The Euro: Power without Autonomy?

Sanctions, Dollar Dominance, and Structural Constraints in the Eurozone

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Quote to be highlighted: "*For the euro to reach its full potential, Europe must strengthen three foundational pillars: geopolitical credibility, economic resilience and legal and institutional integrity." – Christine Lagarde, 2025*

"The euro must become the face and the instrument of a new, more sovereign Europe." – Juncker, 2018

Introduction

Since the Bretton Woods era, the international monetary system has been dominated by the dollar. Besides its key role as a medium of exchange, it serves as the world's principal reserve currency, unit of account, safe assets and the centre of global trade and financial stability (Bertaut et al., 2025). At the turn of the century, however, the unthinkable happened. After nearly 30 years since the launch of the idea of a European currency, the European Union (EU) introduced the Euro, thereby becoming the world's second biggest currency overnight (Council of the European Union, n.d., a). What at first appeared as deepening European integration, soon became a political statement: a bid for monetary autonomy and a key contender against the U.S. dollar. European policymakers such as former European Central Bank (ECB) president Duisenberg made it clear that the new currency would "set to play an important role, both in the euro area and beyond" and that it "fulfils the necessary conditions to be a leading international currency with the US dollar" (Duisenberg, 1999).

Twenty-five years later, however, this ambition appears only partially fulfilled. With the return to power politics, the rise of weaponized interdependence and a hostile U.S. administration that believes the EU was formed "to screw the U.S. over", the European project now finds itself in a precarious situation (Farrell & Newman, 2019; Manzanaro, 2025). Christine Lagarde, president of the ECB, has therefore called for a "global euro moment" reaffirming the EU's ambition of strategic autonomy in the realm of monetary policy (European Central Bank, 2025b). This "geopoliticisation" of the ECB in its discourse is remarkable, given that the institution has historically adopted a neutral, technocratic stance, with the treaties defining it primarily as an independent guardian of price stability (Spielberger, 2025). This leads us to the research question: ***Why has the euro's monetary power not translated into full strategic autonomy for the EU, despite growing ambitions to use it as a geoeconomic tool?***

The essay brings about two central arguments. On the one hand, the Euro has undeniably made significant progress in becoming an important geoeconomic tool, enforcing economic influence beyond its borders. On the other hand, this influence remains structurally constrained by the EMU's incomplete institutional architecture.

1. Has the Euro become a geoeconomic tool?

1.1 Sanctions and Financial Weaponisation

The most visible form of monetary power lies in sanction policy. This includes imposing financial restrictions through asset freezes, exclusion from payment systems and limits on central bank reserves (Farrell & Newman, 2019). The EU has become a major sanctions actor, particularly following Russia's full-scale invasion of Ukraine, which has, at the time of writing, imposed 19 sanctions packages against Russia (Cardwell & Moret, 2023; Council of the European Union, n.d., b). Together with the other G7 partners, the EU immobilised over €280 billion (approximately $300 billion) in Russian sovereign assets (Caprile et al., 2025). Around €210 billion of these assets are located within European jurisdictions, with the overwhelming majority held in Belgium through Euroclear, a Brussels-based financial market infrastructure, that has become the central repository for frozen Russian assets in Europe (Caprile et al., 2025).

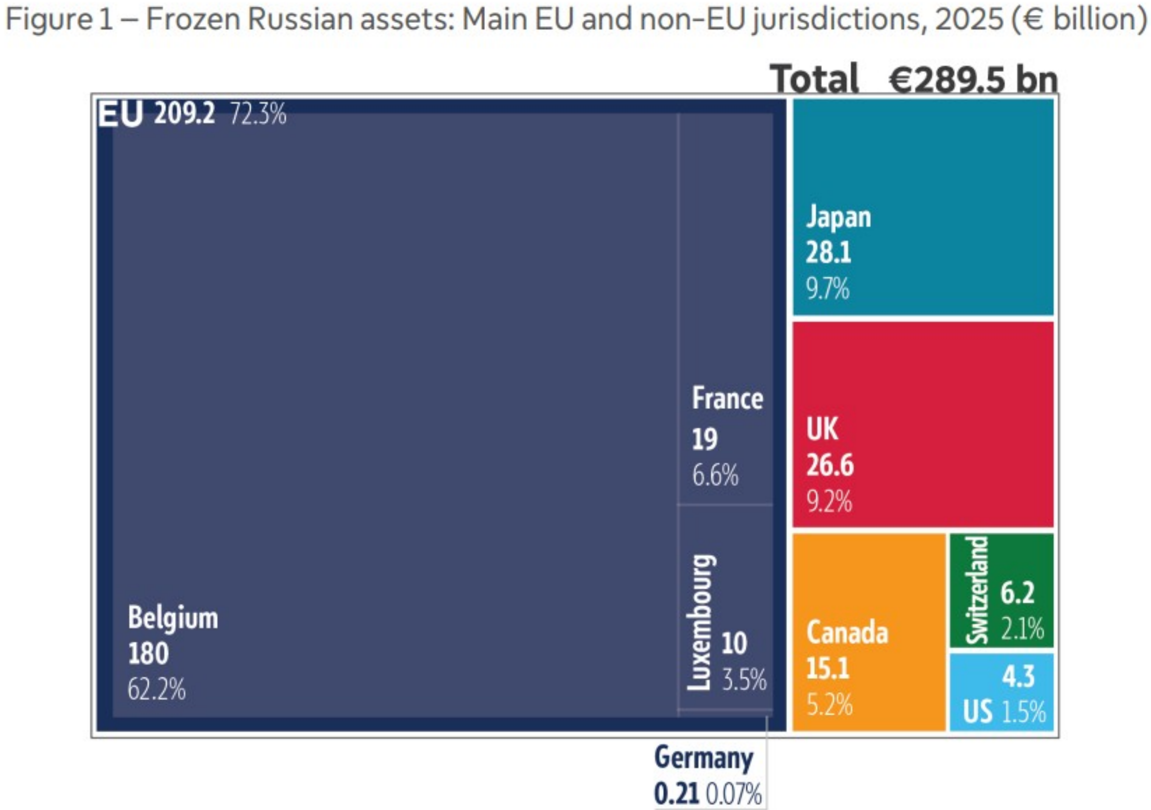
Beyond asset freezes, a number of EU policymakers advocated going further by establishing a legal basis for their confiscation, arguing that these funds should be used to support Ukraine, including its reconstruction (Caprile et al., 2025; European Parliamentary Research Service, 2026). This has not materialised so far, largely because the EU's sanctions framework is highly legalised and member-state driven: restrictive measures are adopted by the Council under a rules-based process that, in core CFSP matters, requires unanimity (Cardwell & Moret, 2023). By contrast, U.S. dollar power is backed by broader executive sanctions authorities, especially under the International Emergency Economic Powers Act, which allows the President to declare a national emergency and authorise Treasury-led measures (Casey et al., 2024).

Additionally, the euro's attractiveness as an international currency rests on its "strong, rules-based institutions" where upholding "the rule of law remains essential for maintaining, and potentially increasing, global trust in the euro" (European Central Bank, 2025a, p. 2). Therefore, full confiscation would risk undermining these foundations by suggesting that reserve assets are no longer entirely neutral and secure, but may be politicised under exceptional circumstances. This could cause reputational damage and incentivise reserve diversification away from the euro (European Central Bank, 2025a; Reuters, 2025). The compromise ultimately adopted by the EU, to use the windfall profits generated by the Russian assets to support Ukraine rather than confiscating the assets themselves, captures this tension well (European Commission, 2026a). It demonstrates that euro-denominated assets can generate meaningful geoeconomic leverage but only when they fall within the EU's legal and regulatory reach.

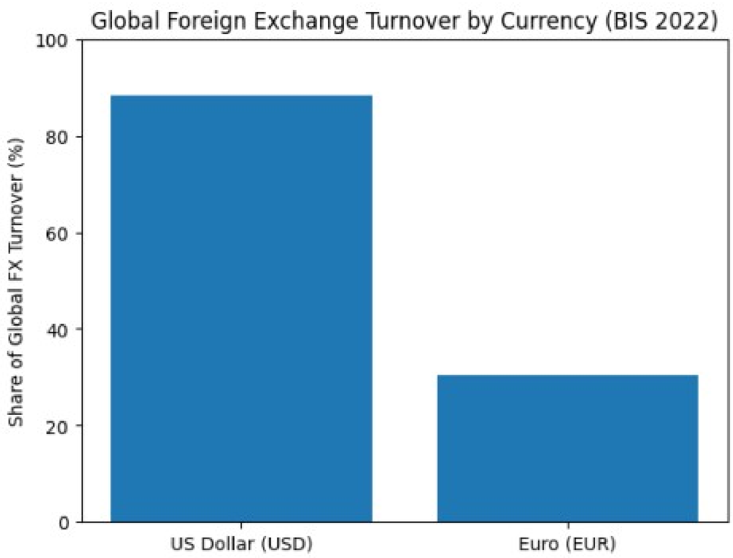
However, the most powerful financial sanction tool of recent decades has remained in the hands of the United States, above all through the Treasury's sanctions authority and the centrality of dollar-clearing infrastructure. The U.S. dollar continues to dominate global foreign-exchange markets, for instance, in April 2025, it was on one side of 89.2% of all FX trades, compared with 28.9% for the euro (Bank for International Settlements, 2025). This dominance makes the dollar the principal vehicle currency in the international monetary system, meaning that it is used as an intermediary in transactions between parties whose own currencies are not directly exchanged (Bank for International Settlements, 2025).

This matters because many transactions between non-U.S. actors are still denominated in dollars and therefore routed through U.S.-linked financial channels, creating jurisdictional reach for American sanctions (Farrell & Newman, 2019). As a result, exclusion from dollar clearing can inflict severe economic damage, as illustrated by the broad disruption experienced by targets such as Iran and, after 2022, Russia (Farrell & Newman, 2019). In this sense, global financial interdependence becomes asymmetrical vulnerability. By contrast, the euro gives the EU substantial coercive capacity within its own legal and financial jurisdiction, but not an equivalent ability to deny access to the core infrastructure of global finance. This remains a structural weakness of EMU: European sanctions are consequential, yet for truly system-wide financial coercion they still depend heavily on coordination with the United States. The Russian assets case therefore underlines both the euro's growing geoeconomic relevance but also its limitations, where without the support of the U.S. dollar, it becomes difficult to create a comprehensive sanction system. This shows that the euro does not yet structurally rival the dollar as an instrument of strategic autonomy.

Key issue: ***The euro needs wider euro-denominated trade invoicing and alternative payment infrastructures less reliant on U.S. based financial infrastructure.***



Source: Caprile, Peters, & Melo Almeida (2025)



Source: Bank for International Settlements (2022)

1.2 Trade, Energy and Currency Denomination

Trade invoicing is a key indicator of monetary power. The euro today accounts for roughly one-fifth of global foreign exchange reserves and a comparable share of international payments, making it the second most important global currency (European Central Bank, 2025a). Trade invoicing in the EU's sphere of influence, that is, its neighborhood, is particularly significant. One can differentiate between countries that have formal monetary agreements with the EU such as many microstates (Monaco, Andorra, San Marino, Vatican City) and those that are using the Euro unilaterally with no formal EU agreement ("unilateral euroisation") such as Kosovo and Montenegro (European Commission, 2026b). For the latter two, although the EU does not formally endorse this, primarily for legal reasons (a Member State cannot bypass the normal accession process), the EU in reality is tolerant, explicitly treating their case as a special situation rather than a model for others (Lisdero, 2022; Mathieu & Funalot, 2024). Despite these countries being small, it still shows how the Euro is attractive beyond the eurozone. This is because it is a low-inflation and trusted currency, trade is already significant with EU member states and it prevents their governments from mismanaging monetary policy (Lisdero, 2022).

When it comes to energy markets, it is not the euro but the dollar that dominates. For decades, oil and gas contracts have been overwhelmingly dollar-denominated. Historically, this is because following the collapse of the Bretton Woods in the 70s after Saudi Arabia's oil embargo, the U.S. negotiated agreements with OPEC members whereby oil would be priced and settled in U.S. dollars and surplus oil revenues would be recycled into U.S. financial markets. This means, the euro is basically non-existent in this realm. As former Commission President, Jean Claude Juncker put it: "It is absurd that Europe pays for 80% of its energy import bill – worth 300 billion euro a year – in U.S. dollar when only roughly 2% of our energy imports come from the United States" (2018).

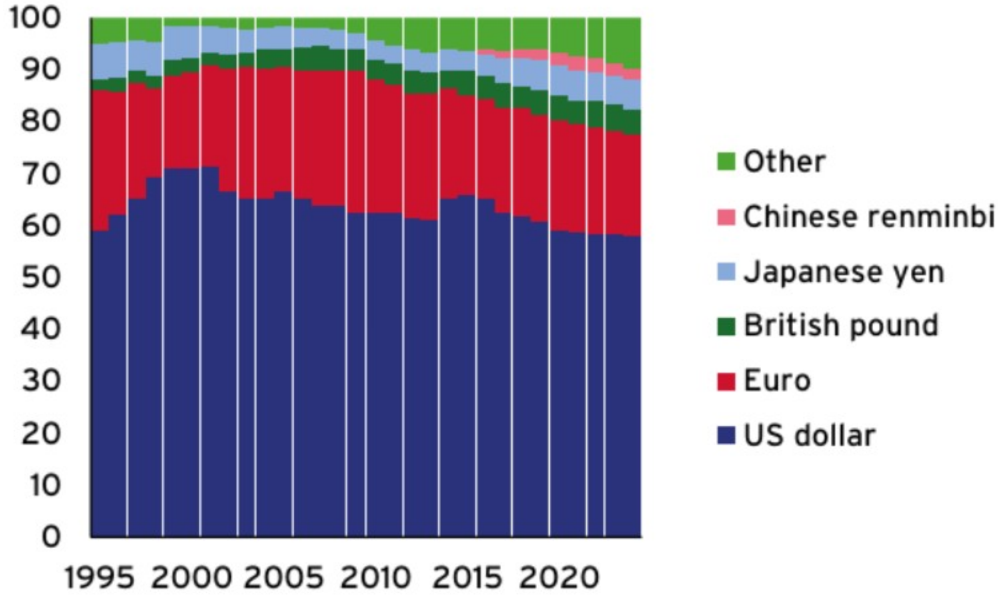
Since 2022, with Russia's energy weaponisation, this has not changed, rather it has further intensified energy transactions in dollars. The EU has swapped its energy dependency from Russian gas with that of U.S. Liquefied Natural Gas (LNG). For instance, U.S. LNG imports into the EU were 29% in 2021, by 2025 this number has risen to 53% (Eurostat, 2025). On the other hand, Russia's share of EU gas imports fell from 45% in 2021 to 16% in 2025 (Eurostat, 2025). So while there is ambition to become less dependent on the dollar in trade invoicing, it is hard to imagine how this will happen in the short term, mainly because switching currency would require new hedging markets, new liquidity pools and in general a new financial infrastructure which is costly.

1.3 Financial Infrastructure and Liquidity

Many observers predicted the end of the euro in the aftermath of the sovereign debt crisis of 2009–2012. Yet the currency survived its most existential test. When Mario Draghi, then President of the ECB, declared in July 2012 that the ECB would do "whatever it takes" to preserve the euro, he restored market confidence at a critical moment (Draghi, 2012). Since then, the euro has regained and consolidated its credibility as a store of value. The ECB's decisive interventions, not only through the Outright Monetary Transactions programme, but later also through large-scale asset purchases and the pandemic emergency measures, demonstrated the institution's growing willingness and capacity to act as a lender of last resort (Cœuré, 2013; European Central Bank, n.d.). At the same time, the resilience of the euro was underpinned by the euro area's integrated financial infrastructure, particularly the TARGET2 real-time gross settlement system, which ensured the uninterrupted functioning of cross-border payments and prevented a fragmentation of monetary conditions within the currency union (European Central Bank, 2025a; European Central Bank, 2025c).

Yet, here again, comparison with the United States shows why it remains by and large asymmetric. During the 2008 financial crisis and the Covid-19 shock, the Federal Reserve acted as the global lender of last resort (Bertaut et al., 2025). Concretely this means that dollar liquidity was supplied through extensive swap lines to central banks worldwide. This only reinforced global dependency on the dollar and showed the relevance of U.S. monetary policy. By contrast, the ECB is of relevance within the eurozone but hasn't become internationally relevant, most notably because there is no single 'euro-area treasury' equivalent to that of the United States (European Central Bank, 2025a).

CURRENCY SHARES IN INTERNATIONAL RESERVE HOLDINGS



Source: Bertaut et al. (2025)

2. Structural Limits: Why Monetary Power Falls Short of Strategic Autonomy

2.1 Denomination The absence of a permanent fiscal union

For the euro to become a genuinely global currency with real geoeconomic weight, it needs more than a strong central bank. It also needs a deep, liquid and unified market for safe assets. This is one of the dollar's biggest advantages. The dollar's global standing does not rest on the Federal Reserve alone, but also on the huge and highly liquid market for U.S. Treasury securities, which remains the backbone of global reserves and safe-asset demand (Bertaut et al., 2025). By contrast, the euro still sits on top of a more fragmented bond market.

In the euro area, sovereign borrowing remains largely national (European Central Bank, 2025a). That means investors are not buying one single euro-area safe asset equivalent to a U.S. Treasury, but a range of different sovereign bonds, from German Bunds to French OATs and Italian BTPs, each with its own risk profile. This "has important economic consequences" (p.36) as it weakens the euro's capacity to offer the same scale, uniformity and instant liquidity that dollar assets provide in times of stress. This is what Lagarde means by reaching a "global euro moment" with reaching a deeper and more integrated European capital markets, a precondition for a wider international use of the euro (European Central Bank, 2025a).

There has been an important step in that direction. With NextGenerationEU, the EU was authorised to raise up to €750 billion on capital markets on behalf of the Union, creating the largest ever euro-denominated issuance at supranational level (Buti & Fabbrini, 2022). That was historically significant because it showed that common EU borrowing is possible and institutionally accepted. But it is still a temporary instrument, not a permanent fiscal architecture. For this reason, there is a disagreement whether such deepening in monetary policy is truly a paradigm shift or just a "one-off" (Buti & Fabbrini, 2022).

Such developments matter for true "strategic autonomy". In periods of uncertainty, global investors look for assets that are safe, easy to trade and available in very large quantities. The United States can offer that through Treasuries (Bertault et al., 2025). Europe is making progress, and EU bonds may increasingly serve as a European safe asset, but without a more permanent and unified common debt framework, it will remain difficult for the euro to rival the depth and liquidity power of the dollar.

2.2 Fragmented Capital Markets and Incomplete Financial Union

Continuing this common thread, fragmentation also remains in European financial markets. While monetary policy is centralized in the ECB, financial supervision and capital markets remain to a large extent national.

Although changes have been made, especially after the terrible experience of the sovereign debt crisis, there is still no full Banking union. The Single Supervisory Mechanism (SSM) and Single Resolution Mechanism (SRM) have laid a considerable foundation in which the ECB now is able to supervise major euro-area banks and worst case manage banks when failing (Moloney, 2017). Yet, without a fully mutualised European deposit insurance scheme and a harmonised capital markets union it is difficult for the euro to gain leverage. Fragmentation of capital markets reduces the euro's investment attractiveness as it limits risk-sharing across member states and hinders developing large integrated financial instruments (Moloney, 2017). On the other side of the Atlantic, capital markets are unified, deep and supported by a federal fiscal regulatory framework. The key learning for a stronger euro: it needs to move beyond macroeconomic stability and institutionally create a deeper financial framework.

2.3 Political Heterogeneity and Governance Constraints

Last but certainly not least, is politics. Monetary sovereignty is impossible without political unity. Jean Monnet, the architect of the EU believed in a neofunctionalist logic whereby integration in one sector would gradually create pressure for integration in others (Hooghe & Marks, 2009). In that sense, monetary union was never simply a technical or economic project as the ECB presents itself, but rather, it also carried a political promise. For a political federal Europe to function, one needs to go beyond monetary policy.

This political will is fragmented, best seen with the sovereign debt crisis. On the fiscally conservative side you have countries like Germany which, for instance, rejected Eurobonds; Angela Merkel calling them “economically wrong and counterproductive” (Radio Free Europe/Radio Liberty, 2012). Integrationist side, such as the Mediterranean countries, emphasise on the Union’s solidarity; Monti during the crisis famously said that “we will have Eurobonds in one form or another” (Reuters, 2012). These divergences between fiscally conservative and more debt-tolerant member states over common borrowing, fiscal rules and crisis management, has created political gridlock. When national risk perceptions diverge, the consequence is further fragmentation of financial markets which ultimately threatens monetary stability.

The “multi-speed Europe” structure, with for instance six member states still outside the eurozone, complicates the alignment of monetary and foreign policy objectives across the Union as a whole (Verhelst, 2013). A hostile world of muscle-flexing requires rapid, unified decision-making -- only in such a way strategic autonomy is possible. Differing strategic outlooks create fragmentation which only benefits the EU’s rivals. EMU governance is characterized by consensus among heterogeneous actors, consequently slowing down true institutional adaptation and bold reforms, particularly involving fiscality or deeper financial integration.

Importantly to mention, these limitations are not accidental. EMU was built on the idea of depoliticising monetary policy and preventing fiscal dominance. By deliberately separating the centralised monetary authority from the decentralised fiscal sovereignty, the EU was able to build a design that enhances price stability credibility yet constrains geopolitical flexibility (Moloney, 2017). This represents a paradox between its strength as a rules-based currency and the latter impeding its capacity for discretionary strategic deployment.

Policy Recommendations

- *The EU should* deepen euro-denominated capital markets.

  Advancing a Capital Markets Union would increase the supply of safe, liquid euro assets, strengthening the euro's attractiveness for global investors.

- *The EU should* move beyond temporary tools like NextGenerationEU

  Building on NextGenerationEU, the EU should consider a more permanent common borrowing capacity to enhance the depth and credibility of euro-denominated safe assets.

- *The EU should* invest in independent payment infrastructure.

  Reducing reliance on US dollar-clearing systems would strengthen the EU's strategic autonomy. Developing euro-based payment and settlement mechanisms could expand the EU's sanctions capacity, though strong network effects make this difficult in the short term.

- *The EU should* have greater political unity.

  Greater alignment among member states is essential for translating monetary power into strategic autonomy. Persistent divergences in fiscal and economic preferences continue to limit deeper integration and slow down institutional reform.

Taken together, these recommendations highlight that strengthening the euro's international role is not merely a technical challenge, but a broader political and institutional one. As Christine Lagarde emphasises, "for the euro to reach its full potential, Europe must strengthen three foundational pillars: geopolitical credibility, economic resilience and legal and institutional integrity." (European Central Bank, 2025b).

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