



# Is the Euro Ready for a Global Role?

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#### **Central Currencies**

"America is becoming England's successor, which is to say, New York is becoming the central market of world finance"

Japanese banker Inoue Junnosuke, October 1917 (cited in Metzler, Lever of Empire, 2006)

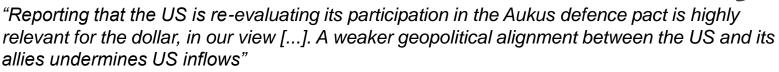
- Dutch florin
  - Amsterdam displaces Antwerp in 16C, Genoa in 17C
  - Central in mid-18C Europe (Flandreau & al 2009)
  - Collapse 1781-1792 (Quinn & Roberds 2014)

#### British pound

- Gold standard from 1821, central in 19C and early 20C
- Exorbitant privilege (Chen & al 2022)
- Impaired by WWI, crisis of 1931, WWII
- US dollar since WWI / 1945



## **Pillars of USD Centrality**

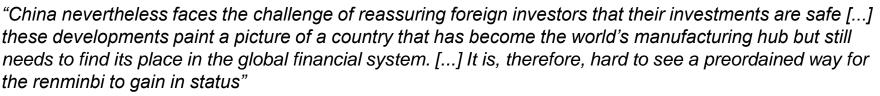


Deutsche Bank analyst George Saravelos, cited in Financial Times 12/06/2025

- Maury Obstfeld (PIIE panel, 24/04/2025)
  - 1. Fiscal probity
  - 2. Fed independence
  - 3. Government functionality
  - 4. Global security reach
  - 5. Trade openness
  - 6. Rule of law and courts
  - 7. Financial openness
- #1-6 eroded in 2025; question about #7





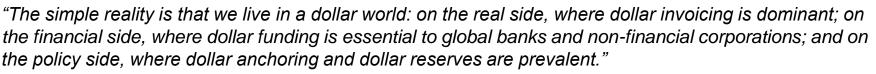


Martin Mühleisen, "The International Role of the Euro and the Dollar", 2022

- Charles Kindleberger's The World in Depression 1929-1939 (1973)
  - UK no longer able to sustain the global system
  - US not yet willing
  - Global depression
- US sustained global system e.g. 2008, 2020







Pierre-Olivier Gourinchas, in Asian Monetary Policy Forum, 2021

- USD still central despite recent erosion
- Investors thinking about alternatives
  - Accelerated since April 2 "Liberation Day"
  - Renminbi not convertible, gold impractical
  - Convertible non-US currencies: euro >> yen > others
- Current equilibrium is fragile
  - Dollar centrality could be restored by sound US policies
  - But unclear what would trigger course correction

## **bruegel** € Strengths & Weaknesses

"Many of the faults in the functioning of [Europe's] domestic capital markets, and institutional weaknesses, can be overcome by their progressive integration since the faults of functioning of national security markets are the result principally of their narrowness and compartmentalization"

Charles Kindleberger, review of the European Commission's Segré Report, 1967

- Independent central bank
  - Reinforced by weakness on executive side
  - Also as banking supervisor (2023)
- Strong rule of law
  - e.g. Russia's immobilized reserves
- Experience of overcoming existential crises
- 2010s crisis memories / Greek credit event
- Fragmented fiscal & financial system





"Unlike the US where the Treasury and the Fed had for centuries [sic] played the leading role in promoting the dollar's international status [...], the EU failed to actively design its monetary governance to support the international role of the euro. [...]

the year 2018 is pivotal as it marked an incipient geopolitical turn in the life of the single currency [...] ECB President Draghi announced that the ECB would actively support the international role of the euro. [...] However [...] the new discourse – while now emphasizing geopolitics – failed to shift how EU policymakers conceptualise euro internationalisation. [...]

EU policymakers continue to neglect offshore money creation, thereby failing to build adequate monetary governance institutions for an international euro [...] the ECB has been reluctant to offer attractive, secure, and predictable backstops to offshore euro deposits"

van't Klooster & Murau, "Rethinking currency internationalisation", May 2025

"The changing landscape could open the door for the euro to play a greater international role. [...] Increasing the international role of the euro can have positive implications for the euro area.

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 [...]

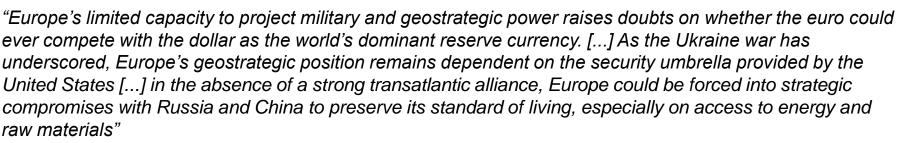
by extending swap and repo lines to key partners, we safeguard against euro liquidity shortages abroad disrupting the smooth transmission of our monetary policy – which in turn encourages those partners to transact more in euro."

Christine Lagarde, speech at Hertie School in Berlin, 29/05/2025

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## **Work in Progress**

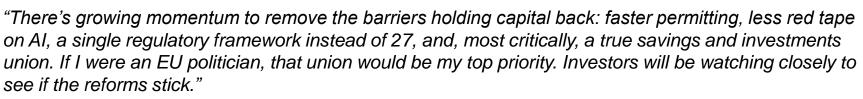


Martin Mühleisen, "The International Role of the Euro and the Dollar", 2022

- Geopolitical capacity
  - Continued support to Ukraine despite US disengagement
- Financial & fiscal integration
  - Current agenda: capital market supervisory integration
  - Further away: full banking union; NGEU2; fiscal union
- Rule of law
  - Ongoing challenges in Hungary & elsewhere in EU







BlackRock CEO Larry Fink, Financial Times, 3/06/2025

- Baseline scenario
  - USD keeps current centrality in global system

#### • "Extreme and plausible" alternative scenario

- USD loses centrality
- New baseline: euro area / EU safe haven by default in the short term

> Consequences: euro appreciation, spread compression

- Further reform needed to cement exorbitant privilege",