



Asia and Europe in the Global Financial System

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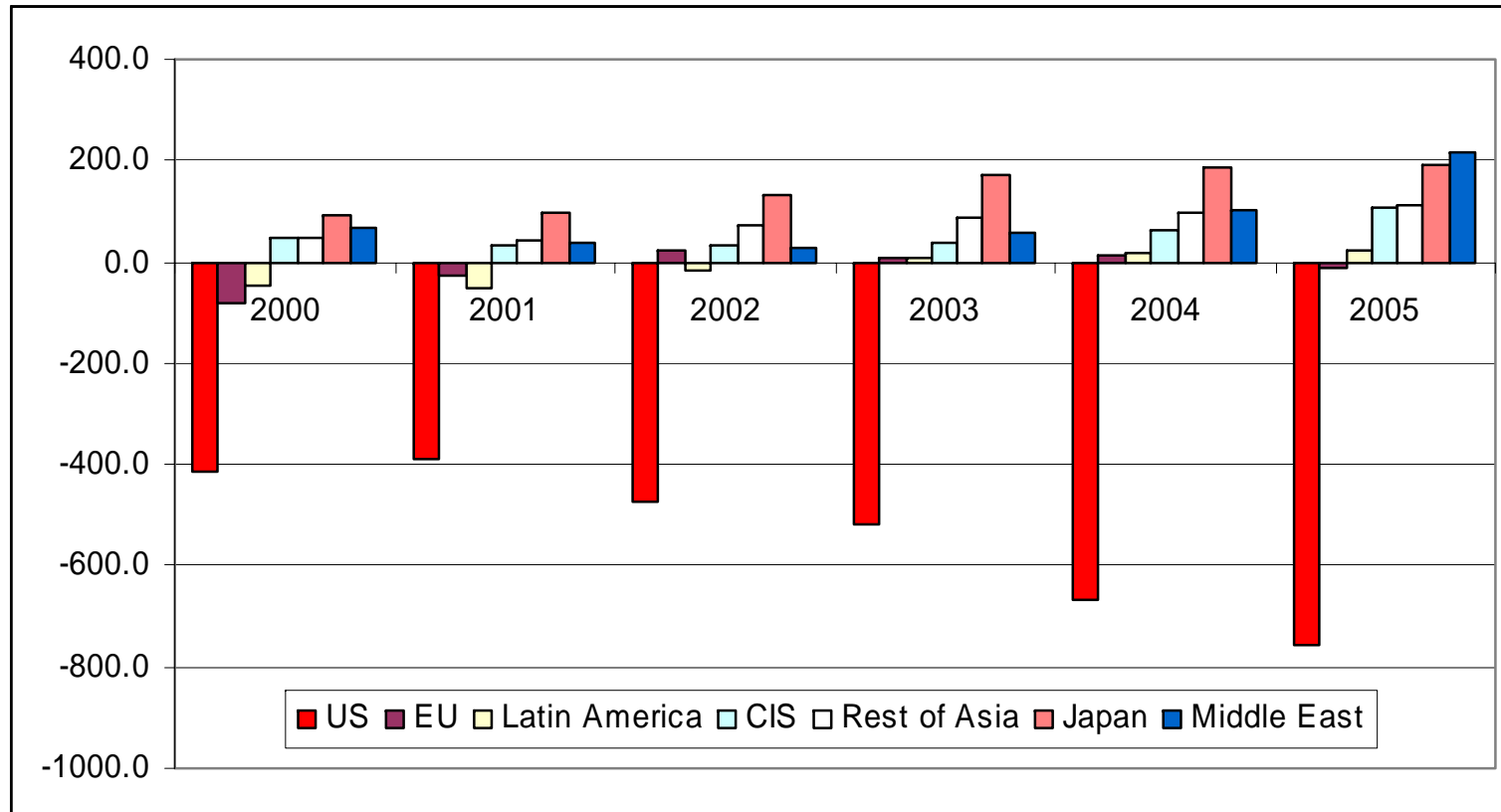
Outline and key messages

- **Global current account imbalances...**
- **... are accompanied by the accumulation of large foreign exchange reserves.**
- **Reserve accumulation has mainly taken place in US dollar...**
- **... yet the international use of the euro is increasing.**
- **Measures to reduce global imbalances might influence the dollar's and euro's respective international role.**



Evolution of current account imbalances

(billion US\$)

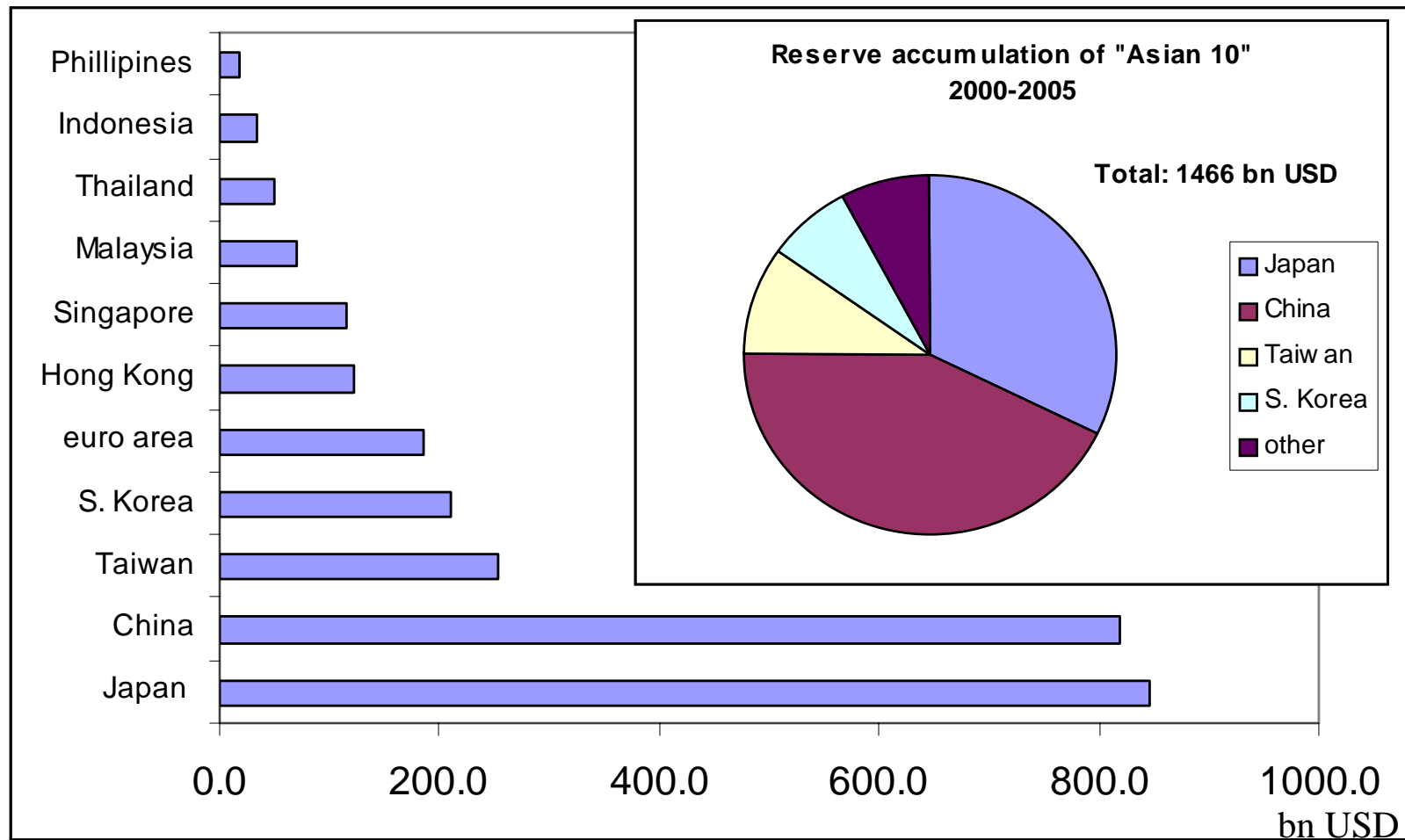


Source: IMF WEO September 2005

Note: "CIS"= CIS+Mongolia; Figures for 2005 are WEO forecast figures.



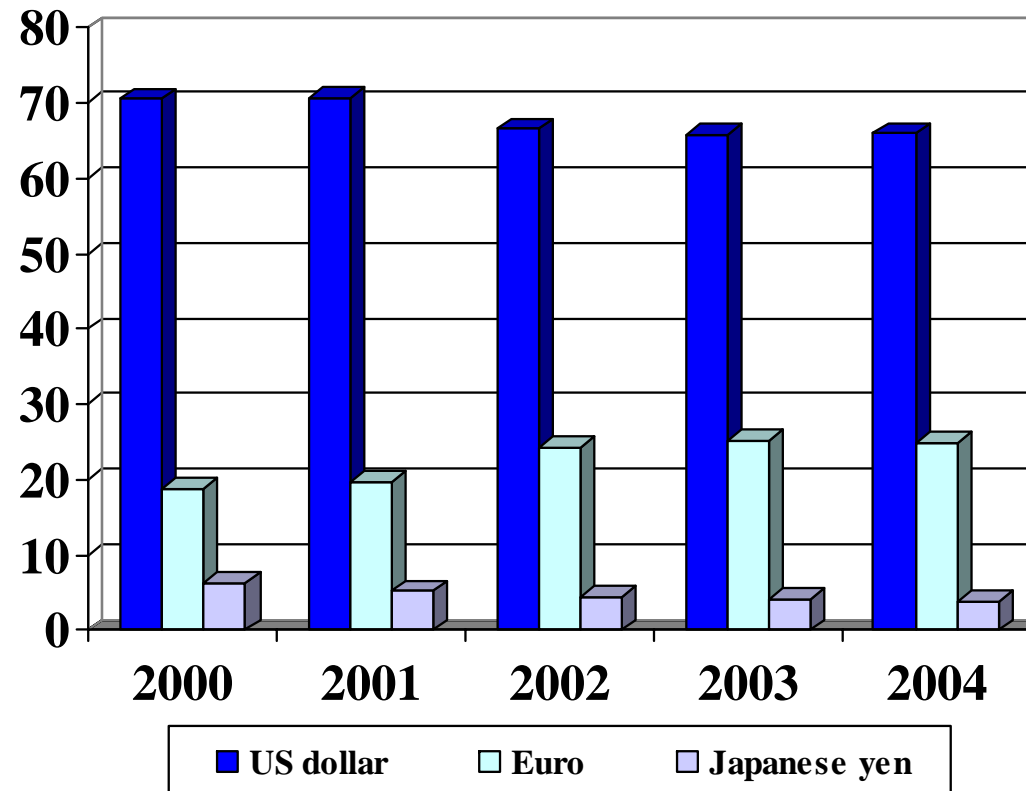
Reserves: holdings end 2005 and accumulation 2000-2005



Source: IMF (except Taiwan: central bank)



Official reserves: currency shares in %



Source: IMF 2005



Addressing global imbalances

The necessary measures are well-known:

- **US** – measures to strengthen domestic saving; consolidation of public finances
- **Asian emerging markets** (and oil exporters) – structural reforms to improve investment climate and domestic demand; increased exchange rate flexibility
- **Japan** – continued structural reform; fiscal consolidation; gradual monetary tightening
- **EU** – continued structural reform to strengthen the growth potential and the economy's flexibility



Outlook for the euro's international use

- **Trimming the US current account deficit would diminish the risk of a strong US dollar depreciation - but might also reduce the supply of dollars to the global economy**
- **Structural reforms in the euro area will make the euro more attractive – a necessary, but not sufficient condition for a bigger international use**
- **In short, the leading currencies' relative future international use depends on a combination of factors**