

Peterson Institute for International Economics

Europe in a changing international monetary system

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meetings@piie.com.

[00:02:54.47] - Jacob Funk Kirkegaard

Well, good afternoon, everybody. Um, and Welcome back to the Peterson Institute, both in the room and online. My name is Jacob Kirkegaard, and on behalf of the Peterson Institute President Adam Posen, it's a great pleasure for me to welcome everyone to this afternoon's event on Europe in the Changing International Monetary System. I should start to say from the beginning, this is obviously not a new debate, and you could ask why are we doing this again, because if you were a cynic, you would say that, you know, Europe has great potential to play a role in the international monetary system, and maybe it will always have. But at the same time, if for those of you who attended yesterday's event on the update of the dollar regime, you will have heard our colleague Maury Obstfeld and Maurice Schulerig talk about the institutions that underpin the dollar's role in said international monetary system. And you would hear talks about deep open commitment to multilateralism. And then you look at Europe and you say, well, the Europe, the EU is in the process of negotiating meaningful trade agreements with probably 2 billion consumers in the Global South. We also heard that there is a role to play for things like credibility in the national security sphere.

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And you look at what is going on in Europe, there is the fastest rearmament probably in a number of decades. And of course, the EU and maybe even the eurozone has the potential to, in the medium term, absorb what is today arguably the most effective military in the world, namely Ukraine. So there are many ways in which you can acquire such credibility in the international security sphere. So you could, with the optimistic hat on, say that Europe is in the process of taking its fate into its own hand. In terms of establishing this future or a role in this changing international monetary system. Fortunately, I am blessed with having a fantastic panel with which to discuss this issue with us today. We have 5 stakeholders, I would say, both from the public and the private sector. We will start with Governor Signe Krogstrup from the Danish Central Bank. And I get to say that it is a particular pleasure to welcome Signe back to the Peterson Institute, where you were before you went back to Copenhagen, was a visiting fellow.

And it is also, of course, appropriate— and this I also get to say— that when you come from a country that has no real economic problems, it is analytically correct to spend your time viewing and analyzing the jurisdiction with which your currency happened to be pegged.

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So welcome. Signe will be followed by Klaas Knot, obviously long-term former president of the Nederlandsche Bank, member of the ECB Governing Council, and president of the Financial Stability Board. Welcome back. Then Angel Ubide will bring a little bit of private sector flair to the panel. And I think it's fair to say that Angel has for many years, apart from being part of the Peterson Institute sphere, been a tireless advocate for common European safe assets. And I'm sure we will hear a little bit of that, about that later today. Then we will be joined by Olli Rehn, Dr. or Governor of the Bank of Finland, First Vice Chair of the European Stability— Systemic Stability Board. Risk Board, sorry. And as you eloquently put it to me, with a bright political future well behind you. You are, of course, also a former vice president of the European Commission. So I think it's fair to say that you come to the panel with the— in a euro bond debate with both buy side and sell side experience. And then finally, Agnès Bénassy-Quéré comes to us from the Bank of France, where she is now Deputy Governor following a very long and distinguished career in both academia and policy.

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I will now, in the interest of time, hand over directly to Sinead. 12 minutes, which will be rigorously enforced for all participants. Thank you. Bonjour.

[00:07:35.04] - Signe Krogstrup

Thank you very much, Jacob, for this very nice introduction. It's really a pleasure to be back here today at the Peterson Institute. I did spend time here before, very good memories from that. Also, thanks for inviting me to be on this very distinguished panel. And our topic is Europe in a Changing International Monetary System. And what I thought was I would give you a perspective, really a helicopter perspective of how we view this topic at the Danish Central Bank, which is a small central bank of a small open economy with our own currency, as Jacob already said. And we don't have much else to do than looking at these things. So that's what I will be talking about. Why this topic? Well, first of all, we are currently in a situation where rules-based international cooperation, which has been really the cornerstone of European prosperity and Danish as well, is under pressure. And a part of this is that there's also changes in the international monetary system, or there may be changes coming up. Now, this is not a new

discussion. It has been underway for some time. And the dollar remains firmly in place as the key international currency.

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But there are some changing patterns. And the market response to the tariff announcements in April illustrated that there are possible changes and this may be a foreboding for what has to come. The announcements of the tariffs set off a risk-off episode, but opposite to what we usually see of safe haven patterns in the dollar and dollar assets, what we saw that there was capital outflows from the US. We also saw Treasury yields increasing and then we saw the dollar depreciating during this period. There has been a normalization, some normalization since then, and we certainly do see capital inflows into the US as before. But the correlations of the US dollar with measures of risk, investor risk perceptions have declined, and that's what I show you here on the right side of the chart. There is perhaps a decline, perhaps even a reversal in the correlation. In the US dollar correlation with investor risk perceptions. We also saw an increase in the tendency of international investors to hedge their US dollar assets, so the US dollar exposures of their US asset holdings. This is a little bit difficult data-wise to assess what's going on globally, but different pieces of information point in this direction, and we have important pieces of that in Denmark.

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We are collecting directly foreign currency exposures of our large pension funds. And this is what I'm showing you here on the right. That is the ratio of hedging, of US dollar hedging of Danish pension funds, US assets. And what you can see is that after April, we saw an increase in the ratio, quite an abrupt increase in the ratio of hedging of the US dollar hedging of these assets. Now, it looks abrupt, but it is relatively, a relatively small increase, and it also is within historical variation. So we should be careful not to read too much into it. But it is a remarkable increase in the sense that during the same time period, it actually became more expensive for pension funds to hedge. During the same time period, pension funds also increased their equity exposures, and usually equity exposures will be less hedged. Instead, we saw more hedging. So these may be signs of changes. Of course, it's not the first time in history that we have changes to the perception of the dollar. And if we look at another chart, you'll see that despite this, we have Now, as well as over many decades, the dollar remains significant across market segments, across the different functions of the international currency.

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The point is that there is risk of disruption. There has been some foreboding. So what does this mean for us as a central bank of a small open economy with our own currency? First of all, let me say that we have gained probably disproportionately from open markets and stability in the dollar-based international monetary system. This has allowed us to specialize production. It has allowed us to reap economies of scale. And very importantly, it has also allowed us to benefit from cross-border investments. Our monetary stability is intimately linked to that of the euro. As Jacob just said. And that means that when we look at financial or monetary stability, the international monetary system stability is important for us and it goes through the stability of the euro, which hence is a very important focus. So for us, this means that now for Europe, it's important to focus increasingly on resilience. Not just on resilience, we focused a lot on competitiveness, on growth, resilience also has to play a big role.

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Okay.

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So instead of focusing on the challenges to the agenda, which are many, let me focus on some of the opportunities that we have. So first of all, on the real side, one way of increasing both resilience and growth is the deepening of the EU single market. And there's a lot of work in this direction. We have from the IMF current work or recent work, and we also contributed to that from the Danish Central Bank that shows that if we just reduce non-tariff trade barriers by small amounts, we can really boost both growth and resilience in the EU. On the financial resilience side, this is also an opportunity to make sure that we have regulation that's fit for purpose. And this is a big discussion in the current environment that I will not get into, but I'm sure that that's something that can come beyond the agenda for later. On the monetary side, this situation can also be seen as an opportunity for the euro to take a more important role in ensuring resilience in international financial markets. So is a stronger role for the euro possible? Well, we know, and I'm sure that's what you talked about yesterday also, we know which features will support international currencies over time.

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These include strong institutions, rule of law, good policies, fiscal, monetary, and financial stability, just to name a few. And in that light, I would say this goes hand in hand with EU ambitions as well as the EU policy agenda. The supply of European safe assets is also mentioned often as a stumbling block here. And there are many current proposals for how to increase the supply, notably from one of my fellow panelists. So I'm sure we will hear more

about that. And I will finish up with a few words on the role of payments in resilience, which is a key focus for us at the Central Bank. Okay. So, we are currently doing a lot of work at the Danish Central Bank on increasing the resilience of our domestic payment system. We just got out with a report on how we are allowing for offline payments. Payment solutions are still fragmented across EU borders and currencies, however, and they are dominated by few large foreign providers. There are also concerns that dollar-based stablecoins could further cement foreign dominance and cause financial instability. Although I would say we don't see that currently, this is a big topic of discussion.

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The good news also here is that there are important opportunities to strengthen cross-border European payments at this juncture. And there's a lot of work going on, and I've listed some of it in this slide. So if I start from the top, we are currently merging our wholesale payments infrastructure in Europe. And by that, I mean that in Denmark, we moved our Danish wholesale payment system onto the Target platform. We did that whole merger in April. And our Nordic neighbors, they are following suit. This means that we are now settling on the Target platform in Danish kroner. And we're also settling account-to-account instant payments on the TIPS platform alongside Swedish kronor and alongside euro. So the TIPS platform has really become multi-currency at this point. The point of this is to increase resilience in payments. It's also important for us to do more collaboration in Europe. This also means that we are collaborating on wholesale CBDC with the ECB and the Riksbank. Second, here we are increasing our fast payment systems. They are really on the rise in Europe. We have been quite fast movers in Denmark, but we see that across European countries that these are really picking up speed.

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Instant payments are account-to-account payments that do not have the card provider in between. So that increases resilience when we can use that more. And an important step here has been the instant payments regulation. Third, plans for the digital euro are advancing. The digital euro will also be an instant account-to-account payment solution. It will be based on central bank money, and the advantage there is, is that it will be rolled out across the euro area from the get-go. And that will be based on legal tender. Of course, we have our own currency in Denmark. We're not part of this. We follow those projects very closely and very, very interested. But that brings me to the fourth bullet here, which is something that we're very involved in, and that is interlinking fast payments across currencies. A key project here for us is the TIPS cross-currency project. Which I often, I take any possibility I can to stress this. This is a very promising project. What we do here is that we're settling instant payments on the TIPS platform, but within

currencies currently. And the aim is to do this across currencies. So we want to settle Danish instant payments into euro and back, also across Swedish kronor.

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So we want to go from multi-currency platform to a cross-currency platform. And the ambition is that once that is working, we also want to link other fast payment systems in non-EU currencies. A final point on stablecoins. Currently, a number of European banks are launching their own euro stablecoins. One advantage touted is cross-border payments.

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Stablecoins.

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And I hope that I've made clear here with this chart that there are many other ways that we in Europe now are currently strengthening our cross-border payments and payments in general. Nevertheless, it might be that stablecoin technology does offer something that would be an advantage for European citizens in the future. Um, that cannot be excluded. In any case, or Or in that case, it is important that technology and resilience is going to be what drives adoption. So I think I will stop here. I said, "Aan, thank you very much." It's up here.

[00:20:03.56] - Klaas Knot

Yeah, it's up there. Okay. So, well, thank you very much also to the organizers for having me speak on, I think, an issue that is pretty important. Usually you start a presentation like this by saying that the views are my own, and this time around I can really safely say that the views are my own. But of course, this is a topic on which I have also been reflecting over the last 14 years. And as a matter of fact, I still remember when I was here half a year ago, when there was a lot of buzz in the air about the international role of the euro. So I thought for today's panel, let's zoom in a little bit more on how I see the prospects of the international role of the euro. What are sort of the key components that make a currency an international reserve currency. How does Europe, quote unquote, score on these components? And then I'll also end with the famous issue around common borrowing, safe assets, and eurobonds. So first, a quick look at the data. This is what the— how the international role of the euro has been developing since its inception in 1999.

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The yellow line is at current exchange rates, but the more interesting one is, of course, the blue line on constant exchange rates. And then basically what you see is that the euro was off to a very promising start in 1999. It quickly gained some sort of more relevance in international payments, invoicing, and what have you. But then it plateaued, it plateaued for a while, and then you see the consequences of the global financial crisis. Where, yeah, in fact, all the sort of ground— the, the ground that was previously won was lost again. And there's been a little bit of a recovery, but not much. And since then, it has basically moved sideways. Now, this is for quarterly moving average data. Uh, the last data point is the end of '24. I could not find actually the, uh, the classified data for the first two quarters of '25, but from Qualitative descriptions, what I understand is that on current exchange rates, the yellow line is going a little bit up, but this is entirely due to the appreciation of the euro. If you correct for that, the movement continues to be sideways. So then let's move to sort of what actually— why are we concerned about the role of the euro, or why do we think that having an international role for the euro would be actually beneficial for the euro area.

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Well, first of all, it's good to keep in mind that the international position of a reserve currency is based on a self-reinforcing mechanism. The more it's used, the more attractive it is, and the more it will be used, and the more attractive it will be. So Herr Kindleberger, I think, made the analogy with the English language as the lingua franca, and I think that's a very appropriate appropriate analogy that once you are the reserve currency, there's a lot of forces that will actually defend the status quo. And also, reserve currencies have changed in the past, but usually it takes quite a big event, a crisis, to dethrone the reserve currency. If you look at the interwar period when the UK pound, the British pound, was replaced by the dollar, That was quite a period with a lot of policy-induced instability, et cetera. Now, when I was here half a year ago, there was also a little bit of a discussion. Then, of course, there was still a discussion about a Mar-a-Lago agreement, which would have some elements of potentially, let's say, destabilizing the role of the current reserve currency, the US dollar. But I do think if you talk to market participants today, and there is a change in atmosphere relative to the dollar, and there is a much more positive narrative now around the dollar.

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And I don't think you read the words Mar-a-Lago as often anymore today as you would have half a year ago. Okay, so why would we want to be a reserve currency? Well, it of course, it shields exporters from currency risk. It leads to additional inflows of capital, lower borrowing costs, particularly At periods when tensions sort of arise and the safe haven status becomes more valuable. And then there is a new argument which was not so relevant, let's say, a few

years ago, but clearly the strategic autonomy in payments, and Signe also talked about this. If you are in a relationship with somebody who is a McHale-faller and etc., then it does sometimes is good to show your dependencies and your vulnerabilities. But if you're in a relationship with somebody who purely thinks transactionally, then the last thing you want to do is to show vulnerabilities. And that is basically, I think, the world that we're currently in. So if you then go on to assess the potential for the euro to become a reserve currency, then I would start— and this is actually my first point— that it is important to keep in mind that external strength or external attractiveness, if you will, at the end of the day will always be a function of internal strength and internal cohesion.

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And if you then try to design a scoreboard of sort of how is Europe doing on these factors, then there are a positive— a few positives. I mean, to start with the positives, The EU remains a trustworthy pillar of the rules-based world order. The fewer such pillars there are, the higher the value of the remaining pillars. So that is absolutely a positive for the euro. Also, the policies of the European Central Bank over time— I mean, you can always on monetary policy have a debate, and reasonable people can differ on what policy should do at what point in time, but I don't think that anybody can challenge and the commitment that the Governing Council of the European Central Bank has always had to its price and financial stability mandates. And it's safeguarded by a degree of independence. If you look at, at least the legal underpinning of the independence is probably stronger than in many, many other areas in the world. So that, I think, is also clearly a strong factor that pleads in favor of the euro. But then it becomes a little bit more difficult. The internal market. Well, we have an internal market in name on goods and services, but I think on many components of the internal market, unfortunately, it's not there in reality, and there are significant obstacles to the functioning of the internal market.

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Views differ a little bit on how big these obstacles are. There are different models being used, gravity models, other models, etc. But the suggestion at least is that if you try to quantify the sort of internal obstacles that we still have in our internal market, the effective tariffs that they would sort of be equivalent to are not all that different from the tariffs that the US is trying to impose on Europe. So our external tariffs are comparable to the internal tariffs that we still have in our single market. So that's clearly not a positive. Then banking union. Do we have more banking union today or less banking union than, let's say, in 2011? Well, we have more banking union if you see banking union as a sort of official sector activity, because we centralize supervision, we partially centralize resolution. So then you say, yeah, there is more banking union. But if you actually look at the amount of banking assets in a certain European country that is controlled

from a bank that is headquartered in a different EU member state. Isabel Schnabel showed this slide on my farewell, uh, symposium a few weeks ago. That number was 4 trillion in 2011.

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That number is 2.5 trillion today. So on the ground, we actually have less banking union today than we had in 2011. Well then, sorry, finally, the Savings and Investment Union. I think there's a lot of talk about the Savings Investment Union. I think there is a lot of very, very good intentions, but we know what needs to be done. But we unfortunately also know that what needs to be done is very difficult to get done. What needs to be done? First of all, no capital markets union without capitalists. So we clearly need better structures for retail investors to go more into equities and less into bank deposits. For instance, auto-enrolment of pension schemes would be absolutely, I think, a good thing. If you look at those countries in the EU where there are capital markets, it's usually the countries where there is actually old-age retirement savings. Okay, harmonization of insolvency laws, centralized ESMA supervision. And then— and this is my final slide, Jacob— of course, the issue of common safe assets. Now, in my view, there are two ways in which you can sort of get to a higher occurrence of common safe assets, the so-called euro bonds.

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The first one is the European public goods argument. And that's a very simple argument that in today's interconnected world, governments are in the business of providing public goods. And many of these public goods can be provided more effectively, more efficiently at the European level than still at the national level. And if that is the case, and if you accept that logic, then it also makes sense to think about European financing arrangements, right? Now, if you now look at how the EU budget is financed, it's mainly national contributions. I think that's problematic. I think it's problematic from a perspective of political accountability, because it means that for domestic policymakers, for domestic politicians that are accountable to the domestic electorates, Europe is a cost center. Because it's something that they have to pay into. But the successes of European policy are insufficiently sort of represented in the public debates. And I think the Brexit was an extreme case of where sort of such a situation can end. But I think it's a structural vulnerability that argues for having more own revenues or euro bonds. And that I think is an understandable case that can be defended. Now, it is true that investors, in order for them, for eurobonds to be attractive, they will need to have some continuous and predictable issue calendar.

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So this cannot be a one-off exercise. The other way, and I think Ángel will speak about it later on undoubtedly, is of course to say, well, let's mutualize the existing national debt that is out there. And economically, I think this is a superior proposal.

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Why?

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Because it leads to a much faster accumulation of eurobonds, because this is going to only slowly and gradually make the stock of eurobonds grow. But this would, at one strike— and you can decide, do you do 10% or 15% or 20%— that would create quite a significant amount of eurobonds. And it also has the attractive feature that it would not increase the overall indebtedness, because it would simply be swapping public debt that is already out there from the national to the European level. Unfortunately— and this is my very last words— politically, I think this is quite infeasible, because these national debts have all been created in a period in which fiscal coordination was weak, in which in many countries there were complaints about the lack of adherence to the fiscal framework. The fiscal standards, etc. So in my view, and I will end here, this is a more promising way. This is better explainable in a lot of countries, but we have to accept that it will mean that it will only come slowly and gradually.

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Thank you.

[00:32:29.22] - Ángel Ubide

Thank you. And while the slides come up, it's really always a pleasure to be back at home at the Peterson Institute. My job here is to convince you that Glass-Steagall is wrong and that eurobonds are probably feasible. Obviously, this is work joined with Olivier Blanchard in a piece we published a few months ago. Since I also have central bank envy, I have to say that the views are mine and not those of my employer, Citadel. The point that we're trying to make here is this. Now is the time for Eurobonds. Let me tell you why. There are 3 main reasons, and this is a happy coincidence of events. First of all, the need. The world has changed. Europe needs to achieve strategic autonomy. You will never have a strategic autonomy without financial strength, and you cannot have financial strength if you don't have a safe asset. The second point is the opportunity. There is a growing demand for European assets. You go around the world, everybody wants to invest in European assets. Uh, Xenia showed some numbers before. Uh, the only way for this to happen is to offer them an asset they also want to invest in.

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That's what the euro bonds, the role they would perform. Third is the institutional support. There has been a subtle, but I think quite clear shift in the stance of the ECB as regards the international role of the euro, from going from a neutral stance to promoting it. At least in our view, you cannot have an international currency if you don't have a large, deep, and liquid safe asset. So what do we propose? We propose to replace up to 25% of GDP of the European countries' debt with eurobonds. This can be done in two ways. We can exchange the current national bonds by the eurobonds, or we can wait until the maturities come due and refinance. We propose to do both, because otherwise the process would take too long. How do we back these eurobonds? We back them by money, by revenues, by a transfer of a share of the VAT of each member state. Why? Because own resources, inventing new taxes will never be enough. We think we need to go to what we have. Now, this would have to be enshrined in legislation in each member state to make it safe. We calculated, and this by which, by the way, it was calculated by Philip Lane in a speech he gave a couple of months ago on this issue, it would only require around 1% of GDP.

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This is not big numbers. These are small numbers that can be done. It could be politically feasible to agree on a transfer of 1% of GDP of VAT resources to the EU. These eurobonds would be safe, but they would be safe because they would enjoy a double guarantee. First of all, the legal commitment to the transfer of the VAT revenues. Second, the EU as an issuer has a legal commitment to service its debt. There is a double layer of commitment. One is the commitment to transfer the money and second, the commitment to service the debt. Surprise, the eurobonds already exist. That's something that in presenting this paper over the last few months, people don't really know. What we propose is to make them 5 times bigger. If you look at that chart, it shows you the issuance of what is called EU bonds and EU bills, which are the bonds issued by the European Union, and compare to the rest of European countries. The blue bar is the stock, and you can see that the EU is the 5th largest stock of debt is already bigger than the Netherlands. When you look at the flow in terms of issuance, the EU is the bigger issuer in 2025 and will also be the biggest issuer in 2026.

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Those are the bonds that are issued for the Next Generation EU. This already exists. We are not really creating anything revolutionary here. What we are saying is to take advantage of an infrastructure that did already exist, It is a futures market, it's accepted as repo, as collateral,

and then make it bigger. Now, just to make it very simple, this is the comparison between what we propose, what it exists. On the top, the current euro bonds that are transferred to the EU budget, the decision of EU bonds and bills that goes to fund the EU programs, Next Generation EU, Ukraine Safe, and others. What do we propose? It's basically parallel transfer of some resources to the EU, issue the EU bonds and bills, and then transfer those funds to the budget of the member states. Surprise, that's what Next Generation EU does too. So again, it's doing the same thing but much bigger. Now let me clarify what we do not propose here because it's also very important. We do not propose to earmark the euro bonds to any specific spending program. Why? Because that's a different political decision. That's up to societies and leaders whether they want to spend more money on defense, on education, on climate, or on whatever.

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This is completely narrow and strictly limited to the managing of the debt. We do not propose to increase—to use euro bonds to increase the debts and deficits. Also to be very clear. And we do not propose to have joint and several guarantees like in the original blue and red proposal. So what we propose, just to repeat a little bit, is to optimize the current debt management to meet the new demand. And new is very important because it will reduce the financial cost for all the countries. That will imply that euro bonds should have a negative beta to risk like the treasuries, and that increases the stability of the eurozone and the European economy. The economy. As a spillover, it would help create a deep and liquid European corporate bond market, and you cannot have a capital markets union without a corporate bond yield curve. And the result is that it reduces the financing cost for both the public and the private sector. What's not to like? All right, there are issues, of course. I'm only going to go on a couple of them. The second bullet point, does it imply that national bonds become junior and at risk of a run?

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The answer is no, because these bonds are not junior in a CDS sense. There is no waterfall. What we propose is two pots of money. This pot supports the national bonds, this pot supports the eurobonds. That's it. Nothing more, nothing less. If anything, you could argue that eurobonds could be super senior. Because if you default on the euro bonds, if you default as a member state on the transfer to the euro bonds, you are defaulting politically on the EU. That relates to the last bullet point. Would this lead to an increase in national yields? Well, maybe at the beginning. Markets need to adjust to these changes, but honestly, this is an incentive also to deliver national fiscal policies that are responsible. We think that in that sense, we are also addressing the possibility of moral hazard, but that in the end, the bottom line is that this cuts the tail event of losing market access, which in some sense, for those who are more supervisory inclined and in banking sector, is the analog to having ample reserves for banks. More issues.

Focus on the second bullet point only. Why would you do this if the EU bonds trade today at a positive spread to bonds?

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Well, this is the little secret. If you issue more euro bonds, you will reduce the spread. Why is that? Because today that spread exists because the euro bond market is small and there is uncertainty about the future. Nobody knows if the bonds that were issued to finance the Next Generation EU program will be rolled over. That is a problem. I have a quote there from the head of the International Capital Markets Association that essentially says that if the next generation EU bonds are not rollover, spreads will increase. That is something to keep in mind. We need certainty. It's something that Klaas was arguing before about the issuance because that would also facilitate the inclusion in the sovereign bond indices and make these bonds sovereign. Let me conclude. We love structural reforms in Europe, right? So this is the key time for a key reform because this will strengthen the European economy and boost the international role of the euro. So here is a way to sell it politically. This is a trifecta, right? You have the Lehman report with the advice to defragment a single market will increase the market size of the real economy.

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We have the Draghi report, which advises to defragment investment, and that is going to boost productivity. What we propose here with eurobonds is defragment government debt and lower financing costs. So my final two wishes here: put a deadline. Without a deadline, nothing will work. But put a deadline to the whole package. Make this package the strategic autonomy of Europe or whatever name you want to call it and have a deadline by, for example, the 1st of January of 2028. It can be done. And then the final point and I conclude here. If this is not done, it's fine. It's a political decision. But I think policymakers and politicians should tell their citizens that what they are doing is accepting higher financing. And that's fine, it's legitimate, but I think it should be very clear that that is the implication of not doing this, higher financing cost and a more unstable economy. And with this, thank you very much.

[00:43:29.01] - Olli Rehn

Good afternoon, everybody, and it's a real pleasure to be back at the Peterson Institute, which is a place that for decades has helped shape how we think about the world economy. Fact-based, open-minded, and not afraid to challenge conventional wisdom. It seems that when I was listening to Signe Klaas and Angel, that there is a certain overlap between us panelists. I felt that one point after another is dropping from my presentation. Well, you can take that as,

say, either as a sign of dangerous groupthink, or if you were to lack collegial self-irony, a situation of great minds think alike. Up to you to choose after the panel discussion today. Be that as it may, I will give my take on this subject, and I start with the short-term outlook of Europe and focus rather on the longer-term, say, grand scheme of things, the real economy and structural issues. It's clear that we are meeting at a moment when geopolitics and protectionism are reshaping the global economy. And we have entered an era that is less rules-based and more power-based. The international monetary system is becoming more fragmented, more contested, and also more strategic. Now, amid this turbulence, Europe has proven its resilience.

[00:45:28.41]

Essentially, the euro rests on firm foundations: the rule of law, macroeconomic stability, and the world's second largest integrated economy. Despite Russia's war in Ukraine, despite the energy shock, despite the sharpest inflation surge in decades, Europe has actually come through remarkably well through this period. Inflation has now returned from above 10%, stabilized to our target at around 2%. Growth has stayed positive and is projected to stay positive. And employment, perhaps most importantly, has held up throughout. So, yes, the European economy has shown remarkable resilience. But— and this is an essential but— Resilience is not the same as dynamism. Our growth is steady, but rather modest, too modest. In short, Europe's problem is not survival, it is momentum. We can deal with shocks, but can we generate sustained, self-confident growth? That's the real test for us. And here I follow the great, I would say, European-American or Austrian-American economist Joseph Schumpeter, who stated in 1917 that the state of a nation's monetary system is a symptom of all its conditions. Alle Resignation. What goes for a nation goes for, goes for Europe as well. It's true for Europe as well. And that leads to my main message today, which is that a stronger international role for the euro requires a stronger, more dynamic Europe.

[00:47:56.57]

Both in terms of security and the economy. The euro's global weight ultimately depends on the vitality of the economy behind it. And that's why the path forward rests on three key priorities, three Ds, that is defense, dynamism, and digital sovereignty. The first is inevitably defense and security as an economic asset. Russia's war of aggression in Ukraine has reminded us painfully that security and economics are inseparable. And this is not just a military point. It is also an economic one. Because defense spending, defense investment, if done right, is also an investment in innovation, industry, and resilience. It drives technological spillovers and crucially, it builds confidence in Europe's capacity to protect itself. But this also brings a financial opportunity. The need to fund common defense reinforces the case for common European instruments, including joint bond issuance. And I very much agree in this regard what Angel was

saying a few minutes ago. And this could pave the way to finally provide the euro area with a deep and liquid safe asset. That would help integrate our capital markets and give the euro a genuine benchmark comparable to US Treasuries. The second D is dynamism, the engine of Europe's prosperity and the foundation of the euro's strength.

[00:50:01.34]

In my mind, the lesson is simple: a currency cannot be stronger than the economy it represents. The Draghi Report put this very clearly: Europe must reignite growth through more investment, smarter regulation, and a renewed commitment to complete the single market, as Claes explained, especially in services and capital. And that's why economic dynamism, investing in productivity, completing the savings and investment union, and enabling innovation is indeed essential. So let me underline this point. The euro's international role and Europe's economic dynamism are inseparable. One cannot exist without the other. The third D is digital sovereignty, perhaps the most strategic frontier of all these. In that arena, Europe remains far too dependent on non-European platforms and payment systems. At the same time, US dollar-backed stablecoins are spreading rapidly, aiming at extending dollar dominance into digital finance. Europe is not ignoring this. Shift, and that's why the digital euro is important. It's not about hype or headlines. It's about ensuring that European citizens and firms have access to secure, inclusive legal tender in the digital age, issued by the central bank, backed by public trust. The digital euro will complement, not replace, cash, and it will ensure that money in Europe remains a public good, not a private monopoly.

[00:52:10.58]

We are also working actively on enhancing European payment systems. I won't go into that, save some time to say that I very much agree with Signe, who was outlining this a few minutes ago. And in fact, you can see that Denmark is so deeply integrated to the euro that it could well be a member of the eurozone without any problems. And I would very much like to see you at the table of the European Central Bank Governing Council. I must say, I miss you. I miss Kristian, I miss Eric, I miss Denmark and Sweden in order to have a stronger Nordic influence at the ECB Governing Council. Just a little hint. Signet. So, dear friends, dear colleagues, let me conclude. History shows that periods of monetary system transition, such as the breakdowns of the gold standard and the collapse of Bretton Woods have provoked financial instability and political disorder. In our time, the era of polycrisis, we don't need that. We can't afford that. In my view, dollar dominance is likely to persist for quite some time. That's a reality. But its unipolar hegemonic supremacy is being challenged by two dimensions: geopolitical confrontation and technological disruption.

[00:53:56.43]

The next evolution of the, of the international monetary system is probably going to be a more multipolar one, which calls for a strategic rethink of the euro's global role. To support sound rebalancing of the global monetary order. And finally, let's recall that the future of the international monetary system is inherently linked to the general fate of multilateral international cooperation. Despite the current headwinds, the European Union will continue to defend the foundations of international cooperation preferably together with our partners in the United States, in the Global South, and beyond. Thank you very much for your attention.

[00:55:05.20] - Agnès Bénassy-Quéré

Thank you very much for the invitation. I'm very happy to be here. I'm the last speaker. I will start from where Olli just concluded and focusing on the technological part of the debate. So we all know that a change in the international monetary system is a rare event, and not all economists have the chance to witness a change in the international monetary system. If it would happen, please pay attention because this is really very rare. So we are seeing opposite forces that are driving the international monetary system here, and we don't yet know what will prevail. On the one hand, the common narrative is that of the development of US dollar-backed stablecoins. Which take place also in a financial system that is more and more dominated by US financial industry. But on the other hand, we have a multipolar economy, cheaper cross-currency payments, Signe alluded to it, also question marks on the US safe assets, fiscal sustainability, and a weaponization of the dollar. So the left-hand side graph is well known to everybody, I suppose. Stablecoins started from almost nothing in 2020, and today the capitalization, the market valuation is about \$250 billion, with a very highly concentrated market with two coins making the bulk of it.

[00:56:58.38]

What is less stressed is the international— so to plug this into the kind of data the other speakers showed, and here on the right-hand side, you have the breakdown of official foreign exchange reserves by currency in percentage. And you see, of course, the bottom is the US dollar, which is still predominant, but you see a fall, gradual fall in the share since the 21st century. Did not benefit the euro, but you see a diversification of the reserves. And I made a back-of-envelope calculation, which you may dislike, but so the— With what we know about the backing of stablecoins in US Treasuries, about 60%, the increase in, in indirect holdings of US Treasuries through stablecoins is worth about 3 times the decline in the dollar foreign exchange reserves globally. So it is significant, non as a stock but as a flow, the marginal effect is significant. Of course, it all depends where does this liquidity come from. Is this a substitution from, say, money market funds or whatever? But this is the order of magnitude. I think it's useful

to have this in mind when you talk about the international monetary system. So as we all know, the international currency fulfills three functions, the medium of exchange, the store of value, and the unit of account.

[00:58:46.23]

The action today is happening in the medium of exchange function, which is quite new. What is happening is that cross-border payments become cheaper. The intention of the executive order of January 2025 and now the Genius Act is partly to leverage on this technological change to boost stablecoins as an international means of payment, a medium of exchange, which will involve more holdings of US Treasuries indirectly through these stablecoins. So from the medium of exchange, a positive spillover on the store value function, despite the fact that stablecoins normally should not yield a return, although we know now that indirectly they do. And of course, all this depends on the right-hand side, the unit of accounts, the credible promise of stability against the fiat currency. So kind of proxy of the dollar that would be used internationally. With lower transaction costs. However, there is an alternative narrative. And let me describe the alternative narrative. What is a bit puzzling is that it's almost the same, same premise, but opposite conclusion. So because we have a drop in transaction costs, then maybe at some point, The US dollar may no longer be needed as a vehicle currency. If I want to exchange currency I against currency J, I maybe no longer have to go through the dollar.

[01:00:41.31]

Hence, multinational firms will perhaps be less incentivized to hold all these dollars because for the cash management, they could easily, more easily use a multi-currency framework. This is happening today. Maybe not so much— Signe described a number of things that are happening with the TIPS, so interlinking of fast payment systems, first with countries in Europe, but then with discussions with larger players outside of Europe. There are a number of other things in Asia. There's a lot of actions going on. Notably the Nexus project, which is a regional platform to interlink the fast payment systems of several countries in Asia. There are many projects also within the BIS hub. This is to be followed closely because it could be that at some point, the incentive to hold dollars would be less because the dollar will be less used as a means of payment. If the stablecoin doesn't yield an interest rate, then maybe having a more diverse set of currencies would also allow for diversification, less exchange rate risk, less need for hedging. And also, because the last corner, the unit of account, the promise of stability, we know that, well, it's a promise, but if you look at the small letters, The issuer could impose a fee or a gate.

[01:02:29.53]

So the promise is not immediate in all countries, although under MiCA, the European regulation, it is. So there is an obligation to redeem at par a stablecoin in euro, except in case of a bankruptcy. So we have two possibilities. And what I wanted to say is that the current narrative that, of course, this is going to reinforce the role of the dollar, it is quite convincing in the short term, but I think this is not the end of the game. So what would a multipolar international monetary system involve? I'm not going to really discuss this. There is a lot of literature about this. Probably after a transition, this is something that could be stabilizing for different reasons. What I wanted to say is not to confuse a multipolar monetary system with a fragmented monetary system. A fragmented monetary system means you have different blocks, currency blocks that do not communicate. The transaction costs could be low within the block, but high between the blocks.. And this would be highly destabilizing, destabilizing for trade, for reducing trade imbalances, for instance. It would be also destabilizing for finance with the risk of fragmentation of liquidity. And the fragmentation may not be only along national borders.

[01:04:07.06]

It could also be between private conglomerates. And this is something that we are seeing more and more and very rapidly, actually. With big private companies developing ledgers. This would be the infrastructure where some other companies could exchange tokenized assets, tokenized, yes, all sorts of tokens, but they would be in control of the infrastructure. This is something that the Eurosystem is observing very closely. Because what is the role of central bank? This is my last slide. The central banks, as the BIS has clearly shown, is responsible for the singleness or unicity of money at wholesale level, at retail level. It's responsible for the elasticity of money supply, which is based on the 2-layer banking system and with commercial banks extending the credit and being refinanced by the central bank. And it is responsible for the security of the system, including AML/CFT and of course lender of last resort. So central banks, in our view, have to accompany financial innovation, not to oppose it, but to accompany it. And so to provide tokenized settlement assets, which will be the case next year, Q3, in the eurozone, there should be provision of wholesale CBDC. So ability for the financial industry to settle their transactions of tokenized assets in central bank money, which would be also tokenized.

[01:05:53.04]

So no need to use a stablecoin. Provide a digital banknote, a digital euro. So keep the link with the banking system. Also regulate, MICA regulation. So the European strategy On top of what Signe discussed, the interlinking of fast payment systems, which is the— well, it's not easy, but it is the first step that can really provide reduced cross-border transaction costs. The wholesale projects, so the short-term Pontes project, the longer-term API project, and of course at the retail level, the digital euro. Thank you very much.

[01:06:48.06] - Jacob Funk Kirkegaard

Well, thank you very much to all the panelists. I have as the moderator to thank all the panelists. Please proceed to the table. Thank all the panelists for what can only be described as impeccably staying to the allocated 12 minutes. There will now be the possibility to ask questions to all the panelists, and the floor is open. As usual, I would kindly ask, or say, that I will give preference to non-Peterson questioners to begin with. There is a microphone in the back and right there, and the first question, please state who you are and Ask your question, please. Oh, sorry. First you and then you will go back.

[01:07:39.37]

Sorry.

[01:07:39.55]

Please.

[01:07:40.04] - Audience

Jacques Calouf, formerly with the IMF. I'll focus on the euro bonds proposal. For this to work ideally, you would need fiscal policies to be aligned and you would need an extra fiscal stance. So barring that, which is the situation in Europe, don't you— what do you think of the two following risks? First, this will increase the debt burden nationally because politicians will want— will not decrease expenditure nationally. And second, since the debts are not equivalent in terms of reimbursement capacity, You're doing a debt equity, a debt swap. Don't you think you need to price the debt swap? So these are two hurdles.

[01:08:37.48] - Ángel Ubide

I think that's—

[01:08:45.55]

So I think the answer is no in both. We keep, as I mentioned, the idea is if we do an exchange of up to 25% of GDP of debt, take a country like Spain, you would have around 65%, 70% of GDP in Spanish bonds. That will provide plenty of opportunity for markets to price the differential fiscal policy of Spain versus other countries. That's the reason why we limit ourselves to 25% of GDP of euro bonds. Eventually, this could increase. But the idea is that the euro

bonds are smaller than the national bonds precisely to keep this discipline. Now, the way we do the exchange or the way we propose the exchange, it's very simple mechanically. So if it's a refinancing, there is a Spanish bond that matures, an EU bond is issued, and that money is transferred to the Spanish budget. If it's an exchange, there is a bond that is retired, so it's bought back by the Spanish Treasury, and there is an EU bond that is issued for the same notional amount, and that money is transferred. So there is no pricing involved. There is no need to get in there because at the end of the day, as I said, it's a question of changing the way the debt is managed.

[01:10:08.14]

It's nothing more, nothing less than that.

[01:10:12.59] - Jacob Funk Kirkegaard

Please, just go to the back mic.

[01:10:18.46] - Audience

Joe Ziegler from D. E. Shaw Group. There are all sorts of very interesting things said about the euro and the possibility of the future of the euro and the global currency system. So I don't mean for Angel's paper to hijack this panel, but I'm going to ask a question about Angel's paper, not to Angel, because it's a very interesting paper. I think it's extremely compelling. It's an important thing for people to discuss. I'd just be curious if the other panelists— I mean, I know, Mr. Ren, you had You gave some response to it in a way in your statements, but I wonder if other people just had responses to this, I think, extremely important idea that deserves a lot of discussion if we are talking about the future of the euro.

[01:10:55.33] - Jacob Funk Kirkegaard

Anybody on the panel want to take that up?

[01:11:01.01] - Olli Rehn

Thank you. I think just to give some historical background to the discussion on eurobonds or safe assets. So, I mean, actually the history goes back to the 1950s in some ways, but more recently in 2010, roughly, Bruegel— that's the sister organization of the Peterson Institute in Brussels— published a paper which proposed blue bonds and red bonds with a limit of 60%, if I recall correctly, for, say, European debt. And then beyond that, it would be national debt. Its mechanism was a bit different than Angel proposed, but the logic was, was in any case quite

similar. And there have been various other proposals of similar kind. Including Philip Lane's working group at the European Systemic Risk Board around 2015. I hope that we can move on in this debate, and I think Angel's proposal is one important contribution to this. I would add that if you look at— that's, let's say, that's a macro solution, but we would also need micro or meso solutions, by which I refer to common defense and the possibility, the financial possibility of using the current immediate necessary needs of common defense investment for creating some kind of safe asset, joint bond issuance which could be issued, for instance, by a European defense mechanism or a European Defense Bank, which could be open for countries outside the European Union and wouldn't have to involve all the members of the European Union, implying that this EDM could be open, for instance, for the United Kingdom or Norway.

[01:13:16.28]

Why not Switzerland? And certainly for, for Ukraine.

[01:13:22.44] - Klaas Knot

Anticipating that Ángel would present his paper immediately after me, I think my response to his paper was on the last slide that I gave. I think it is economically superior, but I continue to say that I think— that I doubt the political feasibility because I think in some ways fiscal and political integration are not uncorrelated. And the— in the public policy argument for eurobonds, the two move in tandem, right? You do eurobonds on those areas where you also make more policy together and where you have a joint European effort together. And the problem in explaining, uh, uh, proposal, for instance, in a country like mine will be, yeah, lower borrowing costs. That's absolutely true in the aggregate. But is it also true for countries that sort of have a AAA themselves. We will have to see whether the liquidity advantage will outweigh the fact that you are mixing bonds of different credit quality. And of course, this point about the disappointment over the fiscal coordination framework that has built up over the years, that has led to a lot of fear about debts being originated in other countries on which we had no control coming our way.

[01:14:45.20]

So in that sense, I think, although I fully acknowledge that economically, if I was a benevolent dictator, clearly, that would be a better proposal. But I think there is also some political reality on the ground. Now, if I may, Jacob, I would like to know from Angel, suppose your proposal was not feasible, but you could get the other one, would the glass then in your view be half full or half empty? Which other one? The public policy argument for euro bonds. So the slowly but gradual buildup of euro bonds.

[01:15:15.55] - Ángel Ubide

Oh no, of course.

[01:15:17.14] - Klaas Knot

Half full or half empty?

[01:15:18.19] - Ángel Ubide

Half full. OK. Half full with— sorry, if I can say— half full with one footnote, which is the risk of inertia. And the risk of inertia is always there. That is, you create something, and then it becomes that, and then it blocks progress. So it would need to be done in a way that is, you create a defense next generation, you say. Funded with EU bonds, the same EU bonds that we have now. So it's the same asset. And then we grow into that.

[01:15:48.46] - Jacob Funk Kirkegaard

Before we take Signe or Agnès, do you want to weigh in on this one?

[01:15:54.37] - Signe Krogstrup

I have just to say that I fully agree with Klaas on his interpretation of this. And we, of course, I don't weigh in on a Eurobond proposal. We have a different currency.

[01:16:05.50] - Klaas Knot

Not yet. Not yet.

[01:16:07.22] - Signe Krogstrup

But no, I just want to say that given the different proposals out there for creating a unified euro bond market, I think that there are certain nice features about this. And they are, for instance, that you don't mutualize risk, as far as I understand, which makes it a bit easier politically. So just that point.

[01:16:30.44] - Jacob Funk Kirkegaard

There's no requirement. Microphone, please.

[01:16:44.22] - Agnès Bénassy-Quéré

Okay, so, Angel, how do you manage the price of the bonds close to the exchange moment? So how do you see this from a market perspective?

[01:16:57.59] - Ángel Ubide

I don't know. But I would only say one thing. Treasuries do buybacks on a regular basis, right? So this would be a big one. And yes, that's something that needs to be discussed and needs to be prepared.

[01:17:15.38] - Agnès Bénassy-Quéré

It's announced in advance, so you can have all sorts of expectations about the—

[01:17:19.41] - Ángel Ubide

Yeah, listen, we haven't got— I think somewhere in the paper says this is a working document. So that would be one of the things that if this were to happen, obviously, we would need to get together with all the DMOs and make a plan. But I don't think it's insurmountable because, again, buybacks happen on a regular basis.

[01:17:40.13] - Audience

Jim Malonis, QIG Macro. Yesterday, the governor of the Central Bank of Canada mentioned the greater existence of exogenous shocks. If in fact we do see exogenous shocks that reignite sovereign debt crises in certain countries, core countries such as France. How would euro bonds perform if the European risk breakup premium came back?

[01:18:05.04] - Jacob Funk Kirkegaard

Whoever wants to weigh in.

[01:18:13.55] - Ángel Ubide

All right, let me, let me take, let me take it, right? Think about Next Generation EU the last 3 years, right? The most important effect of the Next Generation EU program was to eliminate the risk of losing market access by any country in the eurozone or in the European Union, right? So there you have an example. There was a negative shock, which was the COVID shock. The moment the Next Generation EU program was there, not only markets stop thinking about losing market access, but also governments were more willing to consider public investment in their budgets. They were not in a rush to accelerate the fiscal adjustment, which always comes

on the bad parts of the budget, if you want. What this does, in some sense, is to preempt that problem. Now, if one country decides to misbehave, there is nothing that this changes, right? So at the end of the day, you know, bad policies are bad policies. But if this is a question of an exogenous shock that is unrelated to bad policies, this just makes the system more stable.

[01:19:22.55] - Klaas Knot

Yeah, that I fully agree. I think ultimately it leads to better diversification, obviously. And so, but I think Angel touched upon the sensitive point: is it a purely exogenous shock Or are there huge differences in fiscal policy? For instance, think about the retirement age. Yeah, I mean, if the retirement age across countries varies, let's say, yeah, 60, 62, 67 in other countries, well, then that's another argument perhaps where the willingness to sort of take responsibility to jointly shoulder these liabilities will also not be positively affected by. So, it is entirely what degree of harmonization do I have actually on public spending, on taxation, etc. And is the nature of the shock an exogenous one, or is it policy-induced?

[01:20:29.55] - Audience

Hi, I'm Sander Tuidwaaij from the Center for European Reform. I have a question for Klaas and one for Angel, although the one for Klaas, I guess, could go to the whole panel. I share your view that a kind of gradual buildup of European public goods, some of which may be funded with eurobonds, is probably the way forward. But I would note that the defense buildup, in some ways, Europe has already chosen to basically do it with national fiscal policy. By and large, we've loosened the fiscal rules. Now there's some eurobond-ish issuance in the form of the SAFE instrument, which is back-to-back loans. So it seems to me like the direction of travel is more, let's say, NGU loans, SURE-type systems rather than grants. So how do you think of the evolution forward from that perspective? Does that provide actual benefits along the lines that all of you have laid out, or is it actually not as powerful as a true sort of safe asset. And then to Angel, based on the history of fiscal federalism, I know you wrote it as a working paper, so I don't want to pressure you too much, but we know that basically if you have some sort of decentralized tax collection, there's an incentive to free-ride.

[01:21:43.12]

So how do you deal with that if you have a VAT system where member states gather VAT and they have to hand it over? How do you deal with the free-riding problem?

[01:21:51.16] - Jacques Calouf

Thank you.

[01:21:53.52] - Klaas Knot

Yeah, I would begin to say that, Sander, that in a way, what you're describing is an almost third best world that is now developing, that I would think that the defense is a very convincing example, where I think we could do both more effective and more efficient public policymaking if we did it together. So I think if the outcome is indeed going to be that all the defense spending will take place at national level, and we will live happily ever after, I think that would be an even worse outcome than a world in which you— where you would accept the public policy argument for eurobonds, even if you did not accept the mutualisation argument. So in a sense, that would not bode well, I think. But you know, I mean, you know, also the polls very well in the Netherlands, it is remarkable that there is a lot of support, even in a country like mine, for joint European financing of defense, and even among the far-right party, to my surprise, much higher percentage than I would have thought. So it would be a shame if we did not use this opportunity, if even in the more skeptic countries like mine, there is abundant support, because I think the reality, the geopolitical reality, is also beginning to change the momentum here.

[01:23:24.31] - Ángel Ubide

I'll only say one thing, and I think it relates to this. What I've been asking people in, you know, Germany or the Netherlands, those countries that may say no, I said, don't tell me no, tell me how it could happen. What would you need to see for this to happen? If that requires that, you know, countries have to come together and present a multi-year plan of reforms or whatever it is, call it X. But I think if we don't do it now, we are going to regret it. And so I think it's a question to try to build in a constructive manner, what are the conditions that can take us there.

[01:24:02.37] - Laura Tyson

Hi, I'm Laura Tyson. I wanted to shift the conversation a bit to the tokens and the digital currencies. I'm very compelled by the safe asset argument for defense, and I will also add infrastructure there. I think it's— I think that's an easy sell too. And by the way, I think even in defense and infrastructure, there's a technology component. And since a number of you mentioned the importance of keeping up with technology, of not being so dependent on U.S. technology, you can link that easily to defense and infrastructure. So I think that's important. On the issue of technology, I just want to hear a little bit more about I think the issue of all of the directions that Europe is moving in— so the US is not moving in any central bank digital currency because nobody here trusts the central bank. So I mean, I do, but there's a deep, deep resistance to having the central bank do this. That's not going to happen. It's going to happen by

the private money, creation of private money. And we saw those numbers there, 99%. Now, even— I guess my question here—

[01:25:13.44] - Jacob Funk Kirkegaard

Laura gets to ask a question.

[01:25:15.32] - Laura Tyson

Yeah, here's my question. I'm right at my question. My question really is, one of the benefits of the, of the token currency stablecoin is cross-border transactions. How are you going to handle that and what you are doing in Europe? That's a key issue, getting that done.

[01:25:36.49] - Agnès Bénassy-Quéré

Okay, thank you very much for, for the question. Um, so today stablecoins are massively used as a gate to the crypto world to buy crypto, all sorts of crypto assets. This could change. And then you— in the use cases, the most convincing one is cross-border payments. I see stablecoins a little bit as in old times, traveler's checks. You know, the bank would give you some traveler's checks, and then you can go to any bank and redeem them in the fiat currency of the country. I see it because it's a bearer asset, so it's very fluid. It raises a number of issues concerning AML/CFT checks, compliance, but it's very fluid. So this is something that could come as a complement. So I don't see this as a substitute. It's really as a complement. And it's dominated— for instance, there is a lot of discussion also about tokenized deposits, which dominate for most use cases because they can yield a return, because they are within the 2-layer banking system. So for instance, for a multinational firm which has subsidiaries around the world with cash everywhere, it's much easier to manage and much less costly to manage the cash for this kind of firm.

[01:27:08.11]

So there's really a case for tokenized deposits. Stablecoins— when you ask the industry why they are working on stablecoins, the response is not always absolutely clear about the use cases. But they want to be on the flow, you see. They don't want to lag behind. So it's like, we don't exactly know, but just in case, we have it. And then the link— so the link with CBDC, it can be a complement to CBDC. And I think the Euro area strategy is to move on all these technologies and don't— but the point is that stablecoins, in a sense, is taking the seigniorage return from the central banks, hence for the governments. So this is something that we need to have in mind.

[01:28:04.41] - Jacob Funk Kirkegaard

Klaas, and then Signe.

[01:28:06.41] - Klaas Knot

Yeah, I think if you talk about the use case for stablecoins, I think it makes sense to make a distinction also between emerging markets and the, let's say, the advanced economies. I mean, many emerging markets and developing economies are simply suffering from the fact that traditional cross-border payment means have become very costly, difficult to access. Your money is gone for multiple days. Nobody knows where it is, et cetera, et cetera. And of course, that stablecoins has sort of tried to fill that void. Now, the question is whether— that we have to ask ourselves, to what extent is the higher efficiency that stablecoins admittedly have in cross-border payments, to what extent is that due to the fact that there is weaker AML/CFT? Controls, right? I mean, is this just an advantage, uh, of regulatory arbitrage? Then maybe, but the jury is out there. My sense is that you could still have AML/CFT controls and probably more digital, so less archaic than is the case with correspondent banking. So there could be a use case there. I think if you move to the advanced world, um, already in the pre-digital world I have also always tended to see money as a sort of combination of public money and private money.

[01:29:23.29]

That to some extent, the stability of the private money was also premised on the fact that it could be exchanged into public money. Now, public money in the old world was cash. Cash is on the way out. I mean, with different speeds and different intensities across countries. But if we were not to come up with a digital euro to sort of compensate for the decline in cash, then we would sort of accept that we gradually morph toward a world where there is private money only. Now, at least in Europe, we've found that traditionally an uncomfortable world. And that is one of the reasons why I think it makes sense to develop the digital euro as cash in a digital manifestation. There is a philosophical difference here between the US. The US has always had more private footprint on the payment system than we've had in Europe. But if the US really wants to move to private stablecoins only, and mind you, the difference between a bank deposit and a stablecoin is that stablecoins are not interchangeable. I mean, a bank deposit, you can take your money out of one bank and bring it to the other.

[01:30:26.12]

It's all the same. But a Tether is something different than a Circle and et cetera. Then in some ways, you're moving back to the pre-1913 world, but then this time around in a digital fashion. Well, good luck with that.

[01:30:44.58] - Signe Krogstrup

Two points, very close to what Klaas just said. But stablecoins is probably not the first, last time that we're going to have innovation that could affect payments. And so we need to have a system that allows for innovation that will benefit everybody. And here, I think the important thing is that we have a regulatory system, rules around that, that will ensure financial stability, that will ensure now currently monetary autonomy is, is important, safety, stability, and that, that competition is not driven by regulatory arbitrage. So I think that's a other way, another way of saying what Klaas just said. A second point on this private versus public money, stablecoins are, the trust in stablecoins is completely based in on the Fed. So, so So saying that that's a way of not trusting the Fed and therefore we have private money, that makes no sense to separate the two.

[01:31:40.27] - Jacob Funk Kirkegaard

Olli?

[01:31:42.32] - Olli Rehn

Thank you. I think there is indeed a certain divergence between the US and Europe as regards digital assets. The US is more towards private solutions, Europe more towards maintaining money as a public good.. But there is also convergence and overlap. As far as stablecoins are concerned, as colleagues have already said, Agnès and Klaas, so the use case, the main use case for the moment is cross-border transfers, probably especially remittances. So it makes a certain sense if you are from, say, a developing country, you are working, working in the US or some other advanced economy, and you want to avoid paying excessive fees for bank transfers, so you use cryptos or stablecoins. In the European Union, the situation is a bit different in the sense that while some people think we are not technology favorable, but in fact, uh, we created 10 years ago system called SEPA, which implies real-time bank transfers. So the need for this kind of use case for, say, adopting stablecoins is not really there because you have basically online real-time bank transfer system within Europe., and it has proven to be reliable and effective. One more point on stablecoins. I have some difficulties to see what would be the interest of somebody to just get stablecoins without using it as a gateway to crypto ecosystem, because stablecoins do not carry interest.

[01:33:43.02]

They don't pay interest. So, it's like a money market fund but not paying interest. So, why would you invest? Meanwhile, I can see well the business model of the company that is doing this

because they get interest from the reserves and essentially they get the senior rights through that. So, I have certain question marks, but I would say that From the European point of view, as the Eurosystem, we are neutral. As long as stablecoins are issued in line with MiCAR, fine. But personally, I have indeed some doubts about the use case and business case of them. Plus, there are risks of financial stability. Certainly, they are run-prone still.

[01:34:33.05] - Jacob Funk Kirkegaard

Well, ladies and gentlemen, it's 2:32. That means we are marginally past our witching hour. And the only thing that's left for me is to thank my panelists for a tour de force of pretty much anything I could certainly think of when it comes to Europe in a changing international monetary system. So thank you very much, and meeting adjourned.