OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

Connectivity Europe and Asia

JVI, September 13th 2019

Franz Nauschnigg
former Head European Affairs and International Financial Organizations Division,
OeNB

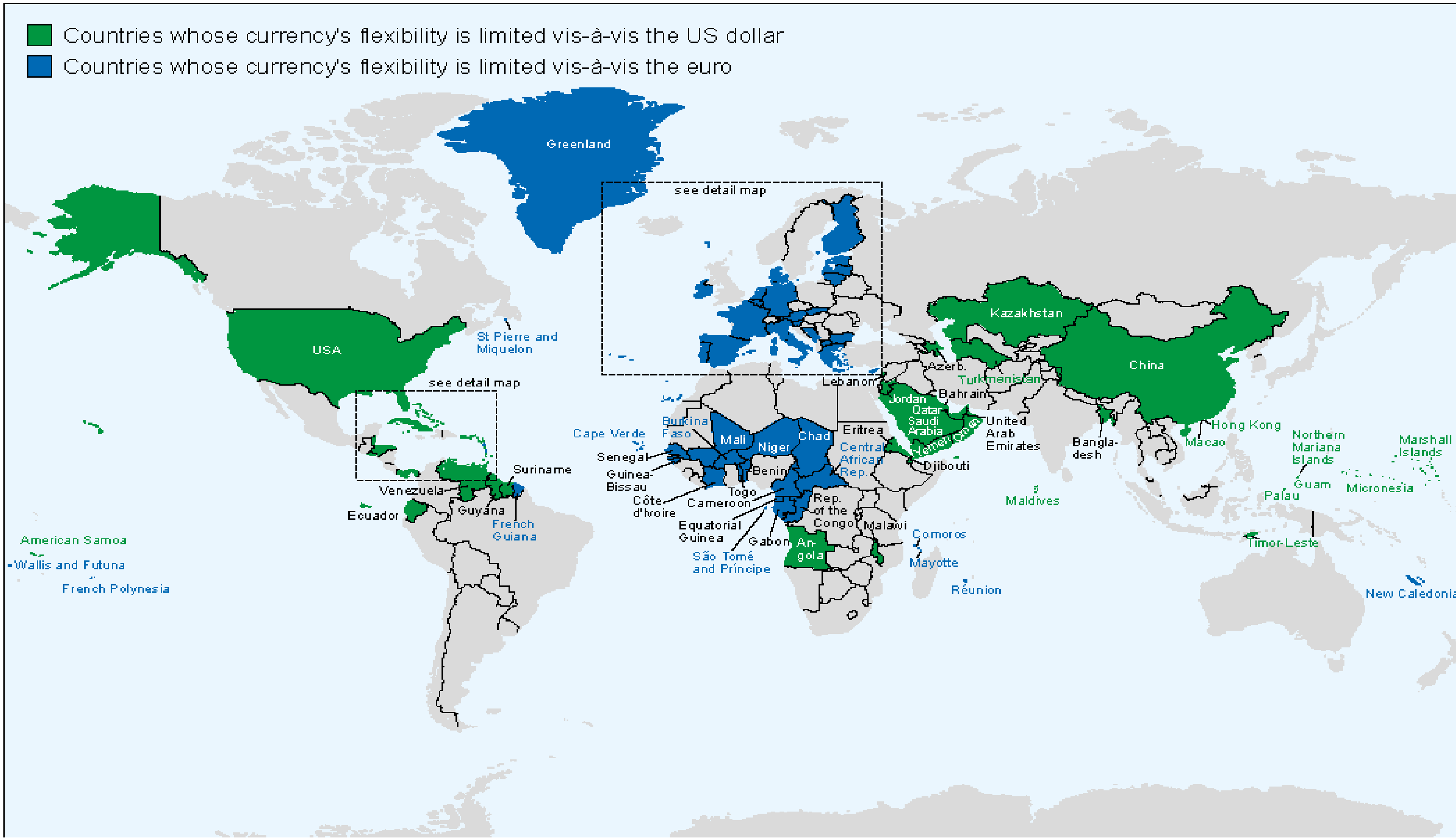
Current Non International Monetary System

- **Surveillance done by IMF**
- **international liquidity mostly $, €, Swap lines Fed, ECB, China**
- **Global Safety net IMF – regional Safety nets most important EU – ESM EFSM etc., Chiang Mai in Asia – for conditional lending**

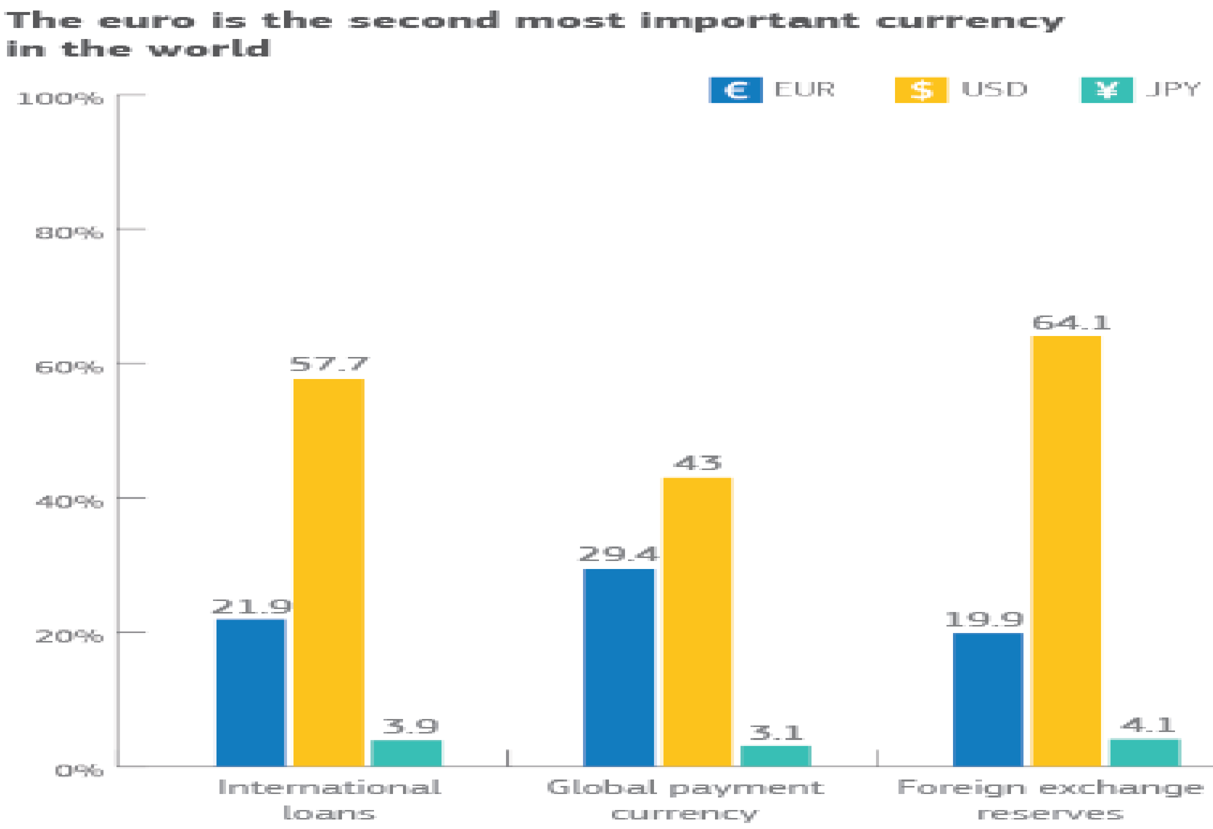
- **World economy essentially shaped by two currency blocs, the euro and the US dollar bloc, which coexist with numerous floating currencies.**
- **The *euro bloc* comprises all the countries and regions that use euro as legal tender or whose currency is pegged to the euro**

- **Maps detailing the geographical extension of the euro bloc (blue) and the US dollar bloc (green)**

Currency blocs



Euro also during crisis second most important reserve currency



Currency blocs

- **Out of 229 countries and territories, the US dollar bloc and the euro bloc have each over 50 members.**

- **The combined GDP of the US dollar bloc fluctuates over time between 150% and 209% of the corresponding euro bloc value depending on the composition of the two blocs.**

- **The euro bloc is extremely stable compared with the US dollar bloc: since 1999**

  … only Hungary left the euro bloc,

  … but 33 countries from all over the world left the US dollar bloc and an even greater number entered it.

Currency blocs

- $ supported by oil and gas traded in $ even if US covers its needs
- € needs pricing of oil, gas in € - trading, futures market in €
- China oil trading in own currency, futures market in €
- Russia most oil, gas exported to EU – pricing in € instead of $
- oil price less volatile in € - would help trade with big suppliers for Euro area e.g. Russia

Future International Monetary System

- **Return of currency, trade wars?** US – China in process of leaving $ bloc
- **US uses $ for sanctions** – Iran, Russia – countries shift out of $
- Dollar-centered payment system is a problem for the EU, China, Russia. Dollar liquidity shortages after the collapse of Lehman Brothers in 2008 deepened the crisis, requiring global cooperation among central banks, with Swaps.
- US administration is using the dollar, and the dollar-based payment system, as a foreign policy tool, e.g.by punishing companies, banks that do business with Iran.
- The dollar-based payment system exposes the EU, China, Russia, to US foreign policies, even if EU foreign policy has different priorities. Use Target 2 as € based international payment system.

- **Bipolar IMS $-€ blocs could develop into tripolar $-€-Yuan System**

Connectivity Europe- Asia in trade, transport

- **EU free trade agreements with Asia e.g. Japan, South Korea**
- **Will lead to more trade between Asia and Europe**

- **Will need improved transport infrastructure**
- **China huge infrastructure investments – Belt and Road**
- **EU needs more infrastructure financing, could be done outside the budget based on Austrian SFINAG model**
- **to give the euro area counter cyclical capabilities an Infrastructure Investment System (IIS), with National Infrastructure Investment Agency (NIIA) should be constructed**
- **Improve rail links in Europe and with Asia**
- **Shipping Asia trade to Adria ports instead of north Sea ports much shorter and faster**