

# Ensuring the future competitiveness of the Euro in a decentralized digital economy

The euro already lags behind the US dollar by a wide margin in terms of its use as an international reserve currency, invoicing currency and in its share of international exchange transactions and debt securities. Exponential growth in the Decentralised Finance (DeFi) space since April 2020, with total assets under management reaching 90b USD in May 2021, is in danger of not only widening this gap between the Euro and USD but to do so permanently in the global Internet of Money whose foundations are currently being laid.

Together with the emergence of Decentralized Finance, we have observed tremendous growth in the area of digital money. Stablecoins that reference a fiat currency using either centralized or decentralized means are generating an enormous amount of activity and innovation. In this domain the US is taking the lead in response to strong and increasing demand for digital representations of fiat currencies.

With most global crypto-asset activity already taking place in the US and Asia, EU companies using crypto-assets must rely on USD to manage treasury; indeed, there are no significant euro-referenced assets on public blockchains. Consequently, all new innovative crypto-asset businesses & Decentralised Finance are happening in USD now – threatening the enormous innovation potential in this space in Europe as well as increasing Europe's economic dependency on the US.

To avoid another missed European opportunity in the digital transition, Europe needs a clear and unified vision for digital money innovation that takes in particular the form of privately-issued digital representations of euros ("euro stablecoins"). They will enhance and protect Europe's economic competitiveness and sovereignty and strengthen the euro's international role.

However, despite the exponential growth currently witnessed in the DeFi market, European stakeholders show little awareness of this groundbreaking development. Topics like Central Bank Digital Currencies (CBDC), and preventing Facebook's Libra/Diem project dominate the conversation. Although these are undoubtedly important issues, they are far from representative of the market reality.

Meanwhile, U.S. regulators are seizing the opportunity and encouraging the DeFi market's growth by issuing official statements, such as legalising US commercial banks' settlement of transactions based on private stablecoins. Overall, the US strategy is to let the private sector build the USD-referenced settlement infrastructure of the future. Therefore, today, 99.5% of stablecoins used across the whole ecosystem rely on dollar reserves or, in the case of purely synthetic assets, reference the dollar price. The tremendous utility of stablecoin technology paired with the low transaction fees push more and more companies and consumers to use dollar-based stablecoins. US payments giants Visa and Mastercard revealed their roadmap for allowing payments in USD stablecoins using their technologies. Europe has already fallen behind. There is not a single Euro-based stablecoin with significant volume.

A strong reaction is a necessity. Europe should ensure the usage of Euro as a reference and reserve currency in the field of digital finance by all means necessary, including:

- financial incentives for issuers of Euro-referenced or Euro-backed private stablecoins
- progressive supervision with deep technical skills, daily market insights and the ability to coordinate efficiently with issuers and developers of private stable coins

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- endorse open, permissionless blockchains as settlement infrastructure for stablecoins and decentralized financial applications
  - leverage emerging digital identity standards to allow for simple, secure, privacy-conserving and interoperable identity and in particular KYC systems
  - define a legal framework for decentralized autonomous organizations (DAOs) to give legal certainty to decentralized issuances of crypto assets