



The dollar's share of reserves, debt, FX transactions, and trade invoicing far exceeds its 26% share of world GDP



Currency dominance is a network effect built on institutional credibility and deep debt markets, advantages the fragmented euro has never matched



Federalizing euro area debt to 60% of GDP would create a \$10.8 trillion eurobond pool, a viable path to reserve-currency status

THE FUTURE OF THE EURO: CAN EUROPE BUILD A GLOBAL RESERVE CURRENCY?

Javier DÍAZ-GIMÉNEZ

Juan Pablo UPHOFF

IESE Business School

The dollar's dominance in global trade and finance has persisted through 82 years of upheaval, with U.S. shares of global reserves, cross-border debt, and foreign exchange transactions running far above its 26% share of world GDP. Estimates of this privilege's value range from \$3.3 trillion based on seigniorage and interest-rate savings to \$33 trillion when accounting for the broader effect of reserve demand on the dollar's exchange rate and U.S. borrowing costs. The euro enjoys a similar but smaller advantage, while the yuan suffers an outright penalty, trading well below China's weight in world GDP. Currency dominance functions as a network good: the dollar's head start under Bretton Woods, reinforced by petrodollar recycling, SWIFT, and an expanding stock of Treasuries, built a scale advantage that has proven self-sustaining. The euro lacks an equivalent anchor asset, with euro area public debt of \$16 trillion split across 21 sovereign issuers carrying different risk premia. Federalising euro area debt up to 60% of GDP would create a pool of roughly \$10.8 trillion in eurobonds, about a quarter the size of the U.S. Treasury market, marking a genuine turning point for the euro's international role.

Introduction

In 1965, Valéry Giscard d'Estaing, at the time serving as Minister of Finance and Economic Affairs under President Charles de Gaulle, described the dominance of the dollar in international trade and international finance, calling it a "privilege exorbitant" (exorbitant privilege). This was Giscard's way to complain about the advantage that the Bretton Woods system gave to the U.S. dollar (henceforth dollar) and, consequently, to the United States. Giscard's phrase stuck because it is a compact and

clever description of a situation that started in 1943, at the end of World War II, and that is still true in 2026: the dollar still dominates in international trade and international finance.

Since the days of Giscard d'Estaing, the Bretton Woods system with its dollar-to-gold peg came and went. In 1971, President Nixon suspended the dollar's convertibility into gold. In early 1980, U.S. CPI inflation reached 14.8 %. And yet, dollar dominance in international trade and finance has survived no fewer than 82 years of economic and geopolitical shocks, and technological progress. So much so that, during these last eight decades, dollar dominance has been one of the few features of the global economy that have not changed.

Table 1 - Global shares in 2025

	USA	EUR	CHN	RoW
Nominal GDP	26.0	15.2	16.6	42.1
Export Invoicing	46.0	30.0	4.0	20.0
Reserve Assets	56.4	20.4	2.0	21.2
FX Transactions	44.5	14.3	4.3	36.9
Cross-Border Debt	51.1	33.2	—	15.7

Notes: Share in nominal global GDP in USD; Share of global export invoicing; Share of currency composition of official foreign exchange reserves (COFER), allocated foreign exchange reserves; Turnover of OTC foreign exchange instruments, by currency; and percentages of outstanding amounts (at current exchange rates, end of period).

Sources: IMF; Atlantic Council; BIS, ECB (2026).

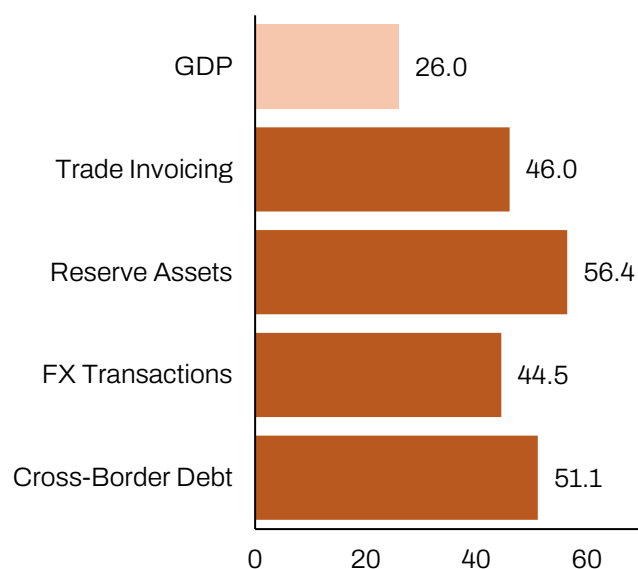
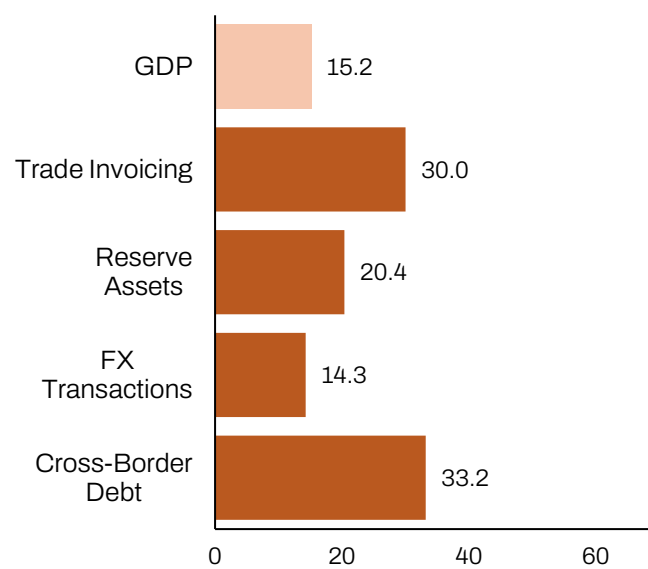
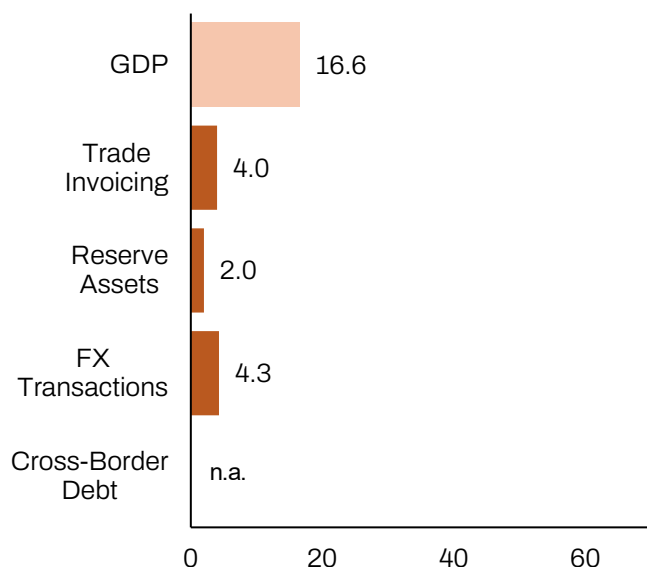
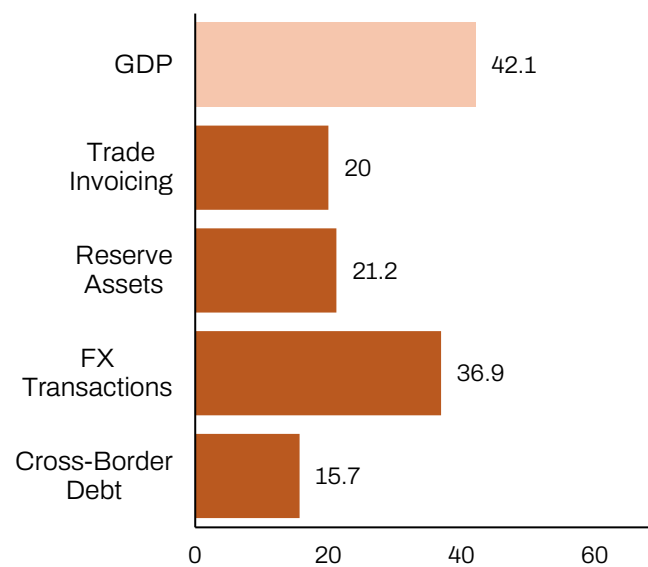
The data

In Table 1 we measure some of the dimensions of the dollar's privilege comparing U.S. ratios to those of the euro area, China and the Rest of the World.

According to the International Monetary Fund (IMF), in 2025 the United States accounted for 26.0 % of the World Nominal GDP measured in current U.S. dollars. If the dollar had no privilege, the international trade and finance ratios for the U.S. should be roughly the same: about 26 %. But the dollar's share in Global Reserve Assets is 56 %, in Cross-Border Debt is 51 %, in Foreign Exchange Transactions is 45 %, and in Global Export Invoicing it is 46 %. In every one of these four dimensions the U.S.'s shares are substantially larger than the U.S. share in global GDP. (See Table 1 and Panel A of Figure 1).

In the case of the euro area, we find that euro shares of Global Reserves, Export Invoicing, and Cross-Border Debt Securities are also larger than the euro area share in Global GDP, but by a substantially smaller amount than the dollar's shares, and that the euro's share of FX transactions is slightly smaller than the euro area share in Global GDP. (See Table 1 and Panel B of Figure 1). Therefore, the euro also enjoys a privilege in international finance and international trade, albeit substantially less exorbitant than the dollar's privilege.

In every one of these four dimensions the U.S. shares are substantially larger than the U.S. share in global GDP

Figure 1 - Global share of the U.S., Euro Area, China, and the Rest of the World in 2025**Panel A: United States global shares (%)****Panel B: Euro Area global shares (%)****Panel C: China global shares (%)****Panel D: The Rest of the World global shares (%)**

Note: Data on cross-border debt are not available for China.

Sources: IMF; Atlantic Council; BIS, ECB (2026).

In stark contrast, column 3 of Table 1 and Panel C of Figure 1 show that China's influence remains below what its economic weight would suggest in every category. Its Global GDP Share is 17 % and the yuan's share of global trade and global finance is about 4 % or less. We find that, instead of enjoying a privilege, the yuan suffers a severe penalty in international finance.

Finally, the last column of Table 1 and Panel D of Figure 1 show that the Rest of the World also has a smaller global role than its share of global GDP would suggest, although the gap is arguably considerably narrower than for China.

In this article we examine whether the euro will soon be able to increase its share of the privileges afforded by the dollar's global reserve currency status.

A three to thirty trillion dollar privilege

Saudi Arabia exports oil, Taiwan exports semiconductors, China exports electric cars, and the United States exports financial assets, partly to pay for its imports of all those things. More specifically, the U.S. exports dollars and T-Bills. The Rest of the World buys these two classes of assets and holds them in the case of the dollars or until maturity in the case of the T-Bills.

In some sense, dollars and T-Bills held by foreigners are liabilities for the U.S. for as long as U.S. residents accept dollars in exchange for their time. Dollars are a liability for U.S. residents, because they can be used to buy goods and services made in the United States. More obviously, T-Bills are a liability for the U.S. Government because they are promises to pay dollars at maturity. The main difference between dollars and T-Bills is that dollars pay no interest and T-Bills almost always do.

Issuing the global reserve currency is a privilege because the issuer can buy foreign goods and services paying for them with pieces of paper —economists call this seigniorage. And it is also a privilege because the government debt of the issuer pays less interest than what it would have to pay if the rest of the world did not want to own and hold dollars. In this section we report the amount of this privilege.

In a forthcoming book, Pedro Videla (2026)¹ reports that the joint benefits from the seigniorage revenues generated by the stock of dollars held by foreigners and the interest rate discount obtained from the additional foreign demand for Treasuries amount to, approximately, \$99 billion. If we capitalize a constant annual benefit of \$99 billion at 3 %, we obtain approximately \$3.3 trillion. This estimate could be a lower bound to the value of the exorbitant privilege.¹

The dollar's reserve currency status supports a stronger currency and lower U.S. interest rates; reversing these effects could lead to a loss of around \$33 trillion

[Jiang and coauthors \(2026\)](#) come up with a much larger figure.² They ask how much a loss of reserve demand for dollar assets would impact both on the real value of the dollar and on U.S. debt interest rates and they find that in the past several decades, the dollar's real exchange rate has appreciated only by about 8.8 % due to the additional demand for dollars created by the dollar's global reserve status. They also find that the steady-state interest rates due to this additional demand for dollars have been lower by about 90 basis points. They conclude that reversing these effects would lead to a wealth loss to the U.S. of about \$33 trillion. This estimate could be an upper bound to the value of the exorbitant privilege.¹

Money as a club

In the previous section, we concluded that issuing the global reserve currency could be worth some amount between 3.3 and 33 trillion dollars or, even more if we considered

i. Note that the geopolitical benefits of issuing the global reserve currency have not been considered in either of these two calculations.

the geopolitical advantages that accrue to the issuer. Of course, the United States, the euro area, China, and every other country is aware of the sheer size of this privilege, and all of them would like their currencies to become global reserves. So why don't they?

Because every currency is a club whose members are the people who choose to use it and hold it. Membership in the dollar club or in the euro club or in any other currency club is voluntary.ⁱⁱ The fees that members have to pay for using the store of value and liquidity services of their club are the inflation rate that erodes the purchasing power of their monetary holdings, and the nominal interest rate that they forgo for not holding other higher return assets instead.

In 1944, the dollar club had a head start because under the Bretton Woods Agreement, it was convertible to gold at \$35 per troy ounce and the reliability of the U.S. economy and the U.S. institutions made this promise credible. Between 1943 and 1971, dollars were as good as gold, and the world learned to use them to invoice international trade and to hold them as stores of value. The 44 signatories of the original agreement had grown to 120 member countries of the International Monetary Fund by 1971. The sheer size of the dollar club turned it into an extremely valuable network. People who did not have a personal interest in holding dollars accepted them in payment for their services because many other people did.

In 1971, when President Nixon suspended dollar convertibility, Saudi Arabia agreed to trade oil for dollars. Soon the other oil producers did the same and this created a large pool of petrodollars that never returned to the United States. Instead, they ended up in banks in London which took them in as deposits and used them to make dollar loans to their customers. The Federal Reserve negotiated dollar to sterling swap lines with the Bank of England and other central banks to provide dollar liquidity in times of need. In 1973, the Society for Worldwide Interbank Financial Telecommunication (SWIFT) was created and in 1977 it sent its first message providing the foundation of the financial infrastructure needed to facilitate cross-border payments. All these innovations have strengthened the dollar club, have reinforced the dollar network and have made it possible for the United States to keep a very large share of the exorbitant privilege of issuing the global reserve currency.

During that period, the United States national debt exploded from \$142 billion in 1943, to \$398 billion in 1971, and to \$40,000 billion in 2026. This explosion in debt has provided a safe, profitable and extremely liquid alternative to holding dollars and has reinforced the global reserve status of the dollar. In contrast, in 2026 the public debt of the euro area countries amounted to \$16,000 billion but spread out over 21 countries with different legal systems and risk premia.

ii. There are some exceptions to this rule. In most countries taxpayers are forced to pay taxes in the local currency. In many others commercial banks are forced to hold their reserves in the local currencies. Finally, in some countries residents are not allowed to exchange their local currency for foreign currencies.

In 2025, euro area GDP was approximately \$18 trillion, meaning that mutualising debt up to 60% of GDP would create a eurobond market of around \$10.8 trillion, roughly one-quarter the size of the U.S. Treasury market

A roadmap for the euro

The dollar experience which we have discussed in the previous section gives us the roadmap for the euro, if the euro area countries want to reinforce its role as a global reserve currency. The first steps in this road are to integrate the euro area's financial markets and to create a large pool of eurobonds. This could be done by federalizing the euro area countries' debt up to 60 % of each country's GDP. In 2025 euro area GDP was approximately \$18 trillion and 60 % of that is \$10.8 trillion, which amounts to approximately one-fourth of the size of the pool of U.S. Treasuries. This "Hamilton Moment" would deeply transform the European Union and would substantially increase the value of belonging to the euro club for the international community. ⁱⁱⁱ **FI**

iii. The Hamilton Moment in U.S. history refers to the manoeuvring in 1790 of Treasury Secretary Alexander Hamilton to convince the U.S. Federal Government to assume all individual state Revolutionary War debts outstanding. This bold move centralized national power and created a unified American financial system.

References

1. Videla, P. (2026). Entangled rivals [manuscript].
2. Jiang, Z., Krishnamurthy, A., Lustig, H., & Richmond, R. (2026). Dollar erosion: Understanding the loss of reserve currency status. SSRN. <https://doi.org/10.2139/ssrn.5737402>