Christine Lagarde: Turning openness into strength - the moment of the euro

Speech by Ms Christine Lagarde, President of the European Central Bank, at the Business France event "Business en Européens", Paris, 7 October 2025.

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"The dollar may be our currency, but it's your problem."

When John Connally, President Nixon's Treasury Secretary, spoke these words in the 1970s, he was describing a world dominated by the dollar, where other countries had little choice but to bear the consequences of US policies.

Half a century later, these words still resonate. Earlier this year, when turbulence was emanating from the United States, investors turned to the euro as a safe haven. This was of course a sign of confidence in Europe. But we also felt the costs, in the form of upward pressure on the exchange rate.

Europe is more open than any other major economy. Our exports reached nearly €4 trillion last year. But this openness also makes us more exposed in a world where trade and geopolitics are increasingly intertwined, and where spillovers are often unavoidable.

In this context, the international role of the euro can no longer remain a secondary question. It is central to Europe's ability to turn the euro from a safe-haven currency into a truly global currency, and to turn our weaknesses into lasting benefits.

That is why this evening I would like to reflect on how the euro's global role can evolve and how it can become a true source of strength and resilience for our exporters in particular, but also for our economy as a whole.

Exchange rates and global currencies

The main concern often associated with a greater international role of the euro is the potential for a stronger exchange rate. Here, we need to make two important clarifications.

First, there is no mechanical, long-term relationship between a currency's global status and its exchange rate.

Since the end of Bretton Woods, the dollar has been through long periods of both weakness and strength while remaining the dominant reserve currency. In fact, movements in the dollar's real effective exchange rate have shown little correlation with changes in its share of global foreign exchange reserves.[1]

These movements have been shaped mainly by cyclical factors, such as monetary policy or trade dynamics, as well as by shifts in market sentiment and risk perception in the short run. By contrast, the dollar's reserve status has rested on structural foundations – the size of the US economy, the depth of its markets, the ingenuity and productivity of its businesses and its geopolitical weight.

The same is true of the euro.

In the first two decades of the euro's existence, its global role and exchange rate often moved almost in lockstep – rising together in the first decade, and declining together after the global financial crisis.[2] But since the start of the third decade, the link between them has broken apart.

Of course, in periods of transition between dominant currencies, there may be upward pressure on the exchange rate as investors accumulate assets. But such shifts are normally driven by long-term investors who move gradually to avoid disrupting markets.

By contrast, sharp movements in exchange rates are typically the result of short-term investors responding to immediate shocks.

Second, there is indeed a connection between being perceived as a safe haven currency and experiencing appreciation during global shocks. Even so, this does not mean that such appreciations become more costly the more a currency is used globally.

Consider the United States. When the dollar receives safe-haven inflows, the unrivalled depth of US financial markets both limits the extent of appreciation and channels those inflows in ways which offset their contractionary effects.

US Treasury yields decline when foreign investors seek US dollar-denominated fixed-income assets.[3] Research shows that global demand for these safe assets compresses Treasury yields by up to 2 percentage points in the long run, which is known as the infamous "exorbitant privilege".[4] Lower yields then reduce financing costs across the economy and support productive investment.[5]

At the same time, because around 95% of US imports are invoiced in dollars[6], American exporters are largely shielded in the near term from exchange rate swings on their foreign inputs and energy.

However, in economies that are less globalised yet still seen as safe havens, the opposite tends to be true. For example, the Swiss franc and the Japanese yen.

Both attract safe-haven inflows in times of stress. But since they lack the market depth of larger currencies, they are more exposed to sharp upward pressure on their exchange rates.

Such inflows rarely lead to sustained investment. They are often driven by global risk aversion rather than a genuine confidence in the receiving economy, and financial markets are not deep enough to absorb them on a sustained basis.

In short, being both a safe-haven currency and a truly international one offers a certain degree of insulation and control that smaller issuers simply do not enjoy.

Where does the euro area stand today?

Today, the euro area finds itself somewhere in between.

Earlier this year, following the US Administration's tariff announcements, capital flowed into euro-denominated assets seen as safe havens and the euro appreciated sharply.

Certain features of being a global reserve currency already provide us with protection. Our foreign exchange markets are deep – turnover in USD/EUR is around 20 times higher than for EUR/CHF or EUR/JPY – which helps contain appreciation pressures on the euro during episodes of accelerated portfolio inflows. And with 52% of our imports invoiced in euro, the costs of exchange rate volatility are partly cushioned.

But we still lack the capital market depth to fully benefit from such inflows.

The combined AAA and AA-rated sovereign bond market in the euro area amounts to just €6.6 trillion – just one-fifth the size of the US Treasury bond market. Our equity markets are less than half the size of those in the United States, and they allocate capital less efficiently: since 2009, they have generated returns that are five times lower.

Our financial system even struggles to channel our own savings into productive investment. More than €11.5 trillion of household savings are still held as deposits, equivalent to one-third of total liquid assets.

In this setting, instead of stimulating growth, safe-haven inflows above all else risk pushing the euro up and leaving exporters with higher costs.

This is the frustration many of you feel today. In a way, we are "innocent bystanders" of policy decisions made in Washington and of portfolio allocation decisions made worldwide, which we don't have much influence over.

It is not a sustainable position. We cannot remain a passive safe haven, absorbing the shocks created elsewhere. We need to be a currency that shapes its own destiny.

The way forward is to strengthen the international role of the euro, so that we move from being "in between" to being a full international currency, with all the benefits that entails.

Crucially, this would not only help protect us in a more volatile world. The reforms needed to get there would also, paradoxically, make us less vulnerable to external shocks, whether from exchange rates or from tariffs.

For example, American firms export a great deal – close to €3 trillion each year – but their domestic market is so strong that developments in global trade matter much less. In the United States, foreign trade makes up only about half as much of GDP as it does in the euro area.

Some of the preconditions for similar resilience are already present in Europe: our internal market carries more weight for trade than the global market, but we know it could be stronger still.

Our analyses show that an increase of just 2% in intra-euro area trade would be enough to offset the loss in exports to the United States caused by higher tariffs.[7]

Becoming a stronger global currency

How can we go about taking the next step?

First, we must create the conditions for capital to flow into growth within Europe so that we can reap the benefits of inflows and then attract even more investment as part of a virtuous circle. A stronger euro area economy will also make the euro a stronger and more credible currency abroad.

The fundamental task here is to remove the obstacles that are preventing us from having truly integrated product and capital markets that can compete with those in the United States.

Our weaker performance compared with the United States largely reflects internal barriers of our own making: including fragmented regulations, tax regimes, bankruptcy rules and incomplete capital markets. Structural challenges such as high energy costs, low productivity and reluctance to finance common projects are also, to a large extent, within our own control.

Today, almost three-quarters of EU firms at the forefront of innovation say that fragmentation limits their opportunities.[8] If we cap the potential of our own innovators, how can we expect outsiders to invest here with confidence that their capital will grow?

Unless we complete the Single Market and build a genuine savings and investments union, Europe will not be capable of either absorbing or channelling capital inflows efficiently.

Second, we must create the conditions for those outside Europe to use the euro more when conducting transactions so that we can benefit from more invoicing in euro.

The EU is already the leading trading partner for 72 countries, representing almost 40% of global GDP. Two-fifths of global trade is invoiced in euro.

But we can go further.

We can forge new trade agreements. The agreements reached or those still being negotiated give us an idea of our potential, with research suggesting that these new agreements could boost EU exports to their partners by as much as 40% by 2032.[9]

It also means enabling the euro's wider use through cross-border payment infrastructure and protecting the stability of euro funding markets.

We are working on a digital euro and pursuing initiatives to enhance cross-border payments in euro. These include enabling cross-currency settlements in our TARGET

Instant Payment Settlement service and interlinking it with other fast payment systems outside the EU. This will make the euro more accessible, more affordable and more reliable for our partners.

In addition, during a crisis, our partners must also be sure that they can count on euro liquidity.

That is why the ECB provides a backstop with its network of liquidity lines in stressed market conditions. These tools safeguard against shortages in euro liquidity abroad, support financial stability and protect the smooth transmission of our monetary policy.

Finally, we need to uphold our institutional integrity.

If we want investors to place their capital in Europe, or our partners to use the euro for trade, they must have full trust in our institutions.

In this respect, Europe has a major advantage: our democratic checks and balances, and the independence of our central bank. These are powerful tokens of stability in a world where institutional integrity is increasingly being put to the test. Today, trust in the EU is at its highest since 2007,[10] while many U.S. institutions have fallen to their lowest levels over the same period.[11]

But our institutions must also show that they can act to remain credible – and this is where our biggest challenge lies.

They must be capable of taking the decisions that deepen our Single Market, complete our capital markets and strengthen our geopolitical role. In practice, that also means bolstering our defence capabilities and forging sustainable, strategic partnerships. If they fail to do so, they will fall short of citizens' expectations and our credibility will inevitably be eroded.

That is why Europe should not shy away from new ways of making decisions together, including extending qualified majority voting where needed.

Conclusion

Let me conclude.

For the last twenty years, following on from reforms to France's foreign trade framework, Business France has given French exporters greater visibility and support. Today, we must do the same for the euro, giving it a clearer and stronger place in the world.

Not a currency that passively attracts safe-haven inflows, pushing the exchange rate higher and raising costs for exporters. Instead, we want a currency in which investors can place lasting trust.

Antoine de Saint-Exupéry once said, *« L'avenir n'est jamais que du présent à mettre en ordre. »*
In other words, the future is nothing more than today's decisions that need to be put in order.

If we strengthen the foundations of the euro now, we can transform our openness into resilience, and our weaknesses into strengths. And we can ensure that, in the future, the euro will continue to stand as a pillar of stability and strength for Europe, even in a more uncertain world.

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[1] Net of mechanical valuation effects.

[2] ECB (2024), "The international role of the euro", June

[3] Rey, H. et al. (2024), "Elephants in Equity Markets", *NBER Working Paper*, No 32756, July.

[4] For example, research indicates that the US Government saves up to 2% in interest costs per year on foreigners' Treasury holdings. See Jiang, Z., Krishnamurthy, A. and Lustig, H. (2021), "Foreign Safe Asset Demand and the Dollar Exchange Rate", *The Journal of Finance*, Vol. 76, No 3, pp. 1049-1089, June.

[5] Chen, Z. et al. (2025), "The US as the Global Equity Safe Haven", 30 January.

[6] Swegal, H. (2025), "The role of foreign currencies in BLS import and export price indices", *Monthly Labor Review*, U.S. Bureau of Labor Statistics, September.

[7] The United States accounts for 10% of total euro area exports, and the new tariffs are expected to reduce euro area exports to the United States by approximately 9%, translating to a 0.9% decline in overall euro area exports – roughly €66 billion. Making up for this shortfall in direct trade would require a 2% increase in intra-euro area trade, all other things being equal.

[8] European Investment Bank (2025), *Investment Report 2024/2025: Innovation, integration and simplification in Europe – Executive Summary*, 5 March.

[9] Joint Research Centre (2024), "New trade agreements to result in positive cumulative impact on EU agri-food trade balance", 22 February.

[10] European Commission (2025), "Eurobarometer shows record high trust in the EU, and strong support for the euro and a common defence and security policy", *press release*, Brussels, 28 May.

[11] Gallup, Confidence in Institutions.