



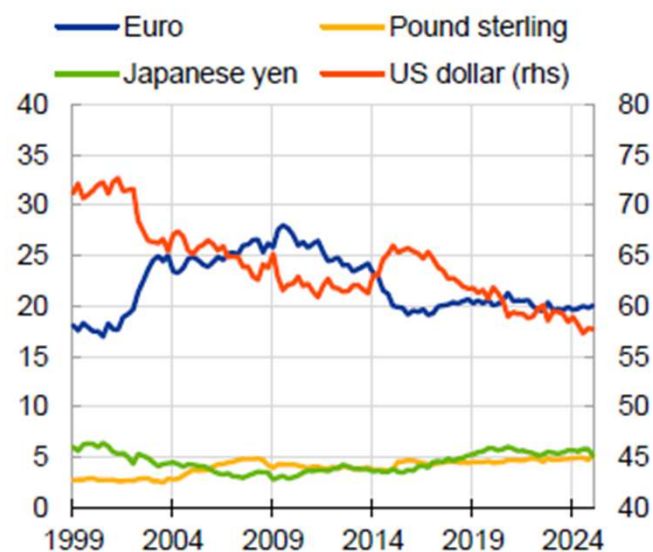
# Where can stability be found if the anchor comes loose? Dollar turbulence and the euro's international role

Bank of Finland stakeholder event, 14 August 2025

Board Member Tuomas Vältimäki  
Bank of Finland

# Where are we now?

## Different currencies' share of global currency reserves



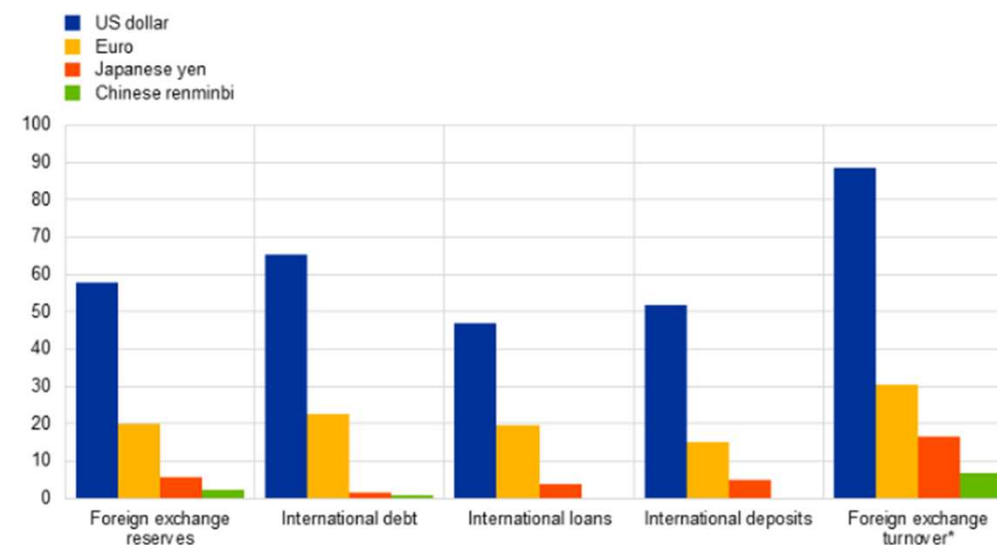
Source: IMF.

Last observation: 31 March 2025.

## International role of major currencies

Snapshot of the international monetary system

(percentages)

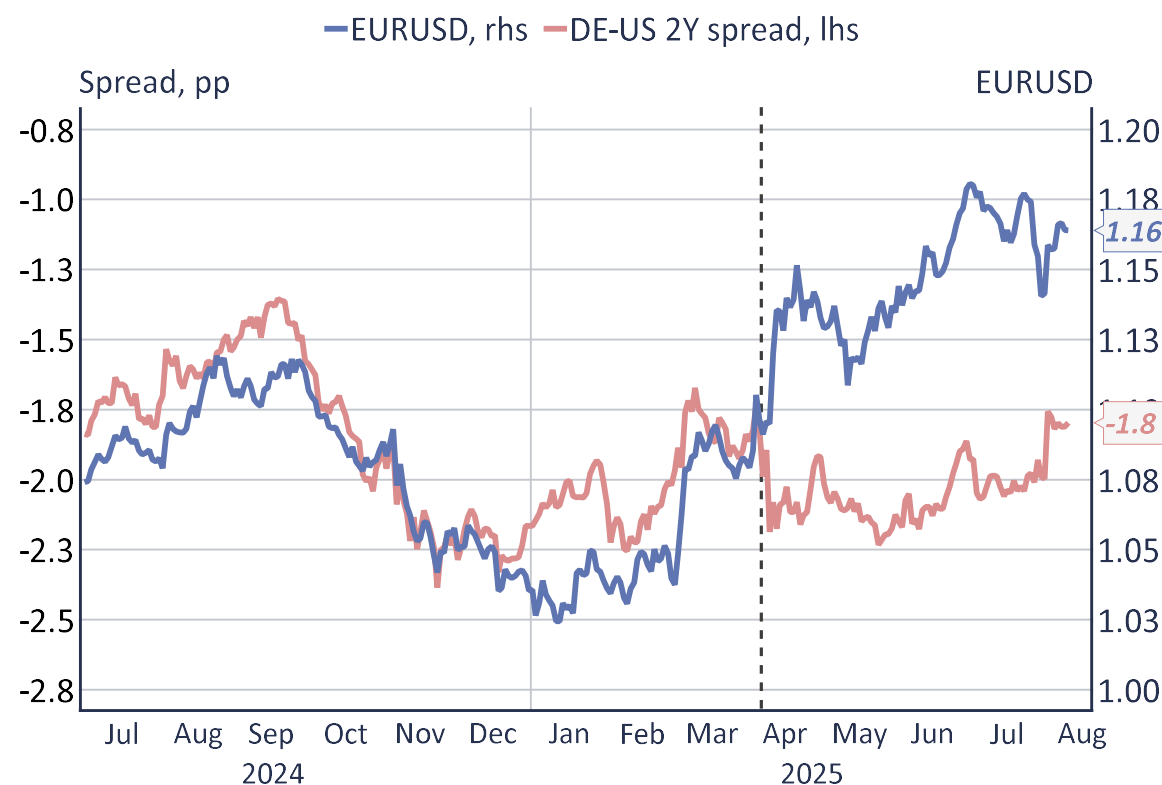


Source of charts: [ECB \(2025\)](#).

\*Since transactions in foreign exchange markets always involve two currencies, foreign exchange turnover shares add up to 200%.

# Question marks surrounding the dollar's dominance

- Trade policy
- Geopolitics
- Fiscal stance
- Institutions

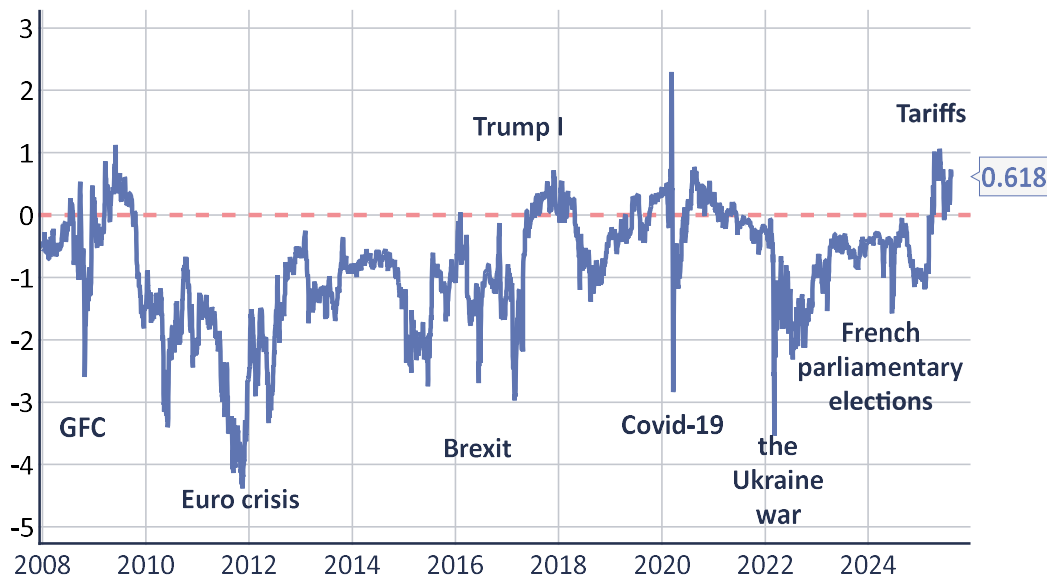


Source: Bloomberg.  
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# What do market fluctuations indicate about the strength of different effects?

EUR/USD hedging cost

—EURUSD 3M 25 Delta risk reversal



Source: Bloomberg. A positive (negative) value indicates that hedging against euro appreciation (depreciation) is more expensive.

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US OIS rate spreads

—2Y —10Y —30Y



Source: Bloomberg.

Spreads between US Treasury yields and SOFR swaps.

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# Indicated by market fluctuations

- **Currency options:** Dollar hedging level raised
- **Bonds**
  - Increase in euro issuances (reverse yankee) of US companies
  - Interest rates on dollar bonds of European institutions at same level as US government bonds
  - US government bonds' swap spreads broadened
- **Investment streams**
  - Decrease in foreign streams to US funds, slight rise to EUR funds
  - Brief decline in foreign investments in long-term US bonds

*Early signs that  
dollar's role is  
weakening,  
but no fundamental  
change*

# What are investors thinking?

## Extracts from recent survey results

- **ECB's Institutional Investor Dialogue 6/2025** [\[Link\]](#)
  - Over 60% are reducing USD allocation and almost 50% raising EUR allocation
  - Over 60% believe dollar's international role declining, more than 40% believe EUR's role growing
  - However: half believe the safe haven role of US government bonds remains unchanged and that the euro will have a growing role in the medium term
- **OMFIF Global Public Investor Survey 2025** [\[Link\]](#)
  - Dollar's popularity declining (political risks, geopolitics and US fiscal policy)
  - Euro's popularity growing, interest in Germany especially
  - However: 80% see the dollar offering safety and liquidity, and believe no significant changes in reserve currency distribution

*Investors' view of dollar changed, but not fundamentally*

# What is required of a global reserve currency?

Strong, large and growing economy with debt that is sustainable

Credible ally with resilient and trustworthy institutions

Deep and liquid capital markets, sufficiency of safe investment assets



# What is a safe investment asset?

## Safe investment asset

- **Retention of value** can be relied upon in all circumstances
  1. **Highly creditworthy**, i.e. low probability of default
  2. **Liquid**, i.e. easy to buy and sell in all circumstances
- Works as a pricing '**benchmark**' and improves capital allocation
- Supports the operation of other markets by acting as **collateral/underlying security** in transactions

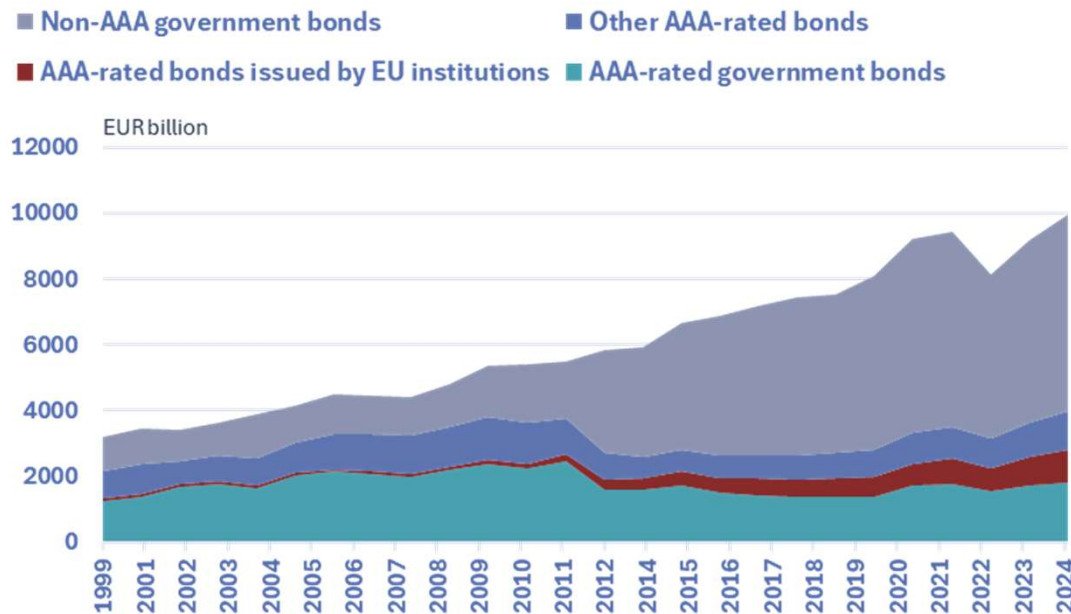
## Advantages for issuer of safe investment asset

- Lower financing costs
- Additional capital for financing investments
- Capital flows and more effective monetary policy transmission even in crisis situations



# Euro area government bond market is large but fragmented

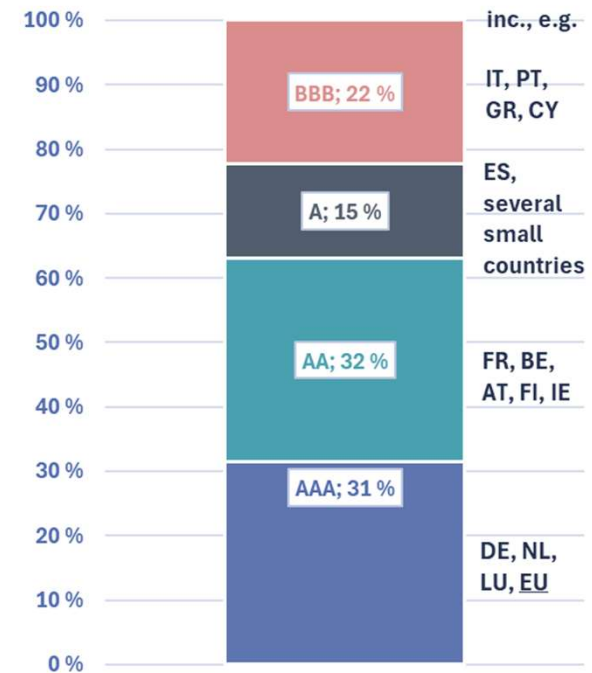
Market values of euro-denominated bond classes



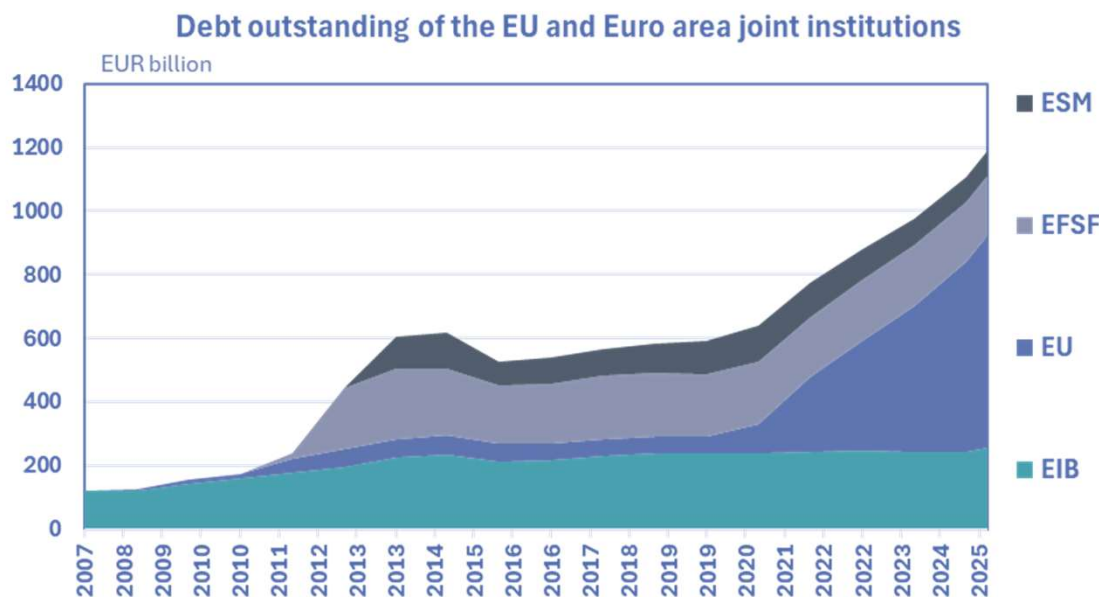
\*EU institutions = EU, EIP, EVM, ERVV. "Other AAA-rated bonds" category includes, among others, supranational bonds and covered bonds. Debt instruments with a maturity of less than one year are excluded.

Data source: Bloomberg aggregate indices.

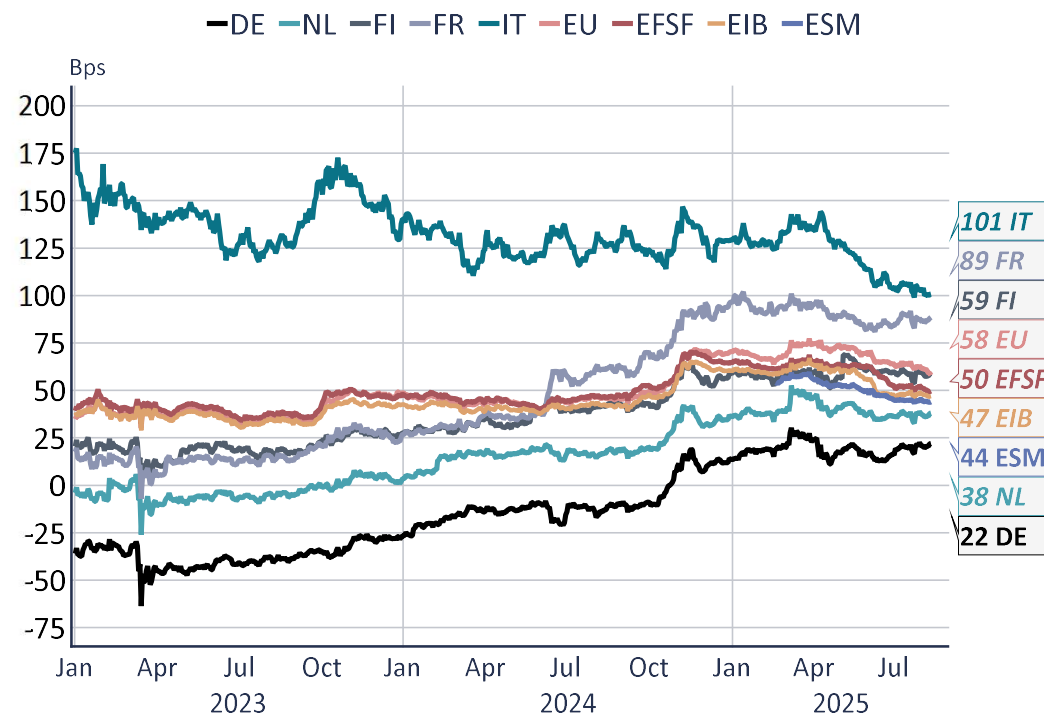
Eurozone government bonds and EU debt securities by credit rating



# How can Europe gain more safe investment assets?



Data source: Bloomberg aggregate indices.



Source: Bloomberg.  
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# Conclusion

- Euro in a strong position, but this should not be taken for granted
- Europe has a chance now to strengthen its international role
- Determined effort needed: growth, stability, deeper capital markets
- Safe investment assets are essential, and in connection with defence financing the time is right to consider them
- The EU should develop a strategy for strengthening common investment assets and debt sustainability

e-mail: [tuomas.valimaki@bof.fi](mailto:tuomas.valimaki@bof.fi)  
Social media: LinkedIn & Bluesky  
[suomenpankki.fi](https://suomenpankki.fi)

