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A TRULY GLOBAL ROLE FOR THE EURO?

Currency competition, the elusive benefits of dominance, and what the ECB and the EU can realistically do

Peter Bofinger[1]

ABSTRACT

Since 2025, the ECB has been pushing for a “truly global role” of the euro. It hopes for lower interest rates, less exposure to exchange rate swings and protection against sanctions and coercion. Its main levers are the savings and investments union (SIU) and a safe and liquid pool of EU public debt. This study takes a critical view. The aim of a “truly global role” is not clearly defined and the ECB neglects global payment infrastructures. The benefits of a global currency role are limited: even the US dollar no longer enjoys an interest rate advantage. And if lower rates are the aim, the ECB can simply cut its policy rates. Large capital inflows, in turn, risk unwarranted exchange rate effects. The SIU’s contribution is vastly overestimated, the concept itself is flawed. Euro bonds make sense but face strong political resistance, especially in Germany. The ECB’s rejection of euro stablecoins is ill-founded and should be reconsidered. For the sake of financial sovereignty, the ECB should open the digital euro payment infrastructure to other currencies and jurisdictions. In sum: the strategy’s aims are unclear and its means questionable. Rather than pursuing a global role as an end in itself, the ECB should focus on internationalising euro area payment infrastructures. This would reduce Europe’s dependence on US-dominated payment systems and strengthen its financial sovereignty.

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A truly global role for the euro?

Currency competition, the elusive benefits of dominance, and what the ECB and the EU can realistically do

Study for the Macroeconomic Policy Institute (IMK)

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Summary of the main findings

In 2025, the ECB markedly changed its strategy on the euro's global role. It now argues that the currency should "evolve into a truly global international currency" (ECB 2026b). This study assesses that ambition from three perspectives:

- **Potential:** the scope for the euro to assume a substantially larger global role is limited.
- **Benefits:** the gains from currency dominance are far less evident than the public debate often suggests.
- **Instruments:** the measures on which the ECB relies are unlikely to achieve their intended objectives.

Overall, the assessment is sceptical: the euro's potential is constrained, the expected benefits are uncertain, and the ECB's current strategy does not provide a convincing path towards the stated goal.

The dynamics of global currency competition (Section 3). The potential to increase the global role of the euro depends on the dynamics of global currency competition. We show that currency competition produces markedly different outcomes across the various functions of money. While the means-of-payment function exhibits strong network effects, the store-of-value function is shaped by diversification. For neither function do we find substantial scope for a stronger role of the euro. Payment infrastructures are another important dimension of money's global use and exhibit strong network effects of their own. However, the reach of such infrastructures depends on their ability to process multiple currencies, not on the currency with which they are associated.

The benefits of the "exorbitant privilege" (Section 4). The advantages arising from the dollar's role as the world's banker or insurer are no longer readily apparent, particularly when compared with other advanced economies. The same holds for the so-called "convenience yield", that is, lower interest rates on government bonds: the differential between the US dollar and other major currencies has largely disappeared in recent years. Moreover, although the United States has been able to live beyond its means by running current account deficits since the 1980s, similarly persistent "disequilibria" are evident in other advanced Anglophone economies, most notably New Zealand. Such benefits are also far from obvious for the euro area, which has a structural current account surplus.

The risks of an attractive global currency (Section 5). The study briefly reviews the sceptical positions adopted by the Deutsche Bundesbank in the 1970s and the ECB in the 2000s. Large foreign holdings of the domestic currency can create political and economic dependencies. Switzerland's experience since the 2000s illustrates the challenges that strong capital inflows can pose for the domestic economy and the central bank. The Swiss National Bank now faces substantial foreign-currency exposure. Given the unpredictability of the US administration, a scenario in which global investors shift their portfolios from US Treasuries to euro-area government bonds cannot be ruled out. This could exert upward pressure on the EUR/USD exchange rate and require substantial ECB intervention. In such a case, the ECB could ultimately find itself holding the US Treasuries dumped by private

investors.

Options for strengthening the euro's global role (Section 6). The ECB views its own potential contribution as limited and expects the greatest impact to come from measures that would need to be adopted by the member states.

- In its current design, the **retail digital euro** enhances the euro area's financial autonomy but provides no incentive for greater global use of the euro. It is a regional payment solution confined to the euro area and to retail transactions. A more open design—a D€ without a holding limit and accessible to non-euro-area residents—could increase global demand for the euro as a **safe asset**. However, because this could disintermediate the euro-area banking system, the ECB is unlikely to pursue such an approach. A promising alternative would be to broaden the global reach of the digital euro's **retail payment infrastructure** by opening it to currencies other than the euro and to countries outside the euro area. The ECB's project of a **wholesale digital euro**, by contrast, will be restricted to financial institutions as a means of payment and therefore cannot increase global demand for the euro among non-bank investors.
- While the United States explicitly highlights stablecoins as a means of strengthening the US dollar's global role, the ECB explicitly excludes **euro stablecoins** from its internationalisation strategy. Its negative assessment is based on the potential risks that euro stablecoins pose to financial stability and monetary control. However, the planned UK regulatory framework shows that more robust designs are available, using central bank reserves and government bonds as collateral for stablecoin issuers. The ECB therefore risks missing a promising opportunity to increase global demand for euro-denominated assets.
- The enhanced **EUREP facility**, which the ECB regards mainly as an instrument to support the transmission of its monetary policy, could have some impact on global demand for euro-area government bonds. So far, however, the ECB's swap and repo lines have been used only sporadically and in small amounts.
- The most prominent element of the ECB's approach is the so-called **"savings and investments union"** (SIU). Despite its prominence, the concept is based on a confusion between stocks and flows. From a **flow perspective**, the difference between investment and saving corresponds to the current account balance. In the euro area, an excess of saving over investment does not indicate fragmented capital markets but insufficient domestic demand. The ECB could address this imbalance by lowering interest rates and thereby stimulating domestic demand. From a **stock perspective**, bank deposits are not "idle" (von der Leyen 2026)[1] but directly linked to the financing of investment because they are created whenever banks extend loans. The underlying problem is therefore the fragmentation of the EU capital market caused by national regulations, including those governing supervision and insolvency procedures. Al-

[1] https://ec.europa.eu/commission/presscorner/detail/en/speech_26_1765

though completing the Capital Markets Union would support investment financing, it is of relatively limited relevance to the euro's global role, which centres on safe assets.

- The most evident weakness of EU capital markets is the **fragmentation of the government bond market**, which contrasts sharply with the depth and liquidity of the US Treasury market. The strongest remedy would be to convert outstanding national bonds into euro bonds and to use common euro bonds to finance European public goods. Such measures would enlarge the supply of safe euro-denominated assets and could therefore support the euro's store-of-value role. However, political support for joint debt issuance remains limited, especially in Germany. Even under an optimistic scenario, the stock of safe euro assets would still fall far short of the US Treasury market.

Assessment of the ECB's strategy (Section 7). The strategy does not clearly define what constitutes a "truly global currency", nor does it establish a clear link between a stronger global role for the euro and the objectives the ECB seeks to achieve, above all strategic autonomy.

- There is no robust evidence that a dominant currency benefits from **lower interest rates**. If the ECB considers euro-area interest rates too high, it could lower them directly by reducing its policy rates or purchasing assets.
- A larger share of euro-denominated invoicing reduces the need to hedge outstanding contracts, but it does not lessen domestic producers' overall exposure to **currency fluctuations**.
- A stronger global role for the euro would not protect the euro area from sanctions or other coercive measures. **Strategic autonomy** requires independent payment infrastructures, whose efficiency increases with the number of currencies they can process.

The strategy lacks effective ECB measures and overstates both the potential of the "savings and investments union" and the prospects for euro bond issuance. The ECB should therefore adopt a more focused approach centred on measures it can implement directly. To strengthen global demand for euro assets, it should consider the UK stablecoin model, which would require reforming MiCA and granting stablecoin issuers access to the ECB's balance sheet. To enhance the autonomy of Europe's payment infrastructure, the ECB should also consider opening the retail digital euro infrastructure to non-euro-area residents and to currencies other than the euro.

1 Introduction

The international monetary order is in flux. For the first time since the 1970s, the US dollar's dominant position is being questioned—not because a rival currency has become markedly more attractive, but because the issuer of the dominant currency has itself become a source of uncertainty. The freezing of Russian foreign exchange reserves in 2022 made clear to central banks that access to reserve assets depends on political relations with the issuing country. Since 2025, the US administration's tariff policy, pressure on the independence of the Federal Reserve, and proposals to impose a user fee on foreign holders of US Treasuries (Miran 2024) have added a further layer of uncertainty. At the same time, the United States has made the global expansion of dollar-denominated stablecoins an explicit economic-policy objective. For the euro area, these developments raise the question of whether the euro can—and should—play a larger role in the international monetary system.

In 2025, the ECB responded to these developments with a notable strategic shift. After taking a largely passive approach since the launch of Economic and Monetary Union, it now explicitly advocates a stronger international role for the euro so that the currency can "evolve into a truly global international currency" (ECB 2026b). The ECB expects this to yield substantial benefits for the euro area, notably lower interest rates, reduced exposure to exchange-rate fluctuations, and greater protection against foreign interference in its financial system. This paper provides a comprehensive assessment of that strategy. It evaluates the scope for expanding the euro's global role, examines the associated benefits and risks, and assesses the instruments on which the ECB relies. The analysis is grounded in a detailed empirical account of currency competition over recent decades and departs from much of the existing literature in two respects. First, instead of treating a currency's international role as a single aggregate, it analyses competition separately for each function of money, revealing markedly different dynamics across functions. Second, rather than assuming the benefits of currency dominance, it tests them against evidence from the past two decades, which provides far less support for the conventional narrative of "exorbitant privilege".

Our central argument is that the ECB's strategy rests on a conceptual ambiguity that permeates the broader debate: it conflates the **object of payment** with the **payment infrastructure**. The digital euro combines both functions: it is a claim on the ECB and a European payment infrastructure. A euro stablecoin, by contrast, is only a payment object; its infrastructure is provided by blockchains beyond European control. This ambiguity gives rise to a second: the distinction between the **global use of the euro** and the euro area's **strategic autonomy.** These objectives are not identical and require different measures. A larger global role for the euro depends on non-residents' willingness to hold euro-denominated assets, especially safe assets. Strategic autonomy, by contrast, requires payment infrastructures under European control. Such infrastructures become more valuable as the range of currencies they can process expands and therefore do not require a dominant euro. Once these objectives are separated, most elements of the ECB's strategy appear either ineffective for their stated purpose or directed at an inadequately defined target. Two measures follow from this distinction: opening the digital euro's design and infrastructure, and developing

a euro stablecoin based on the UK model, backed by central bank reserves and government bonds.

The paper proceeds as follows. Section 2 sets out the ECB's case for a stronger global role for the euro. Section 3 analyses the dynamics of global currency competition across the individual functions of money. Section 4 examines the benefits attributed to the US dollar's "exorbitant privilege", while Section 5 considers the risks associated with an internationally attractive currency. Section 6 assesses the main policy options, ranging from the digital euro and euro stablecoins to the savings and investments union and the integration of government bond markets. Section 7 concludes with an overall assessment of the ECB's strategy.

2 The ambition of the ECB and the benchmarks for its assessment

In a number of important speeches and in the annual report on the international role of the euro (ECB 2026b), ECB President Lagarde has made the case for a stronger global role of the euro:

> "(...) the international role of the euro can no longer remain a secondary question. It is central to Europe's ability to turn the euro from a safe-haven currency into a truly global currency, and to turn our weaknesses into lasting benefits." Lagarde (2025b)

She expects that this would bring **substantial economic benefits** for the euro area economy (Lagarde 2025a):

> - "It would allow EU governments and businesses to borrow at a lower cost, helping boost our internal demand at a time when external demand is becoming less certain.
> - It would insulate us from exchange rate fluctuations, as more trade would be denominated in euro, protecting Europe from more volatile capital flows.
> - It would protect Europe from sanctions or other coercive measures.
> - In short, it would allow Europe to better control its own destiny—giving us some of what Valéry Giscard d'Estaing called the 'exorbitant privilege' 60 years ago"

Lagarde (2025b) even seems to consider a **fundamental regime change** with the euro becoming the dominant global currency:

> "History teaches us that regimes seem enduring—until they no longer are. Shifts in global currency dominance have happened before. This moment of change is an opportunity for Europe: it is a 'global euro' moment."

As the euro is already used widely in different global functions, it is not clear what the ECB means by making it "a truly global international currency" (ECB 2026b). Which are the decisive monetary functions, and what market shares must the euro attain in specific functions to come close to the ECB's objectives? To clarify these issues, it is useful to discuss the different global functions of currencies and above all the performance of the US dollar and the euro in the last decades.

The case made by the ECB rests on three claimed benefits. They provide the benchmarks against which the following sections assess its internationalisation strategy.

- **Lower interest rates.** A stronger global role of the euro is expected to allow governments and firms in the euro area to borrow at lower cost. Whether currency dominance does in fact confer such a funding advantage is examined in Section 4.
- **Insulation from exchange rate fluctuations.** A larger share of euro invoicing is expected to reduce the exposure of the euro area to currency movements. The evidence on invoicing is shown in Section 3.3, the argument is assessed in Sections 4.4 and 7.
- **Protection from sanctions and other coercive measures.** This is the geopolitical part of the case. We show that it turns on payment infrastructures rather than on the currency in which payments are denominated and is taken up in Sections 3.4 and 5.2.

These three benefits do not sit easily together. The first two belong to a **macroeconomic dimension**, which depends on the global use of euro-denominated assets. The third belongs to a **geopolitical dimension**, which depends on euro area-based payments infrastructures used by euro area residents and foreigners irrespective of the currency denomination.[2] As set out in Section 1, this is the distinction between the object of payment and the infrastructure of payments. It implies a trade-off between a stronger global role of the euro and the ECB's intention to strengthen the financial sovereignty of the euro area, to which Section 7 returns.

3 The dynamics of global currency competition

Although central banks hold a dominant, often monopolistic position within their own currency areas, the global financial system is characterised by **currency competition**. No legal or institutional framework now privileges a particular currency: the **US dollar's institutional role as the anchor of the Bretton Woods system** ended more than half a century ago. Path dependence remains important, but private and public investors and traders are otherwise free to choose among convertible currencies. Any ECB effort to strengthen the euro's international role must therefore improve its competitive position. Understanding the dynamics of global currency competition is thus essential.

[2] See also Rakic and Antonini (2025): "In this context, EU policymakers face tensions between three objectives: i) preserving monetary sovereignty, ii) capitalising on the current weaknesses of the incumbent global currency to boost the international role of the euro, and iii) adhering to guidelines and collaborative approaches agreed at the multilateral level."

To analyse these dynamics, it is useful to distinguish among the different **functions of money** and trace their development since the 1990s. As the following analysis shows, international currencies compete in markedly different ways across these functions.

3.1 The international functions of money

Textbooks typically distinguish three core functions of money: unit of account, means of payment, and store of value. For a more nuanced analysis of currency competition, however, it is useful to distinguish among money as an **object**—that is, cash, bank deposits, and stablecoins—money as a **unit of account**, and money as a **payment infrastructure**. These three dimensions provide a detailed framework for classifying the functions of money.

As an **object**, money serves both as a means of payment and as a store of value. At the global level, its **means-of-payment function** encompasses four main uses:

- as a vehicle currency in foreign exchange markets;
- as a means of payment in indirect cross-border transactions, especially those conducted through the SWIFT network;
- as a means of payment in direct cross-border transactions executed on blockchains using stablecoins; and
- as a parallel means of payment in dollarised economies.

At the global level, the **store-of-value function** is typically associated with "safe assets", primarily government bonds. In this context, the focus is on the reserve holdings of central banks.

As a global **unit of account**, money serves several purposes:

- as a **numéraire** for expressing absolute prices, particularly on global commodity exchanges;
- as a **standard of deferred payment** in trade invoicing and international bond markets; and
- as a **parallel unit of account** in dollarised economies.

As already mentioned, discussions of new forms of "money", such as Central Bank Digital Currencies (CBDCs) and stablecoins, often conflate money as an object with money as a **payment infrastructure**. For example, ECB documents on the digital euro do not clearly distinguish between the digital euro as a payment object—that is, a claim on the central bank—and the digital euro as a new infrastructure for retail payments. At the global level, payment infrastructures can be divided into two broad categories:

- infrastructures for indirect payment exchange through correspondent banking networks such as SWIFT or through card systems; and
- infrastructures for direct payment exchange through blockchains.

3.2 Money as an object

As an object—that is, as a bank deposit or, more broadly, a "safe asset"—money can serve globally as both a **means of payment** and a **store of value**.

3.2.1 Competition in the function of a global means of payment

Standard textbook accounts explain the advantage of money as a widely accepted means of payment by contrasting it with a **barter economy**, which requires a "double coincidence of wants". With n goods, barter entails $n(n-1)/2$ bilateral exchange relationships. Introducing money as the nth commodity reduces this number to $n-1$.

a) The importance of a vehicle currency in foreign exchange markets

In foreign exchange markets, this function is performed by the US dollar as the dominant **vehicle currency**. These markets facilitate the exchange of bank deposits denominated in different currencies. Without a vehicle currency, trading would resemble barter and require a double coincidence of wants. By serving as a de facto **super-money** for exchanging the $n-1$ national currencies, the US dollar as vehicle currency substantially reduces search and transaction costs.

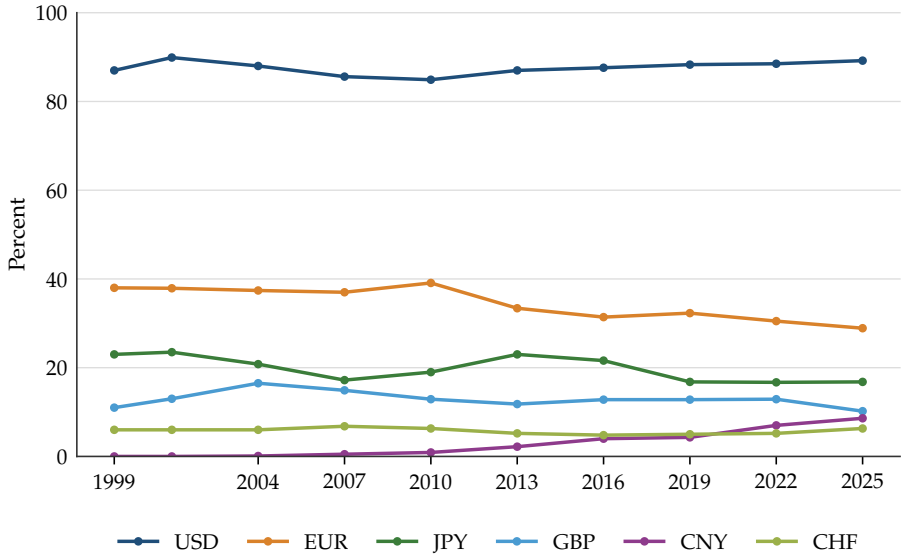
Chart 1 shows that the USD has occupied this dominant position without serious challenge for decades. In 2025, the US currency was one of the two currencies involved in about 90 percent of all bilateral currency trades. Since its creation in 1999, the euro has not been able to expand its share; on the contrary, it declined from 38.0 percent in 1999 to 28.9 percent in 2025. Reflecting the growing trade share of China, the share of the renminbi, which was insignificant in the 2000s, reached 8.6 percent in 2025.

The pattern of **bilateral currency pairs** shown in Chart 2 underscores the dominance of the US dollar. Trading is most concentrated in the USD/EUR pair (21.2 percent), followed by USD/JPY (14.3 percent), and the USD is involved in most other actively traded pairs. By contrast, significant bilateral trading in the euro is limited to the GBP (1.8 percent), the JPY (1.0 percent), and the CHF (1.0 percent). The euro therefore plays, at most, a marginal role as a vehicle currency. Currency competition in this segment consequently displays the characteristics of a **natural monopoly**, driven by pronounced network effects.

Foreign exchange turnover vastly exceeds the volume required to settle global trade. In 2025, average **daily turnover in foreign exchange markets** amounted to USD 9.6 trillion, whereas **annual global trade** totalled USD 35 trillion. This disparity highlights the predominance of financial transactions in foreign exchange markets. **By instrument,** spot transactions accounted for only 31.0 percent of total turnover; swaps, forwards, and options made up the remainder (Chart 3). The dollar's role as a vehicle currency therefore extends beyond trade and is even more pronounced in financial transactions.

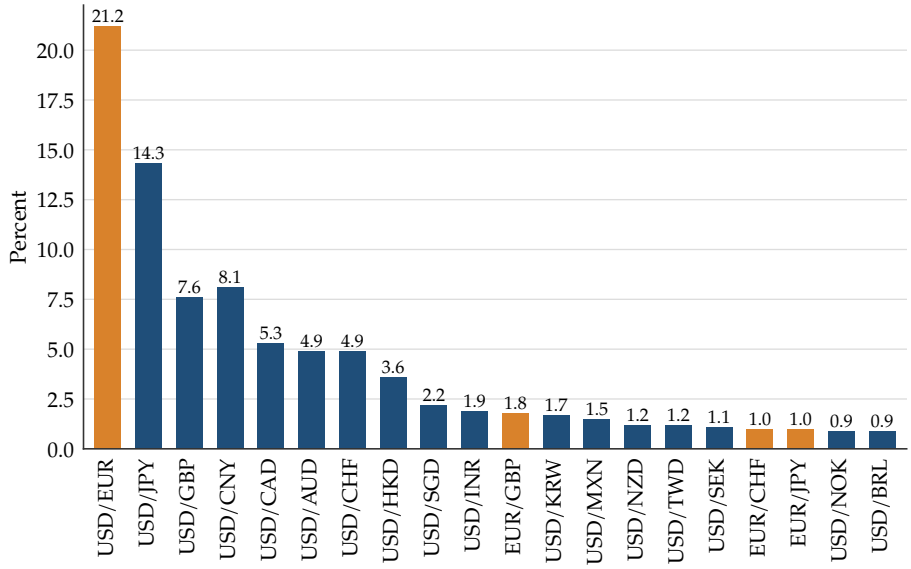
The US dollar's dominance as a vehicle currency generates powerful network externalities. Its widespread use encourages firms to invoice international trade in dollars (Goldberg and Tille 2008), which in turn creates incentives to denominate trade finance and international bond issuance in dollars to hedge currency risk and benefit from deep, liquid

Chart 1: Share of currencies in foreign exchange trading (1999–2025)



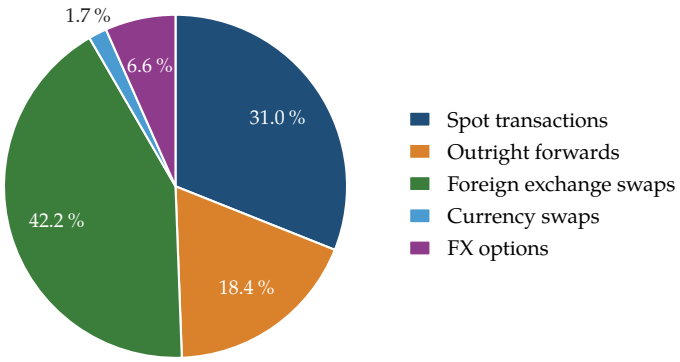
Source: BIS (2025)

Chart 2: Bilateral currency pairs in foreign exchange trading (2025)



Source: BIS (2025)

Chart 3: Foreign exchange turnover by instrument (2025)



Source: BIS (2025)

dollar markets (Gopinath and Stein 2021). This mutually reinforcing relationship among vehicle-currency use, trade invoicing, and international debt issuance is central to the modern dominant-currency paradigm (Gopinath and Itskhoki 2022).

The vehicle-currency function therefore extends far beyond the financing of international trade: above all, it facilitates the settlement of global financial transactions. This broader role helps explain the dollar's dominance in international bond denomination and trade invoicing.

b) Means of payment in global transactions

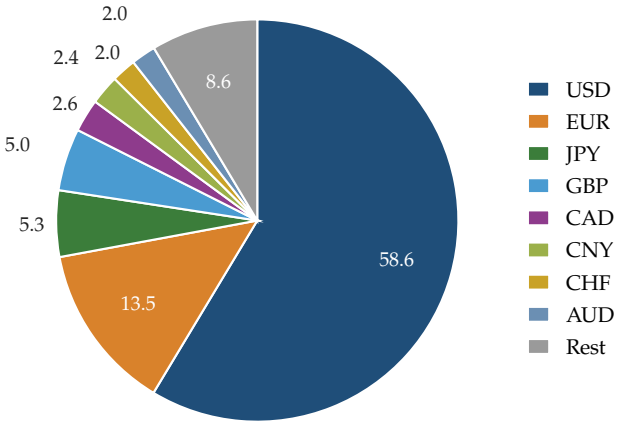
The currency composition of cross-border payments processed through **SWIFT** (Society for Worldwide Interbank Financial Telecommunication) likewise reveals the US dollar's clear dominance. Excluding payments within the euro area, the dollar accounts for 58.6 percent of transactions, compared with only 13.5 percent for the euro (Chart 4). Despite China's rising share of global exports, the renminbi accounts for just 2.4 percent.

c) Global usage of banknotes

US dollar banknotes are widely used internationally as both a means of payment and a store of value. In 2025, an estimated 44.5 percent of all US dollar banknotes were held outside the United States (Chart 5). For the euro, the Deutsche Bundesbank (2025) estimates that around 30 percent of the banknotes it issues circulate outside the euro area.

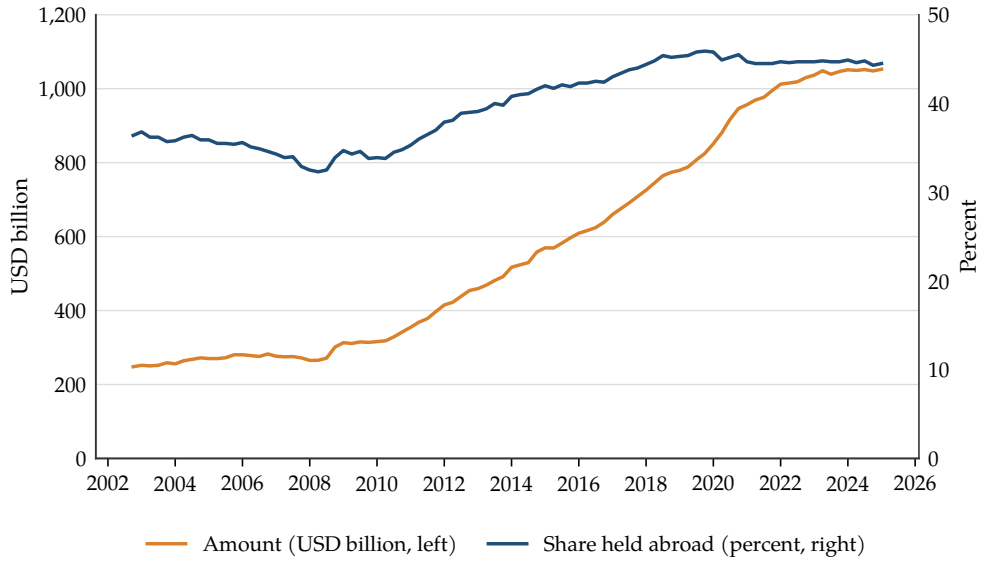
Foreign demand for US dollar banknotes appears to have levelled off since 2022, broadly coinciding with the rapid expansion of stablecoins. Although this timing is suggestive, the available evidence does not establish that stablecoins have displaced demand for physical dollar currency.

Chart 4: Currency shares in international payments (excluding payments within the euro area), June 2026



Source: SWIFT (https://www.swift.com/products/global-currency-tracker/document-centre)

Chart 5: Foreign-held US dollar banknotes



Source: Bertaut et al. (2025)

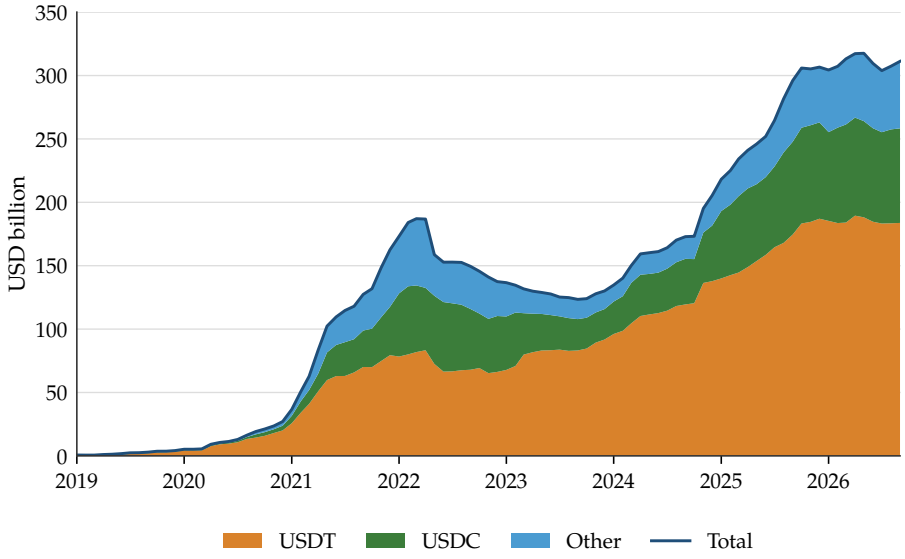
d) Means of payment in blockchains

The US dollar's dominance as a means of payment also extends to innovative digital payment solutions. Because unbacked cryptocurrencies are highly volatile, stablecoins have emerged as a widely used payment instrument in distributed-ledger-based systems. Stablecoins are digital tokens designed to maintain a fixed value relative to a fiat currency. They are overwhelmingly denominated in US dollars, and issuers typically support their redemption commitments with reserve assets consisting largely of short-term US Treasury securities. The stablecoin market exhibits strong network effects:

- **Issuance is highly concentrated:** Tether (USDT) is the clear market leader, followed by USD Coin (USDC).
- **Dollar denomination is nearly universal:** euro-denominated stablecoins account for less than 1 percent of the market.
- **Settlement infrastructure is similarly concentrated:** Ethereum accounts for 57 percent of stablecoin activity, TRON for 32 percent, and Solana for 4.4 percent.

In 2025, many observers anticipated rapid expansion of the stablecoin market, particularly after the US GENIUS Act established a comprehensive regulatory framework in July (White House 2025). Citi (2025), for example, compared the development of digital assets in September 2025 with the early stages of the dot-com boom. Yet stablecoin market capitalisation has stagnated—and even declined slightly—since autumn 2025 (Chart 6).

Chart 6: Stablecoin market capitalisation since November 2019



Source: DefiLlama

The rise of stablecoins as a global means of payment, particularly on crypto exchanges, provides further evidence of the **strong network effects** that characterise payment sys-

tems. These effects are reflected in the duopolistic market structure among both issuers and blockchains, and in the near-monopoly of the US dollar as the reference currency.

The dollar's dominance in stablecoin denomination can be explained not only by network effects but also by what Berg et al. (2024, p. 5) call **"common knowledge"**: users know the dollar's value and know that others share this understanding. Because the dollar's purchasing power is familiar to a broad global population, dollar-denominated stablecoins can effectively free-ride on this established reference point.

This combination of network effects and globally shared familiarity helps explain why euro-denominated stablecoins have so far gained little traction.

3.2.2 Competition in the function of a global store of value ("safe asset")

Money in the narrow sense—deposits held with commercial banks—is not an ideal store of value because such deposits typically offer low returns. Discussions of the international role of currencies therefore focus primarily on the currency composition of government bond holdings regarded as safe assets, especially the foreign exchange reserves of central banks.

a) Foreign exchange reserve holdings by central banks

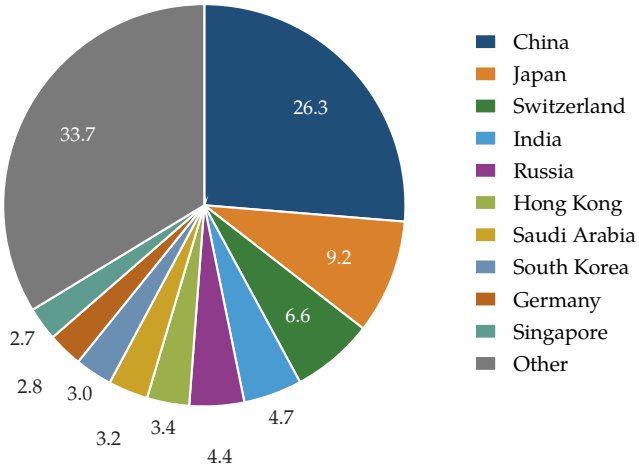
Most central banks hold foreign exchange reserves for two main reasons. First, reserves provide a buffer against speculative attacks and help prevent an uncontrolled depreciation of the domestic currency. Second, central banks may accumulate reserves through interventions intended to curb an appreciation that could weaken an economy's price competitiveness. While these considerations largely determine the volume of reserves, their currency composition reflects central banks' portfolio preferences.

The distribution of global reserves across countries reflects the legacy of sustained current account surpluses and strong capital inflows (Chart 7). The largest reserve holders accumulated foreign assets through interventions aimed at limiting the appreciation of their currencies:

- **China** holds the largest share, at 26.3 percent. It intervened heavily in foreign exchange markets during the period of exceptionally large current account surpluses that followed its accession to the WTO in 2001 and continued until 2014.
- **Japan** ranks second, with a share of 9.2 percent. Its reserve accumulation was particularly pronounced during the 2000s.
- **Switzerland** ranks third, with a share of 6.6 percent, but is the largest reserve holder relative to GDP. During the 2010s, the Swiss National Bank repeatedly intervened to limit appreciation of the franc (see Section 5.3).

The currency composition of global foreign exchange reserves points to a marked **decline in the dollar's dominance**: its share fell from 71.4 percent in 1999 to 56.8 percent in 2025 (Chart 8). Nevertheless, given that the United States accounts for only about one quarter of

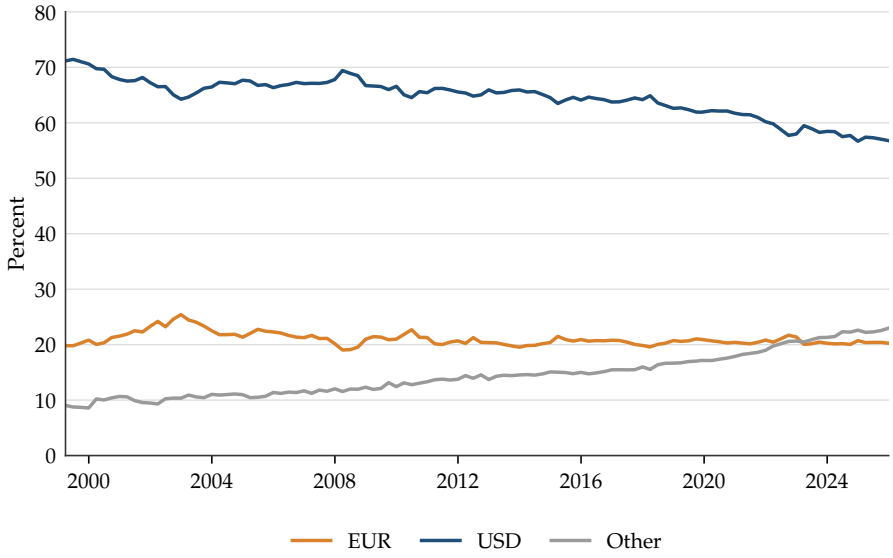
Chart 7: Country shares of global foreign exchange reserves



Source: Federal Reserve Bank of St. Louis

global GDP, the dollar remains substantially overrepresented. The euro has not benefited from the shift in reserve preferences. Since 1999, its share has remained close to 20 percent, considerably above the euro area's share of global GDP. Instead, reserve managers have increasingly diversified into other currencies, whose combined share rose from 9.0 percent in 1999 to 23.0 percent in 2025.

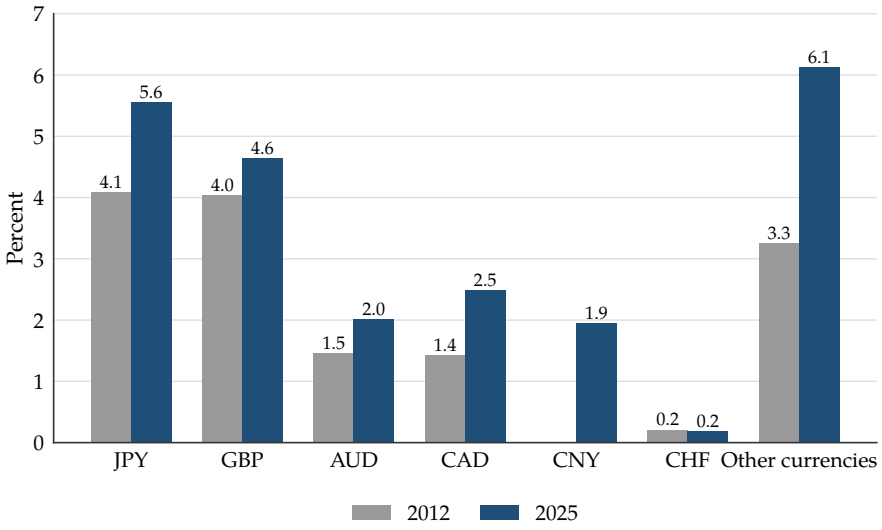
Chart 8: Currency shares of global foreign exchange reserves



Source: ECB (2026b)

The trend towards **currency diversification** in central bank reserves is also evident in the rising shares of both the major "**other currencies**" identified separately in the IMF's COFER statistics—JPY, GBP, AUD, CAD, and CNY—and the residual group of currencies that are not reported individually (Chart 9).

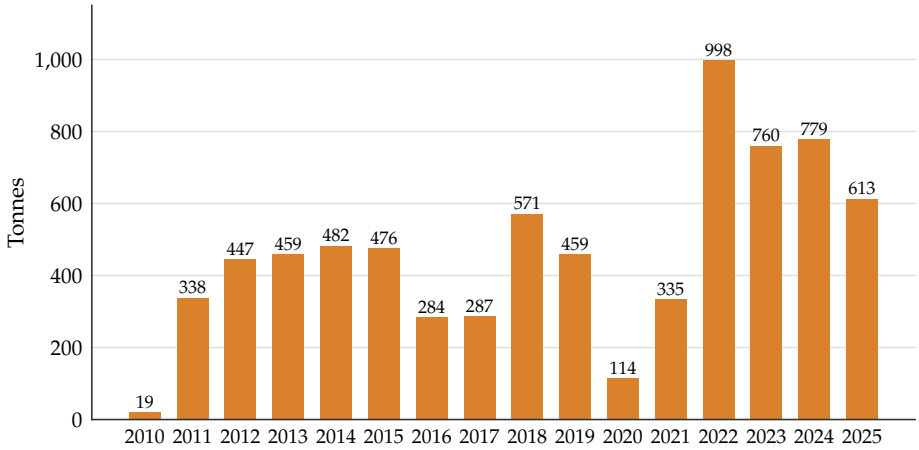
Chart 9: Change in the currency shares of other currencies (2012 and 2025)



Source: IMF, COFER

The sharp increase in **central bank gold purchases**, particularly since 2022, provides further evidence of the trend towards greater portfolio diversification (Chart 10).

Chart 10: Central bank gold purchases (tonnes)



Source: ECB (2026b)

Currency competition therefore follows fundamentally different dynamics in the **store-**

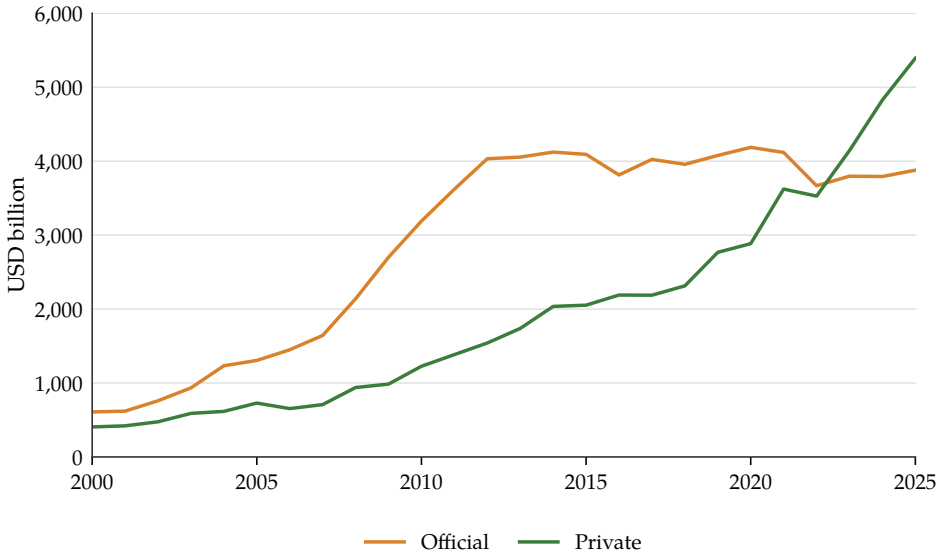
of-value function than in the means-of-payment function. Whereas strong network effects in payments tend to produce monopolistic or duopolistic market structures, portfolio considerations in the store-of-value function favour diversification across currencies and assets.

b) Global demand for safe assets

In addition to central bank reserve holdings, there is substantial global private demand for safe assets. US Treasury International Capital data show that, while official holdings of US Treasuries have remained broadly unchanged since 2012, private foreign holdings have risen markedly (Chart 11).

An analysis by the ECB (2025a) corroborates this finding: foreign holdings of US Treasury securities have increased substantially since 2014, whereas foreign holdings of euro-area government bonds have remained broadly stable (Chart 12).

Chart 11: Foreign holders of US Treasuries (USD billion)

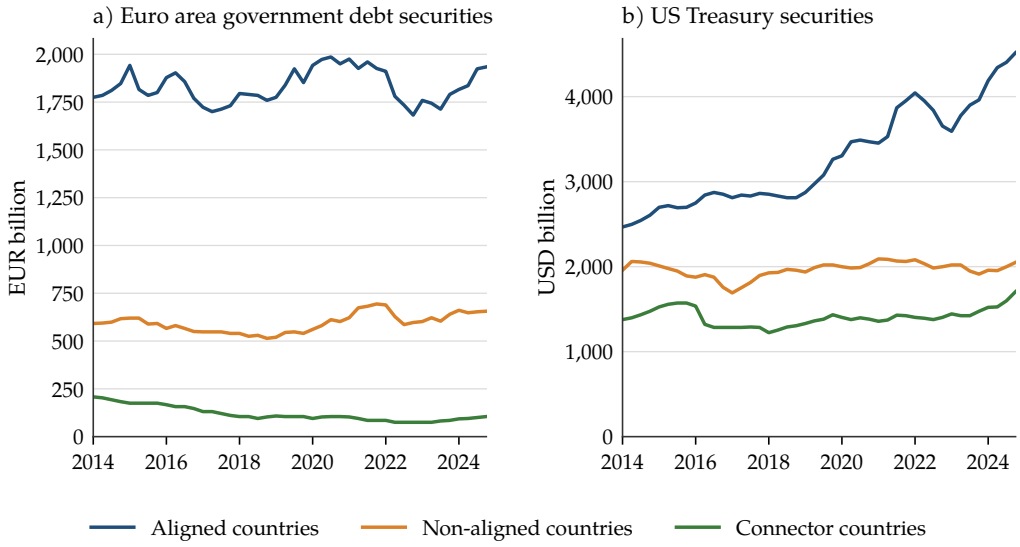


Source: TIC Data US Treasury

The ECB data classify foreign holders into three groups: **aligned countries**, which are politically close to the United States; **non-aligned countries**, which are politically closer to China, excluding Russia; and **connector countries**, which serve as intermediaries between the two hypothetical blocs.

The sanctions imposed on Russia by the United States and its allies following the invasion of Ukraine do not appear to have diminished the dollar's appeal as a reserve currency or, more broadly, as a global safe asset. Weiss (2022) finds that countries with some form of military ties to the United States hold around three quarters of foreign official holdings of safe US assets. Moreover, the other major reserve currencies—the euro, the Japanese yen, and the British pound—are issued by close US allies that also participated in the sanctions

Chart 12: Foreign holdings of euro area and US government debt securities



Source: ECB (2025a)

against Russia. Geopolitical adversaries therefore have few attractive alternatives to the dollar or to the currencies of US-aligned economies.

3.3 Money as a global unit of account

A core function of money is to serve as a unit of account. At the global level, a currency acts as a **numéraire** for quoting spot prices and as a **standard of deferred payment** for intertemporal contracts, particularly trade and debt contracts.

3.3.1 Numéraire for commodity pricing

As in foreign exchange markets, the US dollar is the dominant unit of account on commodity exchanges (Table 1). Because commodities are homogeneous and price discovery is concentrated on a small number of exchanges, introducing a second quotation currency would fragment liquidity while arbitrage continued to transmit the established reference price. The numéraire function therefore exhibits characteristics of a natural monopoly, irrespective of an exchange's location: major exchanges in London, Dubai, and Singapore do not quote their leading benchmarks in their domestic currencies.

The euro serves as the unit of account primarily where the EU itself provides the price-setting market and regulatory framework. Quotation and settlement must, however, be distinguished: Russian crude may be paid for in renminbi while still being priced against the dollar-denominated Brent benchmark.

Table 1: Currency of quotation of major commodity benchmarks

Benchmark	Venue	Domicile	Quotation currency
Brent	ICE Futures Europe	London	USD/bbl
WTI	CME/NYMEX	New York	USD/bbl
Dubai/Oman	Platts / DME	Singapore / Dubai	USD/bbl
Base metals	LME	London	USD/t
Gold, silver	LBMA / COMEX	London / New York	USD/oz
Grains, oilseeds	CBOT	Chicago	USD/bu
Iron ore	SGX	Singapore	USD/t
Crude (medium sour)	INE	Shanghai	RMB/bbl
Natural gas	TTF (ICE Endex)	Amsterdam	EUR/MWh
Power	EEX, Nord Pool	Leipzig, Oslo	EUR/MWh
Emission allowances (EUA)	EEX, ICE Endex	Leipzig	EUR/t
Milling wheat	Euronext	Paris	EUR/t

Source: Own compilation based on the contract specifications of the respective exchanges (ICE Futures Europe, ICE Endex, CME Group, LME, LBMA, CBOT, SGX, INE/SHFE, EEX, Nord Pool, Euronext) and, for Dubai/Oman, the S&P Global Platts price assessment methodology.

3.3.2 Dollarisation

An extreme form of a currency's international use as a numéraire is the replacement of the domestic currency by a foreign currency, commonly referred to as "complete dollarisation". To date, official adoption of the US dollar has occurred mainly in countries facing severe macroeconomic instability. Ecuador dollarised in 2000 following the sucre crisis, and El Salvador did so in 2001. Zimbabwe, Cambodia, Venezuela, and Lebanon are prominent examples of de facto dollarisation (Levy-Yeyati 2021).

The growth of stablecoins has prompted concerns about "digital dollarisation". Aldasoro et al. (2026), for example, warn that dollar stablecoins could become the de facto payment infrastructure in many emerging market and developing economies, accelerating the pass-through of exchange-rate movements to domestic prices and creating acute risks to monetary sovereignty and financial stability.

ECB Chief Economist Philip Lane (2025) has raised a related concern for the euro area: dollar stablecoins might eventually displace the euro as the domestic unit of account:

> "At some level, dollar stablecoins make it easier for European households to acquire low-risk dollar assets (typically, it is not easy to open a dollar bank account for European residents). (...). However, the open question is whether dollar stablecoins could also gain a foothold in domestic transactions in the euro area, whereby the domestic payments system becomes directly or indirectly anchored by the dollar rather than the euro."

Such an outcome nevertheless appears unlikely. Persistent dollarisation generally presupposes very high domestic inflation and a sustained loss of confidence in the national

currency. Given the ECB's price-stability mandate and the euro area's institutional framework, dollar stablecoins are unlikely to gain a significant foothold as a domestic unit of account.

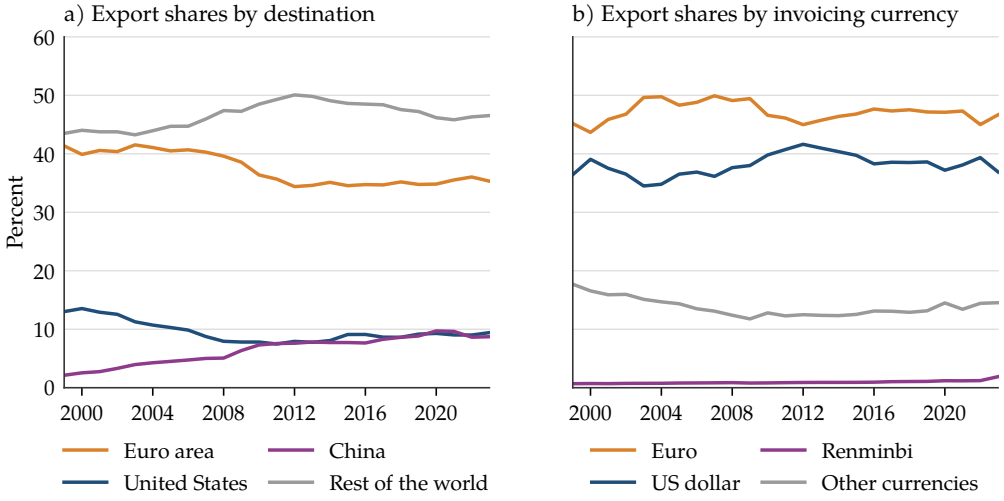
3.3.3 Standard of deferred payments in trade invoicing

A currency's global importance as a standard of deferred payment is reflected in its use for invoicing trade conducted outside its own currency area. Chart 13 shows that the US dollar's share of global trade invoicing far exceeds the United States' share of global exports. The euro is likewise used more extensively for invoicing than the euro area's export share would suggest, although the gap is smaller. By contrast, the renminbi has so far gained little from China's rising share of world exports.

The invoicing shares of the US dollar and the euro have remained **remarkably stable** over the past 25 years, despite some decline in the trade shares of both currency areas. The resulting pattern is a persistent duopoly in which the dollar retains a clear lead.

Evidence from the Deutsche Bundesbank (2026)[3] further illustrates this pattern. US exports are almost exclusively invoiced in US dollars, whereas roughly half of EU exports are invoiced in euros and about 30 percent in US dollars.

Chart 13: Export shares and currency denomination



Source: ECB (2026b)

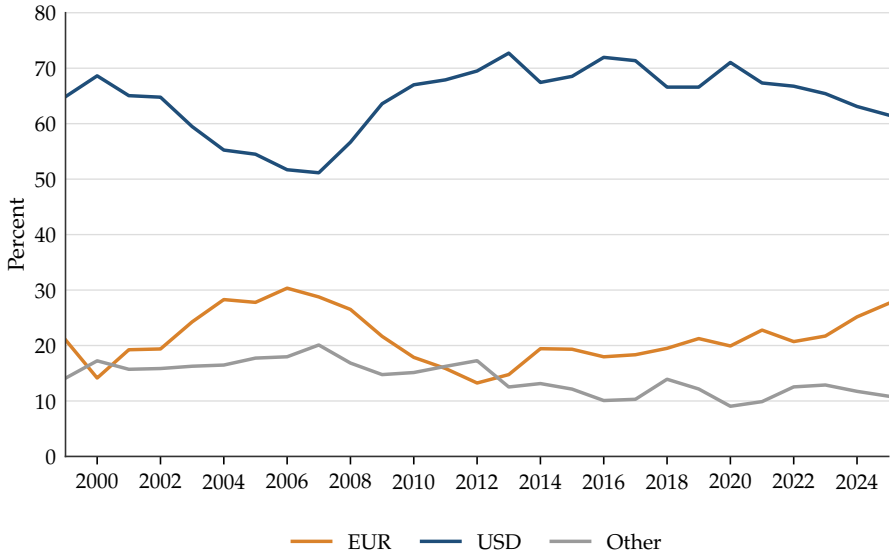
3.3.4 Denomination of foreign-currency bonds

Another important global function of a currency as a unit of account is the **denomination of foreign-currency bonds**. Here, too, a stable duopoly has prevailed since 1999. The US

[3] https://publikationen.bundesbank.de/publikationen-en/reports-studies/monthly-reports/monthly-report-august-2026-1004736

dollar has remained dominant, with a share fluctuating between 51 and 73 percent, while the euro's share has ranged between 13 and 30 percent. The combined share of other currencies has declined somewhat (Chart 14). In recent years the euro has been able to increase its share.

Chart 14: Currency share of foreign-currency-denominated bonds



Source: ECB (2026b)

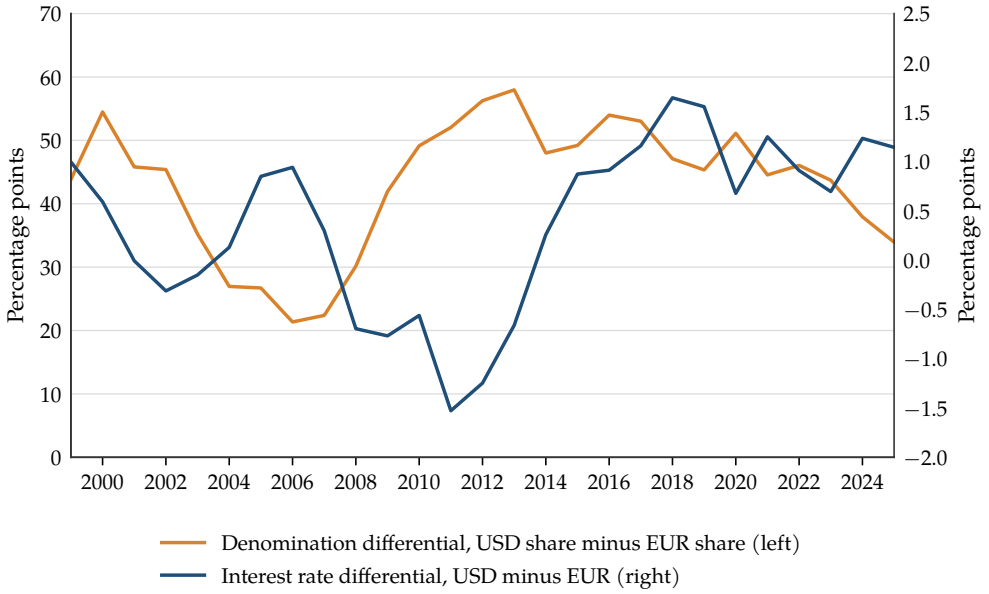
This may indicate a gradually expanding role for the euro in this monetary function. However, shifts in the dollar's and euro's shares appear to be closely related to the **interest-rate differential between ten-year government bonds**: periods of comparatively high long-term US yields tend to coincide with a larger share of dollar-denominated issuance, while the opposite holds when euro-area yields are relatively more attractive (Chart 15).

The dollar's dominance in this function can also be linked to investors' **home-currency bias**. Maggiori et al. (2020) show that portfolio investors generally favour assets denominated in their domestic currency, with the US dollar and the euro constituting the principal exceptions. Both currencies benefit from deep financial markets and a broad ecosystem of hedging instruments, including interest-rate swaps, futures, and options.

3.4 Money as a payment infrastructure

Global payment infrastructures are currently dominated by US providers across several segments: Visa and Mastercard in card payments, Apple Pay and Google Pay in digital wallets, and PayPal in online payments. This dominance is a central reason why the ECB regards the digital euro as a means of safeguarding the euro area's payment autonomy (Cipollone 2026). Assigning a nationality to blockchains is more difficult because their governance, validation, and technical infrastructure are distributed across jurisdictions (Box 1).

Chart 15: Interest rate differential and currency share of foreign-currency-denominated bonds



Source: FRED, Federal Reserve Bank of St. Louis and own calculations

Box 1: The nationality of blockchains

Distributed ledgers are supranational by design. Ethereum is formally supported by a Swiss foundation, while the TRON Foundation is registered in Singapore. Yet a blockchain's operation depends on multiple actors located across different jurisdictions:

- **Developers** design and maintain the protocol and its software.
- **Validators**—or miners in proof-of-work systems—operate the network, verify transactions, and establish consensus on the ledger's state.
- **Node operators** store and distribute blockchain data, thereby supporting the network's resilience and decentralisation.
- **RPC providers** such as Infura and Alchemy supply technical gateways through which wallets, applications, and firms access blockchain nodes without operating their own infrastructure.
- **Cloud and data-centre providers** supply much of the physical computing capacity on which nodes and validators operate.
- **Wallet providers, exchanges, and stablecoin issuers** form the application layer that connects users and businesses to the blockchain. Stablecoin issuers additionally link on-chain assets to conventional currencies and the banking system.

Heimbach et al. (2025) examine the geographical and infrastructural distribution of Ethereum validators by exploiting a vulnerability in the network's peer-to-peer layer that allows validators to be linked to the IP addresses of the nodes hosting them. Using four observation nodes

over three days in May 2024, they located more than 15 percent of all Ethereum validators. Of these, some 71 percent were hosted in Europe, 12 percent in North America and 11 percent in Asia, with the Netherlands accounting for the largest single national share. The authors caution that the location of their observation points may bias the results towards Europe.
Two qualifications make these figures more informative than they first appear. The European concentration applies to validators, not to the nodes on which they run: among the nodes identified, Europe accounts for 47 percent and North America for 38 percent, and the United States hosts more of them than any other country. The difference arises because a small number of large machines host very large numbers of validators. More important still, around 90 percent of the located validators operate on commercial cloud infrastructure, with Amazon data centres alone accounting for 19 percent, while the remaining 10 percent run on residential connections. The geography of validators therefore reveals less about who participates in the network than about where a handful of predominantly US-based infrastructure providers operate their data centres. Formal supranationality and effective control are not the same thing.

The relationship between payment infrastructures and currencies is not straightforward. Brunnermeier et al. (2019) define a **digital currency area** as a network in which digital payments and transactions use a network-specific currency and unit of account.

Facebook's proposed Libra system was initially designed along these lines, with a new unit of account based on a basket of currencies. Its subsequent shift towards single-currency tokens such as USD Libra and EUR Libra, however, weakened the original concept.

This experience suggests that tying a payment infrastructure to a single proprietary currency is ill suited to global adoption. Using a simple analogy, it resembles a motorway restricted to one type of vehicle. The digital euro follows a similar model: access requires a digital euro account, and the infrastructure processes only euro-denominated payments.

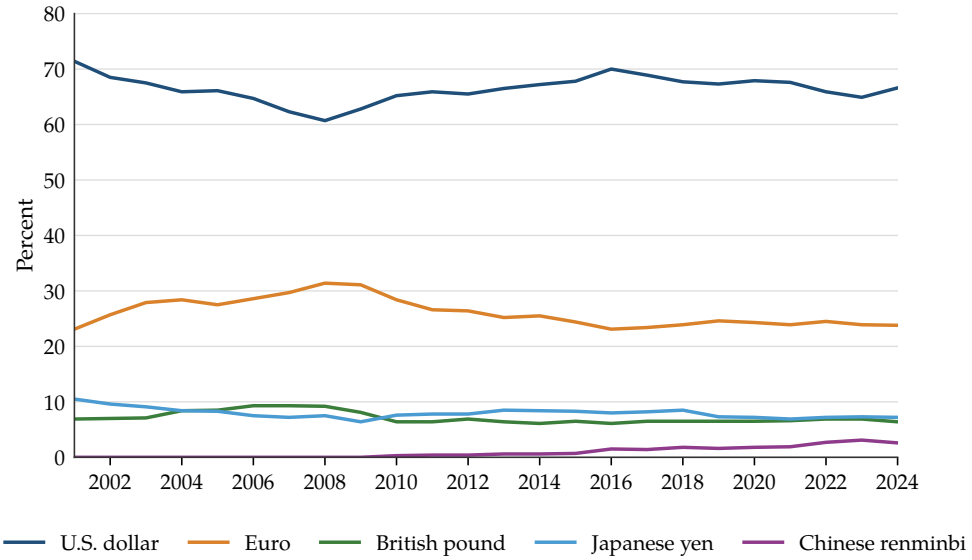
By contrast, globally successful payment infrastructures such as PayPal, Visa, and Mastercard support multiple currencies; PayPal currently processes payments in 25 currencies. This points to a tension between creating a **globally relevant payment infrastructure** and promoting the **global role of a particular currency**. The broader the range of currencies an infrastructure can process, the greater its potential global reach.

3.5 Index of global currency usage

Across the main international monetary functions, the currency structure has remained remarkably stable over time (Chart 16). Despite the decline in the United States' share of global trade since the 2000s, the **US dollar** has retained its dominant position, with only a modest reduction in its overall importance. Its role as the principal vehicle currency in foreign exchange markets is particularly strong and reinforces its use in other functions. Since its introduction in 1999, the **euro** has expanded its position only in foreign-currency bond issuance; more recently, its global role has weakened somewhat. This finding contrasts with the ECB's assessment that, viewed over the longer term, the euro's international role has grown gradually and steadily (ECB 2026b).

The dollar's continuing dominance is also evident in the large gap between the United States' shares of global GDP and trade and the dollar's role in international finance

Chart 16: Index of global currency usage



Source: Bertaut et al. (2025)
Note: Index is a weighted average of each currency's share of globally disclosed FX reserves (25 percent weight), FX transaction volume (25 percent), foreign currency debt issuance (25 percent), foreign currency and international banking claims (12.5 percent), and foreign currency and international banking liabilities (12.5 percent). Because data on foreign currency debt issuance only become available in 2005, Bertaut et al. fill back the 2005 value to previous years.

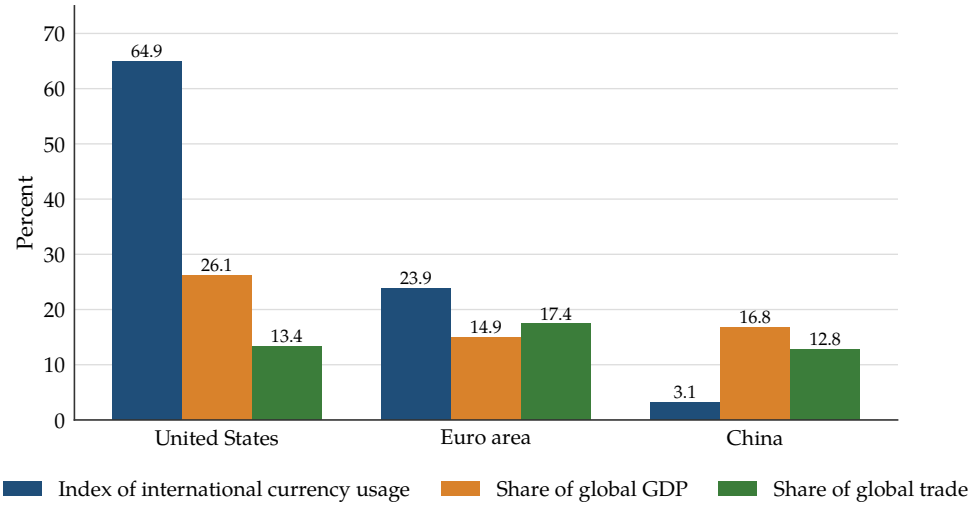
(Chart 17). China represents the opposite case: despite its economic and trading weight, the renminbi remains comparatively weak as a global currency. The euro area's currency-usage index likewise exceeds its shares of global GDP and trade. These differences show that "real factors" such as economic size and trade shares alone do not determine a currency's international financial role.

Against this background, the ECB's objective that the euro should "evolve into a truly global international currency" remains ambiguous (ECB 2026b). The euro already ranks second to the US dollar across all major functions and substantially exceeds the international role of other leading currencies, including the pound sterling, the Japanese yen, and the renminbi. In this sense, it can already be regarded as a global currency.

The analysis therefore points to limited scope for a substantial expansion of the euro's international role. Since 1999, the currency structure of the principal monetary functions has remained highly persistent, including after the sanctions imposed on Russia following its invasion of Ukraine.

- In the **global means-of-payment function**, strong network effects sustain the dollar's dominance even though its formal institutional privilege ended with the collapse of the Bretton Woods system. These effects also shape innovative payment instruments such as stablecoins, in which the euro remains negligible.

Chart 17: Global role of currencies compared with GDP and export shares (2024)



Source: Bertaut et al. (2025)

- In the **global store-of-value function**, especially central bank reserves, the prevailing trend is towards greater **diversification**. Although the dollar's share declined from 71 percent in 1999 to 57 percent in 2025, the euro did not benefit: its share remained near 20 percent. Rising central bank gold holdings reinforce this trend, suggesting limited prospects for a substantial increase in the euro's reserve share.
- As a **global unit of account**, particularly as the **numéraire** on commodity exchanges, the dollar holds a position as dominant and uncontested as its vehicle-currency role. It also remains the leading currency for foreign-currency bond issuance, with a share of 61.5 percent in 2025, compared with 64.9 percent in 1999. The euro ranks second, increasing from 21.0 to 27.6 percent. In this function, the dollar's central position in foreign exchange markets reinforces its attractiveness for international contracts and assets.
- In **global payment infrastructures**, strong network effects likewise favour a small number of providers. The dominance of US payment service providers should not, however, be equated with dollar dominance: globally successful systems must process multiple currencies. A digital-euro infrastructure restricted to euro-denominated payments and euro-area users would therefore limit, rather than promote, its global reach.

4 The advantages of a truly global currency

The US dollar's long-standing dominance in the global financial system is commonly associated with an "**exorbitant privilege**", a term coined in the 1960s by the then French finance

minister Valéry Giscard d'Estaing to describe the advantages accruing to the issuer of the leading international currency.

The literature identifies three main interpretations of this privilege:

- the United States' role as a **global banker** or **global insurer**;
- its ability to borrow on international capital markets at preferential rates, often described as a **convenience yield**; and
- its capacity to act as the **world's debtor** by sustaining large and persistent current account deficits without encountering financing constraints.

Because the ECB emphasises the benefits of invoicing foreign trade in the domestic currency, this aspect is also analysed below.

4.1 The United States as banker or insurer of the world

The interpretation of the United States as the world's banker dates back to the 1960s, when the US current account was still broadly balanced. Despres et al. (1966), for example, argued that the United States acted as a global financial intermediary by issuing liquid, safe liabilities to foreign investors while investing in higher-yielding foreign assets. As Salant (1972) observed, the simultaneous expansion of US foreign assets and liquid liabilities resembled the balance-sheet transformation performed by a bank.

This analogy was most persuasive while the US net international investment position remained broadly balanced (Chart 18). Since the 1990s, however, the US position has become increasingly negative. Gourinchas et al. (2017) nevertheless retain the global-banker interpretation, emphasising the country's provision of liquid liabilities and its investment in longer-term, riskier foreign assets.

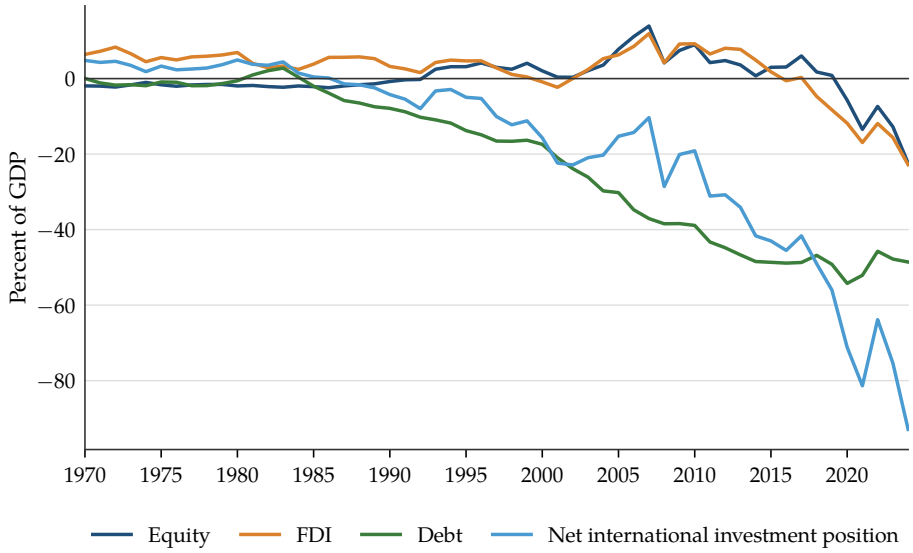
Gourinchas et al. estimate that the total return on US gross external assets exceeded that on gross external liabilities by about 2–3 percentage points per year between 1952 and 2016. Their preferred estimates indicate little change over time: 2.6 percentage points in 1952–72 and 2.4 percentage points in 1973–2016.

The same authors also describe the United States as a **global insurer**: by issuing safe liabilities and holding riskier foreign assets, it absorbs valuation losses during periods of global stress. This interpretation is conceptually difficult to reconcile with the banker analogy, which emphasises maturity and liquidity transformation rather than insurance provision.

Moreover, the US net equity position has turned negative, largely because the value of foreign holdings of US equities doubled between 2019 and 2024. The banker and insurer analogies therefore provide, at best, partial accounts of the privilege. Persistent current account deficits since the 1980s mean that foreign financing now supports domestic absorption in excess of US production, not merely the acquisition of foreign assets. In this sense, the United States is above all a **global debtor** (Section 4.3).

Nievas and Sodano (2024) challenge the interpretation of Gourinchas et al. They argue that the ability to earn higher returns on foreign assets than are paid on liabilities is not unique to the United States but extends more broadly to **wealthy countries** (Chart 19). In

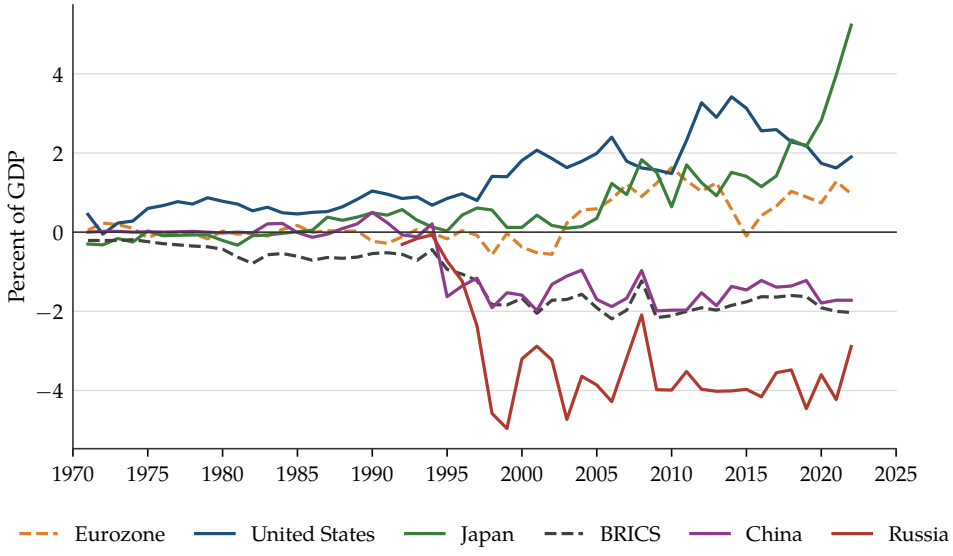
Chart 18: United States net international investment position (percent of GDP)



Source: Milesi-Ferretti (2026), The External Wealth of Nations database (https://www.brookings.edu/articles/the-external-wealth-of-nations-database/)

their account, this advantage reflects rich countries' institutional, regulatory, and financial position in the international economy rather than greater risk-taking or superior asset selection.

Chart 19: US privilege has become a rich world privilege



Source: Nievas and Sodano (2024)

Nievas and Sodano also question the **insurance interpretation**. Although Gourinchas et al. point to the large US valuation loss during the Global Financial Crisis, the loss of 14 percent of GDP in 2008 was almost entirely offset by a gain of 13 percent of GDP in 2009.

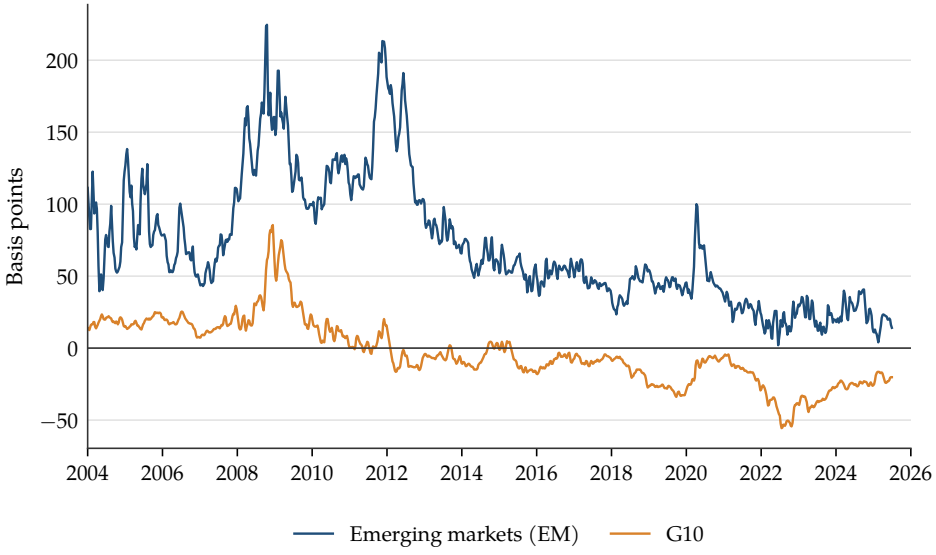
For the present analysis, the key finding is that the US excess-return advantage has diminished in recent years, narrowing the gap with the euro area considerably (Chart 19). The dollar's stronger global role therefore no longer appears to confer a material advantage through this channel.

4.2 The United States as a global provider of safe assets

Closely related to the global-banker argument is the claim that the US government benefits from a **convenience yield**, enabling it to borrow at lower rates than other issuers. Krishnamurthy and Vissing-Jorgensen (2012) provide the seminal analysis, estimating an average yield differential of 73 basis points between US Treasuries and Aaa-rated corporate bonds over the period 1926–2008.

There is broad agreement, however, that the convenience yield on US Treasuries has declined markedly since the Global Financial Crisis. Du et al. (2026) document a continued secular decline and find that the yield has become strongly negative relative to government bonds denominated in G10 currencies (Chart 20). Since 2023, this has also applied to US Treasuries with maturities of three months and one year (Du et al. 2026, Fig. 3).

Chart 20: The decline of the US Treasury convenience yield (five-year maturity)



Source: Du et al. (2026)

Du et al. conclude that US Treasuries are no longer inherently more attractive than synthetic dollar bonds created by swapping government bonds denominated in other G10 currencies. For the debate on the **global role of the euro**, it is particularly relevant that their

estimates indicate a negative US dollar convenience yield relative to the euro since 2021 (Table 2).

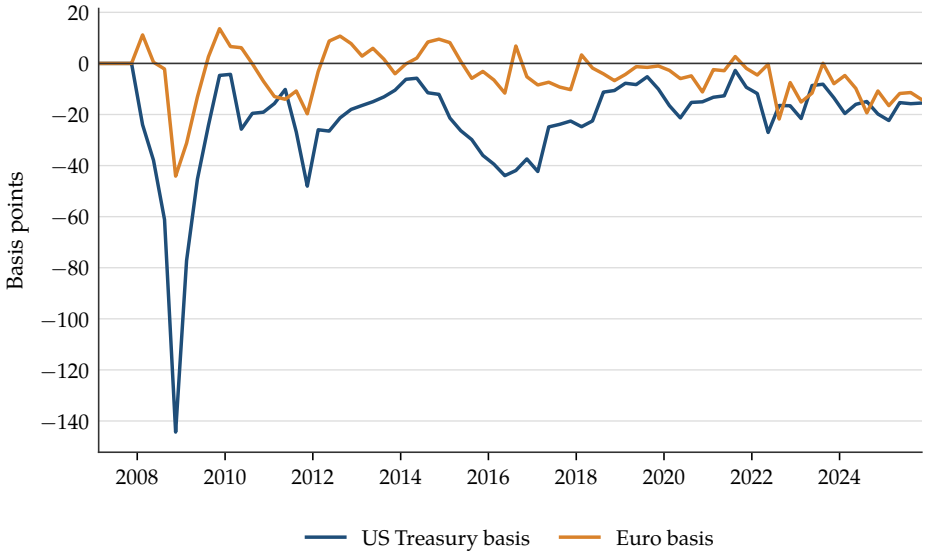
Table 2: Summary statistics of the 5-year government bond CIP deviations

	Full sample	2000–2006	2010–2020	2021–2025
EUR				
Mean	9.5***	31.9***	3.5	−35.3***
Std. error	(2.7)	(1.7)	(2.1)	(3.4)
N	6,495	1,701	2,813	1,105

Notes: Deviations in basis points. Standard errors in parentheses. *** denotes significance at the 1 percent level. Source: Du et al. (2026).

Using quarterly data on one-year government securities from 2008 to 2025, the ECB (2026b) likewise finds that the US dollar no longer enjoys a convenience yield relative to the euro (Chart 21).

Chart 21: Foreign convenience yield USD and EUR



Source: ECB (2026b)

This evidence does not support Lagarde's (2025a) claim that a stronger global role for the euro would enable EU governments and businesses to borrow at lower cost. The euro already matches or exceeds the dollar's convenience yield without sharing its dominant international position.

Du et al. also estimate a **convenience yield for three-month interbank money-market rates**. Under covered interest parity, the difference between the return on a direct US dollar deposit and that on a synthetic dollar deposit created through a foreign-currency deposit

and a swap should be close to zero. Their results show that deviations were indeed negligible before the Global Financial Crisis but became more pronounced thereafter. These deviations are best interpreted as reflecting **frictions in financial intermediation**, rather than a general investor preference for US dollar deposits.

4.3 The United States as the debtor of the world

Jacques Rueff (1972), a French economist and government adviser, offered one of the most vivid descriptions of the "exorbitant privilege". He compared the United States' external position to an arrangement in which a tailor immediately lends back every payment received from a customer, thereby allowing the customer to continue purchasing on credit:

> "If I had an agreement with my tailor that whatever money I pay him he returns to me the very same day as a loan, I would have no objection at all to ordering more suits from him and my own balance of payments would then be in deficit."

At first sight, the US balance of payments fits this analogy: the current account has been in deficit almost continuously since 1980. A broader comparison, however, shows that persistent deficits are not unique to the United States. Other **Anglophone economies** have recorded similarly negative balances, with Australia and New Zealand posting even larger average deficits (Table 3).

Table 3: Current account deficits of Anglophone economies (percent of GDP)

Country	Average deficit (1980–2024)	Deficit years	Maximum deficit
Australia	−3.6	42	−6.7
Canada	−1.4	12	−4.2
New Zealand	−4.2	45	−9.0
United Kingdom	−2.0	42	−5.2
United States	−2.6	42	−5.9

Source: IMF DataMapper

The net international investment positions of these countries lead to a similar conclusion (Table 4). In 2024, US net foreign debt amounted to 48.6 percent of GDP, compared with 46.4 percent in Australia and 49.5 percent in New Zealand. The broader US net international investment position was markedly more negative, at −92.9 percent of GDP, but this divergence is relatively recent and largely reflects the rising market value of US equities held by foreign investors (Chart 18).

Like the United States, Australia and New Zealand have been able to incur most of their external debt in their domestic currencies or hedge the associated foreign-currency exposure.[4] They have therefore largely avoided the "original sin" that has contributed to currency and debt crises in many developing economies.

[4] In March 2024, New Zealand's foreign-currency-denominated external debt amounted to NZ$140.1 billion,

Table 4: Net international investment positions of Anglophone economies (percent of GDP)

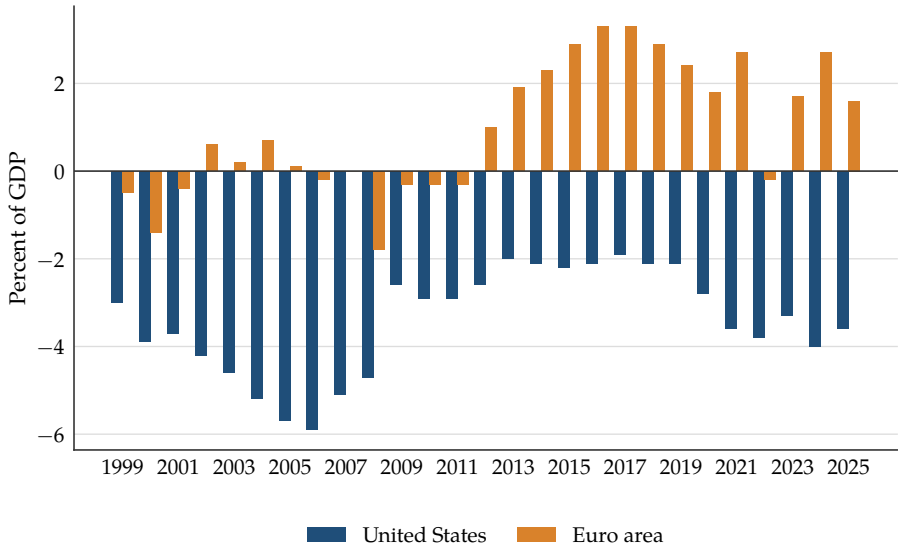
	Net positions			Portfolio equity		FDI		Debt		Total		
Country	Equity	FDI	Debt	Assets	Liab.	Assets	Liab.	Assets	Liab.	Assets	Liab.	Net IIP excl. gold
Australia	23.0	−1.9	−46.4	53.8	30.8	44.2	46.1	37.6	83.9	152.1	175.1	−22.9
Canada	61.3	42.9	−47.2	97.9	36.6	134.6	91.7	85.5	132.7	323.4	261.0	62.4
New Zealand	24.3	−28.2	−49.5	44.2	20.0	8.9	37.1	28.1	77.6	96.1	142.3	−46.2
United Kingdom	17.4	−5.3	−18.8	76.0	58.5	76.8	82.1	230.7	249.5	496.0	501.7	−5.7
United States	−22.4	−22.8	−48.6	40.9	63.4	38.0	60.8	32.0	80.6	119.6	212.5	−92.9

Source: Milesi-Ferretti (2026), The External Wealth of Nations database (https://www.brookings.edu/articles/the-external-wealth-of-nations-database/)

According to the classification of Nguyen et al. (2022), Australia, Canada, and the United Kingdom experienced neither a currency crisis nor a debt crisis between 1980 and 2024. New Zealand experienced currency crises in 1984 and 2008, but the hedging of its external position helped prevent either episode from developing into a debt crisis.

The ability to sustain large current account deficits over long periods without encountering external financing constraints is therefore not an exclusively US privilege. For the euro area, however, such a privilege offers no evident benefit: its external position is characterised by a **structural current account surplus** (Chart 22).

Chart 22: Current account balances (percent of GDP)



Source: IMF DataMapper

of which 97.6 percent was hedged (Stats New Zealand, https://www.stats.govt.nz/information-releases/balance-of-payments-and-international-investment-position-year-ended-31-march-2024/).
For Australia, about 70 percent of foreign-currency debt is hedged (Smith 2023, Graph 9).

4.4 The advantage of invoicing in the domestic currency

As shown in Section 3.3.3, US firms invoice almost all of their exports in their domestic currency. The ECB therefore treats a larger share of euro-denominated trade invoicing as one potential benefit of a stronger global role for the euro. In its view, more euro invoicing would reduce the euro area's exposure to exchange-rate fluctuations and protect Europe from more volatile capital flows. However, the effects of currency denomination on exchange-rate exposure are not straightforward. It is useful to distinguish between contracts that have already been signed and potential future contracts.

For **contracts that have been signed**, there is typically a time lag between agreement and payment, which creates exchange-rate risk. If a domestic company cannot invoice in its own currency, it must hedge this risk by buying foreign currency forward as an importer or selling foreign currency forward as an exporter. If it can invoice in its domestic currency, it can avoid these hedging transactions.

Hau et al. (2019) show that hedging costs are relatively small for large firms. Smaller firms, by contrast, may face higher costs because they often have only a limited number of banking counterparties and may therefore find it harder to obtain competitive quotes for the desired contract. Importantly, this price discrimination disappears when firms request quotes through multi-dealer platforms instead of negotiating bilaterally. The higher hedging costs of smaller firms therefore reflect the opacity of over-the-counter trading rather than firm size as such.

However, in a bilateral contract the invoicing currency is typically only one of many contractual features. The counterparty that accepts denomination in the exporter's domestic currency may therefore seek compensation elsewhere, for example through the price, delivery terms, or risk-sharing provisions.

For **potential future contracts**, the invoicing currency is largely irrelevant. It cannot insulate euro-area producers from, for example, an appreciation of the euro against the US dollar. A firm exporting to the United States may still be forced to keep its dollar prices constant through pricing-to-market in order to preserve market share.

In sum, the benefits of invoicing in the domestic currency should not be overstated. They mainly concern the limited hedging costs associated with contracts that have already been concluded. They do not insulate producers from exchange-rate fluctuations more generally, especially when appreciation affects future competitiveness and pricing decisions.

5 The downsides of the global attractiveness of a currency

The global attractiveness of a currency can generate important risks for the issuing economy. Large foreign holdings of domestic assets may create political and financial dependencies, while safe-haven inflows can put upward pressure on the exchange rate and complicate monetary policy. This section therefore examines the concerns raised by earlier central banks, the potential implications for financial sovereignty, and the experience of Switzerland as an example of the costs associated with sustained currency demand.

5.1 The sceptical views of the Deutsche Bundesbank and the ECB in earlier times

The Deutsche Bundesbank was particularly cautious about the Deutsche Mark's role as a global reserve currency. In June 1978, its then President, Otmar Emminger (1978), argued that Germany's financial markets were too small to absorb large reserve movements without disrupting domestic monetary conditions and that the economy lacked the capacity to bear the resulting burdens.

The **ECB** initially adopted a similarly cautious stance towards the euro's international role. Gräb and Mehl (2019) describe the Eurosystem's position since the launch of Economic and Monetary Union as one of neutrality: the international status of the euro was regarded as market-driven, and the Eurosystem sought neither to promote nor to impede it.

Spielberger (2025) provides a comprehensive account of the ECB's subsequent shift from neutrality towards active promotion of the euro's international role.

5.2 Negative effects on financial sovereignty

A stronger global role for the euro could also weaken, rather than enhance, the euro area's financial sovereignty. The issuer of an international reserve currency becomes dependent on foreign holders of domestic assets, whose portfolio decisions can affect domestic financial conditions. This concern was already visible in the 1960s in the **Triffin dilemma**: global demand for dollar reserves could exceed the United States' ability to guarantee their convertibility into gold. After the collapse of Bretton Woods and the suspension of dollar convertibility, this particular constraint disappeared, but the broader dependence on foreign reserve holders did not.

China's large holdings of US Treasuries have given this issue renewed relevance. A report by the US Congress (2021) notes that China could threaten to reduce future purchases or sell part of its portfolio in order to signal displeasure or influence US policy. Such threats need not be carried out to matter; their political significance lies in the possibility that a major foreign holder can use reserve assets as leverage.

Whether such a strategy would ultimately harm China more than the United States remains disputed (Xu et al. 2025). The example nevertheless illustrates the underlying trade-off: the more a currency issuer encourages large foreign holdings of its safe assets, the more it becomes exposed to the strategic choices of those holders.

A recent episode shows how such dependencies can operate in practice (Obstfeld 2026)[5]. In July 2026, the **yen came under substantial pressure.** Over the last two days of July, the Japanese authorities intervened on a large scale, spending an estimated 87 billion US dollars of their foreign exchange reserves. On 31 July the US Treasury joined in, its first intervention in support of the yen since 1998. An important motive was that a purely Japanese operation would have required further sales of US Treasuries, which might have pushed already elevated Treasury yields still higher. To avoid signalling a weak-dollar policy, the

[5] https://www.piie.com/blogs/realtime-economics/2026/trying-prop-yen-us-wants-have-its-cake-and-eat-it-too

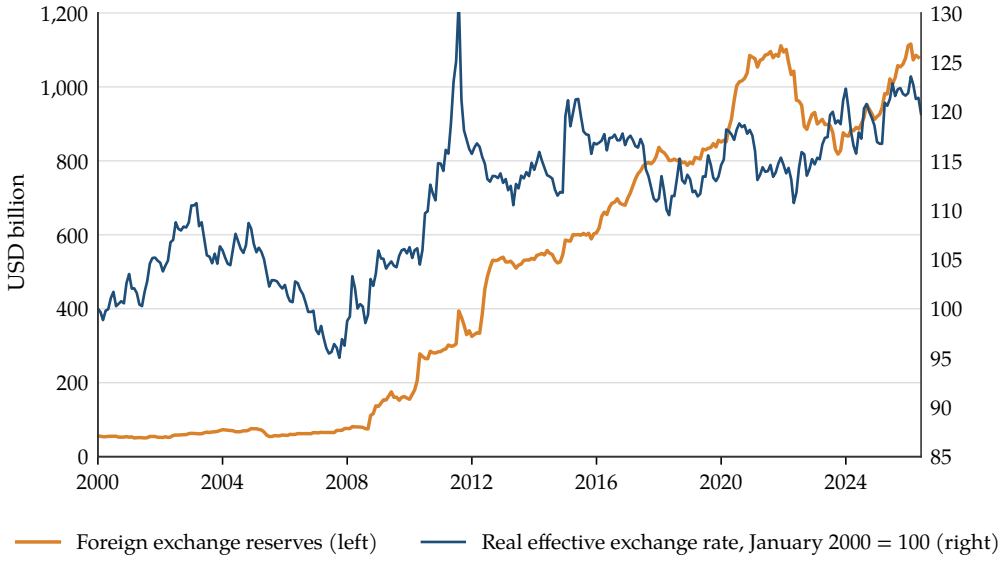
US side reportedly sold euros rather than dollars. The operation strengthened the yen and temporarily weakened the euro, but it had no lasting effect on the euro–dollar exchange rate.

The episode suggests that the reserve-currency role can constrain more than the issuing central bank itself. The United States had an incentive to support the yen in order to avoid potentially disruptive Treasury sales by Japan. At the same time, the intervention affected the euro's exchange rate even though the ECB had no role in the decision and was reportedly informed only after the operation had taken place. A stronger global role for the euro could therefore expose the euro area to similar external constraints.

5.3 The experience of the Swiss National Bank

Switzerland illustrates the costs that can arise from sustained international demand for a currency. Since 2008, the Swiss National Bank (SNB) has intervened repeatedly in foreign exchange markets to limit appreciation of the Swiss franc. These large-scale interventions moderated the increase in the real effective exchange rate, particularly during the 2010s (Chart 23). Even so, the average real effective exchange rate was 11.0 percent higher in the 2010s than in the 2000s and has risen by a further 2.6 percent in the 2020s to date.

Chart 23: Swiss foreign exchange reserves and the CHF real effective exchange rate (index, January 2000 = 100)



Source: Swiss National Bank and BIS

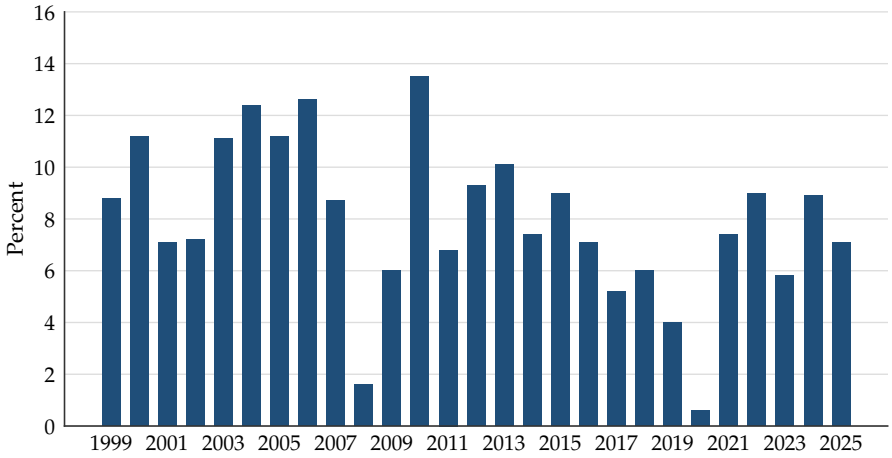
As a result, Swiss foreign exchange reserves have exceeded USD 1 trillion. Switzerland is now the world's third-largest reserve holder after China and Japan. Because the stock of reserves is almost as large as Swiss nominal GDP, it exposes the country to substantial foreign-exchange risk. Between 2010 and 2025, the SNB's foreign-currency positions gener-

ated cumulative valuation losses of CHF 238.6 billion, equivalent to roughly 25 percent of Swiss GDP.

The interventions did not fully shield the corporate sector from exchange-rate appreciation. Steiner and Stucki (2025) find that large, highly profitable exporters reduce their mark-ups substantially after an appreciation and therefore shape the aggregate response. Smaller firms, which constitute the majority, show little adjustment, suggesting that they are less able or willing to absorb exchange-rate movements through lower mark-ups.

Switzerland's very large **current account surpluses** are also central to this experience. Since 2000, the annual surplus has averaged 7.9 percent of GDP (Chart 24). The resulting upward pressure on the franc primarily reflects an external surplus that has not been matched by sufficient private net capital exports. From this perspective, the accumulation of SNB reserves constitutes an official capital export that offsets the current account surplus.

Chart 24: Current account of Switzerland (percent of GDP)



Source: IMF DataMapper

5.4 The "hot potato game" of a global reserve currency central bank

For the ECB, a stronger international role for the euro could become risky if it coincided with policies that weakened the safe-asset status of US Treasuries. Stephen Miran's (2024) proposed **Mar-a-Lago accord**, for example, considers imposing a charge on foreign official holders of Treasuries by withholding part of their interest income or a forced prolongation of maturities. Persistent political pressure on the Federal Reserve could further undermine confidence in the US central bank and the dollar.

A risk scenario could unfold as follows. If the United States imposed restrictions on foreign Treasury holders, investors might shift substantial portfolios from Treasuries into euro-area government bonds. They would sell Treasuries for dollar deposits, exchange those deposits for euro deposits, and purchase euro-denominated government bonds. This process would place upward pressure on the EUR/USD exchange rate.

To counter this appreciation pressure, the ECB would have to purchase dollar deposits against newly created euro deposits. If it then sought to invest its dollar holdings in liquid, interest-bearing assets, it would most likely acquire US Treasuries.

The paradox is that, in a scenario combining greater global demand for the euro with declining private demand for US safe assets, the ECB could ultimately end up holding the Treasuries that private investors had dumped.

Lagarde (2025c) acknowledges that a stronger international role for the euro could place upward pressure on its exchange rate. She argues, however, that there is no mechanical long-run relationship between a currency's reserve share and its real effective exchange rate, and that deep financial markets can absorb safe-haven inflows and limit appreciation.

This reassurance may be insufficient when the safe-asset status of the dollar is being actively questioned. Abrupt portfolio shifts cannot be ruled out. A simultaneous strengthening of the euro's international role and large capital inflows could therefore prove counterproductive, particularly if the associated benefits remain uncertain.

6 What can the ECB and the EU do to strengthen the global role of the euro?

Irrespective of the benefits and risks associated with a stronger global role for the euro, the practical question is what the ECB and the EU can do to advance this objective. Lagarde (2025b) identifies three foundations for the euro's international role: geopolitical credibility, economic resilience, and legal and institutional integrity.

While geopolitical and institutional conditions matter, this paper focuses on the **economic pillar**—or the "Mercury hypothesis" in the terminology of Eichengreen et al. (2017).[6] Lagarde (2025b) associates this pillar with three features: strong economic growth, deep and liquid capital markets, and an ample supply of safe assets.

From a financial perspective, the ECB therefore places particular emphasis on the **savings and investments union** and on expanding the supply of safe assets. The **digital euro** forms another element of its approach, comprising both a retail central bank digital currency and tokenised central bank money for wholesale settlement (Schnabel 2026).[7]

By contrast, the ECB explicitly excludes **euro-denominated stablecoins** from its internationalisation strategy. Lagarde (2026) argues that integrated capital markets and, over time, a sufficiently large base of safe euro assets offer a more effective route to strengthening the euro's international appeal.

Finally, at a more technical level, the ECB has enhanced its EUREP facility, which increases the access of foreign central banks to euro refinancing in times of financial stress.

[6] The "Mercury hypothesis" argues that currency choice is governed by pecuniary factors familiar to the literature, such as economic size and credibility of major reserve currency issuers, against the "Mars hypothesis" that this depends on geopolitical factors.

[7] See also Panetta (2020): "It would be a digital symbol of progress and integration in Europe. And it would support the international role of the euro."

Against this background, the section assesses five policy options, starting with the actions that the ECB could take followed by initiatives requiring actions from the member states:

- the retail and wholesale digital euro;
- euro-denominated stablecoins;
- the enhanced EUREP facility;
- the savings and investments union; and
- an expansion of the supply of safe euro-denominated assets.

6.1 The digital euro as a strategy to increase the global role of the euro?

The ECB's digital euro project comprises two elements: a **retail digital euro** for households and a **wholesale digital euro** for banks and other financial institutions with access to central bank money.

Understanding the retail digital euro requires a clear distinction between two objectives:

- creating a **new payment asset** for non-banks—in effect, a claim on the ECB that enables households to hold central bank money; and
- establishing a **European payment infrastructure** that reduces dependence on US payment service providers and strengthens strategic autonomy.

The same distinction clarifies the purpose of the **wholesale digital euro**. Its innovation does not lie in providing financial institutions with a new means of payment, since they already have access to central bank money. Rather, the project develops new infrastructure for settling and managing the life cycle of securities, including transactions conducted through distributed ledger technology (DLT), in central bank money.

Since July 2025 this work has been carried out under a single Eurosystem programme with two tracks (ECB 2025b). **Pontes**, the short-term track, is a Eurosystem DLT solution that links market DLT platforms with the TARGET Services so that the cash leg of tokenised wholesale transactions settles in central bank money; its pilot was set for the third quarter of 2026. **Appia**, the long-term track, is an analytical and exploratory initiative examining the common standards, policies and functional building blocks of a future European DLT-based financial ecosystem. Both are confined to wholesale settlement, and Appia has so far produced no target architecture.

Appia is nonetheless instructive for the argument developed here. Its scope is defined not by the euro but by TARGET: it covers the euro together with the other currencies that participating central banks make available in the system, and Danmarks Nationalbank takes part in both tracks. In this programme the Eurosystem treats a payment infrastructure as something whose value rises with the number of currencies it can process—precisely the distinction between payment object and payment infrastructure set out in Section 3.4. Its internationalisation strategy does not apply it.

a) The current design of the digital euro

Under its current design, neither function of the retail digital euro would substantially strengthen the euro's global role. Participation in the infrastructure requires a digital euro account, and Article 13(1) of the proposed Digital Euro Regulation effectively restricts digital euro payment services to **euro-area residents**. Moreover, only households may hold positive balances. Positive balances received by other users, especially merchants, would automatically be transferred to their commercial bank accounts through the "**waterfall function**". Household balances would also be subject to a relatively **low holding limit**.

This **regional restriction** also limits the reach of the digital euro's payment infrastructure: confined to the euro area, it could not support payments across Europe as a whole. Its single-currency design is a further constraint. Whereas Visa, Mastercard, and PayPal process multiple currencies regardless of where the underlying deposits are held, the digital euro infrastructure would process only euro-denominated payments between digital euro account holders.

Successful **national payment systems** such as TWINT in Switzerland and Pix in Brazil show that such a regional design can be effective domestically. It is not, however, an innovation capable of expanding a payment system's global reach.

b) An open design for the D€

Although the ECB does not present the digital euro as a central instrument for strengthening the euro's global role, several design options could increase its international relevance.

A limited step would be to open the **retail digital euro** to non-euro-area residents and allow its infrastructure to process currencies other than the euro. Existing plans already point partly in this direction (Cipollone 2025). Such an opening would broaden the infrastructure's reach and increase non-residents' holdings of digital euro assets.

A more ambitious approach would remove the holding limit and restrictions on access by non-euro-area residents, thereby opening the digital euro to large investors. This would create a safe euro-denominated asset that could serve both as a store of value and a means of payment. The ECB could also issue it in **tokenised form** for use on blockchains, enabling it to compete more directly with private stablecoins.

For large depositors, central bank money would offer an important advantage over commercial bank deposits: it is free of bank credit risk. Under the current regime, deposit-guarantee schemes protect only balances of up to €100,000; larger deposits remain exposed to bank restructuring and possible bail-in.

Removing holding limits would strengthen the euro's global role but would also deprive euro-area banks of a stable source of generally low-cost funding. Banks would have to replace lost deposits with market funding or ECB refinancing, typically remunerated at the policy rate. These concerns explain the restrictions embedded in the current design. The resulting pressure on banks' competitiveness could be particularly significant relative to US banks, since the United States has explicitly rejected a retail central bank digital currency.

Universal access could also increase **financial instability**. During a banking crisis, unlimited conversion into digital euros could facilitate rapid **digital bank runs**, destabilising

banks more quickly and on a larger scale than under the current system.

In a low-interest-rate environment, an unlimited digital euro could also compete with **euro-area government bonds** as a safe asset. This could raise sovereign financing costs and potentially amplify instability during episodes of bond-market stress, such as those experienced between 2010 and 2012.

In sum, unrestricted access to digital euro assets would strengthen the euro's international position. Whether the resulting benefits would outweigh the costs for euro-area banks and financial stability is, however, highly uncertain.

6.2 Euro-denominated stablecoins

While the United States explicitly promotes stablecoins as a means of strengthening the dollar's global role,[8] the ECB does not include euro-denominated stablecoins in its strategy for the euro's internationalisation.

This position is difficult to reconcile with Lagarde's (2026) own assessment of their potential benefits. She acknowledges that euro stablecoins could create additional global demand for euro-area safe assets, compress sovereign yields, ease financing conditions, and extend the euro's international reach through a new digital channel.

Her principal concern is **financial stability**. Stablecoins are private liabilities whose credibility depends on the quality and liquidity of their backing; if confidence weakens, redemption requests can become sudden and self-reinforcing. The temporary de-pegging of USD Coin after the collapse of Silicon Valley Bank in March 2023 illustrates this risk: Circle held USD 3.3 billion of reserves at the bank, and the token briefly traded at USD 0.877 (Lagarde 2026).

This concern is justified under the current EU framework. MiCA requires "significant" stablecoin issuers to hold at least 60 percent of their reserve assets as bank deposits. As Bofinger (2025) argues, this creates a potentially destabilising **doom loop** between stablecoin issuers and the banks that hold their reserves.

This problem could be mitigated through alternative collateral requirements. The safest design would require stablecoins to be fully backed by central bank reserves, corresponding to the concept of a **synthetic CBDC** (Adrian and Mancini-Griffoli 2019). In 2023, the Bank of England regarded this arrangement as the safest form of stablecoin. It has since revised its position, mainly because a business model based entirely on non-interest-bearing central bank reserves would offer little commercial incentive for issuers. The Bank of England (2026) now proposes a mixed collateral framework:

[8] White House (2025): "ENSURING U.S. DOLLAR GLOBAL RESERVE CURRENCY STATUS: By driving demand for U.S. Treasuries, stablecoins will play a crucial role in ensuring the continued global dominance of the U.S. dollar as the world's reserve currency. The GENIUS Act will generate increased demand for U.S. debt and cement the dollar's status as the global reserve currency by requiring stablecoin issuers to back their assets with Treasuries and U.S. dollars."

See also Isabel Schnabel (2026) who mentions the positive effect of stablecoins on the global role of the US dollar: "The growing use of stablecoins may further cement the international dominance of the US dollar. Today, virtually all stablecoins in circulation are denominated in dollars, with other currencies playing a negligible role."

- 30 percent of reserve assets would be held as central bank deposits; and
- the remaining 70 percent could be invested in short-term UK government securities with a residual maturity of up to six months.

The Bank of England explicitly **excludes commercial bank deposits** from eligible reserve assets because they create financial, operational, and contagion risks for both stablecoin issuers and systemically important financial institutions.

For the euro area, a similar approach would be preferable. Regulated euro stablecoin issuers could be allowed to hold part of their reserves directly at the ECB, while investing the remainder in short-term, high-quality government securities. Such a design would create an attractive euro stablecoin backed by a combination of central bank money and safe public assets, without requiring the ECB itself to provide retail payment services to non-bank investors.

A **reform of MiCA** could therefore contain the financial-stability risks of euro stablecoins more effectively. This conclusion is consistent with the experience of Tether and USD Coin, whose reserves consist largely of US Treasuries and which have remained broadly resilient during periods of market stress. USD Coin, for example, quickly regained parity after the collapse of Silicon Valley Bank (Bofinger 2025).

Lagarde (2026) also argues that stablecoins could weaken the transmission of **ECB monetary policy** by shifting retail deposits from banks to non-bank issuers and returning them as wholesale funding.

This argument is unconvincing. Although disintermediation would reduce bank profitability, it could **strengthen the transmission of ECB interest-rate decisions** to lending. Many household deposits currently pay little or no interest and respond only weakly to policy rates. Replacing them with wholesale funding from stablecoin issuers or ECB refinancing would make banks' funding costs—and therefore their lending decisions—more sensitive to monetary policy.

There is therefore a case for **promoting euro stablecoins** through a fundamental reform of MiCA along the lines of the proposed UK regime. Reserve assets could consist of 70 percent short-term EU government securities and 30 percent direct holdings of ECB reserves. Such a design would combine features of Treasury-backed US stablecoins with those of a tokenised synthetic digital euro.

The model would still risk disintermediating bank deposits. Compared with an open digital euro, however, it would avoid direct ECB contact with investors: private stablecoin issuers would distribute claims backed partly by central bank money. Combining ECB reserves with government bonds would also limit direct competition between these two safe assets.

Given the negligible market share of euro stablecoins relative to their dollar-denominated counterparts, such a reform would not necessarily be transformative. In principle, however, it could increase global demand for both EU government bonds and ECB reserves.

The appropriate Eurosystem response should therefore go beyond the continued digitalisation of existing monetary and payment infrastructure. Following Reichlin et al. (2026),

policy should shift from containing stablecoins to embedding them within a robust regulatory framework.

6.3 EUREP: a scheme to increase the global use of the euro?

A genuine contribution of the ECB to strengthening the global role of the euro is its enhanced Eurosystem repo facility for central banks (EUREP). President Lagarde expects that, as a provider of backstop liquidity to central banks worldwide, EUREP "boosts market participants' confidence to invest, borrow and trade in euro globally" (ECB 2026b).

In times of financial market stress, many central banks stand ready to provide their domestic banks with short-term funding in foreign currency. Otherwise, these banks might be cut off from global funding markets, which would aggravate market tensions. As a central bank cannot create foreign currency, it must be able to borrow it at short notice from the central bank that issues it.

The standard instrument for this purpose is the swap line, under which two central banks exchange their currencies for a limited period. The ECB maintains a network of standing, unlimited and reciprocal swap arrangements with the Bank of Canada, the Bank of England, the Bank of Japan, the Swiss National Bank and the Federal Reserve. It also has a reciprocal swap line with the People's Bank of China. In addition, it provides euro against Danish kroner and Swedish kronor through non-reciprocal swap lines with Danmarks Nationalbank and Sveriges Riksbank.

An alternative is a repo facility, under which the lending central bank provides its currency against high-quality securities denominated in that same currency. As the collateral is denominated in its own currency, the lending central bank does not take on foreign-currency risk if the borrower defaults. The ECB created EUREP in June 2020 as a temporary, precautionary backstop during the pandemic; in practice, it served a small group of non-euro-area European central banks. On 14 February 2026, the ECB decided to turn EUREP into a standing facility that is, in principle, open to all central banks unless they are excluded on grounds of money laundering, terrorist financing or sanctions (ECB 2026c). Lines are capped at €50 billion per central bank and priced at the main refinancing rate plus a spread; drawings are possible from the fourth quarter of 2026 (ECB 2026d). Functionally, the enhanced EUREP thus resembles the Federal Reserve's FIMA repo facility.

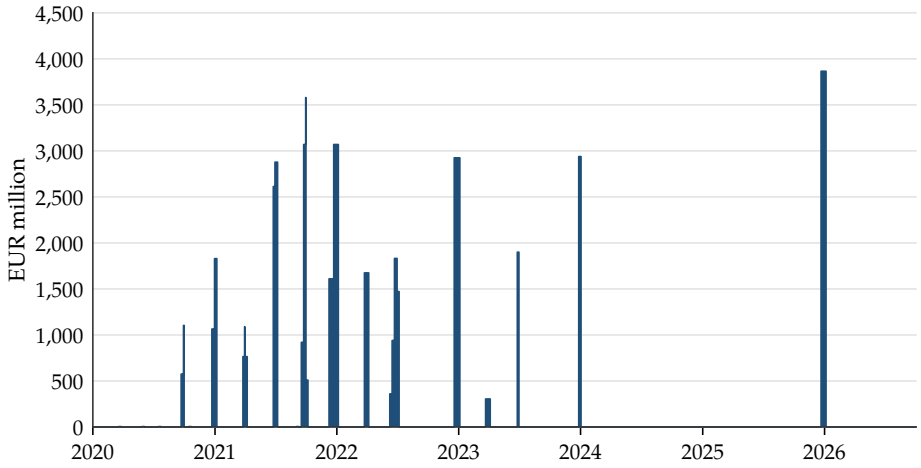
While the ECB regards support for the transmission of its monetary policy as the prime objective, it states that the new facility "also reinforces the international role of the euro" (ECB 2026d).

EUREP could strengthen the global role of the euro through two channels. First, it makes euro-area government bonds more attractive as reserve assets, as central banks can use them as collateral to obtain euro liquidity in a crisis instead of having to sell them. Second, it could support the wider use of the euro, e.g. in trade invoicing and financing, if banks outside the euro area can rely on emergency funding in euro via their central bank. However, there is a chicken-and-egg problem: as long as the international use of the euro does not increase, there is little need for refinancing in euro. Moreover, EUREP can only be used by central banks that already hold eligible euro assets. It makes existing euro reserves more liquid

but does not provide additional credit.

It is difficult to assess whether the enhanced EUREP will have a significant effect on the global use of the euro. So far, there are hardly any analytical studies on this question. Empirically, the use of the ECB's swap and repo lines has been very limited (Chart 25). Since 2020, the outstanding amount has never exceeded €4 billion, and drawings have been concentrated around quarter-ends and especially year-ends, with a peak of €3.9 billion at the end of 2025. This pattern points to balance-sheet management by the borrowing central banks rather than to acute funding stress.

Chart 25: Euro liquidity provided through ECB swap and repo lines (outstanding amount, EUR million), January 2020 to October 2026



Source: ECB

6.4 The "savings and investments union"

For the ECB, completing the so-called savings and investments union (SIU) is a central element of the strategy to strengthen the euro's global role. Lagarde (2025c) argues that Europe must complete the Single Market and create a genuine SIU in order to absorb and channel capital inflows efficiently. Despite the prominence of this objective in statements by ECB and EU representatives, its precise economic meaning remains unclear.

The ambiguity begins with the terminology. In national accounting, **saving** is a **flow variable**, whereas "savings" is a non-technical expression commonly used to describe a **stock of financial assets**. The only precise stock concept is "savings deposits", but this narrow category is not what policymakers generally mean by "savings". The same problem applies to "investments": the national-accounts term is **investment**, a flow variable that corresponds to saving. This **stock-flow confusion** at the centre of a flagship European initiative is itself problematic.

6.4.1 The flow perspective

From a **flow perspective**, saving and investment are necessarily equal ex post in a **closed economy**. Saving is the increase in an economy's net wealth and, in the absence of external transactions, can arise only through the accumulation of real assets—that is, investment. Saving includes not only additions to household wealth but also retained corporate earnings. Aggregate net financial assets cannot increase because every financial asset is matched by a corresponding liability. In an **open economy**, by contrast, saving may differ from domestic investment because net wealth can also increase through the acquisition of net foreign financial assets. The ex-post difference between saving and investment is therefore equal to the current account balance.

This flow interpretation is evident in the Letta Report (2024, p. 11), which describes the annual diversion of approximately €300 billion of European household saving to markets outside the EU, primarily the United States. The figure is close to the EU's current account surplus in 2023, when the report was prepared, although the EU's bilateral current account balance with the United States was slightly negative. The European Council (2025) makes a similar claim, arguing that a genuine savings and investments union would channel hundreds of billions of euros of additional investment into the European economy each year.

In this flow framework, the case for a savings and investments union amounts to a case for reducing the euro area's current account surplus. From an **ex-ante perspective**, however, no pre-existing flow of saving is available to finance investment. New investment is financed either through bank credit or through investors' purchases of corporate bonds, equity, or direct loans. Neither mechanism requires saving generated in the same period.

If the objective is to narrow the gap between saving and investment—that is, the euro area's current account surplus—policy must stimulate domestic investment through:

- higher debt-financed **public investment**; and
- stronger **private investment**, supported primarily by lower central bank policy rates or by public incentives such as investment tax credits and more generous depreciation allowances.

Both forms of investment raise domestic aggregate demand and, through higher imports, reduce the current account surplus if exports remain unchanged. Ex post, investment and saving both increase, but saving rises by less than investment, narrowing the gap. The adjustment therefore does not occur by transforming pre-existing saving into investment; rather, additional investment generates income and thereby creates additional saving.

The most direct way to reduce the gap between domestic saving and investment would therefore be a **less restrictive ECB monetary policy**. A second-best approach would be higher public borrowing to finance public investment directly or to provide tax incentives for private investment.

6.4.2 The stock perspective

What, then, is the rationale behind the widespread view that private "savings" should be converted into euro-area "investments"? Read as a statement about stocks, the argument starts from a real difference between the two economies: euro-area households hold a considerably larger share of their financial wealth in bank deposits than their US counterparts. The inference drawn from this observation is that these deposits are idle funds sitting outside the financing of investment. President Lagarde (2025c) puts it as follows:

> "Our financial system even struggles to channel our own savings into productive investment. More than €11.5 trillion of household savings are still held as deposits, equivalent to one-third of total liquid assets."

This inference does not survive an examination of how deposits come into being. In contrast to neoclassical theory (Box 2), deposits are not a pool of pre-existing funds that the financial system must first collect and then direct towards investment projects.

Box 2: The neoclassical view on saving and investment

The idea that saving is a prerequisite for investment derives from neoclassical macroeconomic theory. Its underlying non-monetary model assumes a single all-purpose good—often represented as wheat—that can be used without transformation costs in four ways:

- as a consumption good;
- as saving supplied to the capital market when it is not consumed;
- as an investment good, or capital, when demanded by investors; and
- as output of the production process.

Within this framework, the decision not to consume the all-purpose good makes it available for investment. Yet this "corn economy" abstracts from money, credit creation, and distinct consumption and capital goods. Despite its prominence in textbooks, it therefore provides an inadequate basis for analysing investment finance in a modern monetary economy.

In a monetary economy, investment is financed by bank loans, by other forms of lending (for example, the purchase of corporate bonds) or by equity.

In a **monetary economy**, deposits are created in the act of lending: when a bank extends a loan, it credits the borrower's deposit account, expanding both sides of its balance sheet simultaneously (Table 5). The same happens when the Eurosystem purchases securities from non-banks. The aggregate stock of deposits therefore records the accumulated history of credit creation and central bank balance-sheet expansion. It is not a measure of funds withheld from productive use, and reducing it would not by itself finance a single additional investment project.

Two qualifications follow. First, the borrower will normally transfer the newly created deposits to other agents, who may in turn use them to buy corporate bonds, extend direct loans, or subscribe to new equity. This redistributes deposits among holders and can indeed stimulate investment, but it leaves the aggregate stock of deposits unchanged; only

Table 5: Simplified bank balance sheet

Bank balance sheet	
Assets	Liabilities
Loans financing investments	Deposits

the repayment of bank debt reduces it. Second, the counterpart of the deposit stock is the whole stock of bank credit—mortgages, consumer loans, and banks' holdings of securities alongside investment loans—so Table 5 should be read as an illustration of the mechanism, not as a claim that all deposits measure investment.

What the mechanism does rule out is the premise underlying the stock reading of the SIU: that European households are sitting on unused saving which better plumbing could redirect into capital formation. This is not to deny that portfolio composition matters. The serious version of the argument concerns the structure of intermediation rather than the volume of funds: an economy whose financial wealth is concentrated in deposits finances investment predominantly through bank credit, and bank credit is ill suited to young, research-intensive firms with uncertain returns and largely intangible assets. That is an argument about the supply of risk capital, and it is taken up in the following section.

6.4.3 The importance of a capital markets union (CMU) in Europe

A more convincing rationale for the "savings and investments union" is to increase the attractiveness of **capital-market financing** in Europe. Indeed, the initiative largely repackages the long-standing objective of completing the Capital Markets Union (CMU).

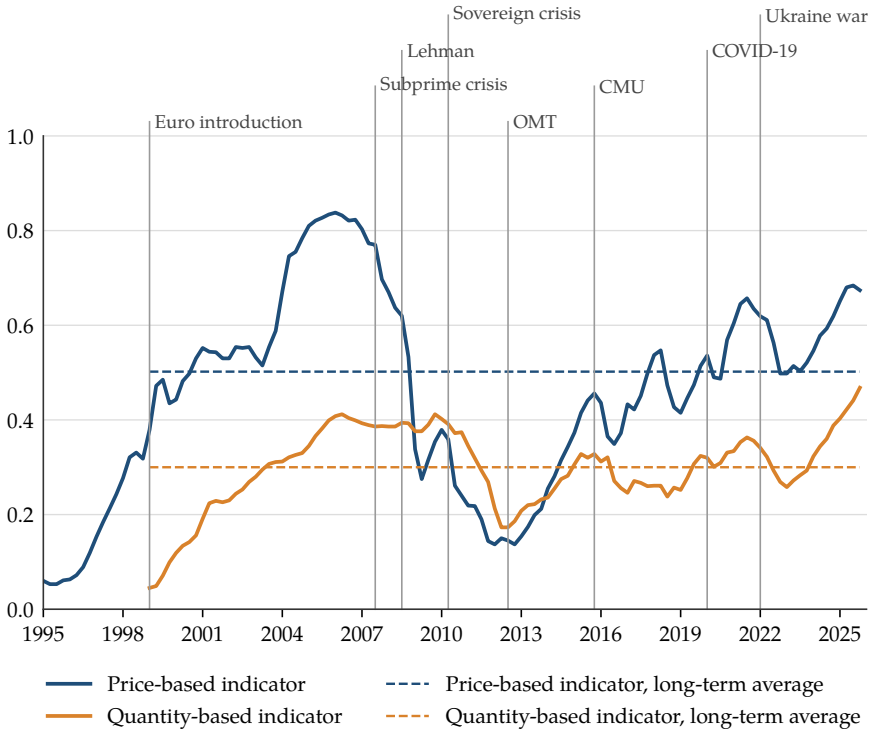
The main barriers to cross-border capital movements were already removed in preparation for Economic and Monetary Union in the 1990s. Current proposals—such as integrated capital-market supervision, harmonised insolvency rules, and a pan-European savings product—would improve the institutional framework, but are unlikely to transform the degree of financial integration.

The ECB's price- and quantity-based **composite financial integration indicators** support this assessment (Chart 26). The price-based indicator had already exceeded 0.8 in 2006, where 1.0 denotes full integration. Although integration subsequently fell during the global financial and euro-area crises, the remaining measures address incremental institutional fragmentation rather than a fundamentally segmented market.

The implications for the **international role of the euro** are therefore limited. Among the monetary functions discussed in Section 3, deeper capital-market integration is most relevant to the store-of-value function. Yet the incremental reforms envisaged under the SIU are unlikely to produce a qualitative increase in the attractiveness of euro-area assets to global investors.

This is particularly true for central banks and other investors that primarily demand **safe assets**, especially government bonds. The SIU/CMU contains no specific proposal to create such an asset. As De Grauwe and Ji (2025) emphasise, capital-market integration alone

Chart 26: Price-based and quantity-based financial integration composite indicators



Source: ECB (2026a)

cannot provide a large, homogeneous safe asset comparable to US Treasuries.

In sum, the concept of a "savings and investments union" is weakened by its conflation of stocks and flows. From a flow perspective, an excess of saving over investment is a current account surplus; the ECB can reduce it more directly by lowering policy rates and stimulating domestic investment and demand. From a stock perspective, bank deposits are not detached from investment financing but are created through bank lending, including lending for investment. Greater harmonisation of supervision, insolvency law, and other capital-market rules is nevertheless desirable and may improve access to finance, particularly for smaller firms. Its relevance to the euro's global role remains limited, however, because international demand depends primarily on the availability of large volumes of safe euro-denominated assets, above all government bonds.

6.5 Integrating Europe's government bond markets

Creating a large, safe, and liquid pool of EU public debt is an important element of the ECB's strategy for strengthening the euro's global role. This could be achieved either by consolidating part of the existing debt of member states or by issuing new common debt to finance euro-area public goods. Because the monetary function at stake here is the store of value (Section 3.2.2), the appropriate test for any such proposal is a narrow one: does

it enlarge the stock of homogeneous, highly rated and index-eligible euro paper that reserve managers and private investors can hold in size? Aggregate volume alone is not the binding constraint, since euro-area public debt is already large; what is missing is a single instrument of standing comparable to US Treasuries. The following sections assess the main proposals against this criterion.

6.5.1 The fundamental problem of euro area membership

The fundamental disadvantage of euro-area government bonds relative to US Treasuries stems from the **institutional structure of monetary union**. As De Grauwe (2011) argues, member states issue debt in a currency they do not individually control. Financial markets can therefore force a sovereign into default, making monetary union vulnerable to shifts in market sentiment and self-fulfilling crises.

The euro-area sovereign-debt crisis beginning in 2010 made this vulnerability explicit. The French-German Deauville agreement of 18 October 2010 codified the principle that future crisis-resolution mechanisms should include private-sector involvement, thereby confirming that holders of national sovereign debt could bear losses.[9]

Compared with US Treasuries, national government bonds in the euro area therefore have two **structural disadvantages**:

- Issuers cannot rely on a national central bank that is unconditionally willing to support their bonds during a market strike, as the Bank of Japan can in Japan.
- Their bonds carry **redenomination risk** if a country leaves, or is forced to leave, the euro area.

Against this background, it is notable that euro-area government bonds—particularly German Bunds—do not offer a lower convenience yield than US Treasuries (see Section 4.2).

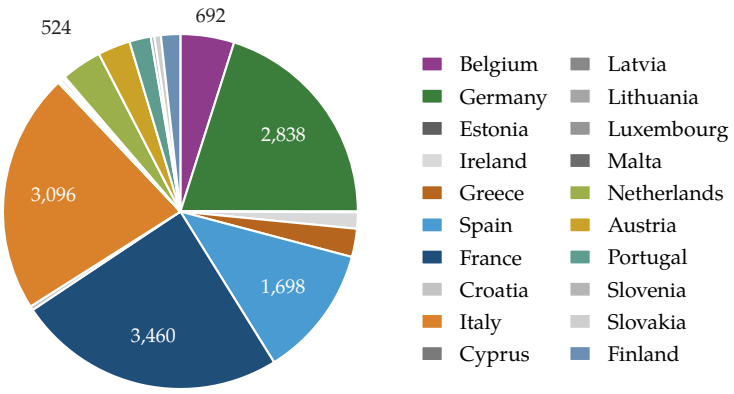
Although these structural features cannot be eliminated easily, the attractiveness of European government bond markets could still be improved. Their **fragmentation** reduces liquidity and market depth, especially in comparison with the unified US Treasury market.

At the end of 2025, euro-area gross public debt amounted to €13.9 trillion but was divided among 20 national issuers (Chart 27). France was the largest debtor, with €3.5 trillion, followed by Italy (€3.1 trillion) and Germany (€2.8 trillion). By comparison, US federal government debt totalled USD 37.6 trillion and was issued through a single market.

Differences in credit ratings further amplify this fragmentation. Whereas US Treasuries form a single highly rated asset class, only 29 percent of euro-area public debt is rated AAA. The euro area therefore lacks a sufficiently large and homogeneous pool of safe assets (Chart 28).

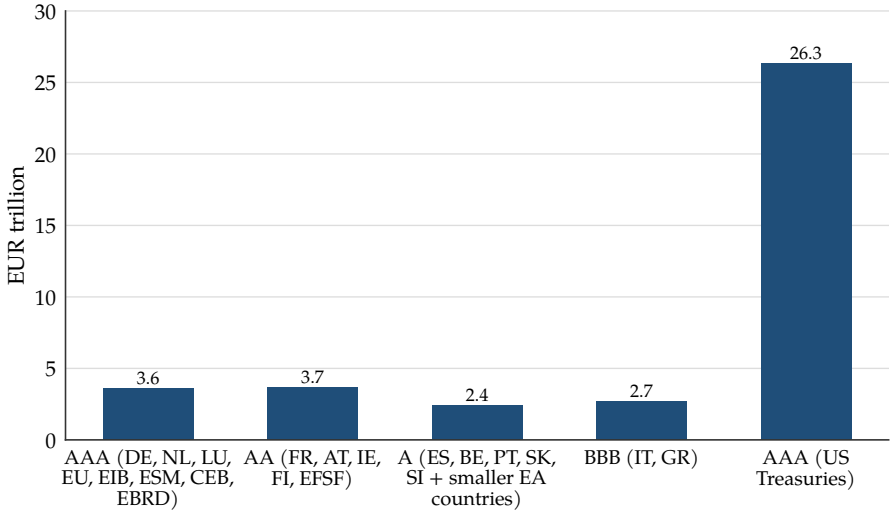
[9] "The establishment of a permanent and robust mechanism to ensure the orderly resolution of future crises, including the necessary arrangements for adequate private-sector involvement and enabling member states to take appropriate coordinated measures to preserve financial stability in the euro area." https://www.vie-publique.fr/discours/180233-declaration-franco-allemande-sur-la-necessite-de-renforcer-le-gouvernemе

Chart 27: Structure of euro area gross public debt (fourth quarter 2025)



Source: Eurostat (https://ec.europa.eu/eurostat/web/products-euro-indicators/w/2-22042026-bp)
Note: Bulgaria, which joined the euro area in January 2026, is not included.

Chart 28: Euro safe asset shortage: outstanding marketable central government and supranational debt, end-April 2026



Source: https://www.themacroprudentialview.com/p/manufactured-safety

6.5.2 Creating safe euro area assets by transforming existing bonds: blue bond/red bond proposals

Several proposals address the problem of fragmentation and the shortage of safe euro assets. A prominent proposal, the **blue bond proposal**, was presented by Delpla and von Weizsäcker (2011). The authors suggest splitting the sovereign debt of euro area member states into two parts:

- A senior '**Blue' tranche** of up to 60 percent of GDP. It would be pooled among participating countries and jointly and severally guaranteed. Due to its seniority, it would be "super-safe", as it would be repaid before any other public debt—excepting only the IMF which enjoys super seniority.
- A junior '**Red' tranche**, which would keep debt in excess of 60 percent of GDP as a purely national responsibility. The authors expect that the rates on Red Bonds would be high, because the Red debt concentrates all the sovereign risk. But they do not consider this a disadvantage. On the contrary, they expect that this would force weaker euro area countries "to change some of their old habits and acquire fiscal credibility".

The proposal was widely discussed but never pursued as a concrete policy option. The usual explanation is that highly indebted member states anticipated prohibitive interest rates on their red bonds. A more fundamental objection is that tranching redistributes credit risk rather than reducing it: the safety of the blue tranche is obtained by concentrating the residual risk in the red tranche, and there is no presumption that a country's average funding cost falls as a result. The case for the proposal therefore rests entirely on the premium investors are willing to pay for a large and liquid safe asset—the very premium that Section 4.2 found to have largely disappeared in recent years.

Delpla and von Weizsäcker regarded high red-bond yields as a feature rather than a defect, expecting them to enforce fiscal discipline. The experience of 2010 to 2012 suggests a second reading: steeply priced junior sovereign debt is also a channel through which the self-fulfilling dynamics described in Section 6.5.1 can operate.

The basic idea was revived recently by Blanchard and Ubide (2025), who modify it in one decisive respect: the jointly issued tranche is capped at 25 percent of each member state's GDP rather than at 60 percent. The design was elaborated further in Blanchard and Ubide (2026). The authors describe it as follows:

- The bonds should be issued by **exchanging current national bonds for Eurobonds** via buybacks and refinancing national bond maturities coming due with Eurobonds.
- The servicing would be backed by a **transfer of revenues of each member state**, similar to the current transfers to the EU budget, enshrined in national legislations. At current interest rates, the transfer needed would amount to about 1 percent of GDP.
- The Eurobonds would be **guaranteed by the European Union** as an issuer and by the national political and legal commitment to transfer the revenues to service the debt.

The proposal is designed to overcome what Blanchard and Ubide (2026) regard as the main shortcoming of existing EU bonds: they are **classified as supranationals rather than as sovereigns.** They are therefore excluded from the main MSCI and ICE bond indices, which depresses demand for them. Attempts by the Commission to change this classification have so far failed.[10] The resistance comes mainly from member states, which fear an adverse effect on the yields of their own bonds. The authors expect that a sufficiently large volume, issued under a predictable programme, would eventually overcome the index providers' objections.

Index eligibility is the most interesting element of the proposal, because it identifies a concrete and remediable obstacle rather than appealing to integration in general terms. The weaker element is the servicing arrangement. The revenue transfers required from member states—around 1 percent of GDP at current interest rates—would be enshrined in national legislation but would remain national commitments that future parliaments could revisit. Whether investors would treat such an arrangement as equivalent to a genuine joint liability is an open question, and it is precisely the question on which the credit standing of the instrument depends.

Table 6 sets out the volumes implied by the two variants. The columns headed "25% joint" and "60% joint" show, for each member state, the amount of debt that would move to the joint tranche under a ceiling of 25 and 60 percent of GDP respectively, together with the resulting reduction in the national debt ratio. Under the Blanchard/Ubide variant the joint tranche would amount to some €4.0 trillion, roughly doubling the stock of AAA-rated euro-area bonds; under the original blue bond ceiling it would reach €9.1 trillion. Even the larger figure remains far below the US Treasury market.

Recently, the Spanish First Vice President and Minister for the Economy, Carlos Cuerpo, has presented a paper to the Eurogroup in which he proposes an annual joint debt issuance of €850 billion, leading to a total volume of about €5 trillion.[11]

6.5.3 Creating safe assets through the joint financing of public goods

An alternative to transforming existing national debt is to enlarge the stock of safe euro assets by issuing new common bonds to finance European public goods. This is one of the central recommendations of the Draghi report (2024), which argues that regular common issuance would allow member states to undertake joint investment projects and would over time create a deeper and more liquid market in EU bonds, thereby supporting the integration of European capital markets. The report points in particular to areas with long horizons and evident cross-border benefits, such as research and innovation and defence procurement (p. 66).

Similar proposals were made by President Lagarde (2025a)[12], the ECB's chief economist

[10] https://ec.europa.eu/newsroom/budget/items/836919

[11] https://www.infobae.com/america/agencias/2026/07/08/espana-propone-al-eurogrupo-emitir-deuda-comun-europea-por-hasta-850000-millones-al-ano/

[12] Christine Lagarde (2025a): "Economic logic tells us that public goods need to be jointly financed. And this joint financing could provide the basis for Europe to gradually increase its supply of safe assets."

Table 6: Effects of the blue bond proposal and the Blanchard/Ubide proposal

	Government debt	25 % joint	60 % joint	Debt ratio	Debt ratio minus 25 %	Debt ratio minus 60 %
	EUR billion				percent of GDP	
Belgium	692	160	385	107.9	82.9	47.9
Germany	2,838	1,117	2,682	63.5	38.5	3.5
Estonia	10	10	10	24.1	0.0	0.0
Ireland	210	160	210	32.9	7.9	0.0
Greece	363	62	149	146.1	121.1	86.1
Spain	1,698	422	1,012	100.7	75.7	40.7
France	3,460	748	1,796	115.6	90.6	55.6
Croatia	52	23	52	56.3	31.3	0.0
Italy	3,096	565	1,355	137.1	112.1	77.1
Cyprus	20	9	20	55	30	0
Latvia	20	11	20	46.9	21.9	0.0
Lithuania	33	21	33	39.5	14.5	0.0
Luxembourg	24	22	24	26.5	1.5	0.0
Malta	11	6	11	46.4	21.4	0.0
Netherlands	524	295	524	44.4	19.4	0.0
Austria	418	128	308	81.5	56.5	21.5
Portugal	275	77	184	89.7	64.7	29.7
Slovenia	46	18	42	65.7	40.7	5.7
Slovakia	84	34	82	61.4	36.4	1.4
Finland	248	70	168	88.5	63.5	28.5
Total	**14,125**	**3,959**	**9,067**			

Source: Eurostat and own calculations
(https://ec.europa.eu/eurostat/web/products-euro-indicators/w/2-22042026-bp.)
Note: Country figures are unconsolidated national debt stocks. Their sum exceeds the consolidated euro-area aggregate of €13.9 trillion cited in Section 6.5.1 by the amount of intergovernmental lending (€213 billion at the end of 2025). Bulgaria, which joined the euro area in January 2026, is not included.

Philip Lane (2026)[13] and even by the President of the Deutsche Bundesbank, Joachim Nagel.[14]

The economic rationale for such issuance is straightforward: the benefits of European public goods accrue at Union level, and financing them at Union level aligns the incidence of costs and benefits. The political obstacles are nonetheless formidable, above all in Germany, where resistance to joint borrowing is long-standing. In a speech on 14 May 2026, Chancellor Friedrich Merz explicitly rejected such proposals.[15]

[13] Philip R. Lane (2026) "From a public finance perspective, it is natural to match European-wide public goods with common debt, in order to align the financing with the area-wide benefits of such public goods. In a related manner, common policy imperatives such as the urgent funding of Ukraine also warrant joint borrowing."

[14] https://www.politico.eu/article/bundesbank-boss-joachim-nagel-reality-calls-more-eu-debt-eurobonds-central-bank-reforms-wish-list/

[15] "Some now believe that we could avoid this painful task by taking on new debt—European debt—and by

For the purposes of this study, a different point is decisive. Both routes—converting national debt and financing public goods jointly—would enlarge the supply of safe euro assets and thus improve the euro's standing as a reserve asset for central banks and as a store of value for private investors. But the magnitudes are modest relative to the gap they are meant to close: even the more ambitious variant in Table 6 would leave the common instrument well short of the US Treasury market (Chart 28), and given the resurgence of economic nationalism in many member states, reforms on that scale are unlikely in the foreseeable future. The case for euro bonds rests on its own fiscal and political merits. It does not depend on the objective of currency internationalisation, and Section 7 returns to this point.

7 Assessment of the ECB's strategy for a truly global role of the euro

During the euro's first two decades, the ECB adopted a largely passive approach to the euro's international role, broadly continuing the Deutsche Bundesbank's caution towards the Deutsche Mark as a global reserve currency. This stance changed in 2025, when President Lagarde explicitly called for the euro to become a "truly global international currency". Because international currency status is not an objective derived directly from the ECB's mandate, the strategy must be justified as an intermediate means of lowering financing costs, reducing firms' exposure to exchange-rate fluctuations, and protecting the euro area from sanctions and other coercive measures. The ECB assigns a central role to the savings and investments union and to expanding the supply of safe assets. Yet, apart from enhancing its EUREP repo facility, it envisages little direct contribution of its own and explicitly excludes euro-denominated stablecoins from its strategy.

7.1 The flaws of the ECB's internationalisation strategy

This paper identifies a fundamental weakness in the strategy: the intermediate objective of a "truly global" euro is not clearly defined. The euro has been the world's second most important currency since its introduction, yet the ECB does not specify which monetary functions it seeks to strengthen or what degree of international use would constitute success. The analysis of currency competition also points to limited scope for major gains. Strong network effects sustain the dollar's dominance in the global means-of-payment function, while the decline in the dollar's share of global reserves has mainly benefited other currencies and gold rather than the euro.

The claim that a stronger global role would lower euro-area interest rates is likewise unconvincing. If the ECB considers financing conditions too restrictive, it can reduce policy

financing regular expenditures through borrowing. Germany cannot follow this path, if only for constitutional reasons. And we will still need resources for future crises. Moreover, the reality is that excessive debt threatens sovereignty and limits our ability to act." Translated with DeepL.

rates or purchase assets directly, as it did during the 2010s. The indirect route through currency internationalisation offers no clear advantage. The evidence reviewed in Section 4 indicates that the dollar no longer provides the United States with a distinct excess-return advantage as global banker or insurer, and that its convenience yield relative to other G10 currencies—especially the euro—has largely disappeared.

Global currency status also offers only limited protection against exchange-rate fluctuations. Invoicing in the domestic currency eliminates transaction risk between contract initiation and final payment; US firms can therefore denominate most exports and imports in dollars, whereas firms elsewhere may need to hedge this exposure. Such hedging is generally available at low cost. More importantly, currency denomination cannot shield producers from the broader competitiveness effects of an appreciation of the domestic currency.

Protection from sanctions and other coercive measures depends not on the international status of the currency but on the availability of payment infrastructures that are insulated from foreign interference. The usefulness and reach of such infrastructures increase with the number of currencies they can process. Promoting the exclusive use of the domestic currency may therefore conflict with the objective of payment autonomy.

The instruments proposed by the ECB are also poorly aligned with its stated objective. The retail digital euro is designed as a regional solution for euro-area payments, while the wholesale digital euro is restricted to eligible financial institutions. At the same time, the ECB rejects the promotion of euro stablecoins, even though they could provide a direct channel for increasing international demand for euro-denominated assets. Only the enhanced EUREP facility has some potential to strengthen global demand for euro-area government bonds.

The savings and investments union is the most prominent element of the strategy, but its conceptual foundation is weak because it conflates stocks and flows. From a flow perspective, an excess of saving over investment is a current account surplus; if the ECB seeks to reduce this imbalance, the direct instrument is lower interest rates that stimulate domestic demand and investment. From a stock perspective, bank deposits are not idle funds detached from investment finance: they are created through bank lending, including lending for investment. The valid component of the SIU is the conventional case for further integrating EU capital markets through common rules, especially for supervision and insolvency. Such reforms may improve financing conditions for smaller firms but would do little to increase the global supply of the safe euro assets that are central to a currency's international store-of-value role.

The euro area would undoubtedly benefit from deeper integration of its government bond markets. Proposals to convert national debt into common euro bonds have circulated for many years, but their political feasibility remains doubtful. Issuing euro bonds to finance EU-wide public goods—including climate policy, innovation, and security—would also be economically justified. Even under an optimistic scenario, however, the resulting market would remain substantially smaller than the US Treasury market.

Given these uncertain benefits, the ECB must also consider the risks of a regime shift in the global currency hierarchy. Large holdings of domestic government bonds by for-

eign official institutions could impair the euro area's financial autonomy. Unpredictable US policies could trigger a substantial reallocation from Treasuries into euro assets. The resulting appreciation pressure might force the ECB to intervene through large-scale dollar purchases. If it subsequently invested those dollar balances in US Treasuries, the ECB could ultimately become the residual holder of the assets rejected by private investors—the loser in the "hot potato game".

7.2 A modest and focused approach

The ECB should therefore reconsider its strategy and replace the broad ambition of a "truly global" euro with a more modest and precisely defined approach. Internationalisation should not be treated as a matter of prestige. The strategy should instead focus on objectives that cannot be achieved more directly through domestic monetary or fiscal policies, with a transparent link between each objective and the instruments used to pursue it. A useful organising principle is the distinction between payment objects and payment infrastructures.

The ECB's strongest argument concerns the autonomy of Europe's payment systems. This objective, however, is distinct from the international role of the euro as a payment object. The digital euro would provide a retail payment infrastructure independent of US service providers, but its current design is restricted to the euro area and to euro-denominated payments. Dependence on foreign providers would therefore persist for foreign-currency transactions and payments involving non-euro-area countries. The ECB should broaden the infrastructure's geographical and currency scope.

On the wholesale side the Eurosystem is already closer to this principle than its internationalisation rhetoric suggests. The Appia track is defined by the currencies available in TARGET rather than by the euro alone, and it involves a central bank from outside the euro area (Section 6.1). Extending that logic to the retail infrastructure, and to the ledgers on which a euro stablecoin would circulate, would do more for Europe's payment autonomy than any increase in the euro's share of global reserves.

From the perspective of payment objects, the ECB should also reconsider its position on euro stablecoins. Although stablecoin demand has stagnated over the past year, the euro should not forgo the opportunity to establish a presence in this market. This would require reforming MiCA, particularly its reliance on commercial bank deposits as the principal reserve asset. The proposed UK model—30 percent central bank reserves and 70 percent short-term government securities—offers a more robust template. Implementing such a framework would require the ECB to grant regulated stablecoin issuers access to its balance sheet.

None of this implies that proposals to create euro bonds—either by converting national government debt or by financing EU-wide public goods—are misguided. Common financing of European public goods is particularly important for the continent's future. Such measures, however, are justified on their own economic and political merits and do not require an additional rationale as instruments of the ECB's currency-internationalisation strategy.

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