

EURO, ACTOR ON THE INTERNATIONAL MONEY MARKET

Isabella Cristiana SIMA¹

ABSTRACT:

ON THE INTERNATIONAL SCENE, THERE IS ALWAYS A STRUGGLE FOR SUPREMACY BETWEEN THE MAJOR POWERS OF THE WORLD. ONE OF THE MEASURES WHICH QUANTIFIES THIS POWER IS THE CURRENCY. IN THE PRESENT WORK WE WANTED TO FIND OUT WHICH IS THE PLACE IT OCCUPIES ON THE INTERNATIONAL CURRENCY EURO. THUS, WE HAVE CHOSEN TO ANALYZE A NUMBER OF RELEVANT INDICATORS. AFTER ANALYZING WE CAME TO THE CONCLUSION THAT THE EURO STILL OCCUPIES THE SECOND PLACE AS THE CURRENCY OF INTERNATIONAL IMPORTANCE, BEING RANKED AFTER THE US DOLLAR, BUT ESPECIALLY WITH REGARD TO TRADE, THE SINGLE EUROPEAN CURRENCY TENDS TO GAIN GROUND DESPITE ASYMMETRIC SHOCKS TO WHICH IT IS EXPOSED.

KEY WORDS: MONEY MARKET, EURO, DOLLAR, INTERNATIONAL CURRENCY, SUPREMACY

INTRODUCTION

Since the advent of the first coins as a central element of their trade flows, issuers have struggled for the supremacy of their own currency to hold. In the present times this supremacy is owned by the American currency, the dollar, and the second international currency, the Euro, which is recognized in recent times, despite the turmoil, seems to gain ground in front of it. However, the big challenge is not to reach the top spot as the international currency, but to remain there.

¹ PhD candidate, Faculty of International Economic Relations, Academy of Economic Studies, Bucharest, E-mail: simai_sabella@yahoo.com

To highlight the place and the role that owns the single currency of the European Monetary System and on the international scene in my opinion is that you should start with a brief overview of what involves the status of international currency.

Thus, as with any other theoretical approach, I start by presenting some of the definitions of the concept of international currency. Accordingly, an international currency is "used outside the country of origin or of the region that issued it," as mentioned in the Frankel and Chinn in 2007² and a report of the European Central Bank since 2007³, may be the one that is "used in international transactions," said Kannan P. in 2007⁴ or even just might be that "currency used in the country of origin of exteriorly by non-residents in order to carry out transactions with persons resident in the country of origin of the currency in question or with residents of third countries ", as his work stemmed from Hartmann and Issing⁵ in their work since 2002.

All these definitions above, the time of Hartmann and Issing brings to the fore two important things, namely that an international currency should have a larger share of its use by non-resident States larger than the weights of other currencies used by them, and exchange rates and trends in interest rates denominated in the currency considered to be related directly to proportional with trends the same indicators expressed in other currencies.

An international currency should find its usefulness in both the public sector and the private sector, therefore, must fulfill three major functions: unit of account, a store of value and means of payment or Exchange environment.

As the unit of account in the official (Government), the Euro is used as the reference currency (anchor), while in the private sector is used as currency denominator. As a unit of account, an international currency is used in pricing goods and the issuance of bonds or the definition of a bank loan. What makes it different from the method of payment is the fact that prices may be fixed in a certain currency, while payments are determined in another

² Chinn M. și Frankel J.A.– "[Will the Euro Eventually Surpass the Dollar as Leading International Reserve Currency?](#)", in [G7 Current Account Imbalances: Sustainability and Adjustment](#) (2007), University of Chicago Press, 2007, 287, available on: <http://www.nber.org/chapters/c0126.pdf>, accessed by the author at the time of 12.05.2012

³ <http://www.ecb.europa.eu/pub/pdf/annrep/ar2007ro.pdf>, accessed by the author at the time of 12.05.2012

⁴ Kannan P. - "[On the Welfare Benefits of an International Currency](#)", IMF Working Papers, Vol. , pp. 1-37, 2007, available on: <http://ssrn.com/abstract=969863>, accessed by the author at the time of 12.05.2012

⁵ Hartmann P. și Issing O. – „[The International Role of the Euro](#)”, Journal of Policz Modeling 24, North Holland, 2002, 315-345

currency. National authorities use international currency as the currency of reference when they lashed it its own currency.

As the store of value, international currency is used by both the public sector and the private sector in order to maintain the value of savings. The motivation of the private sector from the desire of private investors to find the zero sum game between the variety of costs and risks. On the other hand, the motivation of the public sector to use international currency as a store of value, the reserve currency, will vary based on current exchange rate regime. May resemble private holder's optimization or may be devoted to the management of the exchange rate.

The third function of a coin, the way of payment, highlights that it can be used by residents to trade and capital flows. Private residents use this currency as an intermediary in transactions between two currencies of smaller waist. But monetary authorities use international currency as a means of payment when it is necessary to intervene on the foreign exchange market.

THE EURO ON THE INTERNATIONAL SCENE

We know that in today's world, there is a certain hierarchy of currencies are considered to be international and that the top second place is held by the Euro. In order to strengthen the said, I chose to show you how they have evolved through key indicators that define the role of the Euro in the period 2009-2011.

Table 1 – Indicators of the Euro's international role

Indicatori	Years		
	2009	2010	2011
The stock of global foreign exchange reserves (at constant exchange rate) (%)	26	25,4	25
International debt securities (global) (%)	29,5	26,8	25,5
Foreign loans denominated in Euro (exchange rate) (%)	20,7	20,1	21,8
Daily rate of exchange for trading (exchange rate) (bln.Euro)	18,5	19,2	20,7
External foreign deposits denominated in Euro (exchange rate) (%)	21,4	21,1	22,4
Invoicing of goods exported (in Euro countries in non-Euro countries) (the current exchange rate) (%)	67,4	63,5	66,7
Invoicing of goods imported (non-Euro countries in Euro countries) (the current exchange rate) (%)	48,6	49,6	50,2
Foreign debt holdings in the euro zone, expressed in Euros (%)	17	18	17
Cumulative net shipments of banknotes by non-Euro area countries (bln.Euro) (for December)	109	107	118

Source: Table prepared by the author, based on the data retrieved and processed on the site: www.ecb.int/pub/pdf/other/euro-international-role2012en.pdf, accessed at 23.05.2012

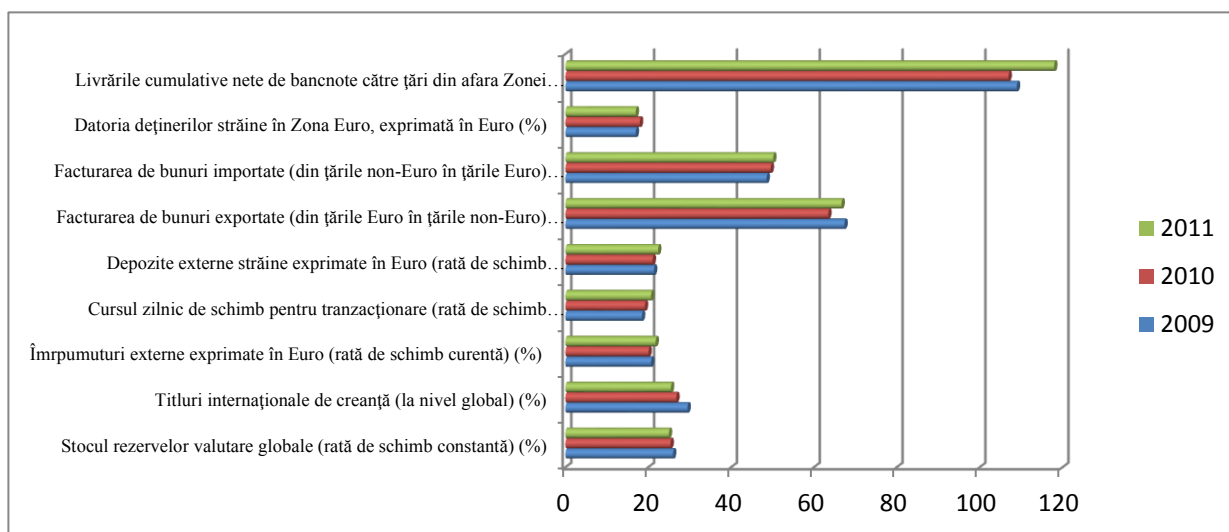


Figure 1 – Indicators of the Euro's international role

Source: Graph drawn by author based on data collected and processed on the site: www.ecb.int/pub/pdf/other/euro-international-role2012en.pdf, accessed at 23.05.2012

Looking at the table and the chart above resulted in the fact that the Euro area has owned a share in the period under review almost constant in terms of the global stock of foreign reserves, but with a slight drop in 2011, reaching 25 percent, compared with 26% in 2009.

In terms of the totality of international debt securities traded on the market, the single currency, 2011 experienced a decrease compared to the year 2009 the sentiment, about 4%, i.e. from 29.5% in 2009 from 25.5% in 2011.

With regard to the situation of bank accounts in the year 2011 foreign loans denominated in Euro and have increased their share to 21.8% from 20.7% in 2009 and foreign deposits denominated in Euro and have increased by 1% in 2011 compared with 2009.

A significant record and growth regarding the last indicator, the net cumulative shipments of Euro banknotes by non-Euro area countries arriving in 2011 to a total of 118 billion.Euros, compared to 109 bln. The Euro exceeded in 2009.

Concluding on these indicators, can affirm that, in spite of the unfavorable situation in the past and still pass, manages to keep the second place in the rankings of international currencies.

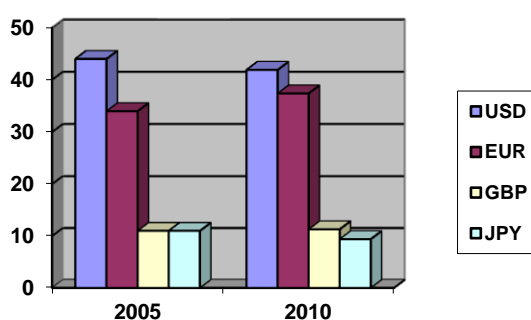
An important element of international monetary market is represented by the currency basket SDR (special drawing rights). Special drawing rights are created by the

International Monetary Fund in the last 40 years as an international reserve asset. It shall be reviewed every five years, with the last review taking place in 2010. Currencies that are part of the currency basket may be used freely.

Currently, the compositions of the SDR basket currencies are US dollar, Euro, Yen, and British pound. There is some speculation that these coins would be able to join and the Chinese Yuan, in 2015, if it does resolve the problem of convertibility.

Table 2 – The share of foreign currencies in SDR basket (%)

Currencies	2010	2005	Ritm
US Dollar (USD)	41,9	44	-2,1
Euro (EUR)	37,4	34	+3,4
British pound sterling (GBP)	11,3	11	+0,3
Japanese Yen (JPY)	9,4	11	-1,6



Source: Table and graph produced by the author based on the data retrieved and processed on the sites Indxmundi and the World Bank, the International Monetary Fund, accessed at 22.03.2011

It is noted that the Euro has gained ground, at a percentage of 34% in 2005, to 37,4% in 2010 (+ 3.4%) increase in the face of the U.S. dollar which has known a trend down from 44 percent in 2005, from 41,9% in 2010 (2%)-and Japanese Yen which dropped by 1.6% from 11% in 2005 from 9.4% in 2010, Sterling knowing some stability in 2010 with only 0.3 percent compared to the percentage of 11% recorded in 2005.

The main use of the U.S. dollar is and will remain in the United States of America. Symmetrically, the main use of the Euro is and will remain within the Euro area and the European continent. United States of America are ranked second in the world economy⁶, with a gross domestic Product (GDP) which represents 19.7 per cent of the global gross

⁶ The first is the European Union.

domestic product. The Euro area is the third power of the world with a gross domestic Product accounting for around 14.6 percent of the world market, which would increase considerably if all the members of the European Union⁷ would adopt the single currency. The third coin and importance, as we have seen in the written above, is represented by the Japanese Yen, Japan having a GDP representing approximately 6.3% of world level.

Taking as reference currency Euro, below I present the conversion rates Euro-dollar and Euro-Yen, to see and comment then developments. Since conversion rates are changing very often from day to day, we chose as reference period on the last day of the last five months of the year 2011⁸.

Table 3 – Euro conversion rates of the major currencies of the world⁹ - annual (units per Euro)

	2009	2010	2011
USD	1,2803	1,3863	1,3418
JPY	115,1158	125,1274	112,3912

Source: Table made by the author, based on the data retrieved from the <http://www.xe.com/ict/?basecur> website accessed on 1.02.2012

Table 4 – Euro conversion rates of the major currencies of the world¹⁰ (units per Euro)

	aug.2011	sep.2011	oct.2011	nov. 2011	dec.2011
USD	1,445	1,3503	1,4001	1,3418	1,2939
JPY	110,55	103,79	109,22	104	100,2

Source: Table made by the author, based on the data retrieved from the <http://www.x-rates.com> website accessed on 1.02.2012

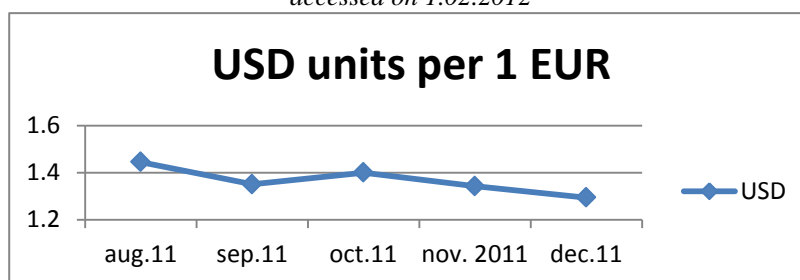


Figure 2 – The conversion rates of the Dollar in Euro

Source: Graph made by author based on data retrieved from the <http://www.x-rates.com> website accessed on 1.02.2012

⁷ The gross domestic product of the European Union with 27 members representing approximately 21% of the world level.

⁸ Sima I., Marin C., Ţenovici C., Nisipeanu E. – "Crisis in the euro area and the euro. The game of the giants: euro vs. Dollar ", International Journal of Academic Research in Accounting, Finance and Management Sciences, Pakistan Volume 02, Issue 01, 2012, ISSN: 2225-8329, indexed BDI

⁹ The data are for January 31 of the three years taking into account.

¹⁰ The data collected are for the last days of the months of August, September, October, November and December of the year 2011.

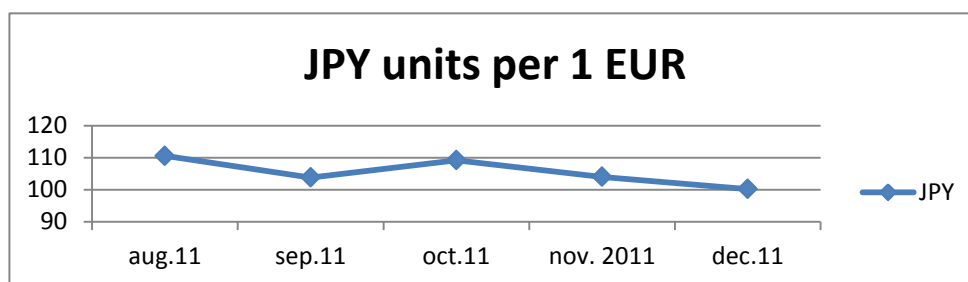


Figure 3 – The conversion rates of the Yen in Euro

Source: Graph made by author based on data retrieved from the <http://www.x-rates.com> website accessed on 1.02.2012

It is noted that both the U.S. Dollar and Japanese Yen have had in the last year a decreasing trend against the Euro, although the single currency going through the same crisis of sovereign debt.

The analysis of the last three years, respectively, for 2009, 2010 and 2011, it appears that the Dollar has seen a slight increase in 2010, at a rate of 1,2803 Dollars per Euro, at a rate of 1,3863 Dollars per Euro in 2011 to fall back to \$ 1 1,3418 Euros and in the first month of the year 2012 to reach a rate of 1,3176 dollars per 1 Euro. The average data counted is a rate of 1,35228 Dollars per Euro, the lowest rate of 1,2669 Dollars per Euro, registered on 19 January 2012, while the highest rate was 1,4487 Dollars per 1 Euro, registered on 29 August 2011.

As far as the Japanese currency, seen from analysis on the three years that it has experienced a trend of increasing the conversion rate for the first two years, i.e. at a rate of 115,1158 per 1 Euro in 2009, at 125,1274 yen per 1 Euro in 2010 and in 2011 to decline at a rate of 112,3912 per 1 Euro. Conversion rates on the average data counted is 104,239 yen per 1 Euro, the lowest value recorded on the 16 January 2012 (97,2501 yen per 1 Euro), while the highest value was recorded on 25 August 2011 (111,31 yen per 1 Euro). On the last day of the month of January 2011, the conversion rate was 100,63 yen per 1 Euro. You must keep in mind the fact that this country is going through a period of restoration and it is possible that in the future we may be witnessing a "Japanese miracle" as happened after World War II.

Indeed, as I pointed out before, the single currency, the Euro, has already had a huge international success, just as it had on the European continent, bearing in mind that, in any one year of the occurrence it was most often used for floating International bonds.

In the last fifty years, until the advent of the Euro, the US dollar has held the rule simply because I don't have a competitor. No other economy in the world not even approaching the size of the economy of the United States of America. If you were to go back in history, you might notice a similarity in terms of dominance pound sterling on the financial market.

After more than ten years after the creation of the single currency, there is still controversy regarding the European economic scene and beyond. They were powered by the sovereign debt crisis in the Euro area, while pessimists say that if it will not break, these crises will be in the future. However, among the specialists in economy and people are hopeful, as are for example, Chinn and Frankel¹¹.

They predicted in 2005, following an investigation that the Euro could surpass the dollar in the year 2022 as loan money, backup, but in their latest econometric calculations, in 2008, they approached this time horizon until the year 2015.

Thus, the vision of these specialists raises the question of inherent, if the dollar could lose its role as the dominant leader of the world's currencies, and the answer might be yes.

The first reason that comes to support this answer is that at the moment the euro exists more a more genuine than the German mark and Japanese yen. The second reason is that the United States of America has now more than twenty-five years of chronic current account deficit and the dollar has over thirty-five years of depreciation¹².

To this conclusion came and other euro-optimists, like Papaioannou and Portes¹³ relying on trend exchange rates dollar Euro (2000-2010) as shown in the following figure and table.

Table 5 – Exchange rate trend US Dollar-Euro (2000-2010)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
USD vs EUR	0,0805	0,067	-0,1536	-0,1713	-0,0555	0,1024	-0,077	-0,0679	0,0336	-0,0242	0,0542	0,0237

Source: Table made by the author, based on the data retrieved from the <http://www.rateslist.com/exchange-rate-trends-2011.html> website accessed on 1.02.2012

¹¹ <http://www.ssc.wisc.edu/~mchinn/intratepap7.pdf>

¹² Chinn M. și Frankel J. – “The Euro may over the next 15 years surpass the Dollar as leading international currency”, NBER Working Paper no.13909, April 2008, p.51, available: www.nber.org/papers/w13909

¹³ Papaioannou E. și Portes R. - "*Costs and benefits of running an international currency.*" [European Economy - Economic Papers](#) 348, Directorate General Economic and Monetary Affairs, European Commission, 2008, available: http://ec.europa.eu/economy_finance/publications/publication13486_en.pdf

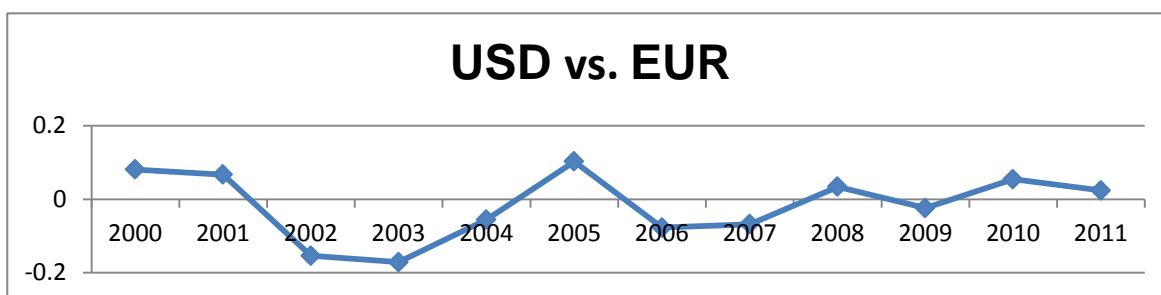


Figure 4 - Exchange rate trend US Dollar-Euro (2000-2010)

Source: Graph made by the author, based on the data retrieved from the <http://www.rateslist.com/exchange-rate-trends-2011.html> website accessed on 1.02.2012

So far, financial markets, the dollar has seen some resurgence against the euro, just because of the crisis through which this currency. For example, the inflation rate of seventeen countries of the Euro Zone fell from 2.8% in December 2011, from 3% in November, which makes it very likely that, at some point, the European Central Bank to lower interest rates below 1%.

This will make the Euro devaluation is not one product abruptly, so as to leave room for reaction to this phenomenon.

On the flip side, however, the US dollar is not better because it is stuck in the middle between the other main currencies.

Globally, the combination of a weak Dollar and a weak Euro may prove to be a pretty serious issue, affecting mostly trade. Of course that these declines are reflected in the prices of goods on the market, but they turn into losses for countries producing and exporting.

CONCLUSION

Analyzing all the above data we can conclude that in spite of the crisis the global economy, top international remain on coins currently unchanged, the Euro is the second most popular. Note however, that this currency continues to gain percent mainly in front of U.S. currency, in terms of share in international trade, especially due to the sustained efforts of the European Central Bank.

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