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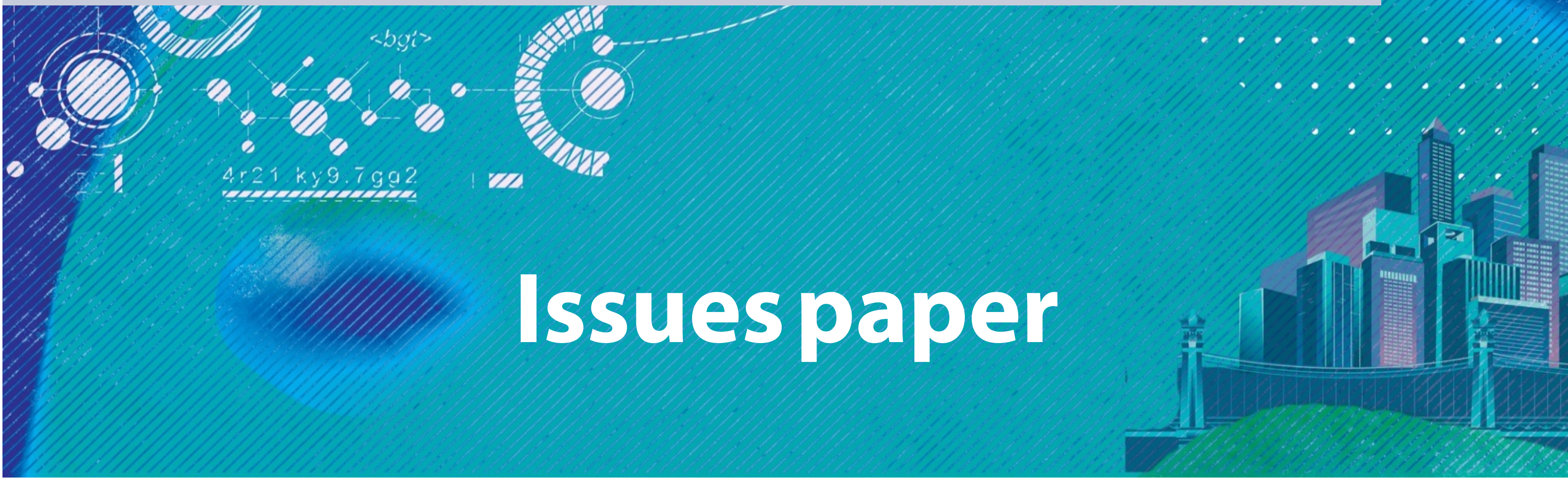


THE EURO: A LEVER FOR GLOBAL INFLUENCE?

Executive Summary

The US dollar has held the unrivalled position of the world's dominant currency since the Second World War. Although the euro has established itself as the second most important currency in the international monetary system, it lags way behind the USD, and does not reflect the dominant position of the EU in global markets. Although the role of the renminbi is even less developed, China is working hard to change that. A possible game-changer, which could lead to more currency diversification, is the rapid development of private and public digital currencies. On this, China is in the vanguard.

Why is the euro not more widely used? The main reason is that the economic and monetary union remains incomplete. The unfinished banking union, patchy progress towards a capital markets union and the absence of a central fiscal capacity all make it difficult for the euro to challenge the USD. Other factors include the limited supply of high-quality euro-denominated assets, and the fragmentation of the EU and euro area's voice in international financial institutions.

In recent years EU leaders have on several occasions called for a strengthening of the international role of the euro. It has also been pushed by the Commission and supported by the ECB. But the overall objective has remained rather general, with little consideration of why (economic and/or political reasons?) and even less to the how (what policy implications might this entail?).

The EU already derives significant ***economic benefits*** *from having a single currency and from its importance globally (albeit well behind the USD). These would be further enhanced as a result of a stronger international role for the euro. The global economy is also likely to benefit from having a more diversified global currency landscape. But the* ***political benefits*** *are increasingly seen to be driving the debate. Faced with a weaponisation of the USD and threats of secondary sanctions, the euro's role is as much about foreign policy as it is about economics. The monetary autonomy that goes with having an international currency can act as a buffer against external political or military pressure. A stronger role for the euro would provide the EU with a political lever which could help reduce its dependency on third countries.*

But there are ***economic costs*** *too. The EU is likely to face cheaper imports and costlier exports, which would challenge the competitiveness of euro area exporters and the current macroeconomic policy of several euro area economies. There could also be* ***political costs****. There may be concerns and push-back internationally about the EU's motives, and internally the fears of economic insecurity as a result of the effects of globalisation as well as concerns at more limited space for economic policy-setting at national level could give rise to popular frustration.*

If the EU is serious, ***how should it go about strengthening the euro?*** *It is clear that it will require reform of how the euro functions, including the creation of a central fiscal capacity, and a significant supply of safe assets. Global partners will need to be persuaded to use euro-denominated transactions in specific sectors. And there will have to be a concerted effort to exploit the digital and green transitions to promote the euro. But all this has to go hand in hand with a more effective EU foreign policy. That will play a key role in supporting economic sovereignty and at the same time in enhancing the euro's attractiveness globally.*

Work on many of these measures is underway, and some important recent developments, such as the ground-breaking agreement on Next Generation EU (NGEU) will help reshape the global role of the euro. But some Member States have been clear that they see NGEU as a one-off measure. The banking union and capital markets union are far from complete, and a proposal to create a single euro area chair in the IMF has never gained much traction. At the current pace of progress, the collective measures needed to make the euro a dominant currency internationally are unlikely to make a difference for a very long time.

A discussion on strengthening the international role of the euro cannot be merely an economic one. The connection between the international use of the euro and the reach of the European economy is not the key issue here. It is the changing global context, and the broader geopolitical benefits (as well as an honest appraisal of the costs) of a stronger international role for the euro that will determine both the future direction and the outcome of this issue. Foreign policy and geopolitical aspects must therefore find their place in this debate, and broad statements of commitment to strengthening the international role of the euro will only be credible if they are accompanied by a genuine willingness to take the necessary steps to get there.

This paper examines the international role of the euro. After looking at the wider context and the reasons why the euro falls so far behind the US dollar, it analyses the benefits and costs of a stronger international role for the euro, considers how this could be achieved, and looks at how to build on what is being done already.

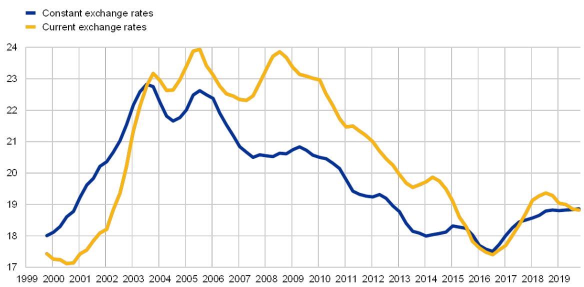
Against the background of a global trend towards currency diversification, and prompted by a number of policy initiatives already underway at European level, the role of the euro can be expected to expand gradually. However, given the EU's point of departure, and the continuing dominance of the USD, it is very unlikely that the euro could become a global currency in the same way as the USD in the foreseeable future. Moreover, for the euro even to begin to challenge the role of the USD, a number of preconditions need to be met. These include a more complete banking union and capital markets union, and a budget with a permanent and significant borrowing capacity. At the same time, the global currency landscape is in flux. For example, while the international role of the renminbi at present is very limited, it cannot be excluded that this will change. And equally or perhaps even more importantly, the development of public and private digital currencies will have a major impact on the international monetary system.

As a policy objective, strengthening the euro looks interesting as much - if not more - for political than economic objectives. The euro already enjoys many of the economic benefits of a strong currency. Becoming a globally dominant currency would certainly bring some additional advantages, but it is not clear, given that this would be a long-term goal, whether there is a willingness to invest enough political capital to reach that goal. If the conclusion is rather that the international role of the euro should be strengthened first and foremost to serve specific (geo)political interests of the union, the process of identifying and implementing the measures needed may well be easier.

There is no single definition of currency use, and different measures (for example: medium of exchange, unit of account, store of value) give rise to different mixes of costs and benefits. To quote Benjamin Cohen: `Policy makers should not feel that it is a matter of all or nothing. Strategy can be selective, focusing on just those roles that appear to be most consistent with the issuer's interests and preferences'[1].

The euro was created to respond to the EU's internal needs, in particular to help complete the Single Market by reducing exchange rate risks and the corresponding costs for SMEs. Challenging the dominance of the US dollar (USD) was not the *raison d'être* for a single European currency, although, as Eichengreen *et al.* recall, some European leaders (including French President Mitterand) considered that to be a welcome potential side-effect.[2] And, in many ways, it is a success story[3]. When it was created in 1999, the euro immediately became the second-most important international currency after the USD. According to the results of the latest Eurobarometer survey on the euro area (November 2019) [4], 76% of respondents think the single currency is good for the EU. This is the highest level of support since the introduction of euro coins and banknotes in 2002, and a 2-percentage point increase since the record levels of 2018. Similarly, a majority of 65% of citizens across the euro area think that the euro is beneficial for their own country: this is also the highest number ever measured. In fact, **throughout its existence, the euro has had the support of a large majority of euro area citizens - before, during and after the euro crisis**.

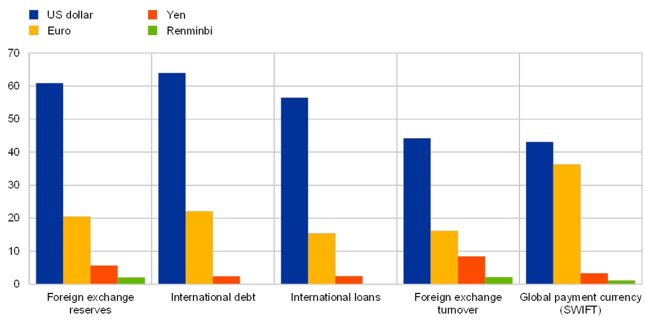
The international use of the euro, however, does not mirror this positive trend. To assess the overall international role of the euro, the ECB uses a composite index[5], which shows that, on balance, the development of the euro's international role has remained largely unchanged since 2019. The share of the euro across a range of indicators of international use averaged around 19% - close to historical lows. The euro has remained unchallenged as the second most important currency in the international monetary system, but has stayed well behind the USD. As shown by Ilzetzki, Reinhart and Rogoff, against some criteria, **the euro does not play a larger role than the Deutsche Mark and French Franc that it replaced**.[6]



Composite index of the international role of the euro (percentages)[7]

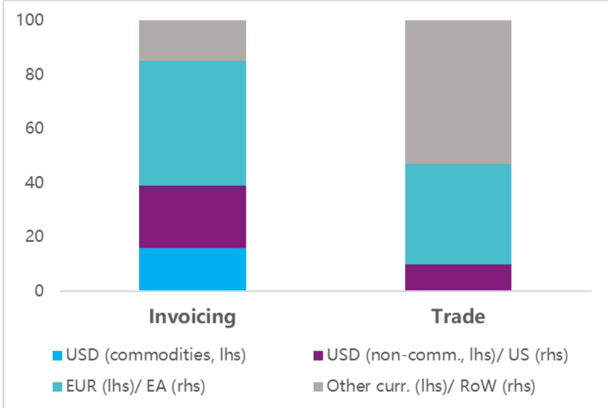
GLOBAL CURRENCIES: THE WORLD STAGE

The US dollar has remained unchallenged as the world's dominant currency since the Second World War. The 1944 Bretton Woods agreement established its status as the global international reserve currency, which it has maintained ever since, even though its value declined when it was decoupled from the gold standard in 1971. In fact, the network effects of being the world's standard make it even more attractive. The USD is not only the global international reserve currency, but also the standard currency of commodities trades and the predominant currency for derivative operations. A snapshot of the international monetary system below shows the unparalleled dominance of the USD at a glance.



2019 Snapshot of the international monetary system (percentages)[8]

In terms of its share in foreign exchange reserves, in the foreign exchange market as well as outstanding international debt securities, the USD has no equal. The euro comes in second for most of the variables that are used for measuring international currencies, but it lags far behind. The fact that the USD has been the world's standard for decades puts it at an extraordinary advantage over other currencies, hampering the emergence of alternative reserve currencies to date. In the foreign exchange market, all of the most liquid currency pairs involve the USD, and foreign exchange trades involving the euro and other currencies generally involve the USD at an intermediate stage. With respect to outstanding international debt securities, it is worth noting that, in 2019, more than half of global green bond issuance was concentrated in the EU and almost half of global green bond issuance was denominated in euro.[9]



Shares of global trade and invoicing currency; even without commodity exports, the USD share of invoicing (23%) exceeds the share of exports destined for the US (10%)[10]

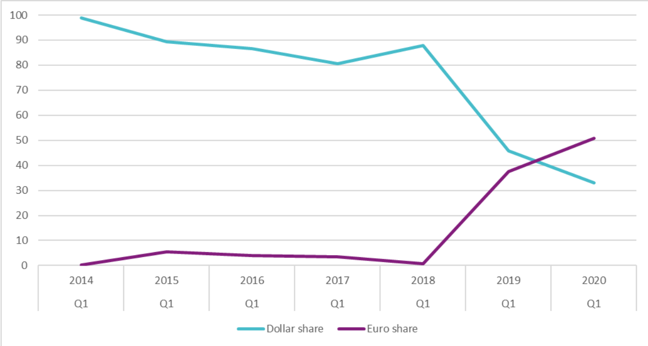
In terms of its use in international trade, too, the euro lags behind the dollar. An IMF data set of trade invoicing currency patterns from 1990 to 2019 shows that the USD maintains a globally dominant role in global trade (far exceeding the proportion of the US in actual global trade) and highlights `considerable inertia in global trade invoicing patterns'[11]. Both the USD and the euro have seen an increase in their use, even as the US and euro area's share of global trade has declined - for the euro, though, its share in global export invoicing (46%) is not much bigger than the share of exports destined for euro area countries (37%).[12] It is worth noting that several African countries use the euro as a vehicle currency[13], which according to the IMF indicates that `even though the US dollar is the globally dominant currency in trade invoicing, the euro may be regarded as a regionally dominant currency in Europe and some parts of Africa'.[14] But European businesses still trade in USD in key strategic markets (energy, commodities, transport), even between themselves. For example, Member States pay 80% of their energy import bills in USD, even though only 2% of their energy comes from the US.

The **role of the renminbi** in the international financial system is currently much less developed than that of the euro, although the situation is slowly starting to change. The use of the renminbi as a currency for international transactions has increased, particularly in China's immediate neighbourhood.[15] In 2016, it joined the USD, euro, yen and sterling in the IMF's Special Drawing Rights (SDR) basket[16], which constituted a significant milestone. Currencies included in the SDR basket have to meet two criteria: the export criterion (its issuer must be an IMF member or a monetary union that includes IMF members, and also be one of the top five world exporters) and the freely usable criterion (it must be widely used to make payments for international transactions and widely traded in the principal exchange markets). The IMF's determination that the renminbi is freely usable reflects China's expanding role in global trade[17] and the substantial increase in the international use and trading of the renminbi.[18]

At the November 2008 G20 Summit, Chinese President Hu Jintao launched the internationalisation of the renminbi, calling for `a new international financial order that is fair, just, inclusive, and orderly'[19]. **Beijing has in recent years stepped up efforts to strengthen the use of its currency**, for example by establishing the petroyuan, a system for oil trading using the renminbi, and by setting up currency swap agreements with 33 countries between 2009 and 2020.[20] It also encourages the use of its currency as part of its Belt and Road Initiative, and there is increased use of the renminbi in Africa. The value of the renminbi has prompted a heated debate between China and the US, with the US officially branding China a currency manipulator in August 2019.[21]

Nonetheless, as shown above, the renminbi does not come close to matching the importance of the USD or even the euro globally. One of the major barriers to further internationalisation of the renminbi is China's strict controls over capital account transactions.[22] However it is possible that the situation might change in the years to come. The renminbi's share of foreign exchange reserves has gradually increased, and in September 2020 Morgan and Stanley analysts predicted that it could surpass the yen and the pound to become the third largest reserve currency by 2030 with a share of 10% of foreign exchange reserves.[23] The Chinese e-renminbi that is being developed (see below) could also give the currency a stimulus internationally.

Russia too aims to bolster its currency in the hope of improving its stance against the USD. It has, for example, tried to set up an electronic payments system to rival Visa and Mastercard and to strengthen its own financial system. Because of the weakness of the Russian rouble, these initiatives have generated little commercial interest.[24] But Russia and China have managed to reduce the use of the USD in their trade with each other - to the benefit of the euro. China now pays for more than 50% of goods from Russia in euros. It is likely that the decision in 2019 by Russian oil giant Rosneft PJSC to transfer all export contracts into euros contributed to this trend.[25]



China now pays for more Russian exports in euros than US dollars[26]

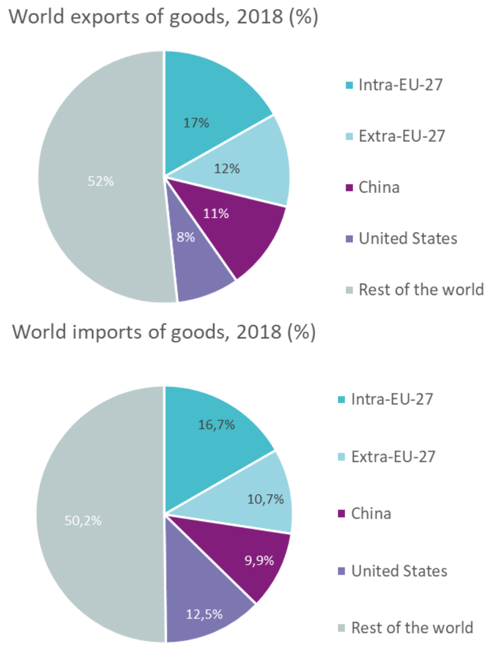
Despite having been dubbed `everything you don't understand about money combined with everything you don't understand about computers'[27], the fast-developing territory of digital currencies cannot be ignored when assessing the relative clout of different actors in the international monetary system. In recent discussions on the international role of the euro, the ECB has stated that the digital euro will not be a game-changer, though a cooperative approach to interoperable designs of Central Bank Digital Currencies (CBDCs) across currencies could contribute to strengthening the euro's role and improving cross-currency payments.[28] **Recent IMF research suggests that CBDCs, while not qualitatively changing the economic forces that lead to the international use of currencies, could quantitatively reinforce the incentives behind currency substitution and currency internationalisation**.[29]

Digital currencies have clear advantages - financial inclusion, lower transaction costs, in particular for cross-border payments -, but they also carry risks.[30] While these obviously need to be addressed, it is clear that **Europe cannot afford to fall behind developments in this field**. The ECB recently conducted a public consultation on the issue of a digital euro and is likely to decide by mid-2021 on the launch of a project to identify a viable model. Despite this move, Europe is falling behind compared to Eastern Asia, where not only China but also Japan, South Korea, Thailand, Cambodia and Singapore have tested or phased in digital currencies in the second half of 2020. In terms of CBDCs, China is a frontrunner with advanced plans to develop a digital yuan., while Beijing has already run pilot projects with its CBDC. Even though it is still too early to assess whether a digital yuan would face the same barriers as its non-digital equivalent in expanding internationally (in particular, the country's capital controls), the fact that China is in the vanguard in the development of a CBDC is likely to give it an advantage in the longer-term.

When it comes to private digital currencies - including `stablecoins'[31]-, the entry of non-traditional participants into finance - in particular big techs - has demonstrated a capacity to leverage existing size and scale very rapidly to achieve a dominant position in market segments or financial infrastructures.[32] The US tech industry is leading, as the example of Facebook's Libra (recently rebranded Diem) shows. In addition, Amazon is known to be preparing to launch its own digital currency, and the San Francisco-based cryptocurrency exchange Coinbase recently filed with US regulators to go public, a move that cryptocurrency advocates hope will contribute to the sector's legitimacy in the eyes of the regulators and the public.[33] In October 2019, President Xi Jinping called blockchain a `core technology' requiring China-led innovation, and called for more support and investment.[34] In terms of blockchain patent applications, Chinese firms led the global rankings in 2020, indicating that China's ambitions in the area of private virtual currencies should not be overlooked. Asia is the world's largest digital payments market, with China accounting for almost half of worldwide transaction value. Measured by traffic, liquidity and trading volume, half of the world's top ten crypto exchanges are in Asia.

WHY IS THE EURO LAGGING BEHIND?

The narrative, often heard these days, that **the euro is `punching below its weight**' is a consequence of **the contrast between the relatively limited international use of the euro on one hand and the dominant position of the EU in global markets on the other (**the European, US and Chinese economies are comparable in terms of size[35]; the EU is the world's largest trading block; it ranks first in inbound and outbound international investments; and it is the top trading partner for 80 countries - compared with a little over 20 for the US). But while in its early years, the international role of the euro grew, the gap in international use as compared with the USD began widening again with the outbreak of the 2009 euro area sovereign debt crisis.[36] For the peak of the international use of the euro we have to go back as far as 2007, when it was above current levels.[37]



The EU is the world's largest trading block[38]

Why is the euro such a distant runner-up to the USD in terms of international use? Economic and financial reasons for the euro's underdeveloped international role include, first of all, an incomplete underlying architecture. Despite progress on the European Stability Mechanism and the Banking Union, the ECB's Outright Monetary Transactions and its commitment, in July 2012, to do `whatever it takes' to preserve the euro, **economic and monetary union is still work in progress in that it lacks a more complete banking union, capital markets union and a central fiscal capacity**. As IMF European Director Poul Thomsen puts it: `Obviously, there is no strong central state for the euro area as whole. It is an economic and monetary union, but it is not a *political union*. I want to emphasize this, because this is of course the defining feature of the euro area - the feature that makes this area fundamentally different from other major currency areas, which all are political unions with a strong center. This […] - **the fact that it is not a political union - is clearly the limiting feature when it comes to the ability of the euro to present a serious challenge to the dollar**'.[39]

Apart from that specific characteristic of the euro, and generally lower transaction costs for USD transactions, it is also not helped by the fact that some of the most relevant global financial market infrastructures focus on non-euro currencies or are located outside the euro area - while it should be noted that Brexit will seriously impact the role of the city of London, as already seen in the first weeks of 2021.[40] Another key reason often given for the limited appeal of the euro is the scarcity of high-quality euro-denominated assets, and the general lack of liquidity compared to dollar debt markets.

Other reasons include the EU's more limited geopolitical reach as compared to the US, its secondary role in technology research (behind the US and China), and the fragmented voice of the EU and the euro area in international financial institutions and fora, such as the G7, G20, FSB, OECD, World Bank, AIIB. In the IMF, for example, Germany and France have their own seats but most countries are grouped in constituencies representing between 4 and 24 countries; the euro area Member States are spread over six constituencies, the EU over seven. The ECB has an observer status on the IMF Executive Board, where day-to-day decisions are taken, including on the allocation of funds to states requesting IMF support. In the World Bank, the EU's representation is equally fraught. Despite it being a major development assistance donor and World bank trust funds contributor, the EU has no formal status in the World Bank. While France and Germany are among the World Bank's largest members and therefore appoint their own Executive Director, the other Member States are spread across seven constituencies (four of which are currently led by an Executive Director from an EU Member State)[41]. Henry Kissinger's legendary remark `Who do I call if I want to call Europe?' looks rather pertinent in the context of the euro area's external representation.

The limited international use of the euro, combined with the fact that the EU is still reliant on the USD in many ways, entails both currency risks and political risks, which is why there have been various calls in recent years to strengthen the international use of the euro.

STRENGTHENING THE INTERNATIONAL ROLE OF THE EURO AS A POLICY OBJECTIVE

In the wake of the financial and sovereign debt crises a range of actions were taken to deepen economic and monetary union. But strengthening the international role of the euro was never an explicit goal. This has changed in recent years. In a statement following a Euro Summit meeting on 14 December 2018 EU leaders took note of the communication of the Commission of 5 December 2018 on a stronger international role of the euro and encouraged work to be taken forward to this end. A year later, on 13 December 2019, the Euro Summit agreed on a number of actions to be taken in order to deepen the economic and monetary union, noting that `progress in these areas will also enhance the international role of the euro, which should be commensurate with the global economic and financial weight of the Union'. At the Euro Summit of 11 December 2020, euro area leaders called for progress on the capital markets union and the creation of deep and liquid markets, which `also form a cornerstone for a stronger international role of the euro, which should be commensurate with the global economic and financial weight of the Union', without however specifying what the latter means and why it should be an objective. In general, although leaders have in recent years regularly recalled their commitment to strengthening the international role of the euro, **the objective has not been considered in detail, nor has there been any attempt to determine the policy implications that it might entail.**

The international role of the euro as a policy objective has been the subject of increasing interest from the European Commission and, more recently, a more positive reaction from the ECB.

In his 2018 State of the European Union speech, Jean-Claude Juncker raised the issue for the first time, saying that `we must do more to allow our single currency to play its full role on the international scene'.[42] Later that year the Commission adopted the communication mentioned above entitled `Towards a stronger international role of the euro', which advocated making the role of the euro more commensurate with the euro area's political, economic and financial weight.[43] Apart from a recommendation to promote wider use of the euro in international energy agreements and transactions, and a number of public consultations, there has been little concrete follow-up. The project also featured in Ursula von der Leyen's Political guidelines, and on 19 January 2021, the Commission adopted its Communication `The European economic and financial system: fostering openness, strength and resilience', which considers the issue of a stronger international role for the euro more clearly within the context of `financial sovereignty' and of reducing the EU's dependence on the USD. This fits into the wider EU narrative of pursuing open strategic autonomy in the context of a changed external environment - which in the area of currencies, can be seen through the prism of a US which is increasingly willing to use its currency to project its domestic policies beyond its borders.[44]

For the ECB, a cost-benefit analysis of the internationalisation of the euro led it to adopt a neutral stance. In a speech in 1998, the institution's founding President Wim Duisenberg stated `As regards the approach of the ESCB to [the euro becoming an international currency], I should state quite categorically that its overriding objective is price stability for the euro area as a whole; there are no plans whatsoever to stimulate the use of the euro as an international currency, to use the euro as an instrument of foreign policy, or to rival the US dollar'.[45] Since that first assessment, however, the geopolitical, institutional and economic context has had an impact on the original balance of costs and benefits. In a speech in February 2019, ECB board member Benoît Cœuré stated that it was imperative that Europe raise the `global standing' of the euro, and use the currency as `a tool to project global influence'.[46] Strengthening the euro's international role now features regularly in ECB communications. Whilst the ECB itself is not taking concrete measures to promote the euro - which it considers to fall outside its mandate - it supports initiatives such as the deepening of the economic and monetary union.

Interestingly, **the arguments for strengthening the euro seem to have shifted gradually over recent years to embrace a more explicit recognition of the geopolitical context.** Viewed from a geopolitical point of view, the aim is not simply to strengthen the role of the euro, but - equally importantly - to reduce the dominance of the USD. Reducing this imbalance would help minimise the scope for the USD being used to exert unilateral leverage.

The relation between a country's (geo)political power and the international influence of its currency can be explained in terms of a 'political exchange hypothesis'[47]. According to this view, in the international context a fiduciary currency can be accepted only by virtue of 'a political exchange … between a leading country which has an interest in producing trust in the future value of its currency and other countries which attach no importance to the relative gains the issuing country acquires by exploiting the privilege of seigniorage'[48]. In their political and economic calculations, countries must weigh the relative gains acquired by the issuer of an international currency (which modify the international political balance in the issuer's favour) with the absolute gains they derive from the existence of a public good that reduces the transaction costs of exchanges. Absolute gains considerations prevail in particular 'if the privilege of seigniorage is the prerogative of a country whose political-military strength is significantly greater than that of other countries'[49], in which case the importance of relative gains becomes marginal. Conversely, it can be argued that in a multipolar system based on competition and rivalry 'it is unlikely that the currency of a given country will be accepted as an international money'[50]: in this scenario, the more likely outcomes historically have been the adoption of a commodity money as a means of payment, or the creation of monetary blocks based on regional hegemons. The existence of strong security ties can also be expected to reduce the impact of relative gains calculations, improve trust, and therefore facilitate the acceptance of an international fiduciary currency.

THE BENEFITS OF A STRONGER INTERNATIONAL ROLE FOR THE EURO…

In the 1960s, Valéry Giscard d'Estaing coined the term `exorbitant privilege' to describe the benefits the US derived from its own currency being the international reserve currency. As a result, the US would be able to run sustained balance of payments deficits without facing a balance of payments crisis, because it purchased imports in its own currency. Benjamin Cohen notes that `not all domestic residents may benefit from the exorbitant privilege […] but from the point of view of the state as a whole, engaged as a sovereign actor in relation to other states, there seems little doubt that the greater degree of freedom for monetary and fiscal policy may be regarded as a net plus'.[51]

These days the exorbitant privilege of the USD is not as exorbitant as it once was, having been eroded by increased competition from other currencies, including the euro, and by the US's decreasing share of the global economy[52]. Yet the list of potential **economic advantages** of a dominant currency is long. The advantages derive from the three different roles of international money, as described by Cohen: money as a medium of exchange (in foreign exchange trading and trade settlement at private level, and in currency intervention at official level); as a unit of account (for trade invoicing at private level, and as an exchange rate anchor at official level); and as a store of value (by means of investments at private level, and as a reserve currency at official level).[53] While the advantages obviously depend on the extent to which an international currency is used in those different roles, they include[54]:

- seigniorage revenues from the significant holdings of cash abroad (revenue earned from the production of cash);
- greater monetary autonomy and stronger global transmission of monetary policy;
- more reliable access to financing, even in times of instability;
- lower yields for the government from a safety and liquidity premium;
- an aggregate return on foreign assets superior to the cost of foreign liabilities;
- lower transactions costs and foreign exchange risks for citizens and companies[55];
- a competitive advantage for domestic banks which issue international currency and for domestic financial institutions when it comes to euro-denominated overseas loans, trade financing, and foreign currency-bond issuance, which could yield high profits without taking on high foreign exchange risks and costs; and
- a lower dependence on the US-driven global financial cycle.

It should be noted that euro area countries, with the euro being a `Patrician currency'[56] in the words of Cohen, already enjoy many of these benefits, although less than the USD. At the microeconomic level, the advantages for eurozone citizens would be largely indirect. According to Cohen, the lower transaction costs associated with an international currency would boost profits in the banking sector, and non-financial firms in the eurozone would benefit from the possibility of doing business abroad using the euro. [57] While all eurozone residents traveling outside the eurozone would benefit from being able to use their own currency there, at microeconomic level most of the economic advantages benefit the more externally oriented sectors of the economy. [58]

<u>A stronger international role for the euro, and thus a more diversified global currency landscape, would benefit not only Europe, but also the global economy, by contributing to enhanced stability and improved resilience of the international financial system</u>. It would provide additional choice for market operators globally to spread currency risks.

Furthermore, the current dominant role of the USD in international trade means that countries do not always see the benefits when their currency depreciates - which should normally make their goods exports cheaper and thus more competitive.[59] According to IMF research, the dominance of the USD in trade and finance is likely to amplify the impact of COVID-19 for emerging and developing economies.[60]

<u>The view that the global currency diversification which would result from a stronger role for the euro would bring global benefits is not unanimously shared</u>. Adam Posen considered that 'if the dollar is displaced from its global role … it will likely and unfortunately be in favour of global monetary fragmentation induced by failures of US political leadership, rather than by ascension of the euro to a leading role based on purely economic developments'[61]. This assessment would lead to no less than a fragmentation of the global monetary system, which could in turn lead to political fragmentation. But Posen also believes that 'were there just to be bipolarity with the euro, that would be a much happier prospect and at least a smoother transition with fewer implications'[62]. He is however very pessimistic about the prospects of this bipolar scenario.

The potential economic benefits of a stronger role for the euro are clear and well-known. More recently, as reflected in the 19 January 2021 Commission communication, there is a growing emphasis on the potential **(geo)political advantages**. A strong economic foundation is widely seen as a precondition for an independent foreign policy.[63] Regardless of the strategic choices needed to give shape to the concept of strategic autonomy in Europe, a stronger role for the euro internationally would provide a valuable tool in support.[64] At the same time, a strong common foreign and security policy would benefit the international role of the euro (see section *How to boost the Euro's role* below).

In the context of a dominant USD, a more powerful euro would generally help in addressing the power imbalance between Europe and the US - which the latter has not shied away from using to its advantage on several occasions in recent years.[65] <u>The monetary autonomy that comes with an international currency helps provide a buffer against political or military pressures from outside</u>, and the greater the monetary dependence of third countries, the wider the choice of policy instruments, including the possibility of exploiting access to financial and payments systems[66]. Privileged states can use what is called the `chokepoint effect': their capacity to limit or penalise the use of hubs by third parties (e.g. other states or private actors).[67] States that can control hubs - which offer extraordinary benefits in terms of efficiency and are extremely difficult to circumvent - have considerable coercive power, and states or other actors that are denied access to hubs can suffer very substantial consequences.[68] As stated by the Commission in a recent communication: `Strengthening the EU's foreign policy toolbox goes hand in hand with the international role of the euro and a resilient financial sector, as it allows the EU to defend its interests internationally and stand up for its values, using all tools at its disposal'.[69]

Secondary sanctions[70]

In the words of Jack Lew, then US Treasury secretary, secondary sanctions are `generally [directed] towards foreign persons. These measures threaten to cut off foreign individuals or companies from the US financial system if they engage in certain conduct with a sanctioned entity, even if none of that activity touches the United States directly'. Recently, such sanctions have been applied by the US against Iran, Cuba and Crimea. The EU is very vulnerable to this type of sanctions due to the size of US markets and the dominant role of the USD: the US being a crucial trade and financial partner for the EU, virtually all European businesses have direct or indirect exposure to US markets and systems. Even SMEs that may have no direct exposure to the US market still need to use banks that want to retain access to the US dollar, US financial markets, and their US clients.

Even though they have obviously looked for ad-hoc countermeasures to minimise the impact of these sanctions, the EU and its Member States have not been able to significantly shift Washington's stance. More importantly, even if the recently updated Blocking Statute should nullify the extra-territorial application of third countries' measures, in particular secondary sanctions, on EU operators, European companies have not been dissuaded from pre-emptive alignment and over-compliance with US secondary sanctions[71]. This over-compliance also stems from the fact that there is a great lack of clarity around the interpretation of secondary sanctions.

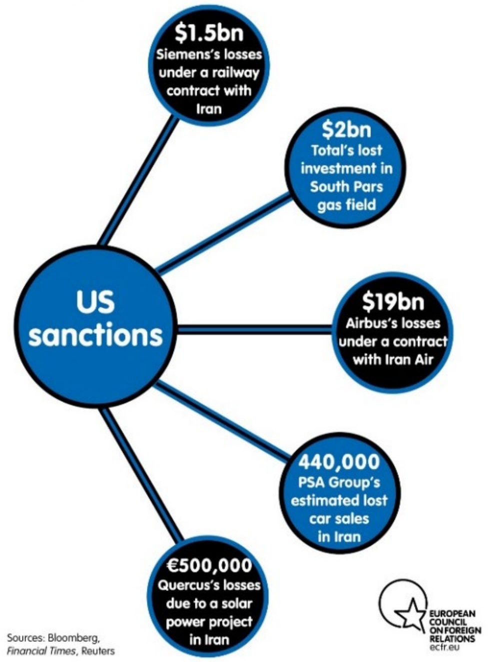
So far, the US has not enforced secondary sanctions in a very strict manner, mainly relying on third country entities to pre-emptively comply with the US sanctions framework. However, in the future, the US could in theory add any European entity (including central banks and international payment system SWIFT) to its specially designated nationals and blocked persons (SDN) list, or impose travel bans or asset freezes on Europeans who facilitate forms of trade subject to US secondary sanctions. And while trade with, for example, Iran may be of minor economic and strategic importance to the EU, the prospect of secondary sanctions being applied to major trading partners such as Russia or China requires action on the European side to build resilience against them. It is not excluded that other countries, such as China, could start to use similar measures. In addition, Europe would be especially vulnerable to a sanctions war between global powers due to its reliance on the global economy and a rules-based international order.

Several technical solutions can be envisaged to reduce the EU's vulnerability to secondary sanctions, such as creating other parallel financial channels with limited exposure to the US, protecting SWIFT, expanding the role of central banks, and reducing denial of services between European entities. However, those can only truly improve European resilience if the global role of the EU is significantly strengthened. And if the international role of the euro were stronger, this would increase the EU's own capacity to weaponise access to the financial and payments systems.

The Trump administration did indeed weaponise economic policy. This has made explicit the idea that the euro's role in global markets is as much a question of foreign policy as an economic question.[72] A euro with a bigger international role is an additional geopolitical instrument for ensuring financial and economic autonomy - and, in the view of some, the only way for the EU to defend itself against **secondary sanctions of third countries**, in particular the US, which has used them to force European businesses to break off relations with Crimea, Cuba or Iran.[73]

Europe is of course not alone in feeling the threat of the US weaponisation of the USD[74]. Data from 2018 and 2019 show that China and Russia disposed of US Treasury securities (partly replacing them with euro-denominated debt)[75], which is regarded as a move to reduce the dependence of their economies on the dollar. Nevertheless, the share of the USD remains significant in their foreign exchange reserves.[76]

Beyond increased resilience to the extraterritorial application of secondary sanctions, a stronger international role for the euro could provide several other foreign policy benefits. Indeed, a strong international currency has been long recognised as a tool of 'financial statecraft', a branch of economic statecraft[77] which consists in 'the use of by a powerful state or coalition of states of its control of currency or credit to coerce a less powerful rival or client state into altering or ceasing some action'[78].



Estimated cost of US sanctions for European companies: select losses[79]

Benjamin Cohen described the political benefits of an international currency in terms of leverage (hard power) and reputation (soft power)[80]. Leverage can be further categorised as direct or indirect, corresponding to two forms of monetary power which Jonathan Kirshner[81] labelled respectively 'enforcement' and 'entrapment'. Enforcement consists in deliberate attempts to exert influence, for example through loans or privileged access to the international currency, or conversely by depriving target states of essential clearing networks. A classic and oft-cited example of enforcement is the financial pressure exerted by the United States on the British pound during the Suez Crisis. Entrapment is more subtle, and it refers to the establishment of systemic conditions which work in favour of the issuer of an international currency, so that 'foreign users develop a stake in its continued success' and therefore 'adapt to the issuing country's preferences and requirements without even being asked'[82]. Writing in 2012, Cohen viewed entrapment as 'a good description of the condition that a country like China, with its massive stockpile of dollar reserves, finds itself in today'[83]. Even more recently, Beijing has expressed concerns over the possible devaluation of its US-denominated reserves, and - in a more extreme scenario - its exclusion from the US dollar payment system[84].

On soft power, Cohen noted that 'widespread international use of a currency can promote the issuer's overall reputation in world affairs', and become 'a source of status and prestige, a visible sign of elevated rank in the community of nations'[85]. This aspect of political power should be not be underestimated, and it can be linked for example to the Chinese notion of 'face' (*mianzi*), which plays such an important role in Chinese foreign policy '(especially) towards stronger powers'[86]. As Robert Mundell put it, 'great powers have great currencies'[87].

Finally, a stronger international role for the euro - whether traditional or digital - would reduce potentially dangerous dependencies on third country issuers of digital currencies, both private and public, which were referred to in the first section.

…AND THE COSTS OF A STRONGER INTERNATIONAL ROLE FOR THE EURO

But strengthening the euro comes at a cost, **posing economic challenges and bringing with it potential disadvantages**. The combination of low interest rates - which would be pushed down further by a strong demand for safe euro assets - and a strong, appreciating currency - due to demand for the euro as a reserve currency, over and above its function in trade - would make imports cheaper and exports costlier.[88] The increase in demand for a strengthened euro could drive up the exchange rate to a point (above the real fundamentals of the economy) that reduces the international competitiveness of euro area exporters. In the event of a crisis, this currency appreciation could lead to a pro-cyclical loss of external competitiveness. That is why many observers conclude that the eurozone's macroeconomic policy stance would need to adjust, eventually moving away from current account surpluses.[89] It is relevant here that the EU's largest economy - Germany - runs an economic model based on manufacturing and exports, resulting in a large trade surplus[90]. According to

Benjamin Cohen, though, through a process of intermediation on capital account (by borrowing short and lending long) a current account balance or surplus could be maintained even for an international currency, as was the case for a long time for the Pound sterling (from the late nineteenth century until World War I) and the USD (from the middle of the twentieth century until the oil shocks of the 1970s).[91]

Moreover, an increased role for the euro comes with increased responsibilities: monetary choices made in the euro area would spill over more rapidly to the rest of the world. In times of global uncertainty, **the `exorbitant privilege**' **of the dominant currency is accompanied by its `exorbitant duty**' to provide some form of insurance and stability to the rest of the world. An increase in demand would lead to the appreciation of the currency, which, in turn, could negatively affect the issuing country if its debt is denominated in the (appreciated) dominant currency but its assets are invested abroad in (depreciated) local currencies. Secondly, the currency issuer has to act as the lender of last resort, for example via currency swap lines, which can put constraints on domestic policy.[92]

The Triffin dilemma - named after Belgian-American economist Robert Triffin - describes exactly this conflict between short-term domestic and long-term international objectives for a country whose currency serves as the global reserve currency: that country is expected to supply foreign countries with an extra supply of its currency for their foreign exchange reserves. The consequence of the resulting permanent appreciation pressure is a loss of price competitiveness in manufacturing, a trade deficit and, eventually, deindustrialisation.[93] For that reason, Agnès Bénassy-Quéré and Benoît Cœuré describe the Triffin dilemma as condemning an international currency to self-destruction sooner or later.[94] And, in fact, whilst the high global demand for USD allows the US to borrow money at favourable terms and enables it to use secondary sanctions, it also hurts US industries that rely on exports by making them less competitive, and thus costs jobs.[95] Bénassy-Quéré and Cœuré explain that a multipolar system of several global currencies would solve the Triffin dilemma.[96]

Issuers of international reserve currency are also likely to be harmed by currency manipulation, when other countries lower the value of their currency to gain a competitive advantage and maintain a large trade surplus. By buying foreign currency in the market, a country can artificially change the price of its imports and its exports, thus boosting their own exports (which they might have trouble doing otherwise) and letting their economies grow. Obviously, this hurts the exports of the country which issues the foreign currency.[97] In fact, this is the reason why the US in 2015 introduced the Trade Enforcement Act, which required that the Department of the Treasury lay out specific indicators it would use to determine whether a country should be deemed a currency manipulator. The December 2020 US Department of the Treasury Report on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States determined that Vietnam and Switzerland were currency manipulators, while placing or maintaining ten other countries (including Germany and Italy) on its Monitoring List.[98]

Finally, if trading in euro increased, the market could be split into USD - and euro-denominated transactions. This would increase arbitrage opportunities and raise transaction costs.[99]

There may also be **political disadvantages** of a stronger international role for the euro. If the aim is to differentiate European policies from US policies, for example in the field of sanctions, it is uncertain what the effect would be in the geopolitical context. As with the concept of strategic autonomy, the explicit aim of strengthening the international role of the euro could result in inaccurate signalling and miscommunication with the EU's allies and partners.[100] In fact, the timing of the latest Commission communication on the topic - one day before the inauguration of President Biden - already raised some eyebrows.[101]

And while it is possible to identify potential foreign policy benefits of a stronger international role for the euro, it is important to note that <u>a strong international currency does not *automatically* result in such benefits</u>. The actual ability to derive foreign policy benefits from a strong international currency may depend on a number of other factors, which may also turn an international currency into a weakness[102]. For example, because of its currency's role as a monetary anchor, the issuer state may lose its ability to manage its exchange rate, which would result in a reduction of monetary autonomy. Secondly, an issuing country's external liabilities may accumulate over time to the point of unsustainability, which could also become a source of constraint on foreign policy choices.

Joseph Stiglitz argues against the view that a common currency is a prerequisite for playing a more influential role on the world stage, considering that `if there is European consensus, Europe's influence will be heard - even without a monetary union'.[103] He even went as far as arguing, in 2016, that the euro leads to more divisiveness in Europe, and therefore is in fact counterproductive in strengthening the common understanding needed to enhance Europe's influence. [104]

Finally, there are political risks at micro-level. From Eurobarometer surveys, it can be inferred that support for the euro is consistently higher than both trust in the ECB and trust in national governments.[105] While the support for the euro is good news, the fact that trust in the ECB and national governments is lower also raises concerns. Guiso, Herrera, Morelli and Sonno claim that globalisation and the financial crisis have had more of an effect on the perception of economic insecurity in euro area Member States than in non-euro area Member States, due to what they call the `policy strait-jacket' effect (eurozone countries having limited space for fiscal policy and no independent monetary policy) and the `relocation' effect (the responses of national and multinational firms' responses to a competitiveness crisis and their reflex to move to lower cost countries).[106] Economic insecurity and the fear of the effects of globalisation have been highlighted as an important driver in voting for populist parties. [107]

Against this background, and assuming that a bigger international role for the euro would come with an `exorbitant duty' to serve, there is a risk that the eurozone could, through its monetary policy, reduce the international competitiveness of eurozone exporters, thereby reinforcing the relocation effect. It would be extremely important to be able to offer a satisfactory response to the popular frustration likely to arise as a result. In fact, Guiso *et al.* draw the conclusion that a proper fiscal union and perhaps a political union would enable `faster and more effective fiscal and monetary policy countercyclical responses, and hence the individual country level [policy strait-jacket] frustration effects would be eliminated'.[108] The euro could easily become a scapegoat for populists, as it has been in the past[109], unless disinformation were actively dismantled and `euro literacy' promoted.

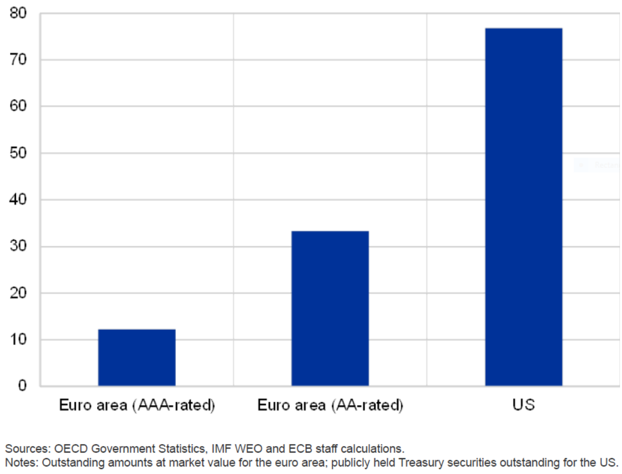
Last but not least, in the same way that European strategic autonomy may sometimes come at the cost of reduced national autonomy[110], some important measures that could help strengthen the euro internationally entail limitations on the autonomy of Member States. As such, they will require political capital at national level - which could be seen by some as a cost.

HOW TO BOOST THE EURO'S ROLE?

It is important to underline, as Wim Duisenberg pointed out, that the role of the euro is primarily determined by markets, and cannot be determined by governments or institutions. That being said, it is of course possible to improve the conditions that could contribute to a stronger international role for the euro. Eichengreen *et al.* mention two ingredients to underpin the international use of a currency: `confidence and deep and liquid financial markets'.[111] Cohen agrees with that view, stating that `a considerable role in financial markets and/or reserves will be needed to make internationalization really pay in terms of seigniorage or policy flexibility'.[112] Strengthening the euro area and its resilience are key. Addressing institutional, financing, trade and regulatory aspects, completing the banking union and making significant progress on the capital markets union are essential.

Architectural reforms to the euro area are therefore needed, and they need to go further than just developing a deeper financial union. Some go as far as to say that if the euro is to match the USD, for example in terms of its use as a reserve currency, a central fiscal capacity is a prerequisite in order to provide insurance against country-specific risks and ensure the international attractiveness of the euro. [113] At the same time, Member States would need to reduce fiscal vulnerabilities where they are high, and implement structural reforms to improve the resilience and efficiency of their domestic economies when productivity growth is low and competitiveness gaps exist.[114]

An ambitious and strategic growth agenda takes care of two issues at once: it increases the euro area's attractiveness and at the same time boosts the ratings of weaker eurozone countries.[115] This is paramount for fulfilling one of the other conditions for a dominant reserve currency: a large supply of safe assets. The scarcity of high-quality marketable euro-denominated assets and the general lack of liquidity compared to USD debt markets are seen as a central reason for the limited appeal of the euro.[116] AAA-rated euro area sovereign debt amounts to just 10% of GDP; in the US it is more than 70%. Increasing the available pool of euro-denominated assets with a higher credit rating will increase euro liquidity and enhance the global relevance of EU financial regulations and EU-based payment systems (the Brussels effect).

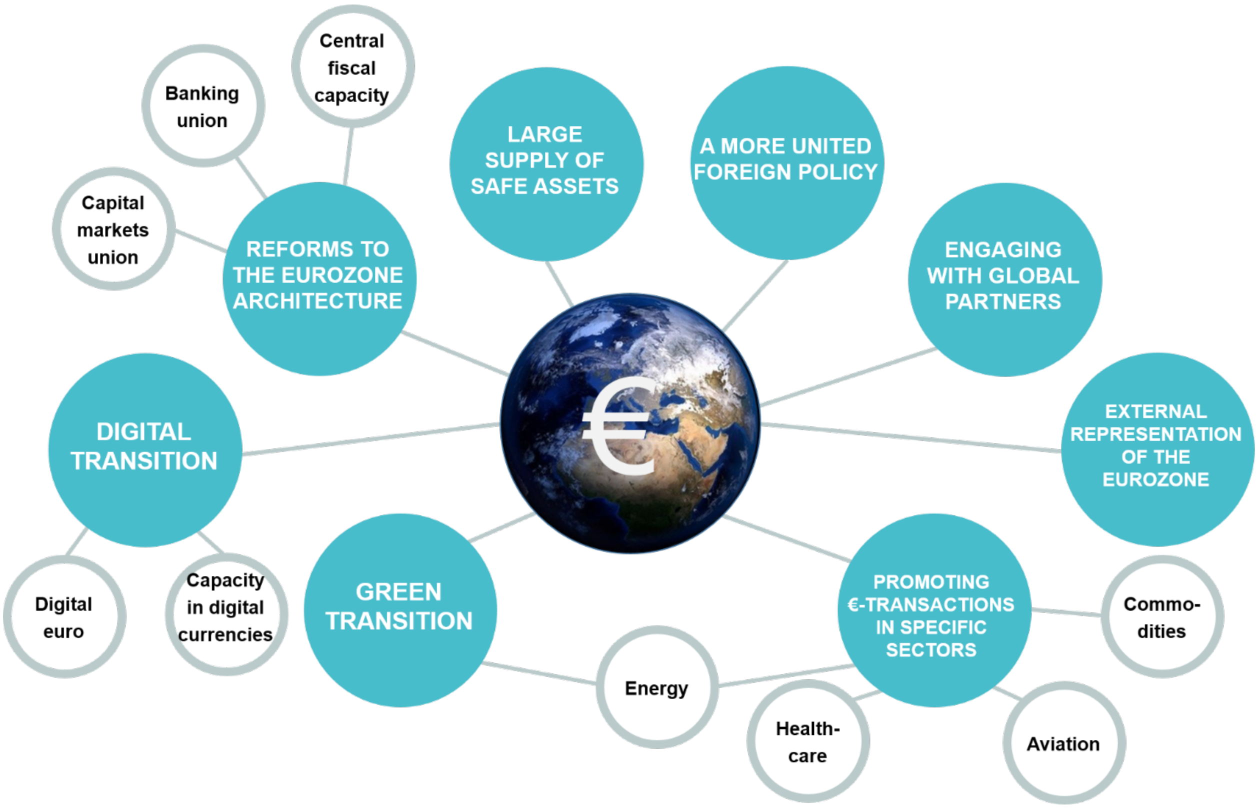


Debt securities issued by central governments (2018, as percent of GDP)[117]

A number of other measures to promote the euro are conceivable, as indicated below, but it is important to underline that without architectural reform to the eurozone and a much larger supply of euro-denominated safe assets, the international role of the euro is not likely to grow at the levels required to reap the full (geo)political benefits of an international currency.

One avenue that is of interest because it also clearly fits in with the objective of achieving strategic autonomy is promoting transactions in euros in specific sectors which are of key strategic importance for the EU, or in which the USD is currently used (largely out of habit), such as aviation, commodities, healthcare, and critical raw materials for renewable energy. Public-private agreements and incentives for specific sectors could be used for this purpose.[118] In recent years, the share of natural gas contracts signed in euros increased from 38% in 2018 to 64% in 2020.[119] However, a lot more could be achieved, as also set out in the most recent Commission Communication.[120]

Engaging on the issue with global partners, as envisaged by the Commission, could also promote the use of the euro as a reserve currency, in payments, and in foreign debt issuances denominated in euro in emerging market economies. This could, for example, be done in the context of EU trade agreements (as has been done in the post-Cotonou agreement, which will enable the EU and its African, Caribbean and Pacific partners to encourage wider use of their respective currencies).



At the same time, some caution is required in that there are also risks in the promotion of the use of the euro. For example, the euro would get a boost internationally if China gave it a larger weight in its currency basket, even more so if other Asian countries followed that example - but if China permanently maintained the much higher weight given to the euro, the emergence of the renminbi could lead to it quickly overtaking the euro's runner-up status in the international monetary system.[121]

The external representation of euro area countries would also need to be unified or at least made more consistent. The creation of a single euro area constituency in the IMF's Executive Board would in particular send a clear message to the outside world. If the euro area Member States merged their quotas into one seat, they would achieve blocking status and become a much more influential voice in the IMF than is currently the case. But of course this would mean that euro area Member States would no longer be able to nominate Executive Directors.

The green transition offers opportunities too. As the ECB notes in its annual report on the international use of the euro: `As the euro is already the main currency of denomination for the issuance of green bonds, the consolidation of the EU role as a global hub for green finance could strengthen the euro as the currency of choice for sustainable financial products, bolstering its international role'.[122] The Commission proposed several initiatives to this end in January 2021. Some caution is in order here, as several key issues would need to be resolved for international debt markets to absorb the amount of EU green bonds that has been announced already (EUR 225 bln between 2021 and 2026). There needs to be a sufficient supply of projects that meet the funding targets and a more comprehensive governance structure. Most important of all, the requirements of investors seeking a safe and liquid European asset will need to be reconciled with the expectations of those seeking ESG attributes in their assets.[123] That being said, the euro in this market segment is already strong, and offers opportunities to boost the international role of the euro while at the same time delivering on one of the other key priorities of the Union.

Another avenue, which would need to be fleshed out further, is the role that a digital euro could play. If major foreign central banks issued CBDCs, this could enhance the status of other international currencies at the expense of the euro, and the ECB considers that `in such a situation, the Eurosystem might consider issuing a digital euro in part to support the international role of the euro, stimulating demand for the euro among foreign investors'.[124] As explained earlier, a cooperative approach to interoperable designs of CBDCs across currencies would be essential. The Commission has also shown enthusiasm for the potential contribution of a digital euro in this area. At the same time, a digital euro poses potential challenges for EU policies, such as those related to financial intermediation and stability, the crowding out of private sector payment solutions, financial inclusion, anti-money laundering and counter-terrorism financing policies, data privacy, and the conduct of monetary policy. It is therefore clear that **further technical work and political debate are needed**.

Also in relation to digital currencies, Europe could prepare tenders to build digital currencies and blockchain networks. This would help initiate competition between European companies for a blockchain-based solution to payment transfers, and create European alternatives to third country digital currencies, whether public or private. The European Blockchain Services Infrastructure is already in place as part of the EU blockchain strategy. The aim would be to create further European capacity in digital currencies while at the same time providing European businesses with a blockchain network to facilitate euro-denominated international transactions[125]. This is an idea worth considering given that Chinese companies are currently taking the lead in blockchain development, and the Diem will be linked to the USD.

More economic steps might not, however, offer the full answer. Whilst a strong economic foundation is widely seen as enabling a more independent foreign policy (for example, to be able to reduce vulnerability to other countries' secondary sanctions, or to effectively employ them ourselves), it is equally the case that a **more united foreign policy** is a crucial factor in bolstering economic sovereignty and at the same time in enhancing the euro's attractiveness outside the eurozone.[126] In other words, as expressed in more concrete terms by Eichengreen, Mehl and Chiţu: `Not only may geopolitical alliances and security guarantees encourage a particular pattern of reserve holdings, but holding a country's currency may encourage governments to seek out geopolitical alliances and security guarantee'.[127]

Most economists generally seem to focus on the purely economic rationale for the international status of some national currencies (for example: lower transaction costs, stability, liquidity, network effects, trade and financial flows). Other scholars, on the other hand, have tried to highlight the (geo)political factors behind the choice of reserve currencies. Already in the early 1970s, Susan Strange argued that the international status of some currencies 'is due primarily to the issuing state's political position of domination and power', and that, even when their use becomes driven by economic considerations, 'the basic requirement is of political, even military, power'.[128]

Other scholars have further elaborated on that insight. Adam Posen, for example, noted that the dollar's global role is largely due to the choice made by other countries to peg their currencies to it, whether officially or informally, and argued that 'foreign policy and national security ties' play a 'critical role … in countries' decisions about exchange rate relationships'.[129] The experiences of Germany's and Japan's fixed exchange rates against the dollar in the 1960s, according to Posen, are a clear example of how countries may choose to maintain such financial relationships for security reasons despite strong economic pressures, as evidenced most explicitly by the so-called Blessing Letter of 1967.[130]

Eichengreen, Mehl and Chiţu propose an analysis contrasting the `Mars hypothesis' (currency choice is governed by economic and financial factors) with the `Mercury hypothesis' (currency choice is governed by geopolitical factors: strategic, diplomatic and military power).[131] Their thesis is that focusing too much on trade and finance makes it difficult to understand the nature of the power of an international currency. On the contrary, it is in the light of diplomacy, war and geopolitics that the international currency system can be better explained. This resonates with the international role of the euro. Built essentially on a mercantile and financial logic, the single currency lacks the unified and broad geopolitical ambition to compete with the USD, although this could change in the context of the ongoing discussions on strategic autonomy.

A data analysis conducted by Eichengreen *et al.* suggested that 'military alliances boost the share of international units in foreign exchange reserve holdings by about 30 percentage points'.[132] From this premise, Posen went on to argue that 'the euro is unlikely to displace the dollar from its global role', due to 'limitations to Europe's ability to project security relationships beyond its borders'[133]. Cohen agrees, in unmistakable terms: `The euro zone, by contrast [to the US], is no more than a club - a gaggle of states with limited military capabilities and with foreign policy interests that only partly overlap or coincide. In practical terms, it is virtually impossible for Europe to substitute for the protection that can be offered by the United

States'.[134] Eichengreen *et al.* are more optimistic, as they suggest that 'deeper European cooperation in certain domains, such as external security and defence, might not be irrelevant for the euro's global standing'.[135]

WORK ALREADY UNDERWAY

Work on deepening the economic and monetary union - completing the banking union, strengthening the capital markets union - is ongoing. While this is usually seen as a piece of the puzzle of European integration and an issue of economic resilience, there is an important foreign and geopolitical angle to it, as it is crucial for the international role of the euro.[136] It does not, however, seem likely that the EU will quickly reach the levels which the literature suggests are essential for an internationally dominant currency. It is well known that debates on how to bolster the economic and monetary union can prove divisive. The policy changes needed to create the conditions for expanding the role of the euro - an ample supply of European safe assets and an ECB with worldwide responsibilities - are currently not on the Member States' agenda.[137]

When looking at the ample availability of a safe asset, widely cited as a precondition for the euro to become a true international currency, it is safe to say that the COVID-19 crisis has been a game-changer. Previous proposals for a safe asset, such as sovereign bond-backed securities (SBBS - securities backed by a diversified portfolio of euro area central government bonds), never gained traction in the Council. But with the COVID-19 recovery measures agreed in 2020, the euro area has massively increased the supply of its debt securities and the EU balance sheet has been put on course to reach EUR 1 trillion in the coming years.[138]. With its Pandemic Emergency Purchase Programme (PEPP), the ECB allows governments to issue debt easily and thereby increase the supply of safe assets. The decisions by the Eurogroup to increase joint borrowing - up to EUR 540 bln, through EIB, SURE and ESM - has also increased the supply of common European safe assets. The first issuance under the SURE programme on 20 October 2020 was more than 13 times oversubscribed (and it is worth noting that all bonds issued under SURE will benefit from a social bond label). Moreover, an EU-level risk-free asset is about to be created for the financing of the recovery fund: with the agreement on Next Generation EU, the Commission has been authorised to borrow funds on behalf of the Union on the capital markets up to the amount of EUR 750 bln between 2021 and 2026.

This is a substantial shift and it will to some extent reshape the global role of the euro.[139] A fall in sovereign spreads shows that markets have interpreted these decisions as a commitment by EU Member States to stick together, and as an improvement in the institutional set-up of the economic and monetary union. The euro appreciated when France and Germany made their initial proposal for a EUR 500 bln recovery fund in May 2020 and when the final EUR 750 bln NGEU package was agreed.[140] The process of funding NextGenerationEU creates an opportunity to target strategically investors who have not yet invested in the eurozone, which could create a multiplier effect further down the road.[141]

There is, however, another side to the coin. The repayment of the EUR 750 bln package is envisaged to take place over a 30-year period from 2028 to 2058. Some observers question whether it is sensible to pay back the debt as originally planned or if it is preferable to roll it over when it matures, since `repaying the debt would not only be a major economic burden without benefit but would also counteract the strategy to boost the international role of the euro'.[142] Yet, a number of Member States have been outspoken in their view that this is a temporary response to the pandemic, which should not lead to structural changes in the EU financial architecture or repeated borrowing at European level; the ECB for its part considers that `this innovation, while a one-off, could also imply lessons for Economic and Monetary Union, which still lacks a permanent fiscal capacity at supranational level for macroeconomic stabilisation in deep crises'.[143]

Furthermore, some fear that temporary measures such as the above might not lead to greater euro liquidity: the Pandemic Emergency Purchase Programme of the ECB could partly absorb the recovery fund's effect, and investors might simply substitute euro-denominated assets for NGEU ones.[144]

As regards the current fragmented voice of the EU and the euro area in international economic and financial bodies and fora, most importantly the IMF, the idea of a single external representation of the euro has been on the political agenda ever since the euro was first introduced. In recent years, the 2015 Five Presidents' Report (COM President, PEC, PEG, ECB President and EP President) stated that the fragmented voice of the EU had led to the EU punching below its political and economic weight, particularly in the case of the IMF, despite the efforts made to coordinate European positions. However, a Commission communication on a roadmap for moving towards a more consistent external representation of the euro area in international fora (2018) and a proposal for a Council decision on unified representation of the euro area in the IMF (2018) did not bring tangible results: it seems that the prospect of having to give up national representation on the IMF Executive Board holds back the Member States from taking this step, even though it has the potential to strengthen the international voice of the euro.

From the reflections in this paper, it becomes clear that the subject cannot be discussed without looking closely not just at the economic arguments, but also taking foreign policy and geopolitical aspects[145] - and this is indeed the road that the Commission has taken in its most recent communication on the subject. The project of strengthening the euro is not economic but political. The connection between the international use of the euro and the European economy's role in the world economy is not the key issue at stake. It is the changing global context, and the broader geopolitical benefits (as well as costs) of a stronger international role for the euro that will determine both the future direction and the outcome of this issue.

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[13] For example, on the basis of an analysis of detailed firm-level transactions data for UK import, University of Warwick scholars `observe 36 [non-EU] countries with a euro vehicle currency share for imports to the UK that is larger than 30% (in fact, 21 countries have a share above 70%). […]. Those countries include Albania, Armenia, Bhutan, Bosnia and Herzegovina, Cameroon, the Central African Republic, the Democratic Republic of Congo, Croatia, Ecuador, Egypt, El Salvador, Fiji, Guinea, Haiti, Iceland, Japan, Malawi,Mauritius, Moldova, Serbia, the Seychelles, South Korea, Trinidad and Tobago, Tunisia, Turkey, Ukraine, the US, and Zimbabwe. See Chen, N., W. Chung and D. Novey (2021), `Vehicle Currency Pricing and Exchange Rate Pass-Through', p. 21, https://warwick.ac.uk/fac/soc/economics/staff/dnovy/vcp.pdf .
[14] Boz, E., C. Casas, G. Georgiadis, G. Gopinath, H. Le Mezo, A. Mehl and T. Nguyen (2020), op. cit. (note 10), p. 15.
[15] Kwan, C.H. (2018), `Issues Facing Renminbi Internationalization: Observations from Chinese, regional and global perspectives' Policy Research Institute, Ministry of Finance, Japan, *Public Policy Review*, Vol. 14, No. 5, September 2018, p. 871.
[16] The IMF created the Special Drawing Right (SDR) in 1969 as an `artificial' international reserve asset to supplement its member countries' official reserves. It is calculated on the basis of a basket of currencies.
[17] According to Eurostat data, in 2020, China was the EU's main trading partner, while at the same time trade with the US (the EU's main trading partner in 2019) recorded a significant drop in both imports and exports.
[18] It is worth noting that with the inclusion of the renminbi in the SDR basket with a weight of 10.92% and the recalibration of the relative weights of the currencies already included, the weight USD remained virtually unchanged (41.9% to 41.73%), while the euro (37.4 % to 30.93%) and the sterling (11.3% to 8.09%) saw the strongest reduction in weight.
[19] Mallaby, S. and O. Wethington (2012), `The Future of the Yuan: China's Struggle to Internationalize Its Currency', in: *Foreign Affairs*, vol. 91, no. 1, p. 135.
[20] Geranmayeh, E. and M. Lafont Rapnouil (2019), `Meeting the challenge of secondary sanctions', European Council on Foreign Relations (www.ecfr.eu), 25 June 2019, p. 10.
[21] On 13 January 2020, the US withdrew China's designation of China as a currency manipulator, as a concession to China two days before a trade agreement between the two countries was signed on 15 January 2020, see A. Rappeport (2020), `U.S. Says China Is No Longer a Currency Manipulator', in: *New York Times*, 13 January 2020, https://www.nytimes.com/2020/01/13/us/politics/treasury-china-currency-manipulator-trade.html.
[22] Kwan, C.H. (2018), op. cit. (note 15), p. 873.
[23] Leblanc, C. (2020), `En 2030, le yuan détrônera le yen et la livre sterling comme troisième monnaie de réserve mondiale', *l'Opinion*, www.lopinion.fr/edition/international/en-2030-yuan-detronera-yen-livre-sterling-troisieme-monnaie-reserve-223098, 8 September 2020.
[24] Geranmayeh, E. and M. Lafont Rapnouil (2019), op. cit. (note 20), p. 10.
[25] Doff, N. and A. Biryukov (2020), `Russia Ditches the Dollar for Bulk of Its Exports to China', www.bloomberg.com, 12 August 2020.
[26] Ibid.
[27] John Oliver in *Last Week Tonight* (12 March 2018).
[28] In this context, interoperability means that a CBDC, which is held only by residents of the respective currency area, can be used for cross-border payments between participating central banks. See ECB (2020c), `Report on a digital euro', p. 14, www.ecb.europa.eu, 2 October 2020.
[29] IMF (2020), `Digital money across borders: macro-financial implications', *IMF Staff report*, October 2020, p. 35.
[30] For example, if major foreign central banks issued CBDCs, that could enhance the status of other currencies at the expense of the euro. And if private digital currencies - in particular global stablecoins - were to become very popular in the EU, central bankers fear that this could pose risks to the autonomy and sovereignty of monetary policy, because monetary policy transmission would be less effective and the central bank's lender of last resort function could be threatened (Arner, D., R. Auer and J. Frost (2020), `Stablecoins: risks potential and regulation', *BIS Working Papers*, No 905, November 2020, p. 16). It could also weaken EU retail banks, for example when citizens withdraw money from their bank accounts en masse to purchase CBDCs, triggering a bank run. The loss of control over the domestic money supply could lead to dangers for financial stability. Other risks not to be underestimated include privacy and data protection concerns.

[31] `Stablecoins' which are collateralised by fiat, cryptocurrencies, gold, an algorithm or combination of financial instruments, and therefore guarantee price stability.
[32] Arner, D., R. Auer and J. Frost (2020), op. cit. (note 30), p. 16.
[33] Kruppa, M. and H. Murphy (2020), `Coinbase files for US listing in first for a cryptocurrency exchange', in: *Financial Times*, 17 December 2020.
[34] McMorrow, R., N. Liu and H. Lockett (2019), `Xi Jinping's endorsement of blockchain sparks China stocks frenzy', in: *Financial Times*, 28 October 2019; the primary use of blockchains today is as a distributed ledger for cryptocurrencies.
[35] In 2017, the GDP of the EU-27 represented 16.0% of world GDP, expressed in Purchasing Power Standards, compared to 16.4% for China and 16.3% for the US (Eurostat).
[36] Eichengreen, B., A. Mehl and L. Chiţu (2018), op. cit. (note 2), pp. 170-171.
[37] The volume of euro-denominated foreign debt issuance, for example, dropped from 40% in 2007 to 24% in 2019.
[38] Eurostat.
[39] Thomsen, P. (2019), `International role of the euro', speech by P. Thomsen, Director of the European department, IMF, 19 September 2019.
[40] In the absence of an agreement on regulatory equivalence in financial services, the departure of the UK from the EU has stopped firms based in the UK from operating freely in the EU. As a result of Brexit, on 4 January 2021, London had already had lost €6bn in euro-denominated daily trading to Amsterdam- and Paris-based trading venues (Thomas, D., S. Morris and O. Walker (2021) `City of London stumbles through first week of Brexit', in: *Financial Times*, 8 January 2021); on 10 February 2021, the *Financial Times* reported that Amsterdam had surpassed London as Europe's largest share trading centre (Stafford, P. (2021), `Amsterdam ousts London as Europe's top share trading hub', in: *Financial Times*, 10 February 2021)
[41] http://pubdocs.worldbank.org/en/241041541103873167/BankExecutiveDirectors.pdf.
[42] Juncker, J.C. (2018), `State of the Union 2018. The hour of European sovereignty', speech by Jean-Claude Juncker, President of the European Commission, at the European Parliament, Strasbourg, 12 September 2018. The introduction of this new policy objective should be seen in the light of against events in preceding years, such as the BNP Paribas settlement, in July 2014, with US allegations of breaking US sanctions against trade with Sudan, Iran and Cuba (https://group.bnpparibas/en/press-release/bnp-paribas-announces-comprehensive-settlement-review-usd-transactions-authorities), and the US administration decision, in May 2018, to start applying sanctions on oil-dealings with Iran (https://www.nytimes.com/2018/05/08/world/middleeast/trump-iran-nuclear-deal.html). In 2016, the European Commission reported to the Eurogroup that there were no specific obstacles to the international role of the euro.
[43] European Commission (2018), `Towards a stronger international role of the euro', Communication of 5 December 2018.
[44] Claeys, G. and G. B. Wolff (2020b), `For the euro, there is no shortcut to becoming a dominant currency', *Bruegel Blog*, 13 October 2020.
[45] Duisenberg, W.F. (1998), `The international role of the euro', speech by Dr. Willem F. Duisenberg, President of the ECB, at the Konrad-Adenauer-Stiftung, Berlin, 22 October 1998.
[46] Coeuré, B. (2019), `The euro's global role in a changing world: a monetary policy perspective', speech by B. Coeuré, Member of the Executive Board of the ECB, at the Council on Foreign Relations, New York City, 15 February 2019.
[47] Pittaluga, Giovanni and Elena Seghezza (2012), 'Euro vs dollar: an improbable threat', *Open Economies Review*, vol. 23, issue 1, pp. 89-108.
[48] Ibid., p. 89.
[49] Ibid., p. 101.
[50] Ibid., p. 102.
[51] Cohen, B. (2012), op. cit. (note 1), p. 17.
[52] Bernanke, B.S. (2016), `The dollar's international role: An `exorbitant privilege'?', blogpost for the Brookings Institution (www.brookings.edu), 7 January 2016.
[53] Cohen, B. (2012), op. cit. (note 1), pp. 21-22.
[54] List partly based on Claeys, G. and G. B. Wolff (2020b), op. cit. (note 44), and Kwan, C.H. (2018), op. cit. (note 15); for further views on how the use of international money in different roles generates different measures of benefit, see Cohen, B. (2012), op. cit. (note 1), pp. 21-24.
[55] It should be noted, though, that financial innovation, including the introduction of digital currencies as mentioned earlier, could reduce fees to an extent much larger than the difference in transactions costs due to operating in a different currency.
[56] Cohen, B. (2012), op. cit. (note 1), p. 22.
[57] Ibid., pp. 15-16.
[58] Ibid., p. 16.
[59] Siripurapu A. (2020), `The Dollar: The World's Currency', Council on Foreign Relations (www.cfr.org), 29 September 2020
[60] Adler, G., C. Casas, L. Cubeddu, G. Gopinath, N. Li, S. Meleshchuk, C. Osorio Buitron, D. Puy and Y. Timmer (2020), `Dominant Currencies and External Adjustments', IMF Staff Discussion Note, p. 24.
[61] Posen, A. (2008), 'Why the euro will not rival the dollar', *International Finance*, vol. 11, issue 1, p. 76.
[62] Ibid.
[63] Dullien, S. (2018), `The German barrier to a global euro', European Council on Foreign Relations (www.ecfr.eu), 30 August 2018.
[64] ART - Analysis and Research Team (2020), `Strategic autonomy, strategic choices', *Issues paper*, General Secretariat of the Council, 5 February 2020.
[65] Hackenbroich, J., F. Medunic and M. Saracco (2020), `Promoting the international role of the euro: Ideas for substantive progress and greater sovereignty', European Council on Foreign Relations (www.ecfr.eu), 9 December 2020.
[66] Cohen, B. (2012), op. cit. (note 1), p. 28.
[67] Complex systems have the tendency to produce asymmetric network structures, in which some nodes are `hubs', and are far more connected than others, according to Farrell, H. and A. Newman (2019), `Weaponized Interdependence: How Global Economic Networks Shape Coercion and Surveillance', in: *International Security*, Volume 44, Issue 1, Summer 2019, pp. 6, 20.
[68] Farrell, H. and A. Newman (2019), op. cit. (note 67).

[69] European Commission (2021), `The European economic and financial system: fostering openness, strength and resilience', Communication of 19 January 2021.
[70] Based on Geranmayeh, E. and M. Lafont Rapnouil (2019), op. cit. (note 20)
[71] In this context, Geranmayeh and Lafont Rapnouil cite a former US Treasury official: `According to one former US Treasury official, the Trump administration and some members of Congress see Europeans as posing far less of a challenge to the enforcement of the measures than, for instance, the Chinese. In response to US sanctions on Iran under Obama, China set up a financial payments system that ran parallel to dollar-denominated channels, drawing the interest of countries that would like to set up their own systems of this kind, such as Russia. In comparison, Europe's most forceful response has been to establish the Instrument for Supporting Trade Exchanges (INSTEX), which is currently confined to facilitating the kind of humanitarian trade with Iran that is permissible under US sanctions' in: Geranmayeh, E. and M. Lafont Rapnouil (2019), op. cit. (note 20). It is also worth noting that some EU member states sought preferential arrangements with the US through exemption requests.
[72] Tooze, A. and Odendahl, C. (2018), `Can the euro rival the dollar? ', CER Insight, Centre for European Reform, 4 December 2018.
[73] Claeys, G. and G. B. Wolff (2020b), op. cit. (note 44).
[74] García-Herrero, A. and F. Steinberg (2020), `Politics, not economics, demands a strengthened international role for the euro', www.bruegel.org, 28 October 2020.
[75] Together, China and Russia sold a combined USD 204 billion worth of US Treasury debt securities amid concerns about unilateral sanctions and international trade tensions in 2018. China continued to sell US Treasury securities in 2019, to the tune of USD 54 billion (ECB (2020a), op. cit. (note 7)).
[76] At the end of June 2020, the euro accounted for 29.6% of Russia's foreign reserves, compared to 22.9% held in gold and 22,3% held in USD; excluding gold, 38.4% was held in euro and 28.9% in USD (`Pandemic Pushes Russia's Gold Reserves Above U.S. Dollar For First Ever Time', *The Moscow Times*, 12 January 2021). The composition of China's foreign exchange reserves is classified information but, in July 2019, the State Administration of Foreign Exchange announced that, at the end of 2014, 58% of China's total reserves was accounted for by USD assets, down from 79% in 2005 (Xin, Z., `China gives up two of its best-kept forex reserve secrets', *South China Morning Post*, https://www.scmp.com/economy/china-economy/article/3020410/how-much-chinas-forex-reserves-us-dollars-beijing-gives-two, 29 July 2019).
[77] Baldwin, D. (1985), *Economic Statecraft*, Princeton: Princeton University Press.
[78] Armijo, L.E. (2019), 'Financial statecraft', in Shaw et al. (eds.), *The Palgrave Handbook of Contemporary International Political Economy*, Basingstoke: Palgrave Macmillan.
[79] Geranmayeh, E. and M. Lafont Rapnouil (2019), op. cit. (note 20)
[80] Cohen, B. (2012), op. cit. (note 1), pp. 13-31.
[81] Kirshner, J. (1995), *Currency and Coercion: the political economy of international monetary power*, Princeton: Princeton University Press.
[82] Cohen, B. (2012), op. cit. (note 1), p. 19.
[83]Ibid., p. 19.
[84] See e.g. Zhou, C. (2020), 'China's wish to end US dollar dominance is unlikely to come true with no genuine challenger in the wings', *South China Morning Post*, https://www.scmp.com/economy/china-economy/article/3098118/chinas-wish-end-us-dollar-dominance-unlikely-come-true-no, 20 August 2020; and Reuters (2020), 'Chinese banks urged to switch away from SWIFT as U.S. sanctions loom', *Reuters*, https://www.reuters.com/article/us-china-banks-usa-sanctions-idUSKCN24U0SN, 29 July 2020.
[85] Cohen, B. (2012), op. cit. (note 1), p. 19.
[86] Shambaugh, D. (2013), 'Tangled titans: conceptualizing the U.S.-China relationship', in Shambaugh (ed.), *Tangled Titans: the United States and China*, Lanham: Rowman and Littlefield, p. 8.
[87] Mundell, R. (1993), 'EMU and the international monetary system: a transatlantic perspective', *Working Paper 13*, Austrian National Bank, p. 10.
[88] Tooze, A. and Odendahl, C. (2018), op. cit. (note 72).
[89] Tooze, A. and Odendahl, C. (2018), op. cit. (note 72); Geranmayeh, E. and M. Lafont Rapnouil (2019), op. cit. (note 20).
[90] According to Eurostat data, in 2020, the euro area recorded a surplus of EUR 234.5 billion, compared with a surplus of EUR 221.0 billion in 2019. When considering extra-EU trade, 13 EU Member States (including 10 euro area Member States) ran a trade surplus in 2020 (January-November): Denmark, Germany, Estonia, Ireland, France, Italy, Lithuania, Luxembourg, Hungary, Austria, Slovakia, Finland and Sweden.
[91] Cohen, B. (2012), op. cit. (note 1), p. 27.
[92] Claeys, G. and G. B. Wolff (2020b), op. cit. (note 44), and Coeuré, B. (2019), op. cit. (note 46).
[93] Dullien, S. (2018), op. cit. (note 63).
[94] Bénassy-Quéré A. and B. Coeuré (2010), `Le rôle international de l'euro : chronique d'une décennie', in: *Revue d'économie politique*, 2010/2 (vol. 120), p. 356.
[95] Siripurapu A. (2020), op. cit. (note 59).
[96] Bénassy-Quéré A. and B. Coeuré (2010), op. cit. (note 94), p. 356 .
[97] Siripurapu A. (2020), op. cit. (note 59), and Setser, B.W. and D. Yalbir (2020), `Tracking currency manipulation', *Greenberg Center for Geoeconomic Studies*, 7 October 2020.
[98] US Department of the Treasury (2020), `Treasury Releases Report on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States', press release, 16 December 2020.
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[100] ART - Analysis and Research Team (2020), op. cit. (note 64).
[101] `Tremendous timing from the European Commission, real pro-level stuff, to release a paper about boosting the international role of the euro the day before Joe Biden's inauguration' in Beattie. A. (2021), `Europe moans as Biden inherits a dominant dollar', in: *Financial Times*, https://www.ft.com/content/ff71542f-c4f1-459b-bf0a-4ec9d2fa1f1b, 21 January 2021; `As the U.S. presidency of Joe Biden is inaugurated on January 20, 2021, the EU, again with uncourteous timing, is set to unveil measures to strengthen the international role of

the euro to lessen its dependence on the dollar and address the EU's financial vulnerabilities' in Balfour, R. (2021), `How Europe Can Engage With U.S. President Joe Biden', Carnegie Europe, https://carnegieeurope.eu/strategiceurope/83674, 19 January 2021.
[102] Cohen, B. (2015), *Currency Power: understanding monetary rivalry*, Princeton: Princeton University Press, p. 101.
[103] Stiglitz, J.E. (2016), `The Euro. How A Common Currency Threatens The Future Of Europe', W.W. Norton & Company, p. 36.
[104] Ibid., p. 37.
[105] Roth, F. and L. Jonung (2020), `Public Support for the Euro and Trust in the ECB: The first two decades of the common currency', in: J. Castenada, A. Roselli and G. Wood (eds.), *The Economics of Monetary Unions*, New York, Routledge, p. 145.
[106] L. Guiso, H. Herrera, M. Morelli and T. Sonno (2019), `Global crises and populism: the role of Eurozone institutions', in: *Economic Policy*, Vol. 34, No. 97, p. 99.
[107] Ibid., p. 98.
[108] Ibid., p. 128.
[109] Parties such as Rassemblement National (France), Movimento 5 Stelle (Italy) and Partij voor de Vrijheid (Netherlands) have in the past pleaded for an exit of their respective countries from the eurozone, although all of them have not abandoned that position.
[110] ART - Analysis and Research Team (2020), op. cit. (note 64), p. 10.
[111] Eichengreen, B., A. Mehl and L. Chiţu (2018), op. cit. (note 2), p. 179.
[112] Cohen, B. (2012), op. cit. (note 1), p. 23.
[113] Thomsen, P. (2019), op. cit. (note 39).
[114] Ibid.
[115] Claeys, G. and G. B. Wolff (2020b), op. cit. (note 44).
[116] Ilzetzki, E., C.M. Reinhart and K.S. Rogoff (2020), op. cit. (note 6).
[117] Coeuré, B. (2019), op. cit. (note 46).
[118] Hackenbroich, J., F. Medunic and M. Saracco (2020), op. cit. (note 65).
[119] European Commission (2021), op. cit.
[120] The Commission aspires to foster the euro's status as an international reference currency in the energy and commodities sectors, including for nascent energy carriers such as hydrogen, and lists a number of measures for that purpose.
[121] Ilzetzki, E., C.M. Reinhart and K.S. Rogoff (2020), op. cit. (note 6), pp. 3-4.
[122] ECB (2020a), op. cit. (note 7).
[123] Lehmann, A. (2020), `Common eurobonds should become Europe's safe asset - but they don't need to be green', *Bruegel blog*, 28 September 2020.
[124] ECB (2020c), op. cit. (note 28), p. 14.
[125] Hackenbroich, J., F. Medunic and M. Saracco (2020), op. cit. (note 65).
[126] García-Herrero, A. and F. Steinberg (2020), op. cit. (note 75).
[127] Eichengreen, B., A. Mehl and L. Chiţu (2019), 'Mars or Mercury ? The geopolitics of international currency choice', *Economic Policy*, volume 34, issue 98, p. 3.
[128] Strange, S. (1971), 'Sterling and British policy: a political view', *International Affairs*, vol. 47, issue 2, p. 306.
[129] Posen, A. (2008), op. cit. (note 61), p. 88.
[130] The then President of the Deutsche Bundesbank, Karl Blessing, explained in a later interview that 'fears of the foreign policy implications, which would have led to the withdrawal of American troops from Germany, had been one of the factors' in his choice to hold accumulated dollars instead of converting them into gold. See https://www.bundesbank.de/en/tasks/topics/from-our-archive-the-blessing-letter-626930.
[131] Eichengreen, B., A. Mehl and L. Chiţu (2019), op. cit. (note 127), p. 354.
[132] Ibid., p. 354.
[133] Posen, A. (2008), op. cit. (note 61), p. 94.
[134] Cohen, B. (2012), op. cit. (note 1), pp. 27-28.
[135] Eichengreen, B., A. Mehl and L. Chiţu (2019), op. cit. (note 127), p. 354.
[136] Hackenbroich, J., F. Medunic and M. Saracco (2020), op. cit. (note 65).
[137] Tooze, A. and Odendahl, C. (2018), op. cit. (note 72).
[138] By way of comparison, there is currently approximately EUR 9 trillion in outstanding euro area government debt, and EU issuance has typically been EUR 6 bln or less per year.
[139] Christie, R. (2020), `Thinking big: debt management considerations for the EU's pandemic borrowing plan' *Bruegel Blog*, 9 December 2020.
[140] Claeys, G. and G. B. Wolff (2020a), `Is the COVID-19 crisis an opportunity to boost the euro as a global currency? ', Bruegel Policy Contribution, issue no 11, June 2020.
[141] Hackenbroich, J., F. Medunic and M. Saracco (2020), op. cit. (note 65).
[142] Claeys, G. and G. B. Wolff (2020b), op. cit. (note 44).
[143] ECB (2020b), `The fiscal implications of the EU's recovery package', published as part of the ECB Economic Bulletin, Issue 6/2020, 23 September 2020.
[144] Hackenbroich, J., F. Medunic and M. Saracco (2020), op. cit. (note 65).
[145] Ibid.