The changing Dollar regime: The evolving role of the Euro

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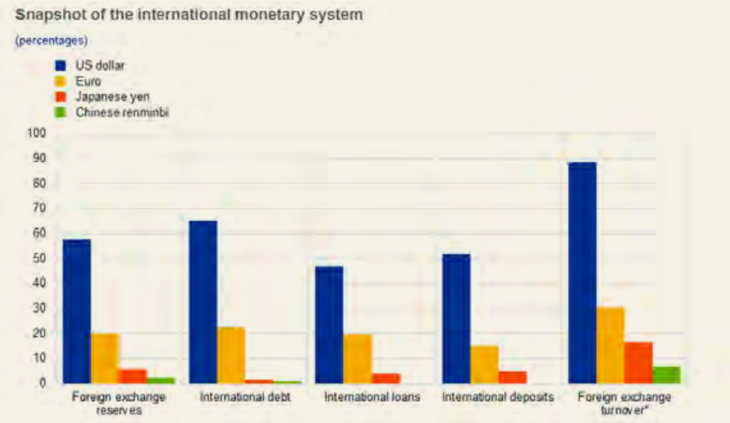
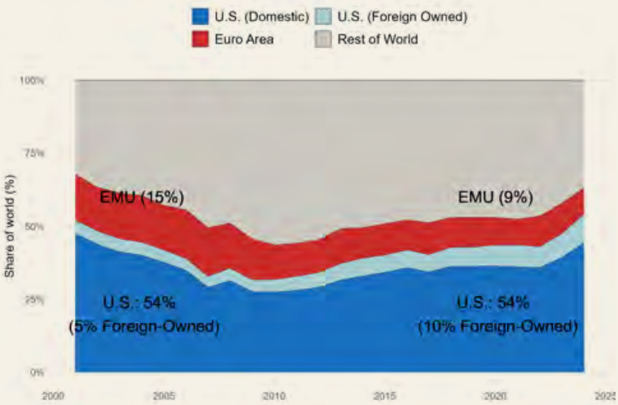
The global Euro: state of play



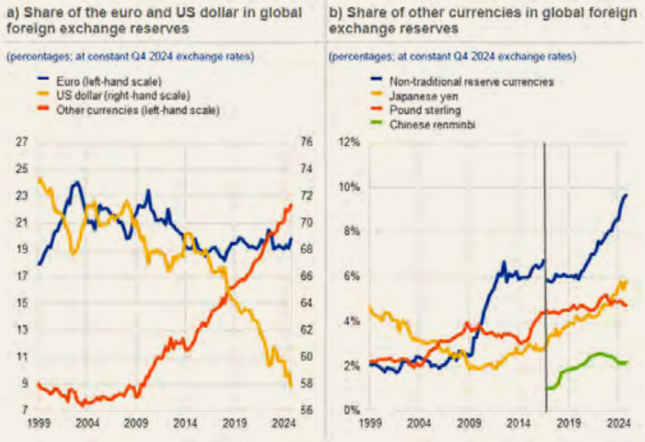
Source: ECB 2025 - The international role of the euro

Global equity market shares



Source: World Bank, own calculations

Reserves: Dollar's loss is not the Euro's gain



Source: ECB 2025 - The international role of the euro

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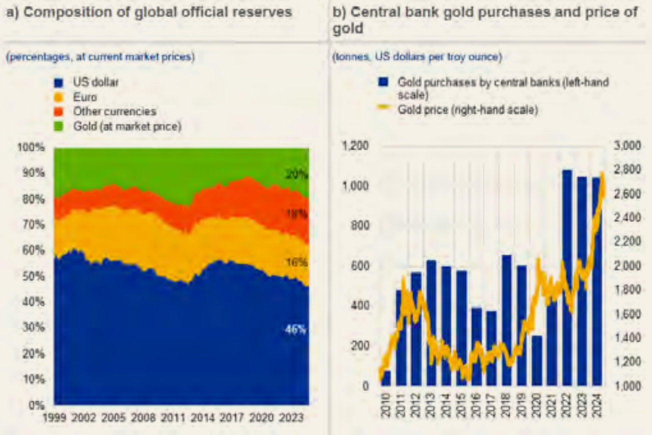
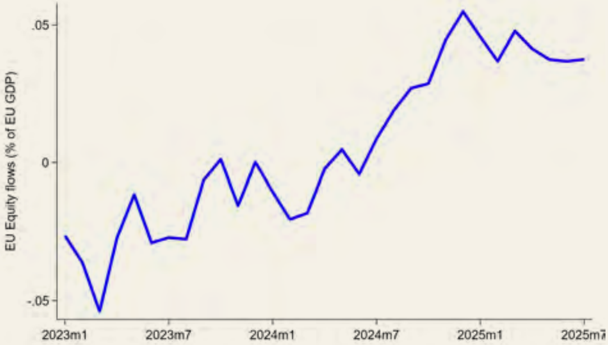
Reserve composition: the winner is gold



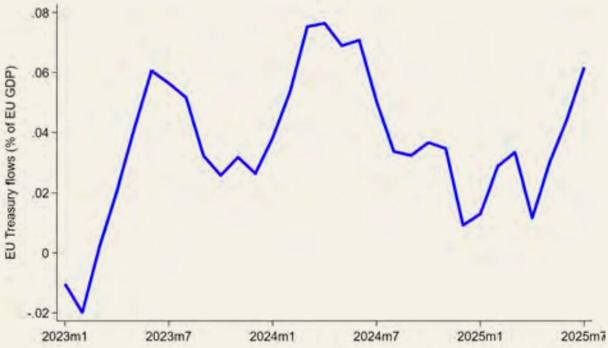
Source: ECB 2025 - The international role of the euro

Equity flows from the Euro-Area to the U.S.



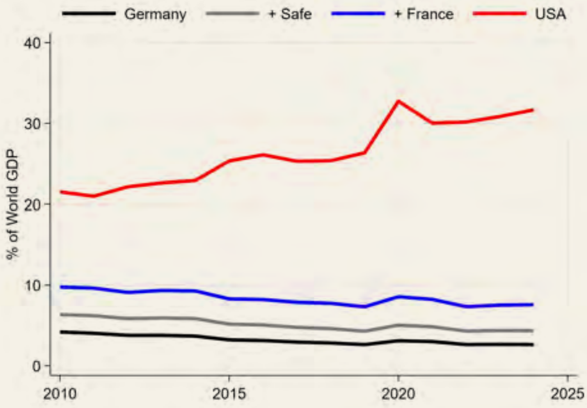
Source: TIC, own calculations

Flows from the Euro-Area into U.S. Treasuries



Source: TIC, own calculations

Safe assets



General government debt. "Safe" = Ireland, Belgium, Netherlands, Austria, Finland, Luxembourg. Source: global macro database, own calculations

What makes a “global Euro”?

- Reliable institutions and legal integrity
- Economic attractiveness
- Open and deep capital markets
- Geopolitical strength
- Supply of safe assets

Hildebrandt, Rey, Schularick (2025)

- Core idea: create safe assets as defence debt of "Team Europe" for next generation strategic enablers
  - AI hyperscalers, space capabilities, rocket shield, etc. with strong dual use character
  - Composition of the European Team: subset of EU countries willing to move quickly, prioritising governance quality over size, open to associate non-EU countries such as Norway, the UK, Switzerland, Ukraine.
- Issuance of joint European Future of Defence Bonds to minimise financing costs
- Achieve sovereign status for these bonds (inclusion in indices, favourable terms)
- Ensure eligibility for ECB refinancing operations

European Defence Architecture

- Spending of 1% of GDP per year for the next ten years, going down to a steady 0.5% thereafter.
- Future of Defence issues 1% of GDP with 10-year maturity, each year for 10 years and rolls over the new debt so there are no payments for the first 10 years.
- The outstanding debt in 2035 would represent about 10% of GDP (at 3% annual interest rate). From 2035, the debt would be stabilized with fiscal resources.
- After 2035, fiscal contributions would be of about 0.6 % of GDP for a steady defence spending of 0.5% of GDP and payment of interest.
- With a GDP of 13 tn EUR in 2024 (team: France, Germany, Italy, Netherlands, Belgium, Luxemburg, Poland, Sweden, Finland, Estonia, Lithuania, Latvia), nominal growth of about 2%, cumulative spending would be about 1.5 tn for 10 years (2026-2035) for the catch-up phase.

Thank you for your attention

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