THE EURO AND THE COMMONWEALTH

AN INTERNATIONAL BUSINESS PERSPECTIVE

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- **Despite challenges since the Financial Crisis the Euro remains a key Global Currency**
  - The Euro remains the second most important global currency for international business after the US Dollar despite the continued volatility in the Euro area countries, including the Brexit decision.
  - Eurozone markets remain key export and import business partners as well as sources of foreign direct and portfolio investment.
  - Euro remains an important source of raising long term international debt for several commonwealth borrowers, both in the public as well as the private sector.
  - Euro continues to be a significant investment currency for official foreign exchange reserves as well as private sector holdings of international financial assets.

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- **Continued Euro stability and strength needs continued policy actions**
  - A strong and stable euro has to be underpinned by deep and liquid domestic financial markets
  - Stable monetary and fiscal policies are, as we all know, critical to this being achieved
  - With the challenges of the Periphery countries behind us, at least for the foreseeable future, there is an opportunity to refocus on the international strength and penetration of the Euro in global trade and investment flows especially from emerging markets.
  - Progress on a more complete fiscal, monetary and capital market union will no doubt help a great deal in the process

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- **Commonwealth businesses need a strong and stable euro to offer a viable alternative to the dollar for multiple purposes:**
  - Issuing debt, esp. where export revenues are in Euros
  - Investing foreign financial assets
  - Borrowing short and long term debt funding
  - Raising equity from institutional investors in the public and private markets
  - Accessing long term foreign direct investment
  - Invoicing and settling trade transactions, especially for eurozone trading partners

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- **What Commonwealth businesses would like to see for the Euro**
  - Deeper and more efficient markets for hedging currency risk
  - Euro currency and interest rate swap markets for emerging markets are not as deep and liquid as dollar markets and in many emerging market currencies do not go as long as the US Dollar
  - There is a need to seriously look at bilateral swap deals with larger commonwealth countries and the ECB;
  - A mechanism to hedge or at least mitigate the currency risks faced by the importers from the smaller commonwealth countries would be very helpful
  - Part of this mechanism can focus on mitigating counterparty risks which alone add to costs and in many cases exclude businesses from availing existing borrowing or hedging alternatives

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- **New opportunities for the Euro in the emerging markets and the Commonwealth**
- The Euro now presents a more important alternative financial asset given the growing protectionism and barriers across the world
- This is an opportunity for the Euro to improve its position as a global currency for in the multiple roles it can play for businesses in the commonwealth
- There is an opportunity to capture a greater volume of trade and investment flows with businesses in commonwealth countries as these countries look for greater investment inflows in multiple areas including infrastructure, energy, technology and agribusiness to name a few.

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- **European Equity Markets have great potential to attract Cross Border IPOs from emerging markets**
  - Europe was growing very well as center for cross border IPOs from emerging markets in 2017 but was still well behind the United States.
  - London was the leader in cross border IPOs in Europe with over Euro 3 Billion in IPOs completed in 2017
  - This success is now under question with Brexit as issuers that were looking to tap European institutional investors are hesitant.
  - It would be important for the European exchanges to aggressively market their capabilities, including liquidity, security, technology and efficiency to potential issuers if they want to participate in the resurgence of Cross border IPOs from Commonwealth Country issuers.

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- **Policy Imperatives for the Eurozone to benefit from the opportunities**
    - Taking advantage of the opportunity presented by brexit and protectionism needs decisive and coordinated action
    - More active engagement on trade and investment with commonwealth countries
    - Creative and decisive steps to enable long term currency stability through hedging and settlement mechanisms
    - Active promotion and marketing of the capabilities of the euro debt and equity markets in commonwealth countries; facilitation of dual listings on European exchanges
    - More active engagement with the large institutional investor community in Europe with emerging Markets

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- **A need for a new, proactive approach for Euro Area banks to realize the potential offered by Commonwealth Countries**
  - There is an opportunity for euro area banks to re look at emerging markers of the commonwealth as these countries present significant new opportunities
  - The delevraging and de-risking process amongst euro area banks has reduced the role of the euro globally across emerging markets including in the commonwealth countries
  - This process needs to be reversed through prudent and practical approaches
  - The proposed commonwealth small states trade finance program is a step in that direction and offers a model that can be replicated by other banks for different types of financial re-engagement with commonwealth countries and other emerging markets

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- **Opportunities for Commonwealth Countries**
  - Many commonwealth countries in economic zones can benefit greatly from the experience in fiscal and monetary and trade multilateralism that has been accumulated in Europe for the last several decades; there are many lessons to be learned from the successes and challenges faced by eurozone countries
  - It is a great opportunity for the commonwealth countries as they face increasingly challenging international trade and financial environment; lower and stable interest rates in Europe present an attractive funding opportunity to many potential borrowers
  - Insitutional Investors and exporters in Eurozone are looking for investment opportunites as domestic demand is not likely to absorb the vast amounts of investable capital.

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- **Key actions needed by Commonwealth countries to attract investment from the Eurozone.**
  - To benefit from the opportunities the emerging markets must be proactive in preparing and presenting viable investment and trade propositions that can offer reasonable risk reward opportunities to investors from the Eurozone.
  - Work towards creating an investor friendly, transparent and fair investment climate has to be given top priority.
  - The focus has to be on creating project pipelines and investment opportunities. There is plenty of financing to be attracted from the Eurozone but it will come at scale only under the right conditions.

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