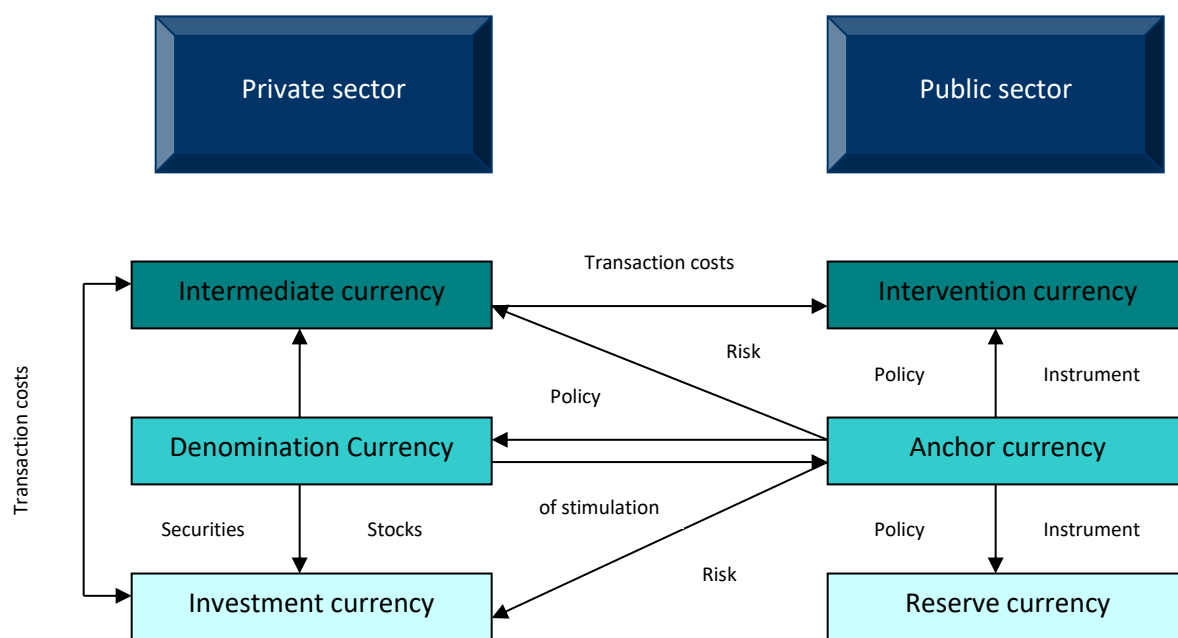


Figure 2. The functions and synergic channels of the international currency

**The transaction costs.** Given the fact that the market for an international currency intermediation is both broad and deep, transaction costs are low so that the monetary authorities prefer to use the same currency for their own interventions while private holders shall maintain assets denominated in that currency.

**Safe stocks.** Function of denomination determines the existence of certain highly safety case, which gives the opportunity to grow both as a store of value and as a way of payment.

**Incentive policy.** Refers to the fact that national monetary authorities will boost its Anchorage International coin currency, where a large proportion of trade flows and the capital are denominated in that currency. This is used to protect the national currency of any adverse effects of exchange rate fluctuations.

**Instrument of policy.** When an international currency is used as the anchor is necessary to maintain the official reserves and to intervene on the domestic currency to protect this reporting.

**The risk.** The incentives used for revaluation of capital and trade flows in a specific international currency, as well as maintaining assets in that currency or for the deposit value or for the Agency

increase if the currency is also used as the reference currency. This is because the risk of exchange rate variations is low which makes the hedge operations to be either unnecessary or less expensive.

After I saw above what are functions of an international currency briefly I resume which are the most important factors are asking the footprint on the role of such coins (*Kblitsetskhilashvili, 2006*).

The first of these is represented by *size, liquidity and the opening of national financial markets*. Large and liquid financial markets attract foreign agents because it indicates some low trading costs. It is necessary to have a financial market with lots of liquid toolbar that make it possible to manage currency and interest rate.

The second factor is the *stability of and confidence in the future stability* of the international currencies.

The last factor that I wanted to mention is the *size, strength and the existence of international relations* of the national economy. When a country or a region plays an important role in the economy of the world its currency may be reused in other transactions by foreign agents and they will accept easily.

To all international factors mentioned before may add the tradition of that coin, but also the legacy which he acquired from predecessors.

The problem is, however, that would be the benefits and risks which would result from the role of international currency. I will outline below these benefits and risks (figure 3), they will be subject to several studies over the years (*Eijffinger and De Haan, 2000*).

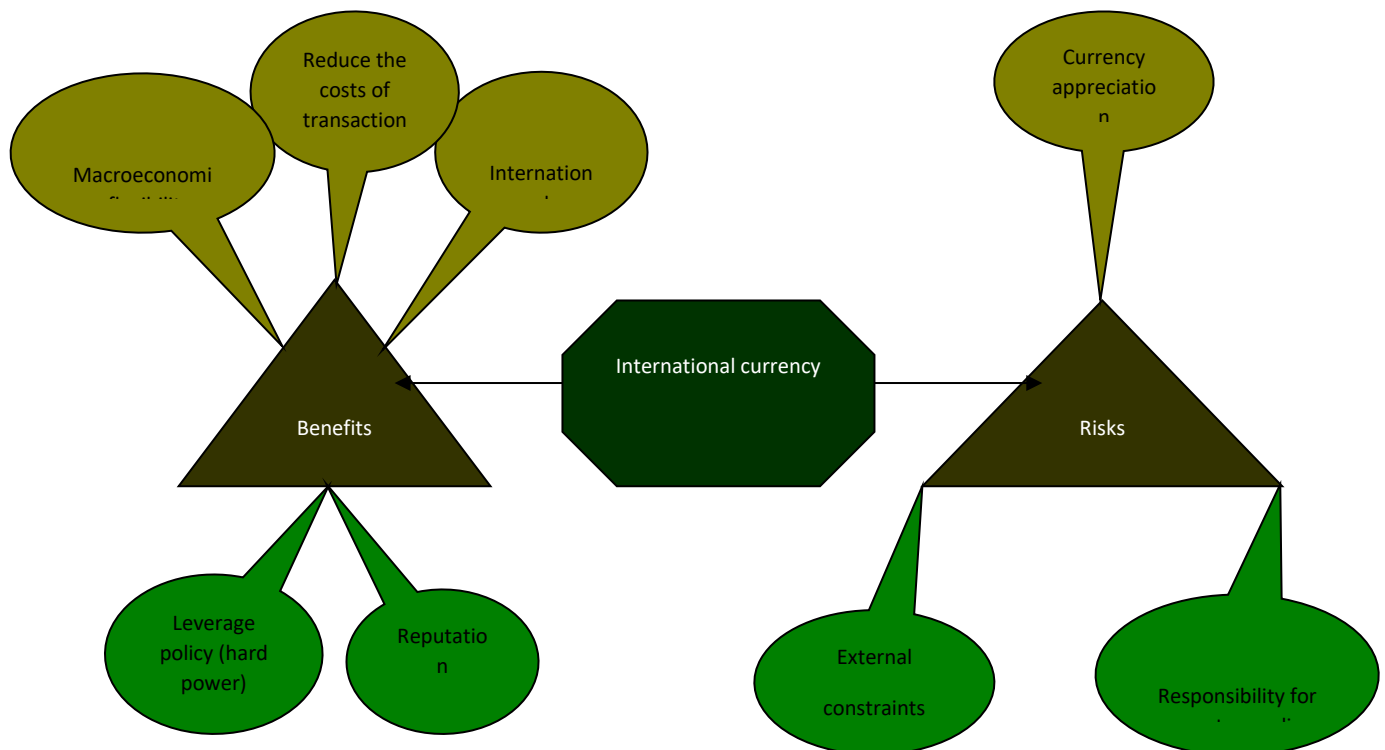


Figure 3. Benefits and risks of the of the role played by an international currency

As I noted at the outset, the second international world currency is the euro, even if it is going through a period not to precisely fit for her evolution. Weighting instruments denominated in the

single currency has shown considerable stability in most market segments throughout the year 2010. It was noted, however, a slight depreciation of the currencies against the dollar in the first half of 2010 (table 1), but also a comeback in the second half of the year concerned.

Table 1. Indicators of the international role of the Euro

Indicators	Share of Euro (%)	
	2010	2009
Inventory of global currency reserves	26,3	26
International titles (globally)	26,7	27,2
Daily foreign exchange market turnover	19,5	18,5
Cross-border credit	19,1	18,6
Cross-border deposits	21,6	20,4
Exports outside the Euro area	68	67,4
Imports from non-Euro area	53,5	48,6
Foreign holdings of euro area debt denominated in euro	18	17

In the above table shows that the Euro area has held over the past two years nearly constant weight in the global stock of international reserves (with a slight increase in 2010) of approximately 26%. Of the total international securities traded globally in 2010, a rate of 26.7% has been in the single currency, they know a slight decrease of 0.5% compared to 2009. As regards the situation of bank accounts in the year 2010, cross-border loans in the euro had a rate of 19.1% to 0.5% more than in 2009.

Overall it is observed that the single currency, the euro, yet retains its status as a second international currency with regional vocation, the US dollar remains at its condition of first international currency, backed by the crowd condition in financial markets and large liquid he owns. Being considered an international currency, Euro currency function performs default reference as follows (table 2):

Table 2. Countries with Exchange rate relative to the Euro

Region	Exchange rate regime	Countries
EU (non-Euro Area)	ERMII Independent floating	Denmark, Latvia, Lithuania, Romania, Bulgaria, Czech Republic United Kingdom, Hungary, Poland, Sweden
EU candidate countries and potential candidate	The unilateral passage to the Euro Floating with the Euro as the reference	Kosovo, Montenegro, Bosnia and Herzegovina Croatia, The Former Yugoslavia Republic, The Republic Of Macedonia
Others	Unilateral using of Euro Reference based on the Euro  Exchange rates are based on the SDR basket includes Euro (percentage of Euros)	The European microstates, the French territorial communities Economic and Monetary Union of West African economic and Monetary Community of Central African, French Polynesia, New Caledonia, Wallis and Futuna Islands, Cape Verde, Comoros, Sao Tome e Principe Algeria, Belarus, Botswana, Fiji, Iran, Kuwait, Libya, Morocco (80%), Russian Federation (45%), Samoa, Singapore, Syria, Tunisia, Vanuatu

Note that except for those countries participating in the Exchange Rate Mechanism II, the decision whether to use the euro as a currency anchor is an opportunity for unilateral and does not imply any commitment by the European Central Bank. In opposition, the dollar continues to be widely used as the reference currency in Central and South America, and Asia.

International money market is a key element, namely the Recycle currencies SDR (special drawing rights). It was created by the International Monetary Fund in 1967, to be an alternative to the US dollar and gold. Since 1999 its membership is made up of four currencies: US dollar, Euro, Japanese yen and British pound. Every 5 years, the International Monetary Fund calculates the weighting of those currencies in SDR based on two criteria of calculation (table 3): the value of exports of each economy over a period of 5 years with one year before calculating the value of holdings of stocks denominated in those currencies at the end of each year of the period of 5 years (figure 4).

Table 3. Weight currencies in SDR basket (%)

Currencies	2010	2005	Change
American Dollar (USD)	41,9	44	-2.1
Euro (EUR)	37,4	34	+3.4
Pound sterling (GBP)	11,3	11	+0.3
Japanese Yen (JPY)	9,4	11	-1.6

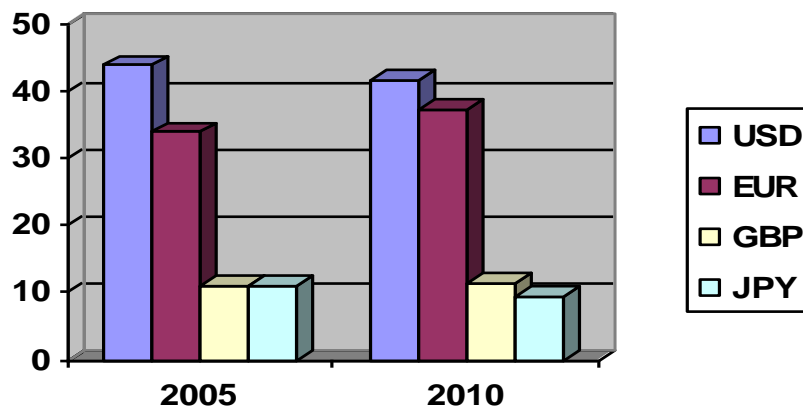


Figure 4. Evolution of weight currencies in 2005 and 2010

It is observed that the euro has gained ground, from a percentage of 34% in 2005, at 37.4% growth in 2010 (+ 3.4%) in front of the USD dollar which has known a trend down from 44% in 2005, 41.9% in 2010 (-2.1%) and Japanese Yen fell by 1.6 per cent i.e. from 11% in 2005 to 9.4% in 2010 Sterling, knowing some stability by increasing in 2010 only by 0.3% compared to the percentage of 11% in 2005.

### Conclusions

Analyzing all the above facts we can conclude that in spite of the crisis through which the global economy, the top international currencies at the moment unchanged, remain euro on the runners-up. Note however, that this coin continued to earn a percentage in the face of US currency, in terms of share in international trade. So far, the world is reported to the three major currencies as we have seen the US dollar, Euro and Pound Sterling.

But the problem is even more acute if the currency to withstand the current crisis through which the Euro area, especially that there are quite a few States which have started to do calculations on the cost of removal from that area. But this will be subject to a future article.

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