



Our euro, your solution How to strengthen the international role of the euro

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The famous remark by US Treasury Secretary John Connally in the early 1970s – “Our dollar, your problem”^{*} – has never been more relevant. Yet the global monetary system is entering a period of recomposition, marked by intensifying geopolitical fragmentation, growing uncertainty about US economic leadership, and reshaping of global value chains. These dynamics evoke the “Kindleberger gap” – a situation in which the dominant power is no longer able – or no longer willing – to provide the global public goods necessary for effective monetary leadership. Against this backdrop, a window of opportunity is opening for the euro, today the world’s second most widely used currency.

Despite the EU’s substantial commercial and financial weight, the euro remains a “strong second”, still clearly outpaced by the dollar in global payment systems, commodity pricing, collateral markets, and offshore liquidity networks. This lag reflects in particular the fragmentation of sovereign-bond markets, the incomplete banking union and capital markets union, and insufficient euro safe-asset supply (national and European sovereign bonds).

If the euro, in its current institutional configuration, is not positioned to displace the dollar as the primary global currency, it can nonetheless significantly expand its footprint and establish itself as a credible alternative in key mar-

ket segments. Strengthening its international role could provide the European Union with meaningful economic and geopolitical advantages: lower funding costs, reduced dependence on the dollar, and greater influence in the global economy.

Internationalization will not happen spontaneously: to capitalize on the current opening, the EU must pursue a focused, high-impact reform agenda capable of overcoming persistent structural constraints. The authors recommend first increasing the issuance of European safe assets – in particular European bonds financing common public goods – and integrating these securities more widely into global financial markets. They also propose developing the capital market in euros by supporting corporate bonds, strengthening European financial supervision, and fostering investment in innovative companies. The Note further suggests strengthening financial infrastructures by expanding the ECB’s swap lines with other central banks and encouraging the use of the euro in trade and supply chains. Finally, it recommends adapting the regulatory framework to support innovation in digital payments, through euro-denominated stablecoins and the development of a digital monetary ecosystem anchored by the ECB, including the digital euro.

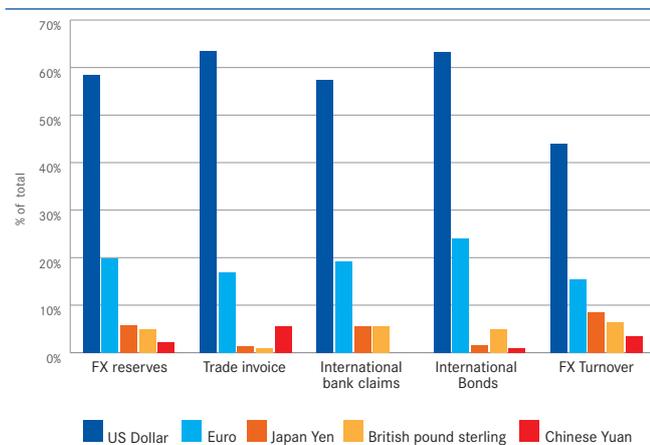
^{*} Rogoff K. (2025): “Our Dollar, Your Problem”, Yale University Press.

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Why Internationalize the Euro?

Today, the euro stands as the world's second most-used currency, accounting for roughly 20% of global foreign exchange reserves – well behind the dollar's 58% but far ahead of any other currency (Figure 1). Strengthening the euro's international role could provide the European Union (EU) with significant economic and geopolitical advantages: lower funding costs, greater macroeconomic policy autonomy, higher seigniorage revenues,¹ reduced exposure to external shocks, and reinforced strategic influence. It would also expand the pool of available capital at a time when massive investment in defense, artificial intelligence, and the ecological transition is urgently needed.

Figure 1. Shares in the global economy and currency usage



Source : FMI, External Sector Report 2025.

Contrary to certain concerns, euro internationalization need not harm competitiveness through excessive upward exchange rate pressure – provided the process is gradual, grounded in financial depth rather than speculative flows, and accompanied by safe-asset issuance.

Despite the EU's commercial weight (16% of global trade, against 16% for China and 14% for the United States) and the sophistication of its financial markets (15% of financial flows, against 17% for the United States and 3% for China), the euro remains a “strong second”, still clearly outpaced by the dollar in global payment systems, commodity pricing, collateral markets² (international bank claims and international bonds), and offshore liquidity networks (currency turnover) (Figure 1). This lag partly reflects certain macroeconomic weaknesses, notably an innovation deficit in high-growth sectors such as digital technologies, but also institutional

constraints such as fragmented sovereign-bond markets, an incomplete banking and capital markets union, a limited supply of safe assets, and insufficient international liquidity backstops. These difficulties are compounded by the EU's diffuse governance structure in foreign policy, security, and economic and financial power, which can impede coherent geopolitical action and thereby limit the euro's capacity to benefit from the strategic backing that underpins dollar dominance.

The current moment is undoubtedly the most important opportunity since the euro's creation to strengthen its international role. While, in its current institutional configuration, it is not positioned to displace the dollar as the dominant global currency, it can still expand its footprint meaningfully and establish itself as a credible alternative across key market segments.

But internationalization will not happen spontaneously: despite growing concerns about the dollar, investors have all increased their hedging strategies. To capitalize on the current opening, the EU must pursue a focused, high-impact reform agenda capable of overcoming persistent structural constraints.

The Opening of a “Kindleberger Gap”: An Opportunity for the Euro as a Global Currency

Historical evidence indicates that global reserve currencies typically rise and decline alongside long-term geopolitical shifts.³ The most recent transition – from the British pound to the dollar during the 1920s to 1940s – occurred as the British Empire's fiscal and military capacities eroded in the wake of the two World Wars. Reserve currency shifts are driven by the credibility of the emerging hegemon to supply the essential global public goods: open trade, safe reserve assets, external security, and lender-of-last-resort functions.

It has now been nearly a century since the dollar has dominated and the US government has reached an inflection point at which debt-servicing costs exceed military expenditure – a development that, historically, has tended to coincide with phases of hegemonic decline (“Ferguson's Law”).⁴ The postwar multilateral order rested on the rule of law and the strength of institutions. Yet under the current US administration, questions have intensified, in particular about the independence of the Federal Reserve and about the United States' international commitment in a context of accelerating geopolitical fragmentation. The markets' reaction to

^{*} The authors would like to thank Samuel Delpeuch, Bjoern Griesbach, Patrick Krizan, Antoine Lopes, Benoît Mojon, Katharina Utermoehl and Augustin Vicard for their contribution to this Note, and the members of the Conseil d'analyse économique and Éric Monnet for their advices and comments.

¹ The central bank prints currency and earns interest on the money it lends out or on the returns of the assets it acquires: this is referred to as seigniorage revenue.

² All transactions and mechanisms by which assets are used, exchanged, lent or mobilized as collateral in the financial system.

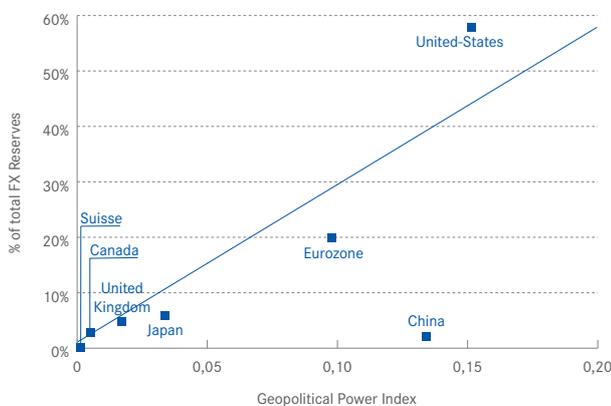
³ See Eichengreen B. (2011): *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*, Oxford University Press.

⁴ Ferguson N. (2025): “Ferguson's Law: Debt Service, Military Spending, and the Fiscal Limits of Power”, Hoover Institution, Stanford University.

“Liberation Day” on 2 April 2024 revealed doubts about the dollar’s status as a reserve currency.

The composition of global reserve portfolios partly reflects geopolitical and military considerations (Figure 2). As shown by Eichengreen et al.,⁵ the share of a military ally’s currency in another country’s reserves is roughly 30% higher than it would be in the absence of such an alliance. Should the United States reduce its military or financial commitment to underwriting global public goods, this could weaken the dollar-centered reserve system and prompt reserve managers to diversify further. This diversification becomes all the more plausible as, increasingly, the Federal Reserve’s swap lines⁶ – the world’s principal global liquidity backstop – are perceived as potentially subject to geopolitical instrumentalization.

Figure 2. Correlation between geopolitical influence and foreign exchange reserves



Sources : Global Firepower Index, CINC, Allianz Research

Finding 1. Attacks on US institutions and the scale of the US fiscal deficit open a window of opportunity. If the EU strengthens its financial infrastructure and adopts a coherent growth strategy, the euro can capture a share of the ongoing reallocation in international reserves.

The euro area combines a large, highly open economy, a strong external position, deep and sophisticated financial markets, and a central bank with a well-established reputation

for independence and price stability. The principal challenge lies in scaling the euro area’s financial and monetary infrastructure to meet a growing global demand for liquidity and security. The euro area also lacks capacity to act as a geopolitical power. The EU must develop a strategy as a geopolitical actor in an international environment where coercion is increasingly substituting for multilateralism.

The Case for Strengthening the International Role of the Euro

Strengthening the international role of the euro would deliver tangible economic benefits and enhance Europe’s macroeconomic resilience and strategic autonomy. Elevating a currency’s international reserve status is inseparable from supplying an adequate volume of safe assets, a function that confers significant advantages on the issuing economy.

In addition to increased seigniorage revenues (approximately 0.15% of GDP per year for the ECB, compared with 0.5% of GDP for the Federal Reserve), the principal benefit arises from the so-called “exorbitant privilege”⁷ – a term coined by former French President Valéry Giscard d’Estaing to describe the ability of the United States to borrow at a discount owing to the centrality of the dollar and US Treasuries in the postwar monetary order – and to acquire in exchange higher-yielding foreign assets. This “exorbitant privilege”, estimated at around 1.5% in real terms between 1950 and 2020, has historically contributed to the sustainability of the US net external position.⁸ It has, however, been significantly eroded in recent years.

The safest sovereign bonds generally enjoy an additional advantage: investors accept lower yields in exchange for their superior safety and high liquidity. This premium is called the convenience yield. For short-maturity US Treasuries, it typically amounts to a few basis points in normal times.⁹ It declines, however, as debt levels rise, and would today appear to have become virtually nil on US bonds (with the exception of the very short end). Another major advantage associated with issuing the reserve currency relates to the capacity to refinance in periods of crisis: demand for dollar liquidity increases sharply under stress, providing a source of macroeconomic support in the event of a shock.¹⁰

⁵ Eichengreen B., Mehl A. et Chitu L. (2017): “Mars or Mercury? The Geopolitics of International Currency Choice”, *NBER Working Paper* no. 24145.

⁶ A swap line between central banks is an agreement by which two central banks agree to exchange currencies, with a re-exchange commitment at a future date and at a predetermined rate. It primarily serves to prevent foreign currency shortages, stabilize financial markets, and limit exchange rate tensions.

⁷ Gourinchas P.-O. et Rey H. (2007): “From World Banker to World Venture Capitalist: US External Adjustment and the Exorbitant Privilege”, in *G7 Current Account Imbalances: Sustainability and Adjustment*, University of Chicago Press, pp. 11-66.

⁸ In the balance of payments, the net external position corresponds to the difference between the total financial assets held abroad by residents and the total of domestic financial assets held by non-residents. For the United States, see Gourinchas P.-O., Rey H. et Sauzet (2019): “The International Finance and Monetary Systems”, *Annual Review of Economics*, 11(1), pp. 859-893.

⁹ The convenience yield corresponds to the difference between the observed return on a government bond and an implicit yield calculated on fundamentals (expected short rates and term premium). In this Note, the estimated convenience yield corresponds to the average of two methods: the synthetic proxy approach (Lustig H., Jiang Z., van Nieuwerburgh S. and Xiaolan M. (2022): “Bond Convenience Yields in the Eurozone Currency Union”, NBER) and the inter-sovereign convenience yield (Du W., Im J. and Schreger J. (2018): “The U.S. Treasury Premium”, *Journal of International Economics*). There are other estimation methods, including the safety premium method (Krishnamurthy A. et Vissing-Jorgensen A. (2012) : « *The Aggregate Demand for Treasury Debt* », *Journal of Political Economy*).

¹⁰ Ando S., Dell’Ariccia G., Gourinchas P.O., Lorenzoni G. et Roch F. (2023): “Debt Mutualization in the Euro Area: A Quantitative Exploration”, *IMF Working Paper*.

The dollar remains the dominant global currency largely because it is backed by the vast supply of safe assets generated by the US Treasury market.¹¹ As a result, the global economy remains highly sensitive to fluctuations in the dollar.¹² Euro area commercial banks still rely on the dollar for approximately 17% of their funding, and nearly a quarter of them lack sufficient dollar liquidity to cover this exposure.¹³ Expanding the pool of euro-denominated safe assets could therefore help reduce funding costs for sovereigns, banks, and corporations, and strengthen overall financial stability.¹⁴

Dollar dominance also reflects the central role of the United States in global payment and settlement systems, in commodity markets, as well as the scale of the offshore dollar-funding network (the Eurodollar market) – estimated at between \$10,000 and \$15,000 billion. Further internationalization of the euro would shift foreign-exchange risk to non-euro trading partners and stabilize revenues and profit margins for euro-area firms. A stronger position within global financial infrastructures would likewise enhance the EU's capacity to exert geopolitical leverage in proportion to its economic weight. For example, the ability to impose financial sanctions on a large scale depends on the reliance of foreign intermediaries on access to payment systems and liquidity in the sanctioning currency. The euro area does not yet fully enjoy this capability despite its substantial economic weight. Expanding the euro's international reach would thus bolster the EU's influence on the international stage and improve its resilience in periods of geopolitical stress.

There is, however, no benefit without a cost. In periods of international stress, the “exorbitant privilege” may turn into an “exorbitant duty”: when the dominant economy, as a safe-haven asset, experiences strong appreciation of its exchange rate, this translates into a deterioration of its net external position during global crises – as in 2008 or during the Covid-19 pandemic shock.

Finding 2. Strengthening the international role of the euro would reduce sovereign and corporate financing costs, decrease Europe's dependence on the United States and its technologies, and increase its geopolitical influence.

A key question is whether the euro can internationalize without reproducing the US model of persistent current-account deficits and a strongly negative net external position. The answer is positive: there is no automatic link between a negative net external position and the internationalization of

a currency. The United Kingdom occupied a central place in the international monetary system under the gold standard while being a net creditor to the rest of the world, as did the United States up until the 1980s. The main challenge for the euro area is therefore clear: to develop a robust international financial ecosystem based on the euro and to supply a sufficient volume of safe assets, while maintaining fiscal discipline.

Investors Are Looking for an Alternative to the Dollar

Despite the rise in geopolitical uncertainty and the relative erosion of the United States' international credibility, global investors have not abandoned US assets. Capital flows into US equities and bonds remain strong. However, investors have increasingly hedged their dollar exposures rather than reducing them outright.

This behavior suggests that, while the United States retains strong attractiveness owing to its innovation capacity, profitability, and the depth of its capital markets, the desire to limit exchange-rate risk is growing.

In the early 2000s, the dollar's share in outstanding international debt had already declined from around 60% to 40% as euro issuance gained ground. This dynamic subsequently reversed during the global financial crisis, when investors sought safety and liquidity that the euro area was unable to provide. This episode highlights the possibility of periodic re-openings of competitive space for alternative currencies. However, these windows of opportunity can close rapidly if the competing financial ecosystem fails to scale up.

Finding 3. Global investors are increasingly hedging their dollar exchange-rate risk. The euro can only become a credible alternative by overcoming market fragmentation, creating deeper liquidity, and building on a growth strategy.

Reserve managers require not only value stability but also deep, fungible safe-asset markets, reliable repo infrastructure, and a credible international liquidity backstop. The ECB has decided to increase its provision of liquidity to other central banks (the Eurosystem repo facility¹⁵ – EUREP). The underlying idea is clearly one of global expansion, as “the updated framework introduces standing access, in principle, for all central banks, unless excluded on the grounds of, in particular, money laundering, terrorist financing or international

¹¹ Gourinchas P.-O., Rey H. et Andreoll M. (2022): “Exorbitant Privilege and Exorbitant Duty”, *CEPR Discussion Paper*.

¹² Miranda-Agrippino S. et Rey H. (2020): “US Monetary Policy and the Global Financial Cycle”, *The Review of Economic Studies*, 87(6), pp. 2754-2776.

¹³ Klaus B. et Mingarelli L. (2024): “Euro area banks as intermediators of US dollar liquidity via repo and FX swap markets”, *Financial Stability Review*, November.

¹⁴ European Banking Authority (2025): *EU-wide Stress Test*.

¹⁵ A central bank repo facility is a mechanism by which a central bank provides liquidity to commercial banks or other central banks in exchange for securities (usually sovereign bonds), with a buyback commitment at a future date and at a predetermined price.

sanctions”.¹⁶ Currently, EUREP serves only eight non-euro neighboring central banks and remains regulated by a strict risk management framework.

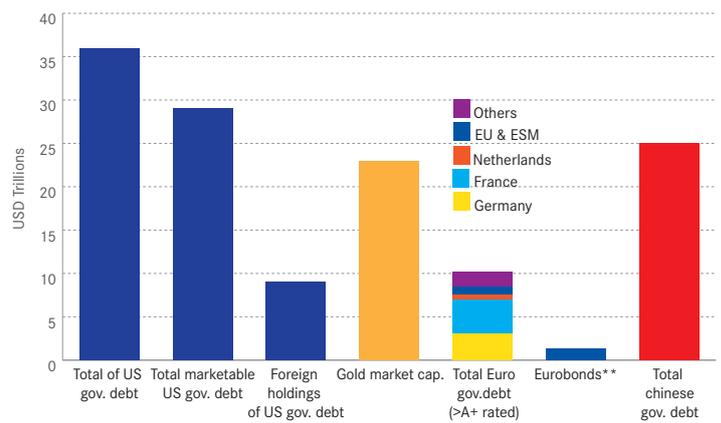
The EU is already lagging behind China in implementing such a strategy. The People’s Bank of China (PBoC) has established 39 swap lines with its trading partners—amounting to around \$600 billion—primarily targeting emerging economies as part of its renminbi internationalisation strategy.¹⁷ This framework provides sufficient offshore renminbi liquidity to foreign partners—importers of Chinese goods or exporters of commodities to China—backed by Chinese collateral, mainly government bonds.

In addition, the Chinese government offers sovereign issuers in difficulty associated with the Belt and Road Initiative the possibility of converting their US dollar-denominated debt into renminbi.¹⁸

China already benefits from a financial infrastructure and a clear political vision of its role in the global economy, but its capital account remains insufficiently open due to capital controls. Europe, by contrast, has an open capital account but lacks a fully integrated financial infrastructure and a coherent political vision of its global economic role. The dominance of the dollar stems from the fact that the United States combines these three dimensions. It also benefits from the US Treasury market—a homogeneous safe asset offering maturities ranging from one month to thirty years and a market depth of around \$28 trillion.

The aggregate supply of high-quality debt in the euro area remains too limited and fragmented to support a stronger international role for the euro as a reserve currency. In particular, the total stock of euro area sovereign and quasi-sovereign debt rated A+ or above is roughly equivalent to the foreign holdings of US Treasury securities alone (Figure 3). China, for its part, has a large debt market comparable in size to that of the United States (around \$25 trillion), but it remains highly fragmented across central government, local authorities and state-owned enterprises, with opaque accounting and ownership structures.

Figure 3. Relative size of public debt markets and safe assets: United States, euro area and China



Note : Data available as of May 2025. *Euro government debt includes Germany, France, Spain, Netherlands, Belgium, Austria, Finland and Ireland. ** Eurobonds: outstanding volume of EU, ESM and EFSF.

Source : LSEG Workspace, Allianz Research

The euro could attract a larger share of global reserves and be more widely used in international transactions if its financial architecture were substantially strengthened and more fully internationalised—particularly through an expansion of the stock of euro-denominated safe assets and the development of more extensive international liquidity lines.

Three Pillars to Strengthen the International Role of the Euro

To internationalize the euro, the euro area must address the shortcomings of its financial market architecture, its payment systems, and its digital infrastructure. This work can be structured around three pillars: strengthening financial markets through the creation of a unified euro safe-asset ecosystem; expanding euro usage along global value chains and payment networks; and developing euro-denominated digital instruments – in particular tokenized deposits,¹⁹ a retail and wholesale central bank digital currency (CBDC),²⁰ high-quality stablecoins,²¹ and highly secure tokenized exchange platforms.²² The introduction of a CBDC, capable of acting as a lender of last resort within a regulated system where deposits and tokenized securities can be exchanged,

¹⁶ ECB Press Release (2026): “ECB enhances repo facility for central banks”, 14 February.

¹⁷ Eichengreen B., Macaire C., Mehl A., Monnet E. et Naef A. (2023): “Internationalisation of the renminbi and capital account openness”, in *The International Role of the Euro*, ECB, June.

¹⁸ Howell M.J. (2020): *Capital Wars. The Rise of Global Liquidity*, Chapters 7 and 9.

¹⁹ Tokenized deposits are traditional bank deposits issued by regulated institutions, but represented in the form of digital tokens. Unlike stablecoins, they remain integrated into the banking system and subject to existing prudential regulations. See Krizan P., Lopes A. et Subran L. (2026): «*Le rôle international de l’euro à l’ère du numérique*», *Focus du CAE* no. 128.

²⁰ A retail CBDC, like the digital euro project carried by the ECB, is a digital currency issued by a central bank and accessible to individuals and businesses. A wholesale CBDC is a digital currency issued by a central bank reserved for banks and financial institutions for interbank regulations. See Krizan P., Lopes A. et Subran L. (2026): *ibid.*

²¹ A stablecoin is a digital (crypto) asset designed to maintain a stable value, generally indexed to a currency such as the dollar or the euro. See Krizan P., Lopes A. et Subran L. (2026): *ibid.*

²² A tokenized asset is a financial title represented in digital form on a blockchain. Securities, equities (like real assets or monetary assets) can be tokenized to fractionate them, increase liquidity, settle more quickly, automate (for example dividends or coupons), one speaks then of programmable finance.

constitutes an advantage over the US model – currently largely based on stablecoins issued without any lender of last resort. International interconnections between payment systems are also an important lever, whether through existing retail and performant payment systems (such as UPI in India or PIX in Brazil) or through CBDC-based infrastructures. In all these developments, system security, platform governance, and data integrity must remain absolute priorities.

Strengthening the European Financial Architecture

A key structural constraint on the international role of the euro is the limited size of its bond market, particularly sovereign. Indeed, a deeper bond market (large issuance volumes, high liquidity, diversity of issuers, investors, and maturities) reduces the cost of capital, strengthens financial stability, and increases the effectiveness of monetary policy. The total outstanding volume of euro-area sovereign and supranational bonds rated A+ or higher amounts to approximately €8 trillion. Within this, the outstanding stock of the supranational euro issuers most closely resembling a genuinely euro-area aggregate risk profile (for example, those of the European Union, the European Stability Mechanism, or the European Investment Bank) amounts to only around €1 trillion. The euro area simply does not supply a sufficient volume of safe assets to serve as collateral in the global financial system.

Euro safe assets also suffer from a lack of homogeneity. Whereas US safe assets are dominated by a single issuer – the US Treasury – the euro-area government bond market is fragmented across 20 sovereign and multiple supranational issuers, each with different credit ratings, liquidity conditions, regulatory treatments, withholding-tax regimes, and distinct market structures. This fragmentation produces an uneven distribution of European convenience yields.

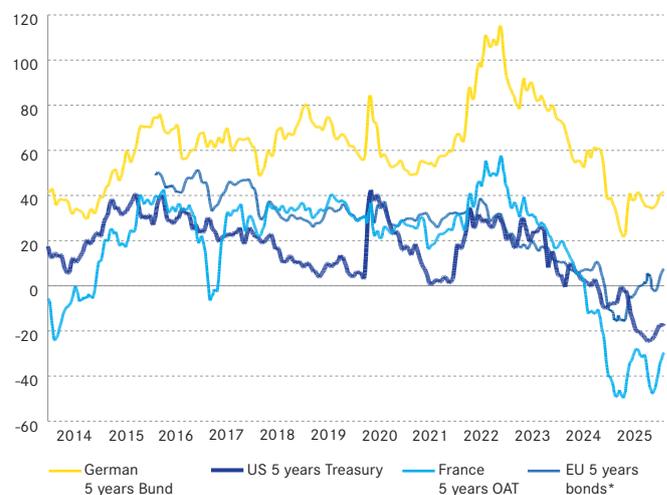
This creates a persistent vulnerability for the euro area: the highest-rated issuers benefit from low rates, particularly in times of crisis, while others must accept growing discounts linked to liquidity and safety. Ultimately, this dynamic can generate a systemic safe-asset shortage – or even a “safety trap”²³ – that not only undermines the euro’s international role but also carries negative macroeconomic consequences.

The current environment presents a particularly favorable window for the issuance of common European debt. The US government’s convenience yield associated with its securities has been substantially reduced – arguably nearly exhausted – due to its large debt volume, which weakens its budgetary and monetary credibility and could call into question the sense of security and, ultimately, the credibility of the currency itself.²⁴ Countries with lower levels of public debt, like Germany, benefit from a higher convenience yield

– a strong safety premium – while highly indebted countries like Japan have a lower convenience yield. The United States, France, and the United Kingdom occupy an intermediate position where increasing debt reduces the safety premium but increases the liquidity premium.

Euro area sovereign debt continues to enjoy a safety premium from global investors; however, its internal divergence has widened. While German Bunds still command a convenience yield of approximately 30 basis points, French OATs have lost their advantage and now trade at a safety discount of between 20 and 45 basis points. For EU bonds, the estimated convenience yield is approximately 10 basis points, placing them between Germany and France but above the United States (Figure 4).

Figure 4. Estimated convenience yields: Europe vs United States



Note: Average of synthetic proxies mentioned in Lustig et al. (2024) and intersovereign convenience yield estimate from Du et al. (2018).

Sources: LSEG Datastream, Allianz Research.

The difference between the convenience yields of EU bonds and German Bunds is not due to reduced safety – both are rated AAA – but to a lower liquidity premium, driven largely by the exclusion of EU bonds from major sovereign bond indices. Broader inclusion of these bonds in these indices would expand the investor base for EU bonds.²⁵ This inclusion is crucial for institutional investors.²⁶

What would happen if the supply of EU bonds were increased? According to our model, which estimates the safety and liquidity premia associated with different issuance levels, the stock of Euro-bonds could be increased by up to €2.5 trillion without eroding the current convenience yield. Moreover, an additional €500 billion issuance would likely raise the EU-bond convenience yield by 15 to 20 basis points through a

²³ Caballero R. et Farhi E. (2017): “The Safety Trap”, *Review of Economic Studies*, 85, 1.

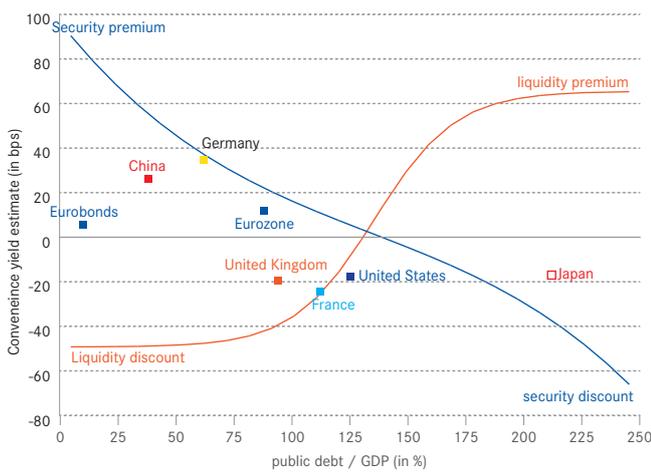
²⁴ Farhi E. et Maggiori M. (2018): “A Model of the International Monetary System”, *Quarterly Journal of Economics*.

²⁵ Lustig H., Jiang Z., van Nieuwerburgh S. et Xiaolan M. (2022): “Bond Convenience Yields in the Eurozone Currency Union”, NBER.

²⁶ Bonfanti G., & Marcucci J. (2025): *A European Safe Asset? Not Without the Investors*.

stronger liquidity premium, without compromising the safety component or significantly affecting that of other highly rated sovereigns (Figure 5), provided budgetary credibility is maintained. This would be sufficient to cover European defense needs in future technologies (connectivity, AI, quantum) during an expansion phase running from 2026 to 2035.²⁷ A common financing by a subset of countries for jointly-held assets (such as satellites) could garner political support. Another possibility would be to convert a portion of existing debt into EU bonds.²⁸

Figure 5. Relationship between public debt levels and convenience yield



Note: Convenience yields are estimated as the average of synthetic indicators, as presented in Lustig et al. (2024), and inter-sovereign convenience premia based on Du et al. (2018). The safety and liquidity functions are stylised from issuer-specific curves. They converge in the middle but may exhibit different slopes at the extremities.

Sources : LSEG Workspace, Allianz Research.

The issuance of such longer-maturity instruments would enable a shift from an opportunistic logic to a strategic approach, with the aim of building a liquid yield curve for European bonds (EU Bonds).²⁹

In addition, a joint issuance could concentrate on the shortest maturities, i.e. short-term debt securities (EU Bills). Provided a ramp-up in joint issuance is accompanied by a strengthening of centralized budgetary supervision, these instruments should encounter little political resistance, as long as they do not involve permanent fiscal transfers and finance broadly accepted European public goods.³⁰

The current EU Bills market, mainly supplied by Germany, France, and Italy, represents only around €500 billion. To have a significant impact at global scale, the stock of EU

Bills should at least double. Inclusion in benchmark indices appears crucial for institutional investors.³¹

However, even with such an increase in market liquidity, the European convenience yield will remain more sensitive than that of the United States to the component related to debt levels (i.e. the safety dimension). In other words, to achieve a premium of around 40 basis points, the EU will need to further develop its euro-denominated ecosystem—including money markets and offshore markets—given that its capacity to absorb debt remains largely dependent on the banking sector and balance sheet constraints.

Recommendation 1. Increase the euro safe-asset pool – notably through joint issuances of EU Bills and bonds by the European Commission or coalitions of countries – in order to finance European public goods and common assets (defense, climate transition, etc.) and to strengthen the EU’s strategic autonomy. Promote the inclusion of EU bonds in major international bond indices.

The structural constraints on the size and liquidity of the euro bond market concern not only sovereign issuers. The euro corporate bond market also remains significantly smaller and less liquid than its US counterpart, primarily because of the euro area’s bank-centric funding model, in which approximately 65% of corporate financing comes from bank loans and only 35% from traded debt – the inverse of the structure observed in the United States, where the split is approximately 15% bank loans to 85% market financing.³²

Expanding the international role of the euro should therefore be complemented by incentivizing more capital-market-oriented financing for the private sector, both within the EU and for non-EU firms issuing in euros (for example, via so-called reverse Yankee bonds, whose issuance reached a record \$85 billion in 2025). Particular attention should be given to small and medium-sized enterprises, which form a pillar of the European economic fabric, notably through the establishment of a single European IPO gateway.³³

Given the limited progress of the Savings and Investment Union in its traditional form, policy efforts should prioritize a pragmatic approach: establishing a “28th regime” offering companies a fully harmonized, optional framework, operating alongside national regimes on the basis of a single, simplified rulebook. This framework would include a strengthening of centralized supervision by the European Securities and

²⁷ Hildebrand P., Rey H. et Schularick M. (2025): “European Defense Governance and Financing”, CEPR, November.

²⁸ Blanchard O. et Ubide A. (2025): “Now is the time for Eurobonds: A specific proposal”, PIIE.

²⁹ Vallée S. (2026): *A global Euro*.

³⁰ Pisani-Ferry J. (2014): *The Euro Crisis and Its Aftermath*, Oxford University Press.

³¹ Bonfanti G. et Marcucci J. (2025): *op. cit.*

³² ICMA (2024): “Bond Markets to Meet EU Investment Challenges”, ICMA report.

³³ Letta E. (2024): *Much More than a Market – Speed, Security, Solidarity*, April.

Markets Authority (ESMA), endowed with direct supervisory responsibilities vis-à-vis principal entities, modeled on the ECB's banking supervision mechanism.³⁴ Such an initiative would accelerate market integration, deepen liquidity, and support the euro's internationalization without requiring full harmonization across all Member States. Several proposals are currently under consideration to improve the functioning of European capital markets (savings products and pan-European IPO mechanisms).³⁵ It is urgent to implement practical measures and scale up to foster "patient capital"³⁶ invested in risky assets. The relatively low presence of pension funds compared to the United States constitutes a major disadvantage for the financing of business growth.

The Draghi and Letta reports³⁷ highlight that legal fragmentation within the EU constitutes a major obstacle to business financing and growth. The 28th regime would cover relevant aspects of corporate law, insolvency law, labor law, and certain tax provisions. The objective would be to extend this logic to corporate financing, in particular via the bond market.

Recommendation 2. Promote the use of the "28th regime" among European and foreign companies in order to support the euro corporate bond market. Strengthen ESMA's role as a centralized supervisory authority and foster the investment of "patient capital" in risky assets to support the growth of innovative companies.

A greater global role for the euro could also encourage a larger number of emerging market countries to issue debt denominated in euros. At this stage, the sovereign debt market in emerging economies remains very largely dominated by the dollar, while euro-denominated issuances remain concentrated among European neighboring countries outside the euro area.

Promoting the internationalization of the euro must be supported by a strong and credible monetary backstop. The ECB has formalized its framework for liquidity lines (EUREP), but its current ambition remains far below the scale and global reach of the Federal Reserve's dollar swap-line network, the

FIMA repo facility and the expanding renminbi network of the People's Bank of China.

To live up to its global ambition, a more strategic approach to EUREP is required. This would involve easing access criteria, reducing costs, and increasing both the available volumes and durations of liquidity lines. This approach could capitalize on Europe's strong presence in international trade, particularly in invoicing and settlement, but would entail certain responsibilities and risks.

During the Global Financial Crisis of 2008–2009, the Federal Reserve's dollar swap lines with other central banks reached a peak of \$600 billion (some 4% of US GDP). These operations resulted in no losses, as the contractual structure transfers all credit risk to the borrowing central bank.³⁸ The take-up of EUREP has remained modest to date, with a temporary spike to around €4 billion at end-2025. Even if this volume were to expand substantially, the ECB would need changes in governance and risk management rather than extra loss-absorption capacity.

In a context where the United States could weaponize dollar liquidity, particularly in periods of stress, developing partnerships based on the provision of euro-denominated liquidity would complement the EU's trading strategy. According to our analysis, the long-term gains in trade, financial autonomy, and macroeconomic stabilization outweigh the associated short-term risks. Indeed, foreign operators will have an even stronger incentive to use the euro in their international transactions if they are guaranteed that euro-denominated liquidity will be available in periods of stress.

In order to accompany the rise of the euro in international commercial transactions, it would also be desirable to foster the development of a large and liquid offshore euro repo market³⁹ – an "EuroEuro market" or rather a "Global South euro market". The offshore dollar market – the euro-dollar system (originally composed of unsecured dollar deposits held outside the US banking system), with an estimated size of \$15 to \$20 trillion – remains one of the key pillars of the dollar's dominance. If the euro is to assume a greater international role, it must offer a scalable offshore-market ecosystem, including tri-party repo services⁴⁰, interoperable clearing arrangements⁴¹, and standardized

³⁴ Letta (2024): *ibid.*

³⁵ IEP@BU (s.d.): *Feasible Steps to Finance Innovation in Europe: Six Proposals to Strengthen EU Capital Markets*; Noyer C. et Kukies J. (2026) : « *Financing Innovative Ventures in Europe* », January.

³⁶ "Patient capital" refers to long-term financing that prioritizes value creation, while targeting a financial return over a longer horizon than other traditional forms of investment (risk capital).

³⁷ Draghi M. (2024): *L'avenir de la compétitivité européenne*, European Commission, September; Letta (2024): *ibid.*

³⁸ Bordo M. D., Humpage O. F. et Schwartz A. J. (2015) : « *The Evolution of the Federal Reserve swap lines since 1962* », *IMF Economic Review*, 63(2), p. 353-372 ; Congressional Research Service (2020) : *COVID-19: Federal Reserve Support for Foreign Central Banks*.

³⁹ This is a guaranteed (repo) financing market in a currency, organized outside the monetary territory of origin of that currency.

⁴⁰ A triparty repo involves the lender, the borrower, and a market infrastructure that manages the collateral (it selects eligible collateral, values securities, applies haircuts, manages margin calls).

⁴¹ The dollar benefits from extremely integrated and liquid clearing. Interoperable clearing centralizes transactions and reduces counterparty risks, while guaranteeing harmonized cross-border access and mutual regulatory recognition. Risk mutualization can be done via several clearing houses (CCP).

collateral-eligibility criteria⁴². The objective is to enable the use of the euro outside the euro area as a funding, reserve, collateral and settlement currency, while ensuring the system can absorb growing volumes, remain resilient in times of stress and operate with globally compatible standards and interoperability. Such developments could also encourage non-European sovereigns to issue more debt in euros.

The euro area already possesses advanced domestic clearing infrastructures, notably TARGET2, yet their international extension and interoperability remain limited. Building an offshore euro repo market would significantly enhance the euro's attractiveness for global investors and international financial institutions, deepen its liquidity networks, and consolidate its status as an international funding and settlement currency.

Recommendation 3. Support euro internationalization by expanding the ECB's swap lines with non-euro central banks. The consolidation of clearing and settlement infrastructures should become a strategic priority.

“Euroizing” European Value Chains

Strengthening financial markets is a necessary condition for internationalization, but it is not sufficient. A currency's international role equally depends on its use in trade invoicing, contract settlement, and cross-border payment infrastructure. The dollar remains dominant: approximately 60% of world trade is invoiced in dollars, against only 18% in euros – a striking discrepancy given the respective shares of the United States (approximately 14%) and the European Union (approximately 16%) in global trade.

Dollar dominance also stems from the fact that the main global commodities and associated hedging instruments (notably commodity futures) are priced and settled in dollars. Moreover, FX markets are structured around currency pairs involving the dollar, making dollar-based hedging instruments the most liquid: exporters and importers can easily hedge their dollar exposures, while hedging in euros remains more costly and less fluid. The offshore dollar financing market – structured around the Eurodollar market – further entrenches this position by enabling corporations to borrow, lend, and settle in dollars outside US domestic markets. This ecosystem reaches \$20,000 billion, while the offshore euro market (“Global South euro market”) remains below \$1,000 billion, illustrating the euro's under-representation.

Beyond deeper financial markets, “euroizing” European value chains requires acting proactively on how cross-border transactions are priced and settled. Large EU instruments such

as NextGenerationEU (NGEU) and the new SAFE facility channel hundreds of billions of euros into public investment, often involving imports of intermediate goods, machinery, and critical inputs. Embedding euro-denominated payment clauses in these programs would ensure that non-EU suppliers benefiting from EU-financed demand also transact in euros. The development of European strategic sectors (renewables, hydrogen, clean technologies, defense) offers an opportunity to build euro-centric supply chains.

Structuring public procurement contracts, long-term purchase agreements, and joint technology ventures in euros would shield European firms from FX volatility and gradually make the euro the default settlement currency in partner regions such as the Mediterranean, Africa, and Asia.

However, this policy alone would not materially change the euro's global share as a trading currency. Even if half of SAFE's €150 billion were allocated to imports and all these transactions switched from dollars to euros, the euro's global usage share would rise by only approximately 0.3 percentage point. Positive network effects could nonetheless emerge: once importers and exporters adopt a new currency, they can use it for their future trade flows as well. Hence, while not a game changer in itself, this policy could serve as a catalyst for broader euro adoption.

Recommendation 4. Condition access to European recovery and investment mechanisms by the European Commission (SAFE, NGEU) on the use of the euro for invoicing within supply chains, in particular imports from non-EU suppliers.

A second lever lies in trade policy. Europe can strengthen the role of the euro along its trade corridors by making euro invoicing the default in new agreements and those currently under renegotiation. The EU-Mercosur agreement has been ratified, that with India has been signed, and negotiations continue with Australia and New Zealand. These agreements offer concrete opportunities to incorporate euro-denominated invoicing and settlement objectives, particularly in sectors characterized by long-term contracts or strong European demand. Systematically integrating euro usage into trade agreements would lock in recurring transactional demand and gradually rebalance the global invoicing landscape today dominated by the dollar.

⁴² For an asset to be used as collateral in a repo or with a central bank, it must be: eligible, valorizable, liquid, legally sound. The ECB already has a harmonized eligibility framework for its operations, but the offshore ecosystem requires common standards recognized globally.

Recommendation 5. Integrate a clause supporting euro invoicing into upcoming trade agreements negotiated by the European Commission. Encourage European companies to invoice more in euros for raw materials and inputs in sectors where the EU is a central actor in value chains.

Crypto-assets and Stablecoins: Projecting the Euro into the Future

The rise of digital finance presents both risks and opportunities for reinforcing the euro's international role. Several instruments coexist or are emerging: stablecoins, tokenized deposits issued by commercial banks, and central bank digital currencies.

Stablecoins are crypto-assets issued by private actors whose value is generally pegged to an official currency such as the dollar or the euro. They have expanded rapidly: their market capitalization has grown from \$32 billion in 2021 to approximately \$300 billion today, fueling a digital dollarization dynamic. The euro, like most other currencies, has been left behind in this expansion: nearly 99% of stablecoin capitalization is denominated in dollars. The absence of major euro-denominated stablecoins partly reflects regulatory caution, but also a limited supply of suitable short-term euro collateral. Indeed, stablecoins rely on collateral – reserves of safe, liquid assets denominated in the same currency, typically short-term government securities, held for approximately one euro (or one dollar) for each token in circulation. If the euro-denominated stablecoin market were to reach a size comparable to dollar-denominated stablecoins, this would imply mobilizing approximately half the current outstanding stock of EU Bills.

In the absence of credible euro alternatives, dollar-stablecoin dominance risks becoming self-reinforcing, anchoring the dollar more deeply in digital payment and settlement systems, and posing a risk for European monetary sovereignty and payment autonomy. In an extreme scenario, this dynamic could lead to an insidious dollarization of Europe – and other regions of the world – liable to significantly weaken the effectiveness of monetary policy and seigniorage revenues. Moreover, the growth of transactions outside the formal circuit could erode the tax base and increase the risk of budgetary fragmentation within the euro area.⁴³

Stablecoins nonetheless carry significant financial stability risks and design weaknesses: monetary fragmentation,

no lender of last resort, no explicit remuneration. They can also be used to circumvent taxes, regulation, or international sanctions.⁴⁴ In the long run, they could be displaced by tokenized deposits or other more regulated instruments. Tokenized deposits differ from stablecoins: they are classical bank deposits issued by regulated institutions, represented in the form of digital tokens on a blockchain infrastructure. Unlike stablecoins, they are legally claims on a commercial bank and remain integrated into the existing banking system. Nonetheless, stablecoins are currently being actively supported by the US administration, notably because they generate additional demand for US Treasury securities.

The EU nevertheless has significant assets: a widely trusted currency, solid institutions, and the MiCA regulation, the world's most advanced regulatory framework for crypto-assets.⁴⁵ This framework could also serve as a catalyst for supporting financial innovation.

In a digital economy where governance and transparency condition adoption, regulatory clarity, combined with enhanced stability and security, constitutes a decisive competitive advantage. EU financial sector actors should therefore develop a strategy and an ecosystem capable of taking advantage of a CBDC, likely to play a lender-of-last-resort role within the crypto ecosystem, a function currently absent in the American environment. Given the structural shortage of short-term euro safe assets, which cannot be resolved rapidly, Europe should base its stablecoin strategy on its banking sector, by prioritizing tokenized deposits.

The ECB's CBDC project, the digital euro, constitutes a strategic priority for the independence of European payment systems. The simultaneous development of tokenized deposits, euro-denominated stablecoins, and the CBDC can help build a more diversified, more stable, and more secure digital monetary ecosystem than its US equivalent. Raising the share of euro-denominated stablecoins to 10% of global capitalization would not only generate additional demand for euro assets of around €30 billion but would also trigger an annual volume of transactions potentially reaching \$4,000 billion.⁴⁶

Recommendation 6. Continue to explore the development of euro-denominated stablecoins and adapt the MiCA regulation in favor of innovation, while strengthening transparency.

Progress on the retail digital euro must advance in parallel. The digital euro is intended as a public digital means of payment accessible across the entire euro area, complementary

⁴³ Pappadà F. et Rogoff K. (2025): "Rethinking the Informal Economy and the Hugo Effect", *Journal of the European Economic Association*, 23, forthcoming.

⁴⁴ Rey H. (2025): "Stablecoins, Tokens and Financial Dominance", IMF.

⁴⁵ Progressively applicable from 2024, Regulation (EU) 2023/1114, known as MiCA (Markets in Crypto-Assets), governs issuers and service providers on crypto-assets, imposes transparency, governance and risk management requirements; and provides a "European passport" mechanism allowing service providers to operate in the EU. See Krizan P., Lopes A. et Subran L. (2026): op.cit.

⁴⁶ Since 2024, the average weekly transaction volume in stablecoins is \$750 billion USD.

to cash, while strengthening monetary sovereignty and reducing dependence on non-European payment providers.

The project relies on a two-tier model: the Eurosystem would issue the currency and manage the core infrastructure, while banks and payment service providers would handle customer onboarding, digital wallet management, and merchant services. With a launch expected in 2029, the digital euro will not meet short-term needs, but can ultimately serve as a public anchor of trust, enhance the resilience of Europe's payment system, and consolidate the euro's international standing.

Complementary ECB initiatives – such as central-bank-money settlement between large financial institutions based on distributed ledger technologies (DLT)⁴⁷ and the improvement of cross-border payments by interlinking fast payment systems of different countries – further increase efficiency and the international appeal of the system.

A wholesale CBDC (wCBDC, or wholesale digital euro) would reinforce this ecosystem by improving settlement finality, reducing counterparty risk, and enabling efficient cross-border payment-versus-payment arrangements. Interoperability between wCBDC, tokenized deposits, and regulated stablecoins is essential if the euro is to become a core currency in the future digital financial architecture, rather than remaining peripheral to dollar-anchored systems.

Without a common European reference asset, the digital euro risks exacerbating financial fragmentation (national sovereign assets do not all have the same credit quality). Eurobills would allow the ECB to manage its balance sheet more homogeneously as the digital euro scales up.

The euro area should pay particular attention to interoperability with digital payment solutions in regions that are both geographically and diplomatically close, such as North Africa, India, or South America.⁴⁸ Europe could leverage its existing remittance corridors, whose volumes are at least comparable to those of the United States (approximately \$160 billion per year), particularly in the Spain–South America and France–North Africa corridors. With an average transaction cost of 6.4%, establishing a cheap euro-based international digital payment system would represent a significant economic incentive.⁴⁹

Recommendation 7. Accelerate the development of the ECB's digital euro via greater interoperability between instruments (wholesale CBDC, tokenized deposits, and digital payment solutions outside the euro area) and an increase in short-term safe-asset issuance, in order to provide the necessary quality collateral.

All of these combined measures form a coherent strategy aimed at ensuring that the euro not only adapts to the digital age, but actively shapes it – reinforcing Europe's monetary autonomy and ensuring the euro's relevance in the global financial system of the future. For all these developments, encryption technologies must be quantum-resistant (quantum-proof) to guarantee data integrity and prevent intrusions when quantum computers become operational. Recourse to quantum-resistant encryption would constitute for the euro ecosystem a means of taking a technological lead over the United States and other actors in terms of robustness and resilience of financial infrastructure.

Recommendation 8. Support fundamental research as well as the deployment of post-quantum cryptography – a field in which the French school has recognized expertise – in order to get ahead of existing digital architectures.

The internationalization of the euro is a pillar of Europe's strategic independence for the decades to come. It is, however, neither automatic nor inevitable. It requires a deliberate, coherent strategy, articulated around a shared vision of Europe's role in the global economy.

The euro is well positioned to become a cardinal point of the international monetary system – provided Europe completes the institutional projects left unfinished since monetary union: the creation of a unified safe-asset market, the completion of the banking union and capital markets union, the establishment of a robust international liquidity backstop, and a forward-looking digital monetary architecture.

The window opened by the “Kindleberger gap” will not remain open indefinitely. Other actors, notably China, are moving fast. Europe must now decide whether the euro will remain a powerful regional currency or evolve into a central pillar of the global monetary order.

⁴⁷ A distributed ledger is a shared and synchronized database between several ordinary nodes of a network, without central authority, whose collectively validated information cannot in principle be modified or deleted. Blockchain is its best-known form.

⁴⁸ Ferrari Minesso M. et Bagur O. (2025): “Geopolitics and global interlinking of fast payment systems”, ECB, in *The International Role of the Euro*, June.

⁴⁹ World Bank (2024): “Remittances Slowed in 2023, Expected to Grow Faster in 2024”, June; KNOMAD (2023): *Policy Brief 19*, March.



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