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Moment of the euro? Perceptions of US dollar decline

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STUDY

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European Parliament

Moment of the Euro?

Perceptions of US dollar Decline

Economic Governance and EMU Scrutiny Unit (EGOV)
Directorate-General for Economy, Transformation and Industry
PE 764.367 – October 2025

EN

Moment of the Euro?

Perceptions of US dollar Decline

Abstract

This study reviews new perceptions of an imminent decline of the international role of the US dollar and implications for the euro. It considers developments in international reserves, invoicing, debt and payment systems. Strengths and weaknesses of the US and euro area economies are discussed along with new policy initiatives and proposals. The study concludes that a quick decline of the US dollar or a shift towards a multipolar currency system with similarly important reserve currencies is highly unlikely. For the foreseeable future, the euro's role is likely to remain one of primarily regional importance.

This document was provided by the Economic Governance and EMU Scrutiny Unit at the request of the Committee on Economic and Monetary Affairs (ECON) ahead of the Monetary Dialogue with the ECB President on 6 October 2025.

This document was requested by the European Parliament's Committee on Economic and Monetary Affairs.

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https://www.europarl.europa.eu/committees/en/econ/econ-policies/monetary-policy

CONTENT'S

LIST OF ABBREVIATIONS

B2B	Business-to-Business
B2C	Business-to-Consumer
BIS	Bank for International Settlements
C2B	Consumer-to-Business
CMU	Capital Markets Union
CNY (RMB)	Chinese Yuan (Renminbi)
ECB	European Central Bank
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
EUR	Euro
Fed	Federal Reserve
FX	Foreign exchange
GBP	British Pound Sterling
GCEE	German Council of Economic Experts
GDP	Gross Domestic Product
GENIUS Act	The Guiding and Establishing National Innovation for U.S. Stablecoins Act
IMF	International Monetary Fund
JPY	Japanese Yen
MiCAR	Markets in Crypto-Assets Regulation
OMT	Outright Monetary Transactions
P2P	Peer-to-Peer (transactions between individuals without intermediaries)
SIU	Savings and Investments Union
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TPI	Transmission Protection Instrument
USD	United States dollar

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EXECUTIVE SUMMARY

- **The US dollar has remained the dominant global currency even after the breakdown of the Bretton Woods system, because no other economy offers the same mix of liquid capital markets, institutional trust, and global economic, political and military reach**. Network effects reinforce its position, though concerns about US debt, unpredictable trade policies, and financial sanctions have raised doubts and encouraged diversification into gold, alternative currencies, and parallel payment systems.
- **A collapse of dollar dominance or the rise of a stable regime with multiple, comparably important reserve currencies is unlikely.** Strong inertia, lack of alternatives, and the rise of stablecoins tied to the dollar favour its continued role. Network effects suggest that only one currency can be dominant, while China may successfully promote the RMB and parallel systems in its sphere, capital controls and lack of trust prevent it from rivaling the dollar globally.
- **At this time, the euro is also not a convincing alternative.** Its role has declined since the European debt crisis, and it is constrained by fragmented capital markets, lagging growth, and unresolved questions of fiscal and political union. Being tied to the "Western bloc" further reduces its neutrality, and uncertainty about the future direction of monetary union undermines confidence in euro's international role.
- **The Trump Administration, through the "GENIUS" Act, explicitly signals its aim to reinforce the US dollar's reserve currency status by requiring stablecoins to be backed with Treasuries and dollars.** Since the dollar already dominates the stablecoin market, this could further strengthen its role by giving firms and households in weak-currency or tightly controlled economies direct access to dollar value and lowering barriers to global dollar usage.
- **For the foreseeable future, the euro's role will remain primarily regional.** There is no "global euro moment." Previous efforts to strengthen its international role have achieved little. While there is a case for defending its position, such efforts must be guided by realism and avoid empty rhetoric.
- **The euro has built up importance in neighbouring countries, and this regional influence should be preserved and expanded through deeper trade and integration.** But policymakers must also recognise the costs and risks of pushing the euro towards global reserve status, including volatility, negative network effects, credibility risk in case of failure and geopolitical retaliation.
- **Gold has again surpassed the euro as the second most important reserve asset, reflecting its immunity to sanctions and political dysfunction**. This highlights the perception that the euro is not a credible alternative to the dollar, a view reinforced by Europe's weak growth and limited appetite for reform.
- **The euro's internationalisation is closely tied to Europe's economic strength.** Stagnating Member States should focus on structural reform and deregulation to foster innovation, competition, and growth. This would strengthen the EU's global influence, while also supporting the euro's international role.
- **Renewed calls for Eurobonds and joint liability should not be heeded.** What is needed instead is fiscal consolidation in high-debt Member States and market-oriented structural reform in all slowly growing or stagnating Member States.

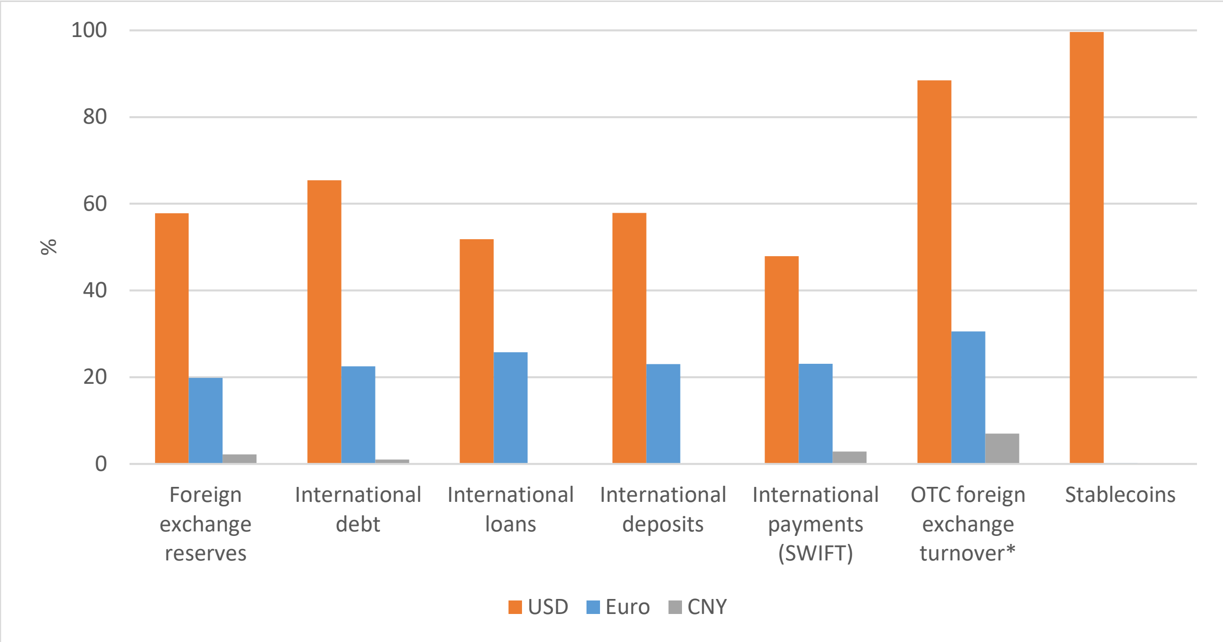
- **In sum, strengthen trade and economic growth, reducing regulatory barriers, and addressing unresolved questions of fiscal sovereignty are essential**. The European Monetary Union is still (relatively) young, and reaching the maturity of the dollar will take considerable time. Reforms to future-proof European Monetary Union should strengthen and maintain unity of liability and control.

1. INTRODUCTION

The US dollar still holds a dominant role in the international monetary and financial system. This role was cemented with the establishment of the Bretton-Woods system after World-War II, because this system of fixed exchange rates with capital controls had the US dollar at its centre. Other currencies were pegged to the US dollar, while the value of the dollar was tied to gold. The Bretton Woods system eventually broke down, following the 1971 decision by the US government under President Nixon to end the governments' guaranteed convertibility of the US dollar into gold at a fixed price. This decision was motivated by the US government's concern about the effects of US dollar overvaluation on the US economy and its economic policies.

Yet, the US dollar remained the dominant global currency in the new system with flexible exchange rates and much greater capital mobility. The current dominance is visible in several indicators as shown in **Figure 1.**

Figure 1: The US dollar's global dominance



Note: *Because every transaction in the foreign exchange market involves two currencies, the turnover shares sum to 200%. Data for foreign exchange reserves refer to year-end 2024, for international debt to Q4 2024, for international loans and international deposits to Q1 2025, for OTC foreign exchange turnover to the year 2022, and for stablecoins by market capitalization to September 2025.

Source: IMF, ECB, BIS, SWIFT, Defillama and authors' calculation.

The US dollar makes up almost 60% of foreign exchange reserves. More than 60% of international debt is denominated in US dollars, over 50% of international loans, almost half of international payments via SWIFT and almost 90% of over-the-counter foreign exchange transactions have the US dollar on one side.[1]

[1] The data on foreign exchange reserves are sourced from the IMF's Currency Composition of Official Foreign Exchange Reserves (COFER) dataset. Data on international debt and loans are obtained from the BIS Locational Banking Statistics, while international payment data come from the SWIFT RMB Tracker. Data on over-the-counter foreign exchange transactions is drawn from the BIS Triennial Central Bank Survey of Foreign Exchange and Over-the-Counter (OTC) Derivatives Markets.

Interestingly, the US dollar's role is even more important in the crypto-currency universe that has emerged in recent years. The dollar makes up close to 100% of the so-called stablecoins, which are private crypto-currencies tied to a central bank currency. So far, the use case for these stablecoins has been to serve as on- and off-ramps to the crypto-world with many private, more speculative and more or less money-like instruments based on the blockchain technology that allows for digital de-centralised ledgers.

However, over the course of the last 9 months the US government under President Trump has given cause for severe doubts that it can and wants to maintain the globally dominant role of the US dollar. First, the US government quickly imposed new tariffs. This process culminated in the threat of very high tariffs on almost all US trading partners announced by Donald Trump on April 2, on what he called "Liberation Day". This announcement not only set the stage for intensive trade negotiations but involved rather aggressive approaches towards long-time allies and friends of the United States. Importers and exporters continue to struggle to come to terms with this new environment.

The first half year of the Trump Administration shed considerable doubt on the United States' continued commitment to long-time military and political alliances. The tariffs and trade policy uncertainty fuelled negative sentiment in financial markets regarding the growth prospects of the US economy and the world economy at large, and caused substantial volatility in financial markets. For some time already, expansionary US fiscal policy had led to rapid increase in US federal government debt. Tax legislation by the Trump Administration further fuelled expectations of ballooning debt trajectories which reduce trust in the sustainability of government finances. With a US government that views world trade and globalisation as detrimental to the US economy and bent on rapidly increasing US government debt, many considered it advisable to reduce their exposure to the US economy.

Various pronouncements of Trump Administration officials suggested they considers the dominant role of the US dollar a burden because it resulted in an over-valued exchange rate that hurt exports of US industrial goods and supported importing industrial goods. Discussion of a so-called Mar-a-Lago accord that would imply penalties for investors in US debt also seemed to indicate that the US government would like to abandon the role of provider of the dominant global currency. In the past, the US had already used financial sanctions in various conflicts, which tends to foster the emergence of parallel payment systems and a greater shift of reserve currency holdings towards other currencies and gold. Finally, the continuing attacks of Donald Trump on Fed Chair Jerome Powell over interest rate policy and his disregard of the benefits of central bank dependence are seen to hurt the credibility of the Fed and its capacity to achieve price stability.

Altogether, it appeared to many commentators that the moment of the euro had finally arrived and the EU should take greater steps towards promoting the international role of the euro. Proposals for issuing so-called Eurobonds with a form of joint liability were also renewed in this context. Finally, sovereign debt markets appeared to welcome the prospect of greater debt issuance by Germany, a euro area member state with a (relatively) low government debt ratio.

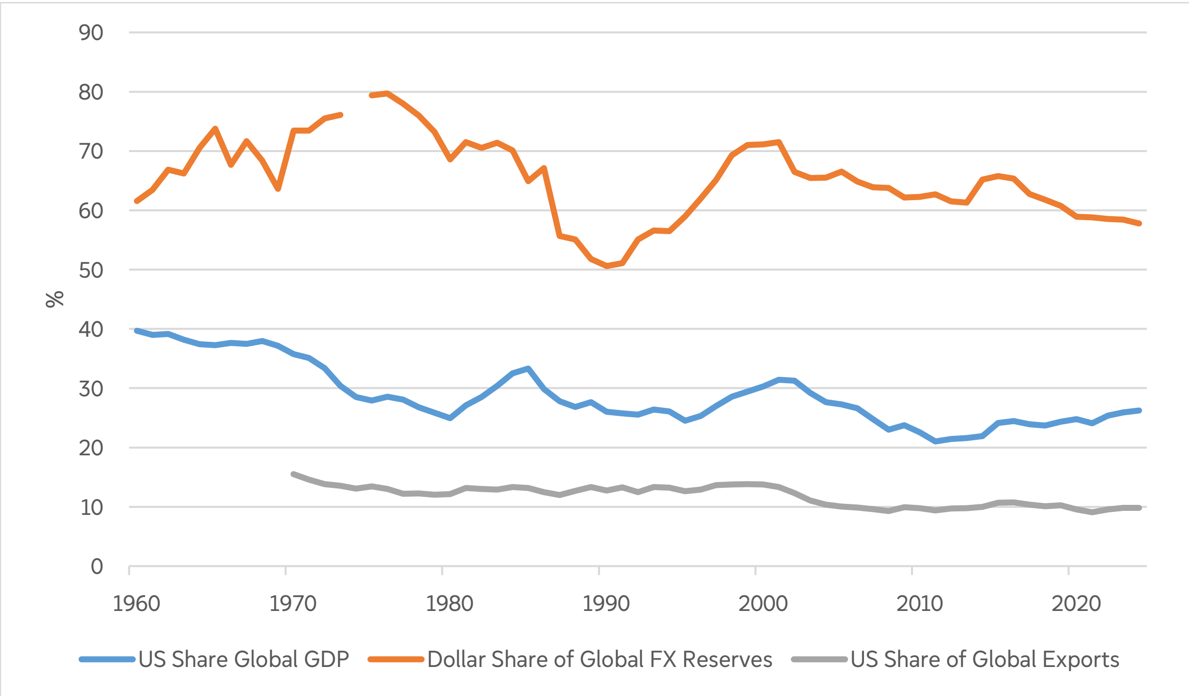
Yet, we would argue that while there are major changes in US policy, the US has not stepped back from supporting the prominent international role of the US dollar. By contrast, prospects of the euro are more modest, and importantly, would best be strengthened by fiscal-stability and growth-oriented reforms in member states as well as further reform of the institutions and regulations of monetary union.

2. PILLARS OF US DOLLAR DOMINANCE

2.1. US dollar Dominance in Historical Context

The dollar was able to maintain its dominance after the breakdown of the Bretton Woods system because no other currency offers the same mix of deep, liquid capital markets backed by trust in US institutions and the country's global economic, political and military reach. Once a currency has assumed such a dominant international role, network effects sustain this role even if relative economic size declines and economic and political rivals advance on the international stage. As shown in **Figure 2**, the US share in global GDP declined from 40% in 1960 to about 26% in 2024. Yet, the US dollars share in global foreign exchange reserves is only slight below 60% in 2024 compared to a bit above 60% in 1960.

Figure 2: Shifts in US global economic influence: GDP, trade, and dollar reserves



Source: World Bank, IMF, Eichengreen et al. (2019) and authors' calculation.

As can be seen from **Figure 3**, the US dollar briefly gained importance as a reserve currency after World War I but then fell behind the British pound again in the early 1930s. Apparently, this was at least partly due to the US stepping away from promoting a prominent role for the dollar (see Eichengreen et al, 2019). The British pound had been the dominant global currency during the gold standard from 1821 to 1914. During this period, the Bank of England's role was to maintain the convertibility of banknotes into gold as discussed in **Box 1**. Originally, the Bank of England was a private institution. In 1844 it received a near monopoly over banknote issuance. In 1946 the Bank of England was nationalised. After World War II it took several years for the US dollar to expand its role as a reserve currency. It only overtook the British pound during the 1950s. The Bank of England only regained some independent role in the setting of monetary policy in 1997.

Box 1: The Historical Role of the Bank of England and the British Pound

The Bank of England was established in 1694 as a private institution, initially conceived by Parliament as a temporary measure to finance government debt, particularly the costs of wars against France. From the early 18th century, the Bank operated under a de facto gold standard, later evolving into a formal gold standard regime that tied the value of its notes to gold.

The Bank Charter Act of 1844 granted the Bank of England a near-monopoly over banknote issuance in England and Wales, while phasing out the note-issuing rights of other banks. The Act also imposed strict rules on gold backing, limiting the circulation of unbacked notes. However, in times of financial crisis (such as in 1847, 1857, and 1866) the Act was suspended by government intervention, enabling the Bank to issue additional unbacked notes. During these crises, the Bank effectively assumed the role of lender of last resort, providing liquidity to other banks.

Under the classical gold standard (1821–1914), the Bank's primary function was to maintain the convertibility of banknotes into gold. This required frequent adjustments of interest rates to defend gold reserves and safeguard confidence in sterling. Despite its private status, the Bank operated in close alignment with government interests, particularly in securing public finance, for which it was granted special privileges.

With the outbreak of the First World War in 1914, the gold standard was suspended, easing restrictions on unbacked note issuance. Britain temporarily returned to the gold standard in 1925, but it collapsed during the Great Depression in 1931. The return at the pre-war parity left sterling overvalued, creating downward pressure on wages and prices and contributing to deflationary tendencies.

Following the Second World War, the Bank of England was nationalised under the 1946 Bank of England Act, bringing its capital into public ownership and formalising government control. In 1997, the Bank was granted operational independence by the UK government, enabling it to set interest rates to achieve an inflation target, while the Treasury retained authority over the target itself.

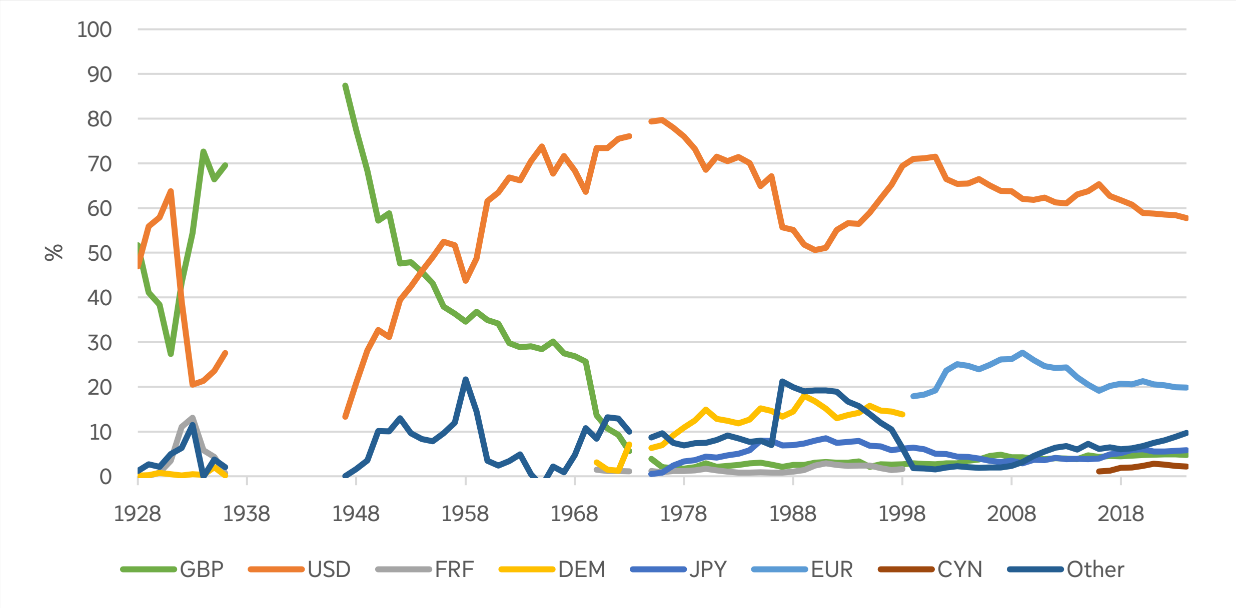
Source: Bailey (2025), Bank of England (n.d.), Eichengreen et al. (2018), Smith (2020).

Compared to the earlier transition from the pound to the US dollar, today's system is far more interconnected and financialised:

- Global value chains, real-time payment systems and digital finance make switching costs higher than in the early 20th century.
- Financial markets are more integrated, meaning dollar-denominated contracts, assets, and liabilities are embedded worldwide.
- There is a lot more monetary and financial "infrastructure" (clearing, settlement, collateral) today which is deeply dollar-centric.

Although history shows that a dominant currency can eventually be replaced, the barriers to change are even higher than they were at the time of the pound–dollar transition.

Figure 3: Shares of foreign exchange reserves: 1928-2024



Source: IMF, Eichengreen et al. (2019) and authors' calculation.

In the past, the US tolerated and actively supported developments that led to greater international use of the US dollar much beyond the initial impetus derived from the anchor role in the Bretton Woods system.

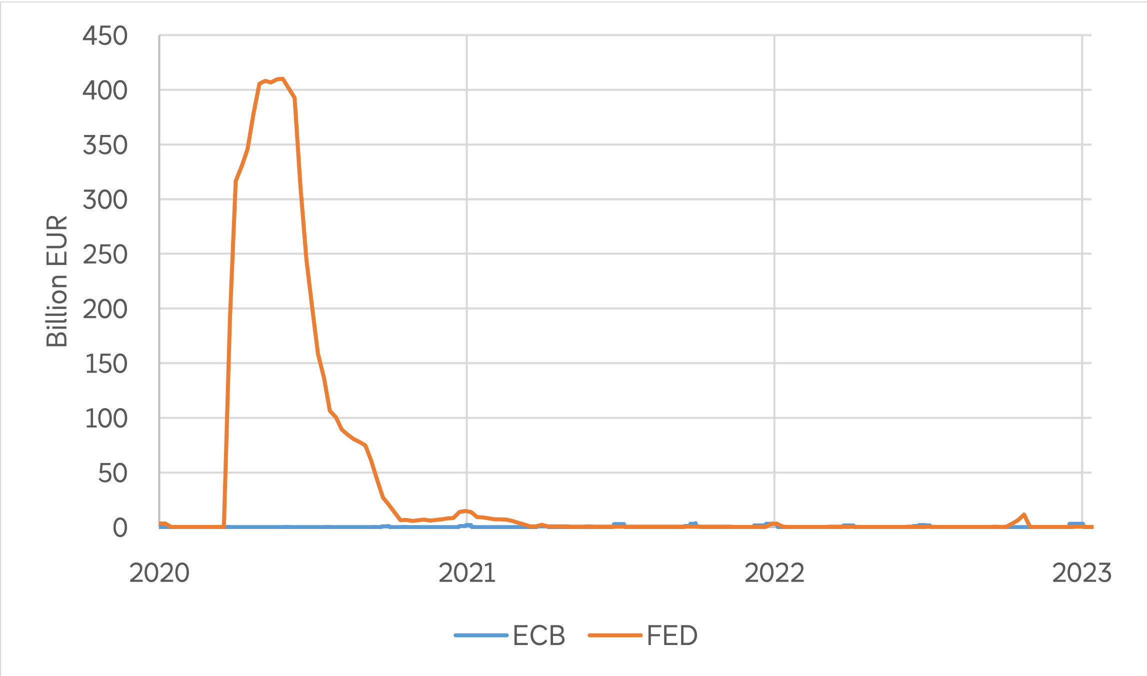
A major source of the international currency is the Eurodollar market, which initially emerged in London in the late 1950s. With growth in international trade, demand for dollar accounts and loans expanded (Schenk 1998, Braun et al. 2020). Banks in London started to accept deposits and make loans denominated in US dollars. This financial innovation was market-driven but tolerated and promoted by UK and US regulators and governments. As a consequence, the use of dollars offshore expanded substantially from the 1970s onwards.

While Nixon effectively ended the role of the US dollar as anchor of the Bretton Woods system, he also took steps to promote the international role of the US dollar. In the early 1970s arrangements were made with Saudi Arabia to price oil in US dollars and, following the oil embargo of 1973, a deal was negotiated that Saudia Arabia would recycle its petrodollars into US treasuries in return for military and policy support. The petrodollar system that emerged and was promoted also by subsequent US governments helped maintain global demand for the US dollar and solidify its status as the dominant reserve currency.

For a long time, the US Federal Reserve has made available US dollars via other central banks to foreign banking systems in times of financial stress via central bank swaps. Initially, such swaps were used in the Bretton Woods system to defend the gold peg. Subsequently, the US Fed stood ready to supply US dollars during exchange rate and other crises. The US Fed deployed swaps after the September 11 attacks, during the global financial crisis, the European debt crisis and the coronavirus pandemic. In such times of financial stress, the costs of offshore US dollar funding may rise sharply. Providing dollars via central bank swaps to foreign banks abroad helps ease these costs. A network of standing swap lines with major central banks was put in place in 2013. The swap lines and a related FIMA repo facility "*have enhanced the standing of the US dollar as the dominant global currency, as approved users know that in a crisis they have access to a stable source of dollar funding*" (Bertaut et al. 2025).

Fed swap lines were extensively used during the global financial crisis and during the coronavirus pandemic. **Figure 4** compares the use of Fed and ECB swap lines during the pandemic. Clearly, there was a lot of international demand for US dollars but little demand for the euro at this time of market stress.

Figure 4: Federal Reserve and European Central Bank swap line provisions



Source: Federal Reserve Economic Data (FRED), ECB, Bertaut et al. (2025) and authors' calculation.

Having reflected on some of the developments and measures that supported the international role of the US dollar, it is natural to ask about the pros and cons of having a dominant global currency, and whether the balance may shift over time.

2.2. Pros and Cons of the Dominant Currency Role

In 2016, Ben Bernanke, who had served as Fed Chair from 2006 to 2014, outlined why being the dominant currency may not confer as strong a privilege for the United States as often assumed (Bernanke, 2016). In particular, he made the following points regarding the US government's borrowing costs, the dollar's safe having role, and demands on the US economy and Fed policy that arise from the dominant currency role:

- Borrowing costs: The US no longer enjoys consistently lower borrowing costs or significant seigniorage. US Treasury rates are comparable to other industrialised countries. The "interest-free loan" from foreign dollar holdings is small.
- Safe-haven paradox: Dollar appreciation during crises benefits global dollar holders but reduces US export competitiveness and imposes domestic costs.
- International scrutiny and constraints: Dollar dominance amplifies global impacts of Fed policy, forcing US policymakers to consider international consequences that may conflict with domestic priorities.

- Exposure via dollar-denominated credit: Extensive dollar borrowing abroad means Fed policy affects repayment burdens elsewhere. Unexpected dollar appreciation can stress emerging-market balance sheets and transmit financial shocks globally.

By contrast, the ECB's position on the international role of the euro subsequently changed over time in the opposite direction.

At its creation, the euro essentially inherited the international reach of the Deutsche Mark. Initially, the ECB also continued the Deutsche Bundesbank's neutral stance towards the international role of its currency and did not actively promote it. Its first president, Willem Duisenberg, stated at the start of the euro that it is best to "*leave its (international) development to market forces*" (Duisenberg, 1999). His successor, Jean-Claude Trichet, confirmed this approach acknowledging that the "*ECB sees the internationalisation of its currency beyond the borders of the euro area as a market-driven process*" (Trichet, 2004).

The shift toward a more active promotion of the euro's international role was initiated by the European Commission, which advocated for stronger strategic autonomy, particularly in response to geopolitical developments under the first Trump administration (e.g. US withdrawal from the Iran deal and secondary sanctions affecting European companies) (European Commission, 2018; Geranmayeh & Lafont Rapnouil, 2019).

ECB officials aligned with this position. For example, Benoît Cœuré (2019) acknowledged that "*the growing perception of a shift in global governance*" from trust-based leadership to "*hard power where policies and doctrines are imposed on others*" necessitated reconsidering the euro's role.

In this regard the evaluation in the 2019 report on the international role of the euro (ECB, 2019) is instructive, as it marked a shift in the position of the ECB towards promoting the international role of the euro. **Table 1** replicates the assessment of the ECB at the time.

Table 1: The pros and cons of a dominant international currency according to the ECB

Benefits	Costs
Seigniorage	Blurred monetary aggregate signals (?)
Lower transaction and hedging costs	Capital flow volatility (?)
Exorbitant privilege (lower external financing costs)	Exorbitant duty (stronger exchange rate in global stress episodes)
Greater monetary policy autonomy	
Stronger international transmission of monetary policy with positive spillbacks	
Lower pass-through reduces impact of FX shocks on CPI	Lower effects of monetary policy on import prices
Reduced exposure to unilateral decisions from third countries	

Source: ECB and Coeure B., "The euro's global role in a changing world: a monetary policy perspective", speech at the Council on Foreign Relations, New York City, 15 Februray 2019.

The ECB listed increased seigniorage, lower transaction costs, lower financing costs, greater monetary policy autonomy and stronger international policy transmission along with lower pass-through of foreign exchange shocks and reduced exposure to US monetary policy as advantages. Thus, it concluded that the benefits of an international euro now outweigh the costs. More recently, President

Christine Lagarde (2025) reaffirmed this ambition, calling for a "*global euro moment*." The ECB's shift over time may well have been driven more by strategic and geopolitical considerations than purely economic reasoning.

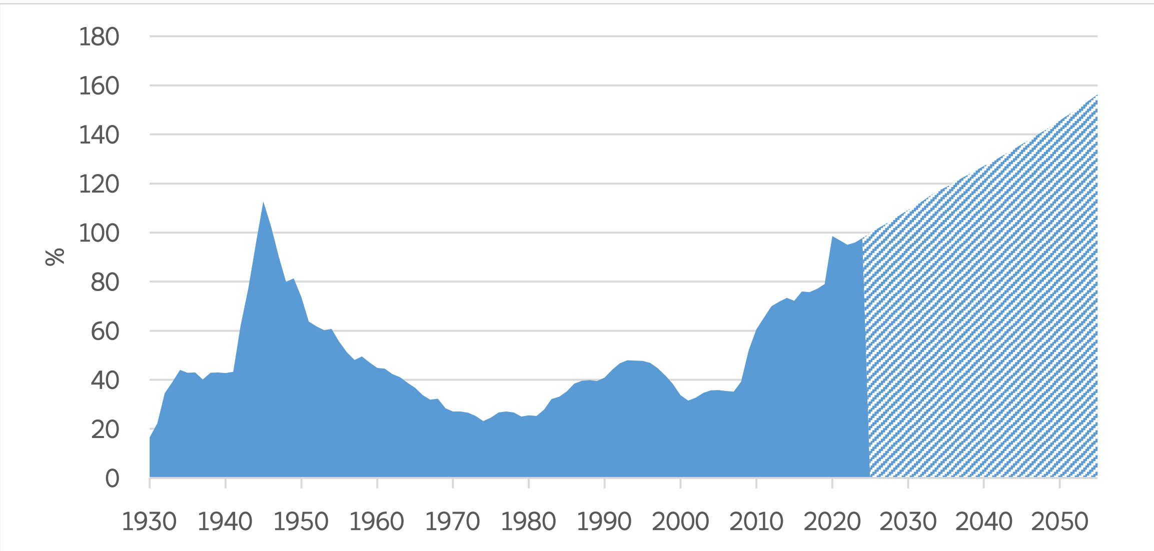
It remains an open question whether the concerns listed by Ben Bernanke, among others, together with more recent developments in the US will push the US government to step back from supporting the international role of the US dollar and make room for the ambitions of European officials with regard to the role of the euro.

2.3. Current US dollar Market and Policy Developments

Expansionary US fiscal policy has led to a substantial increase in US federal debt. Federal debt held by the public stood at 95% of GDP as of the second quarter of 2025 after reaching a maximum of 103% of GDP at the height of the coronavirus pandemic in the second quarter of 2020. As shown in **Figure 5**, the US Congressional Budget Office (CBO) expects the debt to GDP ratio to rise quickly and steadily under unchanged laws in its Long-Term Budget Outlook from March 2025. The projected debt to GDP ratio reaches 156% by 2055. In June 2025, the CBO published an assessment of the impact of the so-called "One Big Beautiful Bill Act" estimating that debt held by the public at the end of 2034 would increase from the January 2025 baseline projection of 117.1 percent to 127.7 percent of gross domestic product.

Past fiscal trends as well as the recent tax legislation indicate potentially ballooning debt trajectories that could reduce international dollar dominance if financial market participants lose trust in the sustainability of US public finances.

Figure 5: US government debt to GDP ratio



Note: Data from 2025 onward are projections by the Congressional Budget Office.

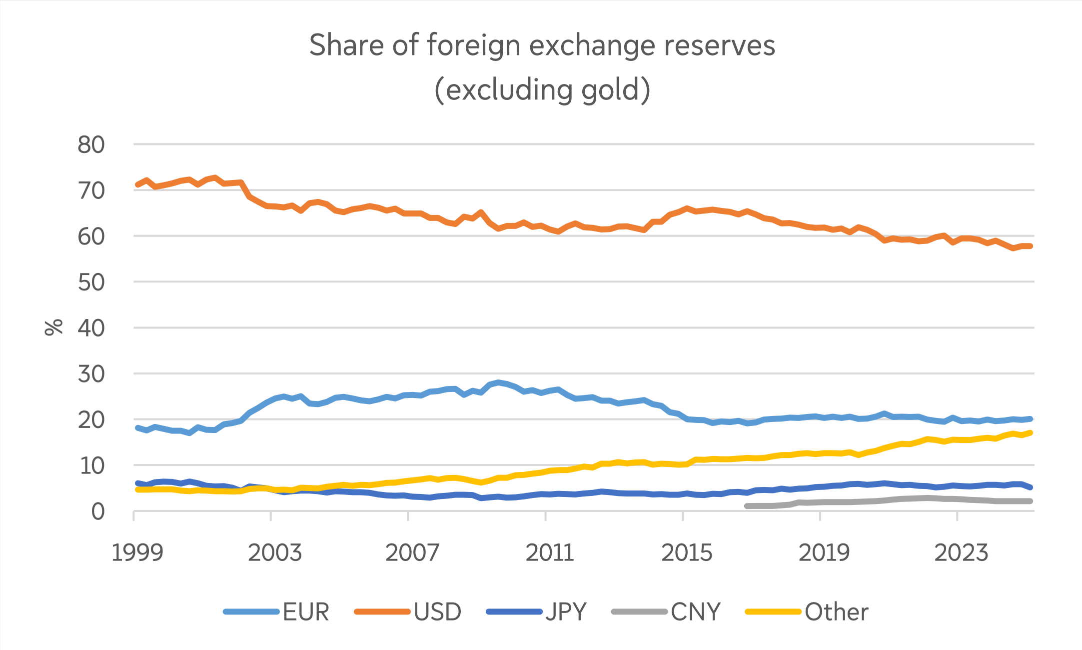
Source: Congressional Budget Office and authors' calculation.

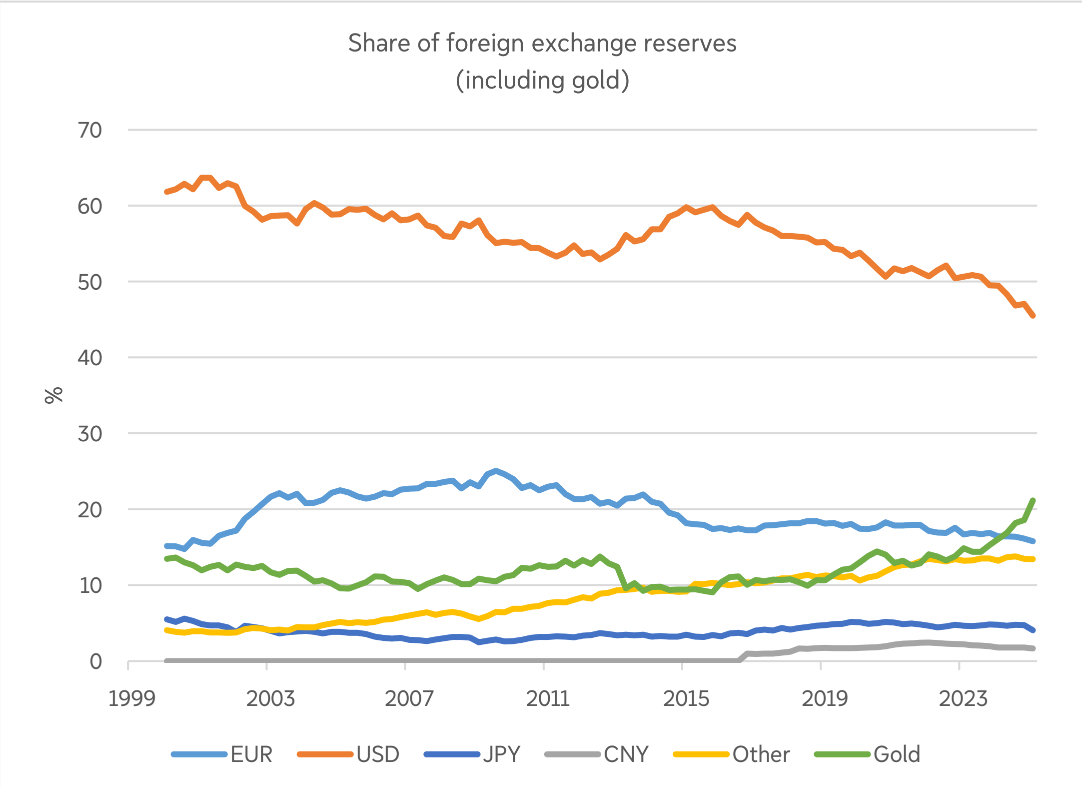
As of 19 September of this year, the 10-year yield on US debt stood at 4.13% compared to 3.57% on Italian 10-year bonds, 3.54% on French 10-year bonds and a German 10-year bund yield of 2.75%. Thus, at first sight, interest rates faced by the US government are not particularly low compared to those faced by the German, French or Italian governments.

Of course, there are many factors influencing long-term interest rates including anticipated inflation, economic growth and associated risks. Research shows that investors give up a sizeable return, the so-called convenience yield, to hold dollar safe assets such as US government debt compared to other dollar investments providing the same cash flows. Nevertheless, recent work by Diamond and van Tassel (2023) suggests that *"US convenience yields are slightly below the level predicted by its level of interest rates, implying that the dollar's role as a global reserve currency has not given US government debt an unusually large convenience yield"* compared to other economies.

Other factors influencing the attractiveness of the US dollar reserves include US "weaponisation" of finance and associated sanctions. This fosters a certain degree of fragmentation, e.g. parallel payment systems and reserve currency holdings in non-traditional reserve currencies and gold. Because the EU often mirrors US sanctions, it is likely perceived as part of the "Western bloc," which limits the euro's appeal as a neutral alternative.

Figure 6: Shares of FX reserves excluding and including gold reserves





Source: IMF and authors' calculation.

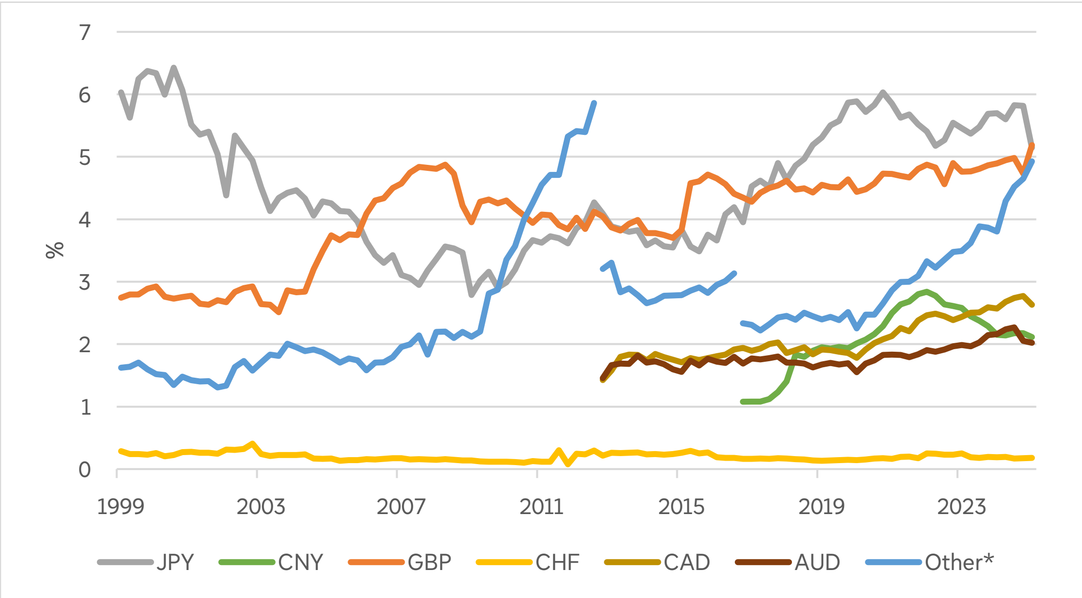
These drivers help explain recent shifts in the use of non-traditional reserve currencies and gold that become apparent once one compares the development of shares of different currencies and gold over time. **Figure 6** shows the shares in foreign exchange (FX) reserves excluding and including gold. While the US dollars share is fairly stable at nearly 60% relative to other currencies, it has declined more visibly once gold is included in the picture. At the same time, the use of other non-traditional reserve currencies has also increased but without affecting the US dollar very much. The rapid increase in the weight assigned to gold reserves is partly due to the recent rise in the price of gold. However, part of it is also due to a longer-term trend of increasing gold reserves as measured in tons.

In fact, it is the euro which has declined. Its share among reserve currencies was between 25% and 28% between 2003 and 2013. Following the euro debt crisis of 2010-2013, the use of the euro as reserve currency has declined back to about 20% and has not improved since then. The 2019 shift of the ECB towards a more proactive position on the international role of the euro has had no discernable impact on the euro's use as reserve currency so far.

Once gold reserves are added to the picture, it becomes clear that the share of the euro has declined further in recent years. The fact that gold has overtaken the euro in recent years signals that reserve holders concerned about the fiscal outlook for the US or other US related factors are not switching from the US dollar to the euro but rather to gold.

The developments of other currencies suggest the following as shown in **Figure 7**: The Chinese renminbi only plays a minor role. Its share increased for a few years but has declined since 2022. In recent years China has also reduced its holdings of US debt. The Canadian and Australian dollars have increased in use exceeding the share of the RMB (CNY) a bit. The use of the Japanese yen and the British pound has also increased since 2015.

Figure 7: Shares of other non-traditional currencies in FX reserves



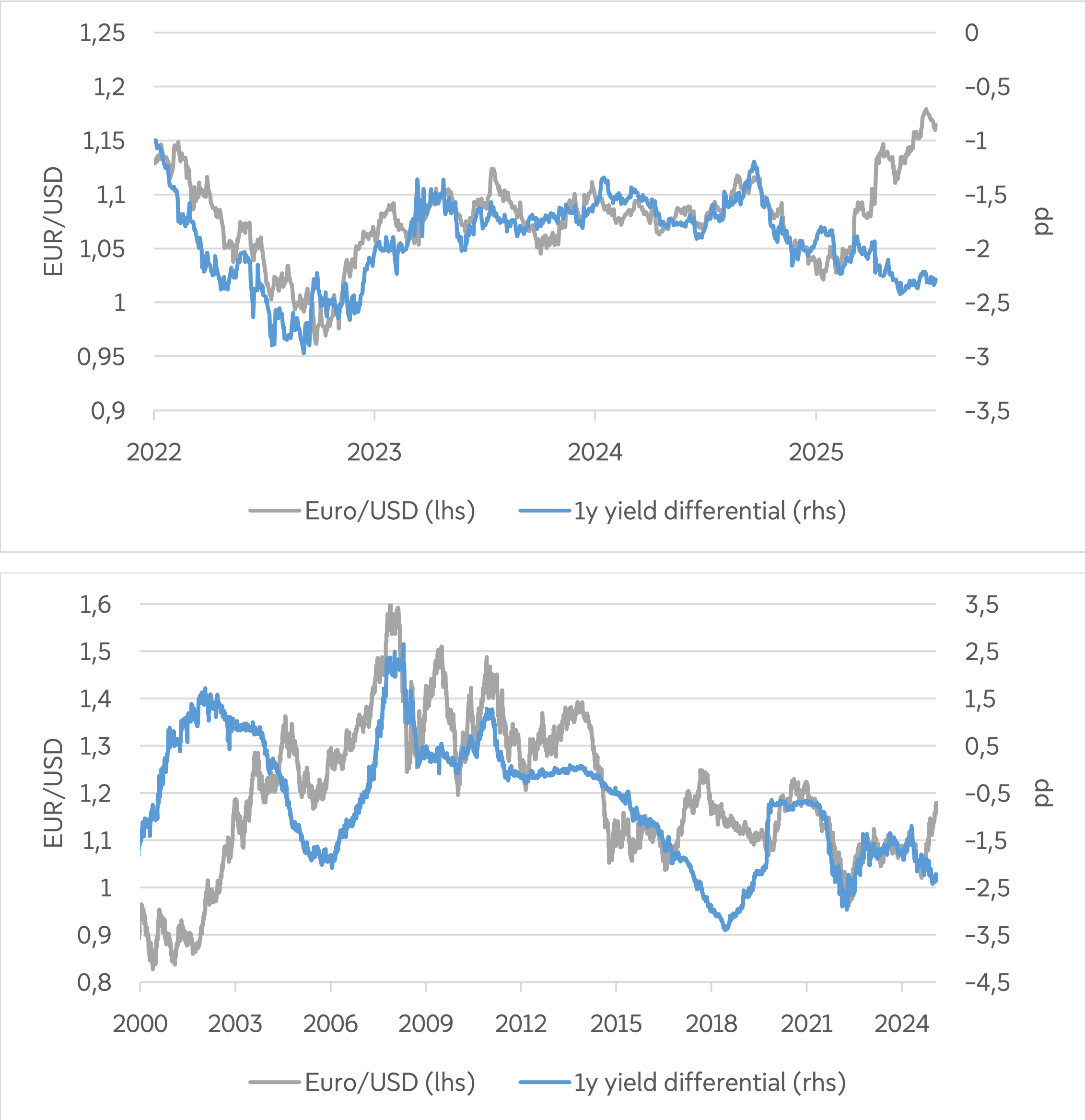
Note: (*) "Other" does not include the euro or the US dollar and has a changing composition over time. Until 2012, "Other" also included the CAD and AUD, and until 2016 it also included CNY. Shares are calculated based on foreign exchange reserves excluding gold.

Source: IMF and authors' calculation.

A recent survey of macroeconomists reported in the Financial Times posed the question whether respondents are concerned about the safe haven status of the US dollar in the next 5 to 10 years (Financial Times & Chicago Booth, 2025). About 60% were somewhat concerned and 30% very concerned.

The trade war and trade policy uncertainty also seems to have had an influence on investors' view of the US dollar. As shown in the upper panel of **Figure 8**, the US dollar's safe-haven status has come under pressure after "Liberation Day." The euro appreciated even as the 1-year interest rate differential between US and German government bonds widened. Between 2022 and the spring of 2025, the exchange rate matched up closely with interest differentials. The divergence is notable but as the lower panel of **Figure 8** shows, it is not unprecedented historically.

Figure 8: Euro versus US dollar: Deviations from 1-year yield differentials



Note: The one-year interest rate differential refers to the difference between US and German government bond yields..
Source: Federal Reserve Economic Data (FRED), Datastream and authors' calculation.

Taking all this information together, we would argue that a rapid collapse of the US dollar as the international dominant currency is very unlikely. Furthermore, we are skeptical that there will be a trend towards a multipolar currency system. Once a currency dominates, inertia keeps it dominant. And there are no alternatives to the dollar.

In any case, it is unclear what "multipolar" even means. Surely, there is a possibility of a kind "Neo–Cold War bipolarity": China may push its currency in its own sphere (Belt and Road, energy imports), but globally the dollar remains dominant. A financial decoupling is possible and may involve a parallel payment system (CIPS vs Swift) and a switch to reserve assets such as the Chinese yuan and gold. There may even be a form of tri-polarity with the euro primarily used in Europe. However, this is not a system in which two or three currencies have similarly important international roles. There are no real alternatives to the US dollar, which remains the "least bad option". The Chinese yuan is trapped behind capital controls and an authoritarian system that investors cannot fully trust. Gold and commodities are hedges, not monetary anchors. As to the euro, we will return to its role and potential in **section 0**.

2.4. The US Initiative on stablecoins

On 18 July the so-called "Guiding and Establishing National Innovation for US Stablecoins" (GENIUS) Act was signed into law by President Trump after being passed first by the Senate and then by the House of Representatives. The White House website uses hyperbole language referring to a "*historic piece of legislation that will pave the way for the United States to lead the global digital currency revolution*" and "*make the United States the crypto capital of the world*". Importantly, in this context, it contains a clear commitment to the international role of the US dollar stating that the "Genius Act" will "*ensure US dollar global reserve currency status. By driving demand for US Treasuries, stablecoins will play a crucial role in ensuring the continued global dominance of the US dollar as the world's reserve currency.*"[2]

Whether one considers this assessment reasonable or not, this does not sound like a government that wants to abandon the US dollar's dominant international role. In fact, the behavior of President Trump and his Administration appears to show some parallels to the Nixon Administration. On the one side, President Nixon ended the central role of the US dollar in the Bretton Woods system, which he considered too costly for the United States, and repeatedly put strong pressure on the US Fed to keep interest rates low. On the other side, he took initiatives that shored up and advanced the international role of the US dollar in offshore markets, for example, in terms of the agreements on petrodollars.

Stablecoins are private digital assets, typically crypto-currencies, that aim to maintain a stable value. Mostly they are tied to a central bank currency. So far the use case for these stablecoins has been to serve as a bridge from the fiat-currency world to the crypto-world with many private, more speculative and more or less money-like instruments based on the blockchain technology that allows for digital de-centralizsd ledgers.

In the EU, regulation on crypto assets including stablecoins already entered into force in June 2023 with *The Markets in Crypto Assets Regulation (MiCA)*. Following an implementation phase that ended in December 2024, there is an 18 months transition phase. Supervision is provided by the European Securities and Markets Authority (ESMA).

With the "GENIUS Act" the US government now provided its own regulation for stablecoins. It requires 100% reserve backing with liquid assets like US dollars or short-term Treasuries and requires issuers to make monthly, public disclosures of the composition of reserves. It also includes elements to ensure a certain degree of consumer protection. The US government expects this regulation to increase demand for US debt and "*cement*" the dollar's status as the global reserve currency. **Box 2** provides a comparison of key elements of the US and EU regulati ons, primarily drawing on recent contributions by the European Parliament's monetary experts panel (for example, Kloosters et al. 2025 and Angeloni & Tille 2025).

[2] The White House. (2025, July 18). *Fact sheet: President Donald J. Trump signs GENIUS Act into law.*

USD-backed stablecoins dominate the market almost entirely. USD-backed stablecoins make up >99% of total market capitalisation, while non-USD stablecoins remain negligible (see **Figure 1**). According to the IMF's Crypto Asset Monitor the market capitalisation of stablecoins amounts to USD 230 billion. The trading volume of Tether and Circle USD stablecoins reached USD23 trillion in 2024.

Table 2: Key regulatory differences: EU MiCAR vs. US GENIUS Act

Category	EU MiCAR	US GENIUS Act
Definitions & Scope	• Two categories: Electronic Money Tokens (EMTs, single currency reference) and Asset-Referenced Tokens (ARTs, baskets of assets). • Applies to both EU- and non-EU currency references.	• Payment stablecoins: digital assets used for payments, redeemable at fixed value. • Algorithmic (endogenous) stablecoins excluded, subject to separate study.
Issuers qualification & Licensing	• Issuer must be credit institutions or electronic money institutions. • No "stablecoin-specific" license.	• Issuers limited to: (i) subsidiaries of insured depository institutions, (ii) federal qualified issuers authorised by the Comptroller, (iii) state qualified issuers licensed under state law.
Reserve & Redemption Rules	• Reserves: at least 30% in same-currency bank deposits (60% for significant EMTs); remainder in highly liquid, low-risk assets • Recovery/redemption plan obligations • Bankruptcy treatment according to national insolvency proceedings • ETMs redemption at par, anytime, fee-free.	• Full 1:1 reserves in cash, insured deposits, short-term Treasuries, or approved assets • Token holders have a priority claim in the event of insolvency. • Issuers obliged to convert, redeem or repurchase for a fixed amount of monetary value; fees possible
Interest Payments	• Explicitly prohibited.	• Explicitly prohibited.
Systemic Relevance	• "Significant" status mandatory if thresholds met → stricter capital, liquidity, custody, and stress-testing. • Daily transaction caps apply to signif. EMTs refer. non-EU currencies, EBA refines limits meas. and applied	• No "significance" category. • Size-based thresholds: >10m USD → federal oversight; >50b USD → enhanced reporting.
Prudential Requirements	• Own funds: 2% CET1 (3% for significant issuers) + potential add-ons. • Liquidity: stress testing + 30% deposit rule.	• Capital: tailored by regulator, sufficient to ensure operations. • Liquidity: regulator sets liquidity standards.
Cross-border Issuers	• Only EU-established and authorised issuers may target EU public; limited "reverse solicitation" exemption.	• Foreign issuers permitted if their regime is recognised as "comparable" by US Treasury and they register with OCC.

Source: van 't Klooster et al. (2025) and D'Agostino & Wirtz (2025).

Box 2: Stablecoin regulation and its implications for currency internationalisation

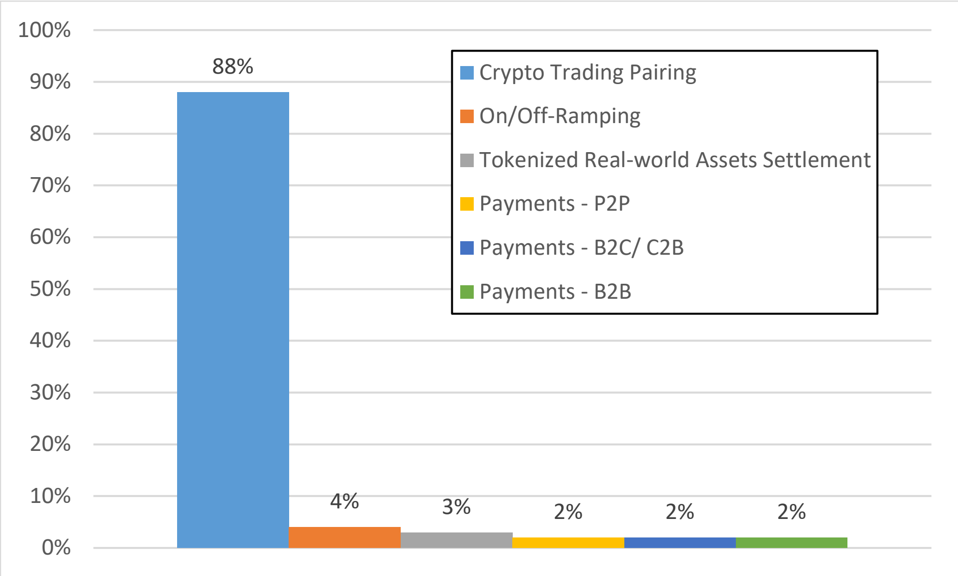
Both the EU's MiCA regulation and the US GENIUS Act establish comprehensive regulatory frameworks for stablecoins, with notable similarities regarding redemption rights, full reserve backing, and the prohibition of interest payments. At the same time, they differ in several aspects that could have implications for the international monetary system. Key regulatory differences and similarities between MiCAR and the GENIUS Act are summarised in Table **2**.

MiCAR contains provisions designed to safeguard the euro's monetary sovereignty. Issuance is restricted to EU-authorised institutions, and foreign issuers are prohibited from offering stablecoins to the EU public. Significant non-euro stablecoins are subject to daily transaction caps, and the European Banking Authority, in coordination with the ECB, may halt issuance if non-EU-currency stablecoins pose systemic risks. MiCAR also requires a substantial share of reserves to be held in same-currency bank deposits, and sets out both quantitatively and qualitatively defined prudential requirements, including minimum own funds, stress tests, and additional safeguards for significant issuers. Together, these measures provide structured protection against the substitution of the euro in domestic payments.

By contrast, the GENIUS Act contains provisions that may foster wider adoption of the dollar and increase demand for US Treasuries. Foreign issuers are permitted to access the US market if their home regime is deemed equivalent. Reserve requirements place no minimum quota on bank deposits but emphasise holdings of US government securities. Capital and liquidity standards are not fixed in advance. Instead they are determined by regulators on an institute-tailored basis and applied only to the extent necessary to ensure orderly operations.

According to a recent report by Boston Consulting Group (Jhanji et al. 2025) stablecoins are primarily used for crypto trading as shown in **Figure 9**, with only minimal adoption for real-world transactions. Their broader future use remains uncertain.

Figure 9: Stablecoin transaction shares



Source: Jhanji et al. (2025) and authors' calculation.

Nevertheless, the promotion of US dollar backed stablecoins with this new US regulation offers several avenues for strengthening the international role of the dollar. These include expanded access to US dollars to households and firms around the world, particularly in countries with weak banking systems, network effects in digital finance, reserve asset composition and integration in decentralised and programmable finance.

- Expanded access to USD: Stablecoins give households and firms in countries with unstable currencies, weak banking systems, or strict capital controls direct access to dollar value without needing a US bank account. By lowering barriers to dollar usage, they export the dollar into jurisdictions where it was previously scarce or costly to obtain.
- Network effects in digital finance: Because the overwhelming majority of stablecoins are USD-denominated, liquidity pools, payment rails, and trading pairs are centered on the dollar. New users and platforms naturally adopt the USD standard to access the deepest markets, which further entrenches its dominance.
- Reserve asset composition: Stablecoin issuers invest their reserves heavily in US Treasuries and other dollar-denominated short-term instruments. This practice increases global demand for US government debt and embeds the dollar more deeply as the world's primary asset.
- Integration into DeFi and programmable finance: The dollar is becoming the default settlement and collateral asset in decentralised finance, where lending, derivatives, and asset management protocols are built around USD stablecoins. This "bakes in" dollar dominance into the architecture of future digital financial markets.

Currently USD stablecoins are mainly used for crypto trading. With the backing of US regulation and the resulting requirements for liquid asset holdings and convertibility the USD stablecoins may become attractive and accessible assets for households and firms around the world, in particular from high-inflation economies and economies with extensive capital controls and weak banking systems. In **Box 3** we explore quantitative scenarios of demand for US dollar stablecoins, primarily as a store of value, from such economies.

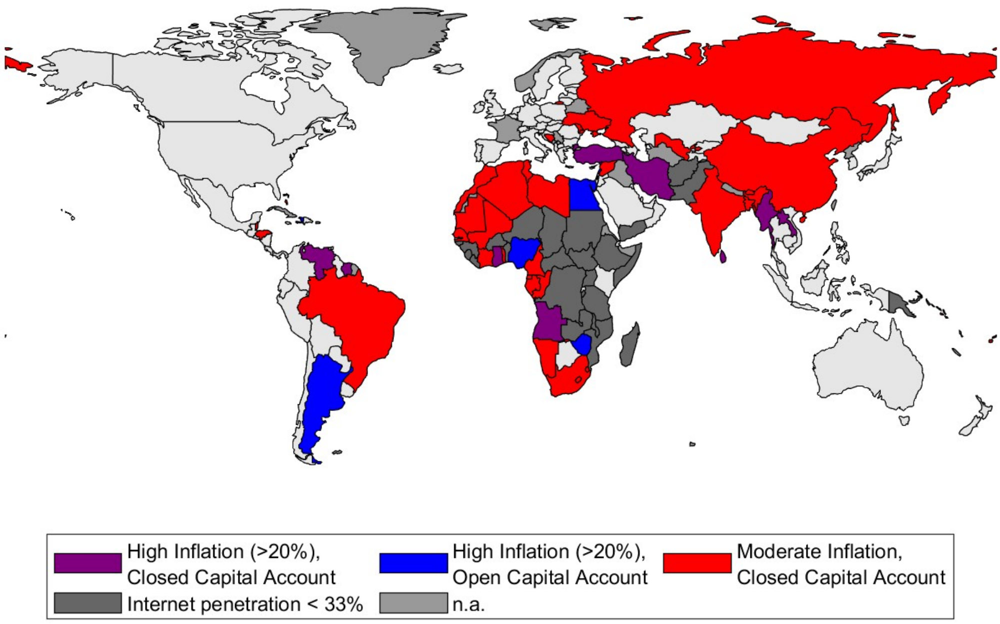
Recent analysis by Graf von Luckner et al. (2025) has shown how cryptocurrency markets can fuel cross-border capital flight by serving as marketplaces that match counterparts with and without (illicit) access to FX.[3] Stablecoins are also used to facilitate fast peer-to-peer payments and they hold the potential for new payment innovations, such as programmable money.

Liao and Carmichael (2022) discuss the impact of stablecoin adoption on traditional banking and credit provision. They see the possibility of a two-tiered banking system that can both support stablecoin issuance and maintain traditional forms of credit creation. Yet they also consider a risk that what is effectively a narrow bank approach for digital currencies can lead to disinter-mediation of traditional banking, as it may provide the most stable peg to fiat currencies. Additionally, dollar-pegged stablecoins backed by adequately safe and liquid collateral can potentially serve as a digital safe haven currency during periods of crypto market distress.

[3] Also, the Bank of Brazil's Deputy Governor sated one of the "worrisome" issues was that stable can be a way to bypass the normal checks and balances for converting Brazilian real into dollars and transferring it in and out the country (Reuters 2025).

Box 3: Dollarization Potential via USD Stablecoins

Figure 10: High-inflation & closed capital account countries



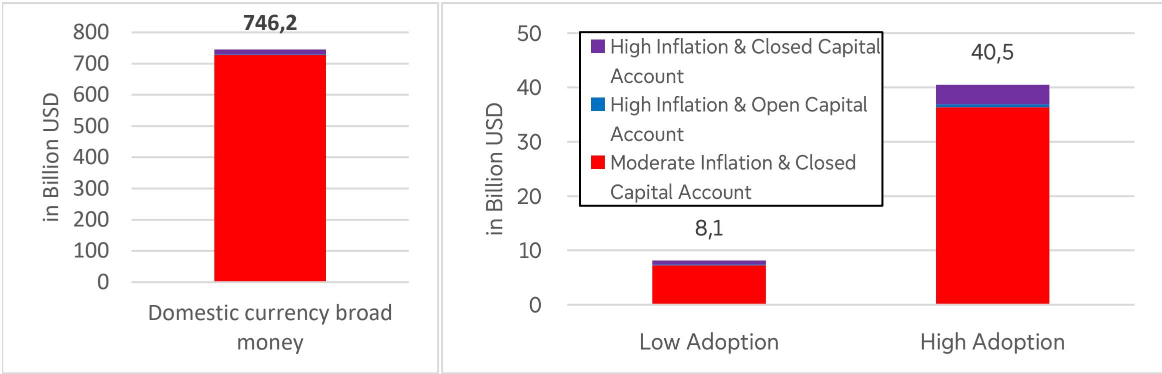
Note: High-inflation countries are defined as those with an average annual inflation rate above 20% during 2022–2024. Closed capital accounts are identified using the Chinn-Ito index (KAOPEN), with values below –1 based on the 2022 update. Countries where less than one-third of the population uses the internet are excluded, as widespread stablecoin adoption is considered unlikely under such conditions.

Source: IMF, World Bank, Chinn & Ito (2006) and authors' calculation.

Figure 10 shows economies with very high inflation, closed capital accounts, and sufficient digital access, where USD stablecoins could accelerate dollarisation. **Table 3** in the appendix summarises monetary aggregates and structural conditions that influence stablecoin adoption. Domestic currency in circulation and broad money excluding foreign currency deposits are used as indicators of the potential substitution base. Factors likely to support adoption include the share of deposits already held in foreign currency and the level of internet and mobile penetration. In many countries, particularly those with capital controls, there are existing bans on cryptocurrencies and stablecoins, which may hinder adoption, although the effectiveness of such restrictions remains uncertain.

Based on these factors, we provide rough estimates of the share of domestic-currency monetary aggregates that could shift into USD stablecoins. The total broad money stock across the country groups considered amounts to about USD 746.2 billion, with the vast majority originating from economies that maintain capital controls but face only moderate inflation. In a low-adoption scenario, estimated rates range from 1–5% across country groups, corresponding to a cumulative stablecoin stock of approximately USD 8 billion. In a high-adoption scenario, rates rise to 5–25%, with cumulative amounts reaching USD 40 billion (see **Figure 11**). While these amounts are small relative to global monetary aggregates, they could be significant in some countries, potentially undermining monetary sovereignty in vulnerable economies.

Figure 11: Estimated USD stablecoin adoption in vulnerable economies (excl. China)



Source: IMF, World Bank, Chinn & Ito (2006) and authors' calculation.

For now, we see the following key takeaways:

Stablecoins may entrench dollar dominance. The digital economy shows no signs of weakening the dollar. Stablecoins are overwhelmingly USD-backed, and the US regulation is likely to strengthen this position further.

However, the growth trajectory is uncertain. Adoption could be slower than early trillion-dollar forecasts. For example, a recent analysis by J.P. Morgan expects a more modest uptake (see Reuters July 3, 2025). Even so, the dollar is best positioned to benefit, if significant expansion does occur. There would seem to be many households and firms that would see benefits from holding a zero-interest digital dollar asset backed by safe US assets in economies that experience high inflation or repeated crises or that are faced by capital controls.

Whatever the growth path of stablecoins, the dollar remains firmly entrenched in digital finance. USD-backed stablecoins currently dominate the market, a position further reinforced by US regulatory initiatives such as the GENIUS Act, with no credible alternative fiat-backed stablecoins in sight. By contrast, European initiatives, both the ECB's digital euro project (conceived as a central bank digital currency, CBDC) and the EU's regulatory framework for stablecoins, MiCA, are primarily defensive and inward-looking. The ECB's digital euro is currently targeted at retail transactions within the euro area, and the MiCA regulation, in providing investor protection, also restricts the use of stablecoins backed by non-EU currencies. These measures, serve to shield the euro area from dollarisation rather than to advance the euro's international role. So far, there is no clear strategy to promote the euro as a currency for global digital use, whether as a CBDC or as a euro-backed stablecoin.

3. THE EURO'S INTERNATIONAL ROLE

3.1. Prospects and limitations

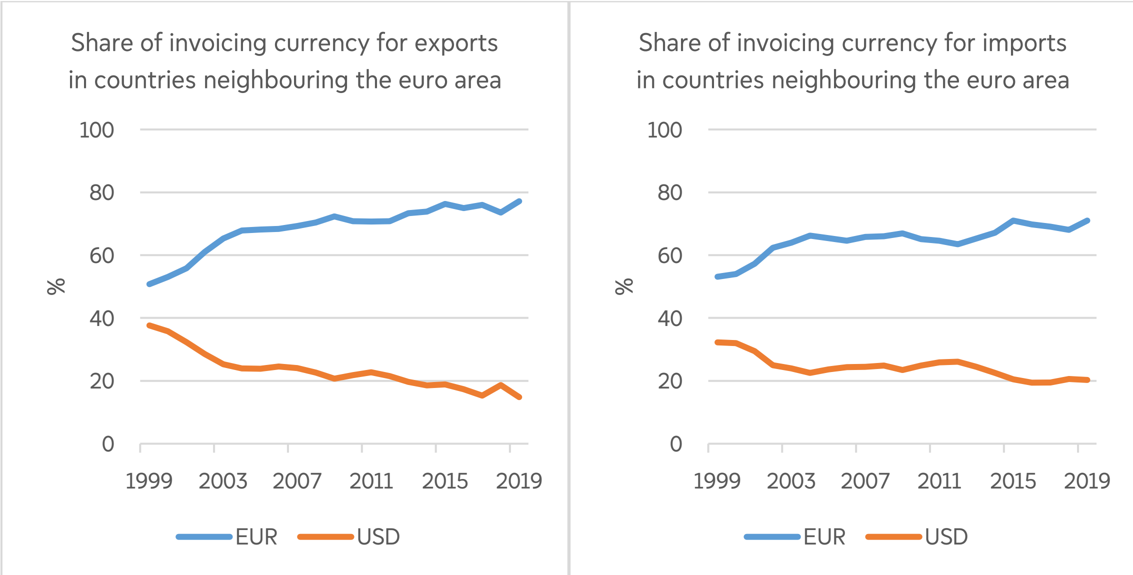
As shown already, there have been no major further gains in important areas concerning the international role of the euro since the early phase of the euro. This includes the role of the euro as a global reserve currency, an internationally used means of payment, a vehicle for trade invoicing, a currency for international bonds and loans and in terms of cross-border bank deposits and claims.

Also, we do not see the confluence of events and political decisions in the US as the decisive change that implies the US government will actively withdraw from the dollar's role as global currency. Nor is it the case that the US economy has declined in economic power and size relative to Europe. Rather, it is the opposite. While US GDP has grown by 60% in the last 25 years, the three largest euro area economies have grown much less. For Germany and France the growth rate was about 30%, for Italy about 10%. Growth rates in per capita terms have also been lower, though less so, because US population growth has been stronger. Thus, the major euro area economies are falling further behind rather than catching up with the US economy. While the Trump Administration has raised tariffs massively and caused a huge degree of uncertainty about trade policy, which may hurt the role of the US dollar, it is promoting the US dollar aggressively in the digital arena offshore.

An additional sign of euro weakness is the fact that gold surpassed the euro again in 2024 as the second most important official reserve asset. Gold does not suffer from political dysfunction or default risk, nor does it impose sanctions. With regard to sanctions and financial weaponisation the EU is likely to follow the US most of the time. Hence, the euro does not offer a neutral alternative in this regard. Furthermore, Europe's economic weakness and limited prospects for reform may also weaken the euro's role as international currency. Therefore, we are not convinced that this is the "*global euro moment*".

The only notable cases of increased euro usage are in peripheral euro-area countries. This was not the result of a deliberate policy to strengthen the euro, but emerged organically through market forces. In these cases, the euro increasingly replaced the dollar as the invoicing currency for trade as shown in **Figure 12**. This was largely due to stronger trade links with the euro area.

Figure 12: Increased usage of the euro in the region for invoicing trade



Note: Cross-country averages are based on individual observations from a sample of countries neighboring the euro area that were not among its inaugural members in 1999: Bulgaria, Czech Republic, Estonia, Croatia, Latvia, Lithuania, Hungary, North Macedonia, Norway, Poland, Romania, and Slovakia.

Source: Boz et al. (2022), Mehl et al. (2023) and authors' calculation.

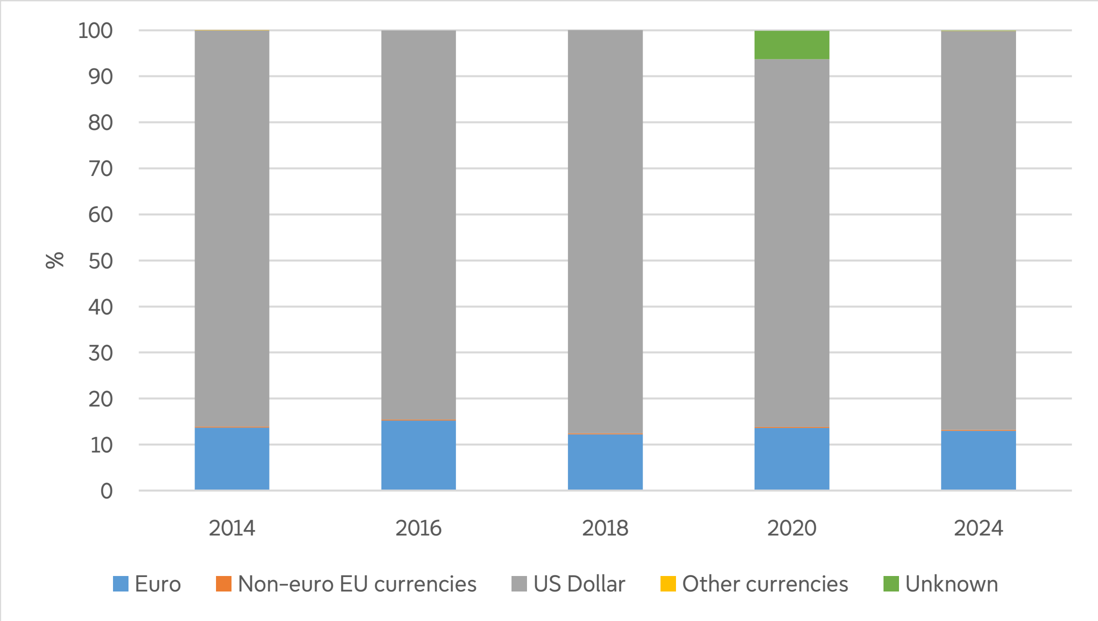
Mehl et al. (2023) conclude that the reshoring or friendshoring of production chains following the pandemic and the energy crisis due to the Russian war on Ukraine could lead to stronger regional trade, notably on the European continent. That, in turn, could strengthen the future role of the euro for export invoicing and its importance for the international transmission of shocks and the pass-through of global exchange rate movements. Thus, a more modest approach would seem to be called for. Steps could be taken to strengthen the euro's regional role in order to increase Europe's strategic autonomy.

There are a number of reasons why the euro has not managed to play a more relevant role as an international currency. First, the dollar is overwhelmingly dominant and a significant shift away from the dollar would probably take a long time.

Second, since the European Commission and the European Central Bank have moved to a more proactive stance towards the internationalisation of the euro in 2018, ideas to boost the euro's role have been floated but, in practice, there has been almost no progress. The euro suffers from fragmented markets and a lack of implemented initiatives to strengthen its role as a global reserve currency, an internationally used means of payment, a vehicle for trade invoicing, and a key currency in cross-border debt and asset markets. Proposals have been made, but little has been achieved.

To give an example, the European Commission has made recommendations for increasing the role of the euro in energy contracts (see European Commission, 2018). After all, the EU is the largest energy importer in the world. These included, for example, urging member states and energy companies to increase euro invoicing for oil, gas and electricity imports; and a non-binding recommendation within the December 2018 Communication "Towards a Stronger International Role of the Euro". Yet, as shown by **Figure 13**, the Eero invoicing share in oil imports has not changed.

Figure 13: Currency invoicing of EU imports in petroleum and petroleum products

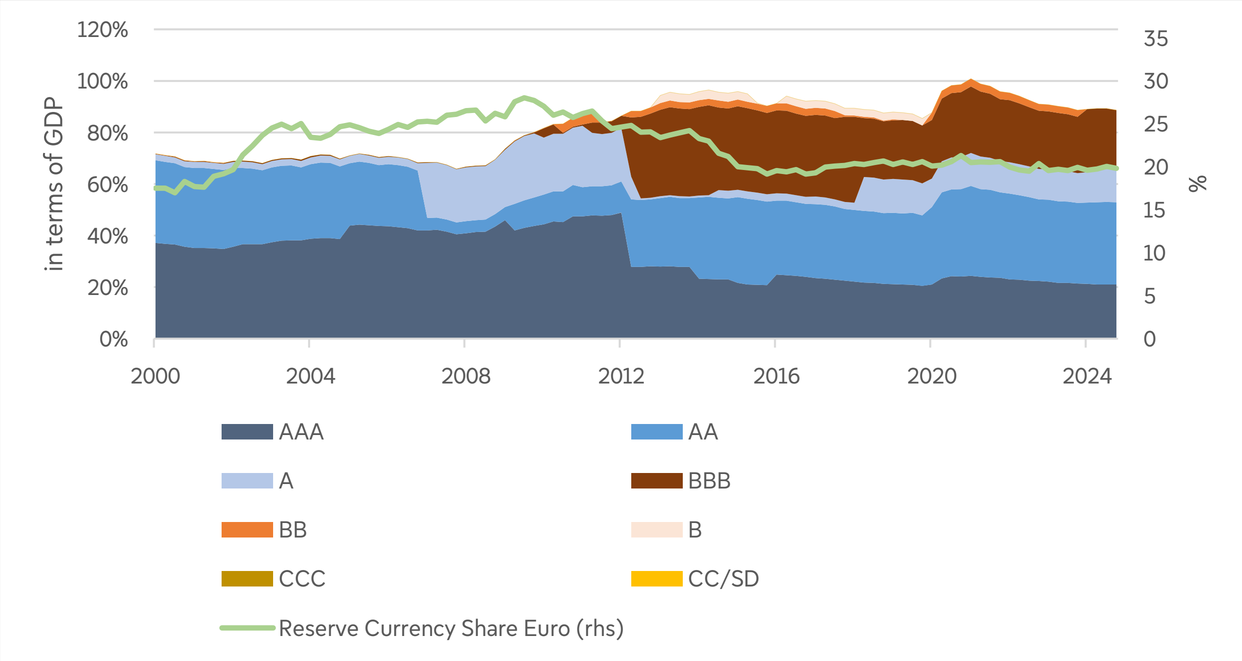


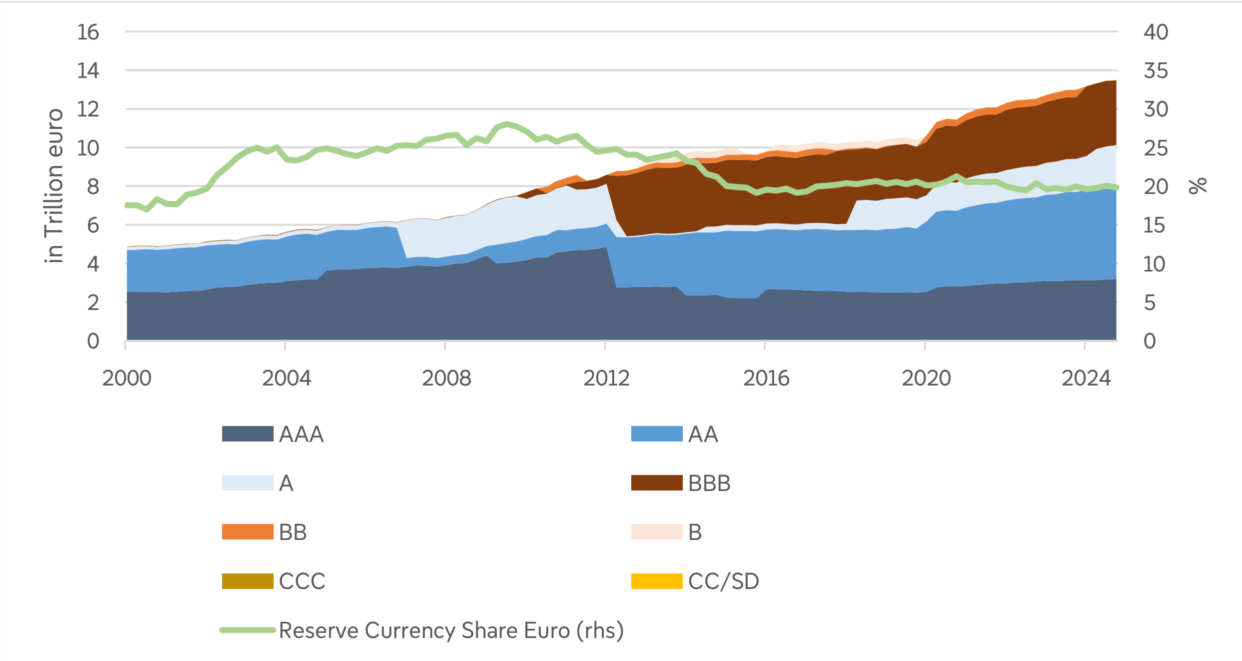
Source: Eurostat and authors' calculation.

Another long-standing initiative is the so-called Capital Markets Union. It was launched on 15 July 2014 by then-President of the European Commission, Jean-Claude Juncker. The main target was to create a single market for capital in the whole territory of the EU by the end of 2019. This could also have contributed to enhancing the international role of the euro in financial markets.

In its recent report on Financial Integration and Structure in the Euro Area, the ECB (2024) concluded that "*there has been disappointing progress in euro area financial integration since start of monetary union. Indicators of financial integration have declined significantly over the past two years, with no sizeable increases since the start of monetary union*". The EU has relaunched its efforts to advance the Capital Markets Union (CMU). On the one hand, the Eurogroup has set out another CMU Action Plan, a political blueprint that underscores CMU as a cornerstone of Europe's strategic autonomy and the international role of the euro. On the other hand, the European Commission's Strategy on the Savings and Investments Union (SIU) provides the legislative roadmap for the 2024–2029 term, detailing concrete initiatives to reduce fragmentation and foster deeper capital markets integration. While the SIU does not explicitly target currency internationalisation, by building more liquid, efficient, and resilient financial markets, it creates the conditions for strengthening the euro's global role. A currency's international role depends also on the perceived fiscal soundness of its issuing jurisdiction. This is one of the reasons why it has been argued that the US dollar may be losing its international appeal. Weak public finances undermine trust and presumably limit reserve currency potential.

Figure 14: Euro area government debt by credit rating





Note: Throughout the entire period, all 20 current euro area countries are considered. The ratings correspond to those of S&P.

Source: Bloomberg, ECB and authors' calculation.

This link has already manifested itself regarding the international role of the euro. As the credit ratings of several euro area Member States deteriorated during the European sovereign debt crisis of 2010 to 2014, the share of the euro as a global reserve currency declined almost simultaneously as shown in **Figure 14**. Sovereign credit ratings in the euro area remain weaker today than before the euro debt crisis and the euro's share as a reserve currency has stayed relatively low.

3.2. Policy Considerations

The Euro's institutional challenges

The euro stands for a monetary union of fiscally sovereign Member States with differing regulations and economic policies, which limits its global appeal. Furthermore, the future direction of the monetary union remains fundamentally unclear: will it evolve towards a deeper fiscal and political union including a more extensive supranational structure, or remain primarily a monetary union of largely sovereign Member States? This uncertainty impacts the euro's international prospects.

In their recent book, Cochrane, Garicano, and Masuch (2025) provide a comprehensive review of the euro's historical development and institutional evolution, ultimately concluding that its long-term viability remains highly uncertain. While the currency has endured successive crises, each accompanied by institutional and regulatory adjustments, the authors contend that these modifications constitute a fragile foundation for the euro's future stability. They argue that rather than strengthening the system, such changes have facilitated increasingly expansive and less constrained monetary and fiscal interventions, thereby planting the seeds for potentially more severe crises ahead. According to their analysis, the current trajectory is unsustainable. In a monetary union absent a corresponding fiscal union, overindebted Member States must be permitted to default in a manner analogous to private firms. By contrast, if the central bank persistently intervenes to avert sovereign default or to suppress bond yields, Member States are deprived of the incentive to maintain fiscal discipline, leading inevitably to repeated interventions and recurrent inflationary pressures.

Cochrane et al. advance a set of reforms centered on the establishment of a framework for orderly sovereign default and debt restructuring—designed to be activated immediately when sovereign difficulties emerge and complemented by regulatory measures that limit both banks' exposure to sovereign debt and sovereigns' dependence on banks. Such a framework, they argue, would relieve the ECB of its current entanglement with sovereign debt crises. In addition, a strengthened and revitalised European Stability Mechanism (ESM), the euro area's existing rescue instrument, should provide temporary financial and balance-of-payments assistance in times of crisis—even to the Largest Member States—while enforcing strict conditionality to ensure fiscal discipline and microeconomic reform.

Sovereign debt, crisis management, and the Maastricht 2.0 proposal

The proposals of Cochrane et al. mirror earlier analysis by the German Council of Economic Experts (GCEE) on needed institutional reform of the underpinnings of the euro. The GCEE advocated a concept titled Maastricht 2.0 in a series of publications starting with the onset of the crisis (GCEE 2013, 20214, 2015a,b).[4] This regulatory framework combines crisis prevention and crisis management, and consists of three pillars structured according to the extent to which responsibility is allocated to European level. A guiding principle is the objective of retaining the unity of liability and control. The basic features of Maastricht 2.0 are summarised in **Figure 15**.

The GCEE's concept for the institutional architecture of European Monetary Union of the euro area is designed to fix two fundamental weaknesses that became apparent during the crisis:

- the lack of economic and fiscal policy discipline compounded by dysfunctional sanctioning mechanisms and a flawed financial regulation and supervision.

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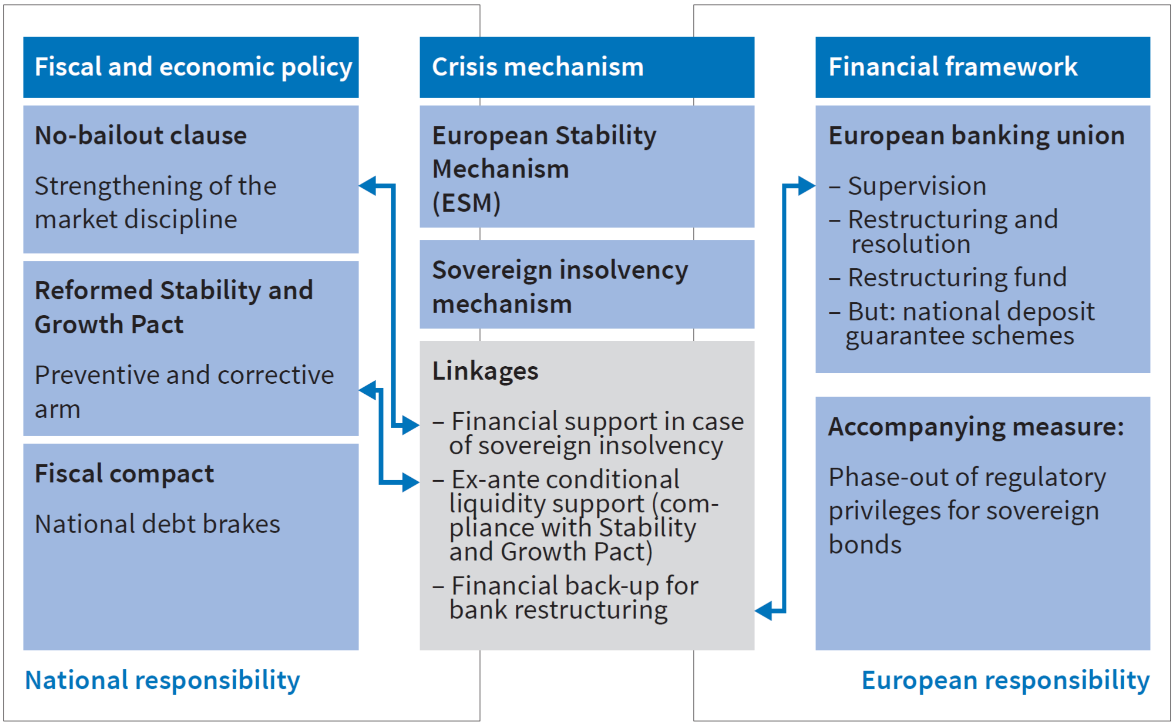
4 See also Feld, Schmidt, Schnabel and Wieland (2016a,b) and Schmidt (2018).

- The lack of a credible mechanism for crisis response regarding bank and sovereign debt problems that would have been able to reign in moral hazard problems and establish market discipline.

The proposed framework should foster economic and fiscal policy discipline so as to avoid an excessive build-up of public and private debt, and effectively reduce moral hazard problems in the public and private sector. While several of the reforms following the debt crisis went in the direction of Maastricht 2.0 and increased the stability of monetary union, there remain important gaps that are also highlighted by Cochrane, Garicano and Masuch (2025). As shown in **Figure 15**, for example, GCEE highlighted the need for a sovereign insolvency mechanism that is still missing. Furthermore, it called for a phase-out of privileges for sovereign bonds in bank regulation. This is also still missing and as a consequence, the potentially crisis-triggering sovereign bank nexus is still alive and well in the euro area.

Figure 15: The GCEE Concept of Maastricht 2.0 for a future-proof Euro



Source: German Council of Economic Experts (2013).

A key objective of the GCEE proposals was to relieve the ECB of its role as a crisis manager. Instead, the ECB has moved further into this role, most recently with its Transmission Protection Instrument (TPI) for sovereign debt purchases. TPI that goes beyond the Outright Monetary Transactions (OMT) program announced during the crisis because it does away with the need for an ESM program with policy conditionality as a requirement for large-scale ECB intervention in sovereign debt markets on behalf of individual, fiscally-challenged member states.

Critics argue that the absence of a credible fiscal backstop has repeatedly forced the ECB into the role of crisis manager. The Maastricht 2.0 framework addresses this by establishing predictable, rule-based mechanisms that reduce the likelihood of ad hoc interventions. Under Maastricht 2.0 framework national governments retain full responsibility for their budgets under a credible no-bailout rule, ensuring that private creditors bear the consequences of fiscal mismanagement. The ESM acts as a conditional fiscal backstop, providing targeted support only with other member states' approval and under strict reform programs. A sovereign insolvency framework, with pre-defined debt restructuring and creditor bail-in reduces uncertainty in case of fiscal crises and removes market expectations that the ECB will step in as a permanent crisis manager. These elements aim to break the cycle of moral hazard and restore market discipline, allowing the ECB to focus on its core monetary policy mandate rather than emergency crisis intervention.

Eurobonds and safe assets

Other recent proposals go in the opposite direction compared to the GCEE's Maastricht 2.0 and the call to action by Cochrane et al. (2025). In particular, there are renewed calls for the introduction of so-called Eurobonds, that is, joint debt issuance that either directly involve joint and several liability or create at least perceived promise of such guarantees for member states' debts.

A prominent example is Blanchard and Ubide (2025), who consider this not only the "*moment of the euro*" but also "*the moment of the Eurobond*". They view a deep and liquid Eurobond market to be a necessary condition for a European financial ecosystem that can compete with that of the United States. While there are bonds issued by the ESM and the EU, the size is too small. In order to increase the size of the Eurobond market dramatically, they propose to replace a large proportion of the stock of national bonds with Eurobonds, at least 25% of the national bonds.

Blanchard and Ubide (2025) consider it ideal to have a joint and several guarantee for these so-called blue bonds. If that is not possible they advocate governments to commit under domestic law to allocate the required value-added tax (VAT) revenues to interest payments on the blue debt (directly, or if not feasible legally, by paying the required VAT revenues to the EU budget, and the EU budget in turn making the interest payments). Of course, this will depend on the credibility of such commitments across member states and over time.

Blanchard and Ubide believe that due to the market size the euro-bonds they propose would deliver lower sovereign bond rates for all Member States, not only for those with high debt ratios such as France, Italy, Spain and others[5] but also those with low debt ratios such as Germany and the Netherlands, which currently enjoy 10-year bond rates that are about 75 basis points lower. This spread may already be compressed by beliefs of ECB intervention and likely ex-post risk sharing. The previously discussed comparative empirical findings regarding the size of convenience yields in the US and Europe by Diamond and van Tassel (2023) would not support the belief that by jointly guaranteeing debt by high-debt Member States the yields of low-debt Member States such as Germany and the Netherlands can be reduced. Rather, one should worry about higher debt costs in those countries.

Moreover, only three out of the twenty euro area Member States (together accounting for around 21% of outstanding sovereign debt) currently hold an AAA rating suggesting a genuine safe asset status. If the introduction of Eurobonds were to reduce the incentives for fiscal discipline in these countries, further narrowing the pool of high-quality sovereigns, it becomes questionable whether Eurobonds could genuinely be considered safe assets, given that the states providing the guarantees would themselves no longer possess top-tier credit ratings.

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[5] Note, the EU's debt sustainability monitor 2024 identifies nine Member States with high medium-term sustainability risks. These are France, Italy, Spain, Belgium, Finland, Portugal, Greece, Slovakia, and Austria. These economies make up 60% of euro area GDP and 70% of euro area sovereign debt.

Proposals of Eurobonds often ignore the concerns about moral hazard and asymmetric information and resulting negative incentives that are central to modern financial economics and political economy. By contrast, proposals such as those advanced by the GCEE and Cochrane, Garicano and Masuch address these challenges head on. Even a brief look at recent budgetary challenges in France illustrates the potential risks of creating additional free-riding incentives for stability-oriented fiscal policies at the national level. Similarly, considering the political shifts in support towards anti-EU parties in low-debt member states such as Germany and the Netherlands, it is easy to imagine how risk-sharing via Eurobonds which would involve transfers to higher-debt Member States could fuel anti-EU politics.

Sometimes, the argument is made that there are not sufficient nominally safe assets such as sovereign debt available in the market. In this case, it is worth considering whether the ECB could not reduce holdings of sovereign debt faster and release these bonds more quickly into the market than currently planned. At this point, the Eurosystem still owns close to 30% of outstanding euro area government debt.

An even more significant lever, however, lies in improving the credit ratings of Member States through stronger fiscal discipline. Currently, only around 21% of euro area sovereign bonds carry an AAA rating. While stricter fiscal policies might slightly reduce the overall supply of government bonds, they would substantially increase the availability of genuinely safe assets.

Furthermore, it is often argued that Eurobonds could help break the sovereign–bank "doom loop," as banks would be less heavily exposed to their respective national sovereign debt. However, this merely shifts the risk to a common, collective level rather than eliminating it. By contrast, the implementation of a sovereign insolvency framework, combined with the gradual removal of the preferential treatment of national sovereign debt in bank regulation, would directly address and break the doom loop.

Some proposals have explored synthetic instruments, such as sovereign bond-backed securities (SBBS), to create a safe asset while keeping liability national. If such instruments could lower costs of funding due to greater market depth compared to purely national bonds, then banks or other financial institutions could create such sovereign bond-backed securities. There is substantial experience and expertise regarding the creation of asset-backed securities. The absence of such instruments suggests that there is no expectation of creating a significant return simply from pooling the sovereign debt held by the public in this manner. Finally, other voices such as, for example, De Grauwe and Ji (2018) argue that such constructions would fail in crises. Governments of euro area Member States issue debt in a currency they do not control on their own. Thus, in crisis situations, investors are unlikely to treat SBBS tranches as equivalent to genuinely safe bonds and may instead flee to safe havens such as German and Dutch government bonds. Financial engineering alone cannot substitute for institutional reforms.

Implications for the international role of the euro

The debate on the international role of the euro should not focus only on the costs and benefits of being a dominant global currency, but also on the costs and risks along the path of trying to become one. Costs during transition include additional volatility, loss of network effects in the international monetary system as a whole, credibility risk in case of failure and geopolitical retaliation. There is a case to be made for a pro-active position on the internationalisation of the euro. Yet a modest, realistic assessment of the current possibilities would be appropriate. The change towards a proactive stance since 2018 has not had significant effects. At least, efforts should be undertaken and measures be implemented so as not to lose more ground. Real progress requires the actual implementation of existing reform proposals such as completing the Capital Markets Union. Without implementation, talk of euro internationalisation may turn out to be empty rhetoric.

The euro has been important in neighboring countries and has strengthened its role there since its creation. Policy should further support trade and economic integration to preserve and extend this regional influence.

The introduction of Eurobonds is not recommended. By contrast, maintaining or achieving unity of liability and control with further reform would strengthen the euro's appeal. A concept such as the GCEE's "Maastricht 2.0" or the proposals made by Cochrane, Garicano and Masuch (2025) would help future-proof the euro. An alternative approach which would be to move towards a much closer political union is seemingly of the table, politically.

Furthermore policy on the euro should support market processes, e.g., strengthen trade and economic growth. EU economies need market-oriented economic reforms and regulatory barriers to growth should be reduced. Falling behind economically undermines the euro's internationalization, which is closely linked to the EU's overall economic success.

Two key aspects are critical for future progress: one is economic growth, which is essential to maintain Europe's global relevance. The other is institutional reform. Unresolved questions remain regarding risk and moral hazard and the balance of power between national and supranational authorities. After 25 years, the monetary union is still relatively young. Reaching the same maturity as the dollar will take time and substantial reform, which should respect the principle of unity of liability and control.

4. CONCLUSION

The role of the US dollar as dominant global currency: Challenges and prospects

The US dollar has remained the dominant global currency even after the breakdown of the Bretton Woods system, because no other currency offers the same mix of deep, liquid capital markets backed by trust in US institutions and the country's global economic, political and military reach. Once a currency has assumed such a central international role, network effects help keep it dominant even if relative economic size declines and economic and political rivals advance on the international stage.

There are new perceptions that the role of the dollar is changing and its importance will decline, potentially quite quickly. These have been motivated by several developments. Expansionary US fiscal policy has caused ballooning debt trajectories which reduce trust in the sustainability of government finances. Furthermore, pronouncements of Trump Administration officials, the new tariffs, uncertainty about trade policies and discussion of a so-called Mar-a-Lago accord seemed to suggest that the US considers the dominant role of the US dollar a burden and would like to depart from it. Finally, the US has used financial sanctions in various conflicts. This may foster the emergence of parallel payment systems and a shift of reserve currency holdings towards non-traditional reserve currencies and gold.

Even so, we consider an impending collapse of the US dollar as the international dominant currency or a shift towards a multipolar currency system with several equally important reserve currencies highly unlikely. First, there is substantial inertia favouring the dominant currency. Second, there are no good alternatives, and third, the new regulation for cryptocurrencies tied to the US dollar, so-called stablecoins, may strengthen the role of the US dollar in the international system.

A regime with multiple, comparably important reserve currencies is unlikely to emerge as a stable outcome. It stands in conflict with network effects that would either support the US dollar, or, if the US takes steps to abolish the dollar's dominant role, favour the emergence of a new dominant currency. Of course, there could be a "neo-Cold-War" bi-polarity. China may push the Renminbi (RMB) in its own sphere, while the dollar remains dominant globally. China may develop a parallel payment system to support trade with rogue actors such as Russia and North Korea that are in conflict with and sanctioned by the Western countries. Yet, such a financial decoupling does not correspond to a system with two or three similarly important reserve currencies. The RMB is trapped behind capital controls and an authoritarian system that investors cannot fully trust.

At this time, the euro is not a convincing candidate to emerge as the new alternative dominant currency. The EU often mirrors US sanctions and is also perceived as part of the "Western bloc," which limits the euro's appeal as a neutral alternative. Moreover, capital markets in the euro area remain fragmented and initiatives to harmonise regulations have not been implemented. In terms of economic growth, the largest euro area member economies have been falling further behind the US, both, in terms of total real output and per capita. Finally, the euro represents a union of fiscally sovereign member states with differing regulations and economic policies, and the future direction of monetary union remains unclear, which limits the euro's appeal as reserve currency.

In the last two decades, the euro has not gained in importance as a global reserve currency, as an internationally used means of payment, a vehicle for trade invoicing, and a key currency in cross-border debt and asset markets. Rather, its importance has declined and stabilised at a lower level after the euro debt crisis of 2010 to 2014. This has not changed after the shift towards a more pro-active position by the ECB and EU authorities around 2018. It is unclear whether the euro area will evolve towards fiscal and political union with substantial transfers among members and power shifted to the supranational level or remain a monetary union of fiscally and politically largely sovereign member states. The latter form of monetary union would still require further reforms to ensure the unity of liability and control and remove doubts about its stability. The uncertainty about direction negatively impacts the euro's international prospects.

Finally, along with the Guiding and Establishing National Innovation for US Stablecoins Act ("GENIUS" Act) the Trump Administration has explicitly expressed its aim to ensure and advance US dollar global reserve currency status. It expects cryptocurrencies called stablecoins to increase demand for US debt because it requires stablecoin issuers to back their assets with Treasuries and US dollars. The US dollar already dominates the stablecoin market. This may strengthen the dollar's international role because stablecoins could give households and firms in countries with unstable currencies, weak banking systems, or strict capital controls direct access to dollar value without needing a US bank account. By lowering barriers to dollar usage, they may succeed in exporting the dollar into jurisdictions where it was previously scarce or costly to obtain.

The moment of the euro and potential steps to be taken by European authorities

For the foreseeable future, the euro's role is likely to remain one primarily of regional importance. In our view, there is no "global euro moment", notwithstanding the current situation in debt markets, where (relatively) low-debt member states such as Germany find ample demand for issuing much more debt. Previous efforts to strengthen the euro's role have achieved little. There is a case for being pro-active in supporting or at least defending the international role of the euro. But efforts should be governed by realism and avoid pronouncements that may turn out to be empty rhetoric.

First, the euro has been important in neighbouring countries and has strengthened its role there since its foundation. Policy should further support trade and integration to preserve and extend this regional influence.

Second, the focus should not only be on the costs and benefits of being a dominant global currency, but also on the costs and risks along a transition towards such a role. These include volatility, negative network effects, credibility risk in case of failure and geopolitical retaliation.

Third, it is noteworthy that gold has surpassed the euro again as the second most important official reserve asset. Gold does not suffer from political dysfunction or default risk. It is not amenable to sanctions. Apparently, the euro is not seen as a real alternative to the dollar. The euro area's economic weakness and limited appetite for reform reinforce this perception.

Fourth, falling behind economically undermines the euro's internationalisation, which is closely linked to the EU's overall economic success. All slowly growing or stagnating member states should focus on structural reform and systematic deregulation in order to allow growth-oriented structural change driven by technological innovation, free enterprise and competition rather than governmental efforts of direction. This would be in their own interest as well as strengthening the EU's capacity for military defence and overall influence in the world.

Fifth, renewed calls for Eurobonds and joint liability should not be heeded. In light of the problems of high-debt euro area members, including France, in reducing deficits and ensuring the sustainability of government finances it is not surprising that such calls are issued. However, what is needed in high-debt states is fiscal consolidation and market-oriented structural reform. Eurobonds and joint liability would further reduce incentives for such policies. Instead, ensuring the unity of liability and control is crucial.

In sum, policy should strengthen trade and economic growth by reducing regulatory barriers and allow growth-oriented structural change to take its course. Economic growth and catch-up in terms of GDP per capita with the US would help the EU to maintain and enhance its global relevance and provide a basis for a greater international role of the euro. Remaining unresolved questions regarding liability and control in a monetary union of fiscally largely sovereign member states need to be addressed. European Monetary Union is still (relatively) young and reaching the same maturity as the dollar will take time.

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ANNEX

Table 3: Structural Conditions and Potential for Dollarization via USD Stablecoins

	Monetary Base at Risk		Structural Drivers of Adoption						
Groups	**Domestic Currency in Circulation** (bn USD, % of GDP)	**Broad Money excl. Cash & FX** (bn USD, % of GDP)	**Share of Global GDP**	**FX Liabilities of Deposit Takers** (as share of total liabilities)	**Crypto Ban** (# of countries with a ban, total # of countries with available data)	**Remittances** (% of domestic GDP)	**Internet Usage** (% of population)	**Mobile Subscriptions** (per 100 people)	**Potential Share of Monetary Aggregates Dollarized by USD Stablecoins**
High Inflation & Closed Capital Account	*43 (1.9%)*	*670 (29.3%)*	*2.0%*	*40.0%*	*1 (4)*	*0.71%*	*70%*	*117*	*5–25%*
High Inflation & Open Capital Account	*51 (3.9%)*	*319 (24.0%)*	*1.2%*	*33.2%*	*4 (5)*	*4.56%*	*54%*	*100*	*3–12%*
Moderate Inflation & Closed Capital Account (excl. China)	*971 (9.1%)*	*6,803 (64.1%)*	*9.3%*	*10.7%*	*14 (24)*	*2.36%*	*61%*	*99*	*1–5%*
Sum	*1,066 (7.5%)*	*7,804 (54.8%)*	*12.5%*	*17.5%*	*19 (33)*	*2.30%*	*61%*	*101*	*1.1–5.4%*

Source: IMF, World Bank, Chinn and Ito (2006), Law Library of Congress and authors' calculation.

This study reviews new perceptions of an imminent decline of the international role of the US dollar and implications for the euro. It considers developments in international reserves, invoicing, debt and payment systems. Strengths and weaknesses of the US and euro area economies are discussed along with new policy initiatives and proposals. The study concludes that a quick decline of the US dollar or a shift towards a multipolar currency system with similarly important reserve currencies is highly unlikely. For the foreseeable future, the euro's role is likely to remain one of primarily regional importance.

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