

BRUSSELS ECONOMIC SECURITY REVIEW



The EU's financial security in a shifting transatlantic relationship

by **Maria Demertzis**

The EU's economic security rests on foundations it does not fully control. As a strong supporter of open trade with a functioning multilateral system, the EU has been left with significant dependencies on energy imports, strategic vulnerabilities in critical raw materials and defence, and an overreliance on trade as a primary source of growth.¹ In a harsher geoeconomic and geopolitical environment where coercion is frequent, the EU needs to rethink not only its growth model but also how to preserve its 'business continuity'.

A significant vulnerability to add to this list is a financial dependence on currencies, assets and payment infrastructures that can be weaponised. The EU's financial dependencies stem directly from the dollar's centrality in the global system of financial flows. Instruments such as the currency itself, sovereign and private assets and the payment and settlement infrastructure can be (and have been) employed to sanction and coerce adversaries. This has occurred alongside decades of increasing cross-border financial integration, as evidenced by growth in global banking claims and total financial assets.^{2,3} The deep financial integration and reliance on the dollar are attractive means of exerting economic coercion, and in recent decades, US financial sanctions have spiked accordingly.

Renewed geopolitical conflicts threaten this level of integration and can cause severe economic damage. Emter et al. show that negative geopolitical shocks can cut credit activity between rival blocs by 10–20%, and that such declines are harder to reverse than comparable falls in trade because finance depends more heavily on trust.⁴

Financial exposures to US assets and infrastructure, which up till recently were considered innocuous, add an additional layer of vulnerability for the EU. If Washington's priorities change or the global financial safety net that the US has traditionally provided falls through, Europe could face shocks it neither triggers nor controls, with spillovers from finance into the real economy. The EU, therefore, needs a derisking strategy – not full decoupling – by

strengthening payment sovereignty, expanding the euro's international role, and building stronger internal financial backstops through measures such as the digital euro.⁵

The EU economy suffers from four key vulnerabilities: financial institutions' funding mismatches, the EU's exposure to US assets, particularly US fiscal debt, reliance on non-European card schemes and wallets, and weak cross-border payment autonomy. A successful strategy would reduce single points of entry, increase autonomy where possible, and advance innovation in digital finance to help set international standards and better defend its economic interests. As the EU advances in protecting its financial security, it would gain more choices, greater bargaining power, and more European-owned responses to future challenges.

The centrality of the US in the global financial system

The United States remains the anchor of the global financial system. It provides the currency, assets, institutions and infrastructure, and emergency liquidity on which international finance depends. The dollar remains the leading reserve currency for most central banks and the main currency for cross-border finance, trade invoicing, and international banking, while the euro remains a distant second.⁶ This monetary dominance gives the United States a uniquely powerful position as most countries, firms, and financial institutions must interact with dollar markets to borrow, save, settle transactions, and protect themselves against shocks.

Alongside the dollar as the preferred currency, US centrality is reinforced by control over the infrastructure of global payments. The Clearing House Interbank Payments System (CHIPS) is the world's largest private-sector dollar network, clearing and settling \$1.9 trillion in domestic and international payments each day.⁷ Even when payments are merely messaged rather than settled in the United States, Washington retains leverage over the messaging system SWIFT, as the Iranian sanctions experience showed in 2018, despite SWIFT being based in Belgium and therefore subject to Belgian law.⁸

The US's dominant position has rested not only on its market size but also on policy choices. First, the US has been willing to provide abundant safe assets and to act as a global lender of last resort. Treasury securities, the US sovereign debt, are widely treated as a safe-haven investment by foreign holders and have facilitated capital inflows into the US by being widely available.⁹

Second, the United States has been willing to hold the global financial safety net firmly in place. Scheubel and Stracca define the safety net as the set of institutions and mechanisms that support countries during financial crises, including reserves, IMF lending, swap lines, and regional arrangements.¹⁰ The Federal Reserve, the US Central Bank, has provided abundant liquidity through currency swap lines that have proved invaluable in times of crisis.¹¹ Indeed, the Federal Reserve swap lines peaked at over \$580 billion in 2008 and \$470 billion in 2020, with EU banks being clear beneficiaries. This illustrates how US authorities backstop global dollar funding when markets freeze. The US also remains central to the global financial architecture, including as the IMF's largest shareholder with about 17.4% of quota and 16.5% of voting power, according to the International Monetary Fund.¹²

To be clear, the US has benefited from being the global financial anchor. By making these policy choices, the Fed encourages foreigners to invest in US dollar-denominated assets, it manages the exchange rate by bringing it closer to its parity and reduces the borrowing cost for itself. All of this ensures that the US continues to benefit from an “exorbitant privilege”.¹³

Whether the US maintains its dominant financial position or not depends on whether the US itself is willing to uphold the policies needed. In the past year, the United States has taken actions that may be weakening the very system it has built and benefited from. A strategy aimed at shrinking the US current-account deficit, for example, would also reduce the capital inflows that help sustain global demand for the dollar. Loa and Wessel highlight growing concern that future US authorities might politicise or limit dollar swap lines.¹⁴ It is encouraging to see that the European Central Bank has taken steps to partially plug the gaps this would open by broadening access to its repo facility for central banks, thereby making euro liquidity more readily available outside the euro area.¹⁵

In a similar vein, the US has recently announced withdrawal from 66 international organisations, signalling broader scepticism toward multilateral commitments.¹⁶ Similarly, US fiscal debt that is the underwriting asset for the US economy is expanding beyond levels that may be considered safe. The US debt is projected to increase over the next 10 years.^{17, 18} Trust in the dollar is tied to the trust in how sustainable this debt can remain.

Meanwhile, foreign central banks now hold more gold than US Treasury, a striking sign of reserve diversification.¹⁹ The implication is not that dollar supremacy is ending immediately. Rather, the United States may be

voluntarily reducing its own central role by becoming less willing to provide the public goods – safe assets, liquidity, and institutional leadership – on which that role has long depended.

Mapping the EU's financial dependencies

The EU's financial vulnerabilities stem from its dependence on a dollar-centred financial system and on infrastructures it does not fully control. This means that the EU financial system is dependent not only on the economic volatility of the dollar and the US economy, but also, increasingly, on the US ability to exert economic coercion. We identify four direct exposures that at the very least need to be monitored.

First, European banks remain exposed through foreign-currency mismatches, in other words, the differences in the way their assets and liabilities are exposed to foreign currencies. The European Banking Authority found more than 2,000 euro-area banks above the 100% net stable funding ratio in late 2024, but close to 30% of EU banks' exposures are still denominated in foreign currency (two-thirds of which are loans).²⁰ On the liability side, 21% of euro-area banks' funding is in foreign currency, with roughly 17% in US dollars, much of it from short-term US markets. The mismatch is significant: 22% of banks with USD exposure (60 of 267) and 38% with GBP exposure (25 of 66) lack adequate foreign-currency funding. Abbassi and Bräuning show that such mismatches can amplify exchange-rate shocks by weakening credit growth.²¹ The ECB stresses that euro-area dollar liquidity is concentrated and dependent on short-maturity EUR/USD swaps, raising rollover risk.²²

Second, the EU is exposed to the systemic role of US Treasuries even if direct national holdings are modest. Demertzis and Farcas argue that country-level balance-sheet exposure is limited, but any shocks arising from US Treasuries would still be detrimental to EU countries because of the systemic relevance of US Treasuries in global finance.²³ The US public debt is \$36 trillion, with 24% held abroad and 85% of foreign-held debt being long-term. Europe, including the EU, the UK, Switzerland and Norway, holds 38% of foreign-owned Treasuries, or \$3.28 trillion. Although the exposures are not large, holdings are concentrated among systemic investors, such as long-term investors like pension funds. With US debt currently at 124% of GDP and projected to rise, any erosion of the Treasuries safe-asset status would be felt strongly in Europe.²⁴ If US debt were to follow an unsustainable path, it would not be difficult to imagine the world facing a new financial crisis.

Third, the EU is losing autonomy in retail payments as digital payments become increasingly more popular. Online payments rose from 7% of day-to-day payments in 2019 to 21% in 2024, and their value share doubled from 18% to 36%. Point-of-sale (POS) payments fell from 87% to 75% in number and from 76% to 58% in value. At the POS, cash still accounts for 52% of transactions, down from 72% in 2019, while card and mobile payments now account for 52% of value, up from 44%. Clipal and Zamora-Pérez show that cashless preferences increased from 43% in 2019 to 55% in 2024, with most consumers under 52 preferring cashless methods, while those aged 53 and above still favour cash.²⁵ This would normally not be an issue, except that the vast bulk of digital payments is intermediated by non-European firms. Lane notes that Visa and Mastercard process 65% of euro-area card payments, while non-European tech firms handle nearly a tenth of retail transactions and mobile app payments are growing at double-digit annual rates.²⁶ In the era of the weaponization of finance, this is a vulnerability for the EU, and a number of projects the ECB is pursuing in retail and wholesale payments are clear attempts to increase the EU's autonomy and therefore resilience.²⁷

Fourth, the EU remains dependent on dollar-based cross-border payment systems and therefore is vulnerable to sanctions. Tran estimates that the euro's share in truly international SWIFT payments is only about 9.4%.²⁸ The EU pays for 40% of extra-EU imports in euros and 51% in dollars (partly because oil imports are mostly priced in dollars), while it receives euros for 52% of exports and dollars for 31%. As Cipriani et al. argue, restricting access to payment infrastructure has become a more prominent coercive tool.²⁹ Indeed, after the Russian invasion of Ukraine, the only way that European energy buyers could continue to pay Russia was by paying in roubles (even in breach of contract), as Russia was excluded from the dollar and euro payment infrastructure.³⁰ This was an unexpected side effect of the EU's own economic statecraft and clearly demonstrates how infrastructure control can be used strategically.

The broader trend identified by Felbermayr et al. is clear: sanctions have become more numerous and more financial, and the US has historically been the dominant sanctioning power.³¹ Altogether, these dependencies limit the EU's resilience and strategic autonomy and urgently need to be rethought and adjusted.

The need for policy action

The international financial system requires a financial anchor to ensure that networks operate efficiently. For the best part of the last 70 years, after the

end of WWII, the dollar and the US economy assumed that role, playing an important stabilising role to the benefit of all, on the one hand, but delivering important benefits for the US, on the other.

Since 2025, the US has seemed much more reluctant to assume this role. In the best case, its policies are confused between wanting to reduce its trade deficit, which would, by itself, reduce capital inflows and therefore demand for the dollar, and pursuing a narrative of wanting to sustain a dominant dollar,³² through, for example, US-backed stablecoins. In the process, significant volatility has been introduced into the system, and uncertainty has increased again. The EU is very concerned, as up to now it has organised its financial system centred on the dollar. It now needs to start preparing for a system that would be at least more fragmented and less stable, and in which the US economy would not provide a safety net in times of crisis.

To address the dependencies identified above, the EU would need to pursue the following. First, expand the use of the euro in trade invoicing and settlement, allowing European firms to price, pay, and hedge more transactions in their own currency. Increasing the international role of the euro is a pivotal way of regaining greater flexibility in the way that the EU economy relies on currencies.

Second, the objective of internationalising the euro cannot easily take off in the absence of a single safe asset, namely, common debt. The US has been willing to provide abundant assets to meet global demand and, as a result, sustained the dollar's global status.

Third, to make the euro more international, the ECB must take on greater responsibility for providing a financial safety net. This involves establishing a liquidity-line framework, commensurate with the international role of the euro it envisioned, to have a clearer role as a global supplier of euro liquidity during crises. The ECB has already made some progress in this area by expanding the repo facility for central banks, but for the world to increase its demand for the euro, it would need access to liquidity, similar to what the US has provided in the past.

Finally, the euro area needs to strengthen its payment sovereignty through the digital euro for retail purposes. As digital payments become increasingly popular, the euro zone needs both a single domestic pan-European payment method, currently lacking, and less dependence on non-European providers that could be weaponised.

Both functions of the dollar, as a store of value and a means of payment, are currently being challenged. While the US economy, which underpins the dollar's credibility, is not under an imminent threat of collapse, there are signs of both economic uncertainty and a reluctance on the part of the US to support the global economy. The dollar as a means of payment is already under challenge, not least by the imposition of sanctions by the US itself, which have de facto fragmented international payments and pushed countries to innovate to provide alternatives. The direction of travel for the dollar's international role is clear; the speed less so.

¹ Demertzis, Maria; Fiorito, Alejandro and Panitsas, Konstantinos (2025), *Strategic autonomy and European competitiveness: Security now comes first*, study requested by the European Parliament Economics Committee, Brussels.

² Bank for International Settlements (2025), Locational banking statistics, BIS WS_LBS_D_PUB 1.0, dataset.

³ Financial Stability Board (2024), "Global monitoring report on non-bank financial intermediation 2024".

⁴ Emter, Lorenz et al (2026), "Global banking and geopolitics through time", BIS Working Paper no. 1338, Bank for International Settlements.

⁵ Cipollone, Piero, "Empowering Europe: boosting strategic autonomy through the digital euro," introductory statement at the Committee on Economic and Monetary Affairs of the European Parliament, Brussels, 8 April 2025.

⁶ Bertaut, Carol C., von Beschwitz, Bastian, and Curcuro, Stephanie E., 2025. "The International Role of the U.S. Dollar – 2025 Edition," FEDS Notes, Federal Reserve Board.

⁷ By comparison, the equivalent European service (TARGET) settled a daily average of €1.8 trillion.

⁸ Demertzis et al.

⁹ Demertzis, Maria, and Farcas, Matei (2025), "European Countries' Exposure to US Treasuries Is Small but Relevant," The Conference Board.

¹⁰ Scheubel, Beatrice, and Stracca, Livio (2019), "What Do We Know About the Global Financial Safety Net? A New Comprehensive Data Set," *Journal of International Money and Finance*.