

The battlefield is in Iran. The geo-economic crosshairs are on Europe.

By Prof. Dr. Patrick Vanhoudt, Dean of LSB

For Europe's institutional investors, one question can no longer be deferred: should reducing dollar exposure now become a systematic part of geopolitical risk management? This article argues that the war around Iran is not only an energy shock – it is a reminder that monetary exposure and strategic dependence have become inseparable. These risks will increasingly be priced not only into portfolios and insurance premia, but also into the financing conditions of European firms, and increasingly in response to US policy decisions rather than ECB guidance. Large corporates will face greater borrowing costs and more selective access to capital markets; SMEs will feel it through tighter credit and harder terms. The challenge – for investors and policymakers alike – is no longer only to reduce energy dependence, but to build the monetary infrastructure Europe needs to act on its own terms in cross-border finance.

The bombs falling on Tehran do not strike everyone equally. Operation *Epic Fury* has triggered an energy shock whose impact is distributed with striking asymmetry. For the United States, the economic fallout is comparatively containable. For Europe, it is proving severe. The European reference gas price nearly doubled. Already weak growth prospects for the eurozone are absorbing another blow, as inflation re-accelerates and purchasing power comes under renewed pressure.

For Washington, the picture looks quite different. As the world's largest net exporter of oil and gas, the US is less exposed to disruptions in energy markets than Europe. Domestic gas prices have remained relatively stable. The rise in prices at the pump is noticeable, but so far not systemic. More than that, higher energy prices are a tailwind for US energy producers – and defence firms have been among the market's beneficiaries as well.

No regime with a deeply troubling human-rights record – repressing dissent at home and projecting coercive power and violence abroad – can reasonably expect indulgence. Yet Congress has issued no formal declaration of war, and the campaign is framed in strategic rather than moral language: to degrade Iran's military capabilities and reduce threats to regional and international security – an objective some will regard as justified on its own terms.

But is the uneven impact of the military operation on ordinary Europeans merely a collateral coincidence or does it reflect strategic design that is hiding in plain sight? A look at the past few months is instructive. From Venezuela in early January, through the escalation around Greenland in mid-January, to Iran in late February, the common thread has been control over resources — and the question of who depends on them.

Through Iran, Europe's energy entanglement is being further consolidated. The 2025 trade deal, under which the European Union committed to buy hundreds of billions of dollars' worth of US LNG, already signalled the direction of travel. Europe has shifted its supplier base from Russian pipeline gas to predominantly American LNG, while the Gulf remains a crucial — yet fragile — link in global supply. The geopolitical symbolism changed; the underlying economic vulnerability did not. With deliveries from Qatar and the wider Gulf region now under strain, Europe is forced to compete for additional US cargoes — on American terms.

The destabilisation of the Gulf also has benefits from an American fiscal standpoint. Energy is priced in dollars. Price shocks automatically increase global demand for dollar liquidity, indirectly supporting the financial headroom of the US government — where debt servicing costs now exceed defence spending. In such a context, any mechanism that strengthens dollar demand is politically welcome. Treasury Secretary Bessent has stated openly that dollar-pegged stablecoins can serve precisely this function: through short-term debt in which stablecoin companies invest, they channel dollars into the US Treasury — including from Europe. This quietly narrows the ECB's room for effective and autonomous monetary policy. Bombs and digital dollarisation are, in this respect, working in the same direction.

Then comes the defence bill. At their June 2025 summit in The Hague, NATO allies committed, under American pressure, to investing five percent of GDP annually in defence and defence-related expenditure by 2035. This cuts hard into the fiscal space Europe needs to reduce its energy dependence. Beyond the NATO increment that was already agreed, European allies are now absorbing real and unplanned operational costs as a direct consequence of Operation Epic Fury that appear on no collective European balance sheet — an invisible burden landing on public finances that are, in several member states, already under severe strain. The result: mounting obligations toward the United States, shrinking budgetary autonomy for Europe's welfare. All of this for a conflict that Europe neither sought nor helped to shape.

The geo-economic pattern is remarkably coherent. Washington's national security strategy of November 2025 lists energy dominance as a top strategic priority and speaks openly of '*cultivating resistance to Europe's current trajectory*' – favouring individual nation-states over the European Union as a whole. This military operation appears to be reinforcing exactly that dynamic. It pushes up Europe's energy costs unevenly across member states, deepens Europe's reliance on US supply, and erodes both fiscal and monetary sovereignty. Whether by design or by consequence, the operation in Iran tightens the squeeze on Europe. The cumulative effect is to deepen a dependence Europe can no longer afford to ignore. A destabilised Europe carries less weight in international affairs and less capacity to safeguard social cohesion.

There is one further consequence that plays in the background. Washington is striking a partner of both Russia and China – Iran is a central node in China's Belt and Road network and an important oil supplier to Beijing. A single military operation thus disrupts a key Chinese strategic relationship and may create new points of leverage in negotiations around access to critical minerals and rare earth resources. It simultaneously shifts the balance in the Ukraine peace deal Washington is itself brokering with Moscow. A Europe desperately seeking affordable gas and cut off from the Gulf becomes more susceptible to arguments for relaxing sanctions on Russian gas – precisely the kind of concession that could clinch such a deal. Europe would then bear the costs of both war and peace, without a meaningful say on either.

This is not to claim a single master design behind every development, but to note that Europe is repeatedly placed on the receiving end of shocks whose strategic and financial consequences point in the same direction. In economic terms, this is a textbook case of an externality: Washington makes the decisions, Europe pays the price.

The lesson of 2022 was clear: dependence on fossil fuels is a strategic vulnerability. The lesson of 2026 is harder. Diversification alone is not enough – though it remains necessary. Where the decisions of third states directly undermine the living standards and economic stability of European citizens, political assertiveness is required in order to carry weight. Europe has real instruments at its disposal: market access, public procurement, and access to military bases. Against a government in Washington that does not regard pressure as a problem but as the prelude to a deal, deploying those instruments is not escalation. It is a condition for preserving Europe's strategic room for manoeuvre.

If bombs and digital dollarisation are working in the same direction, Europe's response cannot remain confined to energy policy alone. It must also extend to the monetary plumbing of sovereignty itself. A digital euro would not neutralise geopolitical shocks, but not all forms of it address the right battlefield. A retail CBDC would be aimed at the wrong vulnerability, since Europe's strategic exposure lies less in shop-floor payments than in the wholesale and cross-border circuits through which dollar dependence is entrenched. A wholesale CBDC, by contrast, could help build the institutional infrastructure for a less dollar-dependent European financial system (cfr. Vanhoudt, P. (2026) "Anchoring Europe's Monetary Future: Why a Wholesale Digital Euro Is the Immediate Policy Priority," *Intereconomics: Review of European Economic Policy*, forthcoming in March).

MAGA is a legitimate political choice, but AGAM — America Gains, Allies Marginalised — is an alienating and corrosive mirror, of which Europe is now beginning to read the reflection.

For European business leaders and policymakers, the takeaway is straightforward: Europe's vulnerability no longer stops at energy markets. It now reaches into the space in which firms borrow, insure, invest and plan. The task is not only to diversify and reduce energy dependence, but to prevent external shocks — and the financial architectures that amplify them — from narrowing Europe's capacity to act on its own terms.