The Euro as an international currency

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Should the ECB push the euro to become an internationally broadly used currency?

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International monetary policy is dominated by the US Dollar, hence why the current international system is commonly referred to as the dollar hegemonic system (Boz et al., 2025; Goldberg & Ravazzolo, 2022; Kawai & Akiyama, 1998; Zoffer, 2019). But why is the Dollar so dominant? After all, almost every country has its own currency. It all has to do with the US' historical role as the global hegemon and the general lack of trust between countries (Boz et al., 2025). For example, let us look at a country such as Brasil: it may want to engage in trade with Nigeria, but how can both sides agree on a price in one of their currencies that leaves no room for scepticism about the other party's actions and intentions? The answer

is that they cannot – at least not in their respective currencies, so they turn to a third currency which they both recognise to be reliable, the US Dollar. As the currency of the global hegemon, it represents the perfect intermediary for both, facilitating agreement between them and enabling thereby trade (Casas et al., 2016; Kawai & Akiyama, 1998; Salant, 1964). Naturally, other currencies like the Euro, or the Japanese Yen also play a big role internationally, but if international trade happens, chances are it is conducted in USD (Boz et al., 2025; Casas et al., 2016). Moreover, the current dollar hegemony does bring substantial benefits for smaller and developing economies. These can come in the form of lower transaction costs and a simplification of international trade (Casas et al., 2016; Kawai & Akiyama, 1998). Additionally, such countries may benefit from easier access to markets, especially if foreign actors do not trust the local currency (Casas et al., 2016). Hence, it seems that there are many benefits from attaching the local currency to the dollar, but are there really only benefits of this process and can the Euro step up enough to be an anchor to these countries?

In this article, we will define what anchor currencies are, and in doing so we will also look into both their upsides and downsides. Furthermore, we will explore the processes from which countries may seek to decouple in order to reduce their Dollar dependency. Additionally, we will look into ways that EU monetary policy can be shaped in order to be more attractive internationally. And finally, we will take a look at what the future could hold for such economies and European monetary policy broadly.

There are certainly prominent voices calling for an end to the dollar hegemony and a beginning of a euro hegemony (Koranyi, 2025; Lagarde, 2025). Nonetheless, in order to best grasp this complex topic some things may need clarification. One of the first things that need to be defined is what anchor currencies actually are. In simple terms, an anchor currency is the currency to which the local one is pegged (*Currency Pegging*, 2024). In the post Bretton-Woods economic order this used to be synonymous with the gold standard, which was the pegging of the US Dollar to gold in a 1:1 exchange rate (Ghizoni, 2013). This system made gold the global back-up currency. However, since Richard Nixon disbanded this system due to inflationary pressures and a looming gold rush which would have crashed the dollar, the US Dollar became the de facto back-up currency globally. (Costigan et al., 2017; Ghizoni, 2013; Kawai & Akiyama, 1998; Salant, 1964).

It is important to understand that the dominant role of the USD is no accident, quite the opposite. The crucial role the dollar plays internationally has always been a key for the United States in order to exert their power as global hegemon and to ensure that their position within the international system will not be challenged (Costigan et al., 2017; Kawai & Akiyama, 1998). However, this does not mean that they did not allow any other currency to gain relevance or to be a somewhat significant actor internationally, as can be seen by the popularity of the British pound in the 50s and 60s, and subsequently by the French franc and German mark in the 70s, 80s, and 90s

(Meissner & Oomes, 2009). Their relative popularity was tolerated because these countries were not seen as a threat to American hegemonic power (Costigan et al., 2017; Meissner & Oomes, 2009). Figure one is a historic visual representation of the distribution of choices made by countries with regards to pegging their currency to a foreign one or in some cases to have a floating exchange rate (Meissner & Oomes, 2009). A way to interpret this graph could be that since the majority of reserve currency has historically been held in USD, international governments trust it to keep its value and importance the most. Figure two brings this analysis into the present day. There it can be observed that the dollar may have somewhat lost its role as the unchallenged number one when it comes to international trade (Brüggen et al., 2025). However it is still the go-to currency for countries looking to engage in economic relations, as largely only EU countries use the euro for international trade and "third" countries prefer the dollar, this includes countries like Sweden, Romania, Poland, and others who are member states but do not use the euro, and Denmark who has a more special relationship with the euro due to the Danish Krona being pegged to the euro. Naturally there are exceptions to the euro as a smaller currency internationally, an example of which is the CFA franc which is a currency used by fourteen African countries with their currency being pegged to the euro. However even this exception proves that the euro plays a secondary role internationally, as even with this peg most of the trade of these countries is not conducted with the EU and therefore likely to be invoiced in USD (Sylla, 2026). Therefore, while significant due to the size of the EU economy, the euro does not quite have the international relevance needed to credibly challenge the Dollar.

Figure 2

Nonetheless, the US was most certainly willing to spread and popularise the usage of the USD as the global anchor currency in other areas of the world, particularly South America and Asia (Quah, 2013). While it should be obvious that such an international economic policy was not just pursued out of the goodwill of American administrations, it must be added that the US Dollar as a de facto anchor currency brought many benefits to countries in those regions (Kawai & Akiyama, 1998; Meissner & Oomes, 2009). Oftentimes American companies are some of the biggest companies in their respective sector, and naturally, they conduct trade in USD. Therefore, anchoring the local currency to the dollar can facilitate trade with such companies, and since other small and developing countries are also incentivised to pursue the same economic relations and partnerships, trade between these countries also becomes easier (Boz et al., 2025). An additional benefit of anchoring around a currency, and especially around the dollar, is the exchange rate stability that comes with the pegging of one's own currency to another one (Casas et al., 2016). These benefits, in addition to those mentioned in the introduction, show that anchoring one's

own currency to the USD was a beneficial policy to follow for small and developing economies.

Naturally, there are also some downsides to a Dollar-centred trade for these economies. A big risk that these countries may face is that of local dollar shortages which may make them unable to conduct trade. An example of this is when Sri Lanka faced a dollar shortage in 2022, forcing its economy into a crisis (Kumar et al., n.d.). Furthermore, the economy of a country is being made very dependent on US monetary policy, which typically does not include them as a priority. These hypothetical and real-world scenarios expose that perhaps being overly dependent on the USD for international trade is not the best way for small and developing economies to propel their growth. Therefore the logical response that we can observe, is a reduction and diversification of the dependency on the dollar (Brüggen et al., 2025; Erbenova et al., 2016). It must be clarified that countries may not want to lose out on the substantial benefits that may come with anchoring their own currency around another major currency, but instead they may simply wish to reduce their own dependency on the USD. This most often than not takes the form of abandoning the single anchor in favour of a currency basket. Notable examples of such action include Singapore and Kuwait who use a diverse mix of multiple currencies which include the euro and the dollar among a variety of others (Central Bank of Kuwait, 2007; Monetary Authority of Singapore, 2025). In their case, switching their anchors helped these countries accelerate their economic growth (Chow, 2023). In an increasingly multipolar world where questions on American reliability and stability become ever louder, more and more countries may be tempted to follow on this path and look to diversify their currency anchors. This presents the EU with a golden opportunity not only to increase its international standing and influence, but also to assist small and developing countries in their economic development.

But why would the EU, or more accurately the European Central Bank (ECB) pursue a policy which explicitly tries to make the euro more internationally appealing? One possible motive which could be very likely found within key institutional actors is to essentially try to take the dollar's place internationally and become *'a'* or *'the'* global reserve currency. The President of the ECB, Christine Lagarde, has recently come out and said that "a shifting geopolitical landscape could open the door for the euro to play a greater international role" (Taylor, 2025, para. 6). The benefits of the euro playing a bigger international role are clear and mirror those that the US is currently enjoying with its dominance of the dollar, namely: an increase of geopolitical autonomy, but also a dramatic increase in international coercion power (Lagarde, 2025; Zoffer, 2019). From an economic perspective, this could also bring many benefits as an internationally more relevant currency by definition means an increased foreign demand, this would further be accompanied by lower sovereign borrowing costs (Lagarde, 2025). This could boost and stabilise the EU's economic position and make it more

resilient against external shocks. Overall the potential benefits of increased monetary relevance on the world market are substantial and so are the geopolitical implications. Therefore taking firm action along a clear long-term goal may have great influence in the world.

However, what does this mean for the future of European monetary policy? Current trends point towards the ECB prioritising credibility and liquidity as its main goal (National Bank of Belgium, 2026). Additionally, the broader trend among developing economies continues to be one of more flexible regimes, with forms such as currency baskets instead of one single currency as an anchor being more popular as of late (Levy-Yeyati & Sturzenegger, 2024). Such a trend has its merits as countries will naturally seek to not overly expose their monetary policy to foreign actors who may not consider their interest when deciding monetary policy. Taking these factors into account, it becomes clear that it would be nonsensical for the ECB to actively and aggressively push for smaller and developing economies to take on the euro as their sole anchor currency. This is because first of all there is simply not enough demand from third countries to take on the Euro as their anchor currency, and it is questionable whether such demand could reasonably be induced. Secondly, the mandate of the ECB is first and foremost focusing on price stability within the eurozone. Shifting focus, or signaling intentions to shift focus away from this central goal could be seen as a reprioritisation of the ECB away from EU citizens and towards far away abstract foreign interest for unclear reasons. If the ECB would have the serious ambition of becoming an internationally dominant currency player, then it should prioritise ensuring a stable monetary policy and governance at home. In this manner, it will automatically show to international actors that the euro can be relied upon, both in economic booms as well as in recessions. Considering all of these points, we can observe that the ECB is indicating that it is moving along these policy lines in recent public statements, prioritising “domestic” policy.

In conclusion, we have established what anchor currencies are and how they can both benefit but also be a burden to a small and developing countries’ economy. Further we have explored that the US with its dollar is the main provider of global currency and therefore also the main beneficiary of the status quo. Following that we have explored current international monetary trends and possible steps that the ECB may wish to take in order to position itself in the international world. After that we have arrived at the conclusion that the ECB should refrain from structuring its monetary policy too far outward and instead continue to deliver results within its own “territory”. We have concluded that this is the best way to ensure economic stability within the eurozone, which is exactly what attracts international actors, in case their motives influence the decisions taken by the ECB.

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