Sultan Bin Nasser Al-Suwaidi: The extended importance of the euro

Speech by His Excellency Sultan Bin Nasser Al-Suwaidi, Governor of the Central Bank of the United Arab Emirates, at the Frankfurt European Banking Congress, Frankfurt am Main, 17 November 2006.

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Distinguished Guests and Speakers,
Ladies & Gentlemen,

It is my pleasure and honor to be here today, to speak at this important forum. Thanks to the organizers, for their kind invitation.

I will start by the Euro Area's GDP, which had grown continuously over the past five years, especially if we look at the figures as expressed in current prices and in US Dollars. Looking at the Euro Area's GDP would then prove that the Euro had gained **extended importance** at a GDP figure of US Dollars 9.9 trillion at the end of 2005.

Also, if we look at what the Euro Area represents in world trade, we would find-out that it makes about 30% of it, and the Euro Area is the largest single player in world trade, so Europe / Euro Area is the "Trade Centre of the World".

Having said this, let us look at the Euro and the Euro Area from an outsider's point of view.

In the GCC Countries, we see the Euro as the second currency in the world after the US Dollar. This maybe explained, in part, if we look at the import figures and the currency of settlement for trade imports.

If we study the figures of imports into the GCC Countries, we will see that imports from the Euro Area have stayed almost static at about 20-21% over the past five years. As an outsider to the Euro, the GCC Countries must have economic reasons to hold Euros, one of these reasons is to pay for the import bill. In the case of GCC Countries the import bill from the Euro Area has not increased in percentage terms, which means that trade needs for the Euro within the GCC Countries did not grow, as a matter of fact it declined slightly from 21.84% of all imports in 2001 to 20.34% in 2005. This is then the trade related needs for the Euro in the GCC Countries.

The next question then; which currency or currencies make-up the other 80% of the GCC Countries' trade related needs. It will be easy to predict if we know that 34% of GCC imports come from Asia, 11% from USA and 35% from all other countries.

This means that at least 80% of the 80% of non-Euro Area imports of the GCC Countries are denominated in US Dollars.

On the other hand, if we look at UAE imports' picture, the situation is more so not in favour of imports from the Euro Area, due to the fact that UAE imports from the Euro Area went down from 24% of all UAE imports in 2001 to only 15.28% in 2005. Interestingly the picture to the Europeans is misleading if we look at it from absolute figures of imports. These have grown from US Dollars 7.21 billion in 2001 to US Dollars 15.12 billion in 2005, also the UAE gives the Euro Area about US Dollars 9 billion of trade surplus.

The next point I want to tackle is the issue of flow of foreign investment funds into the Euro Area, also from a GCC Countries' perspective.

There are two questions here;

- **Can the Euro Area absorb large amounts of investment funds from the GCC Countries in a short period of time?**
- **Can the Euro Area provide a competitive environment to attract investment funds from the GCC Countries, to make it worthwhile to convert part of their oil revenue maintained in Dollar at the moment?**

The answer to the first question is obviously, "NO", probably because Euro Area Countries do not try to attract large foreign investments, in general, one reason maybe because they do not want to see a lot of liquidity go into their local markets and cause inflationary pressures and the other maybe they do not want to create increased demand for foreign labor force. However, there seems to be no uniform stand on this issue within the Euro Area Countries.

The answer to the second question is also "NO", but in this case may be due to the Euro Area have not yet harmonized its labor, tax and financial services laws, which also explain the no common stand regarding the issue of whether the Euro Area is really interested in attracting large investment funds.

The Euro Area Countries have choice at the moment in terms of interpretation of their dominant local laws, but once laws get harmonized or unified their choice will be reduced or eliminated all together, and the Euro will witness an upward demand through foreign investment flows.

The last point I will consider is tourism and the influence tourism has on demand for a certain currency.

Europe is, and has been the most popular tourist destination for people of the UAE and other GCC Countries. Hundreds of thousands from GCC Countries visit one or more of Euro Area Countries every year. If we consider the demand for Euros created by tourists from many countries of the world including of the GCC Countries, we would realize that more Euros will need to be issued and some would be held in cash for ever by all those who travel to Europe.

The Euro is the currency of international tourism at the moment, because Europe attracts more tourists than any other region in the world, and it is expanding in this respect.

Conclusion

With this I come to the conclusion of my short speech. Finally I would say that the Euro will definitely grow to dominate trade outside the Euro Area.

The Euro Area will harmonize further its labor, tax and financial services laws, i.e. will become more competitive in attracting investments, which will help the Euro to become the currency of international investments.

I expect the Euro to become the currency of international trade and investments in ten years. If we add to that tourism, the Euro will surpass the US Dollar, as the first currency in the world by 2015.

Thank you.