

Towards a stronger euro: Strategic priorities for the EU financial sector



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The global financial landscape is shifting. In April, following the US's sweeping tariff announcement on "Liberation Day," US Treasuries saw sharp price declines, and the dollar weakened further. The fall is partly driven by investor *outflows* from US Treasuries and corporate bonds, which reached a record US\$11 billion in the second quarter of the year. This stands in stark contrast with inflows that averaged US\$20 billion over the previous 12 quarters. These recent outflows reflect growing uncertainty about the safe-haven status of the dollar, driven not only by the trade policies pursued by the US administration but also by deepening concerns over the sustainability of the country's sovereign debt.

During the same period, the euro area has witnessed significant *inflows* from international investors. Since the beginning of the year, it has appreciated by more than 13 percent against the dollar. The euro is increasingly seen as a source of stability in an uncertain world, which provides an opportunity for the currency to strengthen its international role. Reaping the associated benefits requires concerted action by European authorities to seize this opportunity, by completing the euro area architecture, making Europe more resilient, and boosting economic growth. Deepening the single market, building a true savings and investments union (SIU), and pursuing a digital euro stand out as key strategic priorities.

Because of its high dependence on trade, the European economy is highly vulnerable to geoeconomic fragmentation. Deepening the single market is therefore key to enhancing Europe's strategic autonomy, securing supply chains, and facilitating effective resource allocation. A more integrated single market would lower transaction costs, allow businesses to scale up and strengthen EU competitiveness, thereby increasing the economy's attractiveness for foreign investors. Despite years of progress, trade barriers remain within Europe, notably for services. Many companies with the potential to become European champions are held back from operating efficiently across borders by local regulations.

A true SIU would provide more capital for investments to enhance productivity, optimise capital allocation, and generate higher returns on European savings. Broadening retail participation and pursuing pension system reform are key policy priorities to deepen capital markets. Banks can also play a key role; if European banks can reach scale and operate efficiently across borders, they will be able to support deeper and more integrated capital markets, e.g. through securitisation of their loan portfolios. As such, completing banking union is a critical success factor for the SIU. This requires reinforcing resolution funding arrangements, including

through the backstop for the Single Resolution Fund, completing the crisis management and deposit insurance (CMDI) reform, and creating a European Deposit Insurance Scheme.

In addition, a digital euro would reinforce monetary and transactional independence and may also mitigate the threat posed by stablecoins. A swift rollout of the digital euro in combination with the Markets in Crypto-Assets Regulation (MiCA) is key to containing the dollarisation of euro area economies and promoting euro-backed alternatives, which would support strategy autonomy. A digital euro could also facilitate cross-border transactions, thus enhancing depth and liquidity in capital markets.

Finally, taking more decisive steps towards common financing of European public goods would increase the supply of euro-denominated safe assets, which are in high demand. Additional supply of such assets would help increase the euro's share in international reserves.

Now is the moment to strengthen the euro area financial architecture; it is a strategic opportunity we cannot afford to miss.

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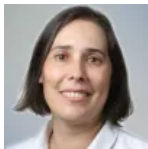


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